RESEARCH REPORTS

Volume LXXXII

September 2021

published by
AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

RESEARCH REPORTS

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BUSINESS CONDITIONS MONTHLY

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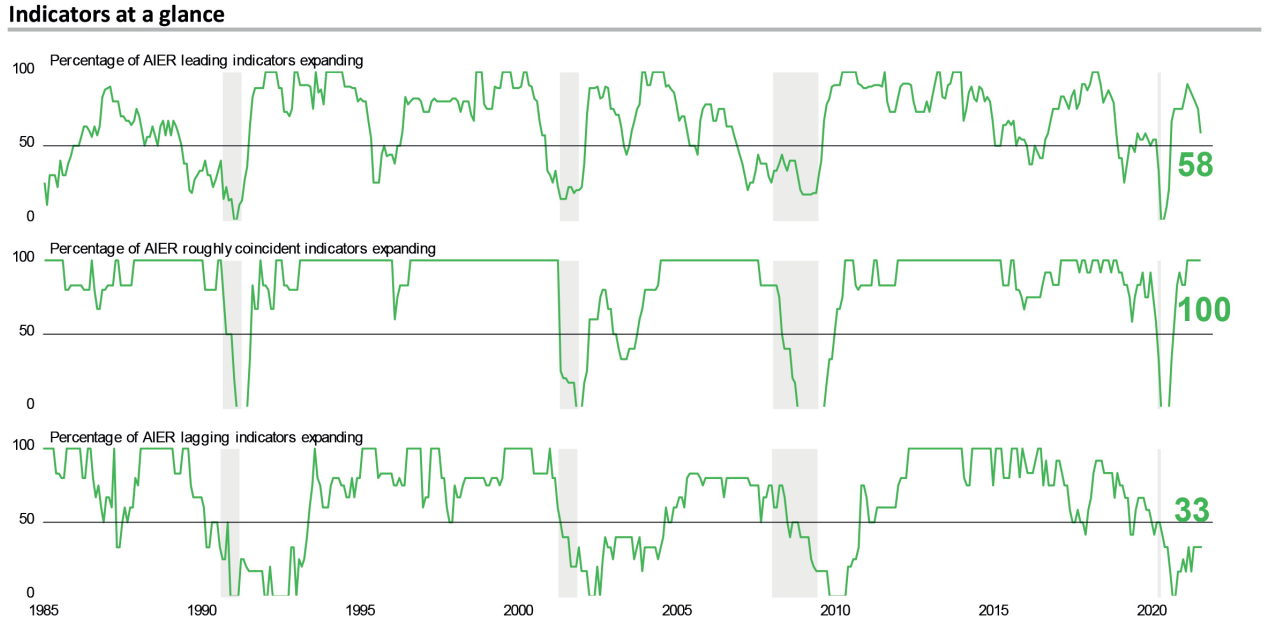
AIER Leading Indicators Drop Sharply but Remain Above Neutral



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

Summary

AIER's Leading Indicators Index fell for a fifth consecutive month in August, falling to 58 from 75 in July. The index was at 92 in March. While August marks the twelfth consecutive month above the neutral 50 level, it is also the lowest reading of the past year and the lowest since August 2020 when the index was just 21. The string of declines is raising the likelihood that breadth of growth could narrow in the future. For now, the August result remains slightly above neutral and suggests continued economic expansion in coming months, but caution is recommended.

The Roughly Coincident Indicators index held at 100 for a sixth consecutive month in August. The continued strength of the roughly coincident indicators is a positive sign for the current expansion but given the deteriorating strength of the Leading Indicators Index, some setbacks for the Roughly Coincident Indicators Index over the coming months would not be surprising. The Lagging Indicators Index held at a below-neutral 33 for the fourth consecutive month (see chart).

Cessation of restrictive government lockdown policies and reopening of the economy have been the driving forces behind the economic recovery but the resurgence in Covid cases is a growing headwind and is compounding difficult labor conditions, shortages of materials, and lingering logistical issues. These issues continue to exert upward pressure on prices. Furthermore, outbreaks of the Delta variant of the Coronavirus are having an impact on consumers and could lead to some partial reinstatement of government restrictions. Risks to the outlook have grown significantly, but for now, continued economic expansion remains the likely path.

Leading Indicators Index Drops for the Fifth Consecutive Month

The AIER Leading Indicators index posted its fifth consecutive drop in August, coming in at 58 versus 75 in July. The 17-point decline was the largest since May 2020 and leaves the index well below the recent high of 92 in March. The August result remains slightly above the neutral 50 threshold and suggests continued economic expansion in the months ahead. However, the string of declines also suggests that sources of growth will likely start to narrow in coming months.

Among the 12 leading indicators, six were in a positive trend in August with four trending lower and two trending flat or neutral. Three of the 12 leading indicators changed direction in August. Total heavy truck unit sales, a measure of capital investment, fell to a negative trend from a positive trend in July. This indicator has been unusually volatile in recent months. Real new orders for core capital goods, a broader measure of capital investment and another of the AIER leading indicators, remains in a positive trend.

The average workweek in manufacturing fell from a positive trend to a neutral trend. This indicator had staged a solid recovery from the lockdown-induced plunge in 2020, reaching 41.7 hours in March 2021 and matching the result from February 2020 prior to the lockdowns (though this was still below the average of 42 hours in 2018). Since the March peak, average weekly hours in manufacturing have shown some weakness. That weakness may be related to shortages of materials that limit production or due to the resurgence of Covid.

The University of Michigan Consumer Expectations index was the third indicator to change in August, dropping from a positive trend to a neutral trend. The drop was both severe in magnitude and broad in coverage (see more below). The drop was entirely attributable to the fears associated with the resurgence in Covid cases.

Three other leading indicators continued to show unfavorable trends: the Treasury yield spread, real new orders for consumer goods, and housing permits. The Treasury yield spread has been unfavorable for 20 months while the real new orders for consumer goods indicator has been unfavorable for four consecutive months and housing permits for two consecutive months.

Overall, the Leading Indicators index posted a sharp drop in August but remained slightly above the neutral 50 level. It was the twelfth consecutive month above 50 but the lowest level of the past year. The results suggest continued expansion is likely but the breadth of sources of growth are likely to narrow in coming months, especially if new Covid cases run rampant. Over the last 12 months, the leading indicators index has averaged 77.1 but the 34-point drop over the last five months from the recent high of 92 in March is a cautionary sign. As government policies restricting consumers and businesses have been removed, economic activity has rebounded. However, ripple effects from the lockdowns continue to disrupt labor supply, production, and logistics and transportation, resulting in scattered shortages of input materials and rising pressure on prices. These issues are likely to be resolved over time (though rising new Covid cases may delay the resolution) and are unlikely to result in a 1970s-style price spiral.

The Roughly Coincident Indicators index held at a perfect 100 reading in August with all six individual Roughly Coincident indicators continuing to trend higher. The sixth consecutive month of perfect results follow four months of readings in the 83 to 92 range. The Roughly Coincident Indicators index has been above the neutral 50 level for eleven consecutive months, posting an average reading of 91, the highest since May 2019. The strong performance of the Roughly Coincident Indicators index since the government-induced recession of 2020 reflects the broad nature of the economic recovery but

the recent weakness in the Leading Indicator Index raises the likelihood of some setbacks for the Roughly Coincident Indicators Index in coming months.

AIER's Lagging Indicators index was unchanged for a fourth consecutive month in August, maintaining a weak 33 reading, well below the neutral 50 level. August was the 20th consecutive month at or below neutral. The average over the last 20 months is 28.8. Overall, four indicators remained in an unfavorable trend, while two indicators had favorable trends, and none were in a neutral trend.

Fears of Delta Variant Send Consumer Sentiment Plunging in Early August

The preliminary August results from the University of Michigan Surveys of Consumers show overall consumer sentiment plunged in early August, hitting the lowest level since December 2011. Fears of the Delta variant and rising number of new Covid cases were the primary drivers.

According to the report, "Consumers reported a stunning loss of confidence in the first half of August. The Consumer Sentiment Index fell by 13.5% from July, to a level that was just below the April 2020 low of 71.8. Over the past half century, the Sentiment Index has only recorded larger losses in six other surveys, all connected to sudden negative changes in the economy: the only larger declines in the Sentiment Index occurred during the economy's shutdown in April 2020 (-19.4%) and at the depths of the Great Recession in October 2008 (-18.1%)."

The report goes on to add, "The losses in early August were widespread across income, age, and education subgroups and observed across all regions. Moreover, the losses covered all aspects of the economy, from personal finances to prospects for the economy, including inflation and unemployment."

With regard to the economic outlook, the report adds, "There is little doubt that the pandemic's resurgence due to the Delta variant has been met with a mixture of reason and emotion. Consumers have correctly reasoned that the economy's performance will be diminished over the next several months, but the extraordinary surge in negative economic assessments also reflects an emotional response, mainly from dashed hopes that the pandemic would soon end. In the months ahead, it is likely that consumers will again voice more reasonable expectations, and with control of the Delta variant, shift toward outright optimism."

Overall consumer sentiment decreased to 70.2 in early August, down from 81.2 in July, a 13.5 percent drop. From a year ago, the index is down 5.3 percent. The current-economic-conditions index sank to 77.9 from 84.5 in July. That is a 7.8 percent decline and leaves the index with a 6.0 percent decrease from August 2020. The second sub-index — that of consumer expectations, one of the AIER leading indicators — plunged 13.8 points or 17.5 percent for the month to 65.2, the lowest since October 2013.

The shocking decline in consumer sentiment in early August reflects the emotional sensitivity of the population to the spread of the Delta variant and the sharp rise in new Covid cases. Emotions do play a role in consumer behavior and therefore consumer spending.

Covid Concerns and Rising Prices Drag Consumer Confidence Down in August

The Consumer Confidence Index from The Conference Board fell in August, dropping 11.3 points to 113.8. August was the second decline in a row and puts the index at its lowest level since February 2021.Both major components of the index fell for the month. The present-situation component decreased 9.9 points to 147.3, the lowest since April, while the expectations component lost 12.4 points, taking it to 91.4, the lowest since January. The details of the report suggest that consumers are becoming more concerned about the rising number of Covid cases and, to a lesser extent, rising prices.

According to the report, "Spending intentions for homes, autos, and major appliances all cooled somewhat; however, the percentage of consumers intending to take a vacation in the next six months continued to climb." However, the report adds, "While the resurgence of COVID-19 and inflation concerns have dampened confidence, it is too soon to conclude this decline will result in consumers significantly curtailing their spending in the months ahead."

The most significant declines in the details of the survey came from views of current and future business conditions as well as expectations for income. Regarding current general business conditions, the percentage of consumers saying present business conditions were good fell 4.7 points to 19.9 while the percentage of those saying business conditions were bad rose 4.0 percentage points to 24.0. Those results left the net business conditions percentage at -4.1, down 8.7 from the prior month.

Regarding consumer expectations, consumers' expectations for business conditions in six months, the percentage expecting better conditions fell 8.0 points to 22.9 while the net percentage expecting worse conditions rose 5.9 points to 17.8. The net percentage for business conditions six months ahead was down 13.9 points to 5.1.

Expectations for future income deteriorated with 17.9 percent expecting an increase, down from 20.0 in July, while 10.1 percent expect a decrease, up from 8.8 in July. Those results put the net percentage at 7.8 percent, down 3.4 points from 11.2 in July. As noted earlier, future buying plans softened as percentages for buying a home, auto, or major appliance all fell in the latest month though the percentage planning a vacation rose.

Overall, the survey results suggest consumers are growing more concerned about the recent surge in new Covid cases.

Total and Core Retail Sales Fell in July

Retail sales and food-services spending fell 1.1 percent in July, the second drop in the last three months. The three-month annualized growth rate is -6.8 percent though the level of sales is still well above the most recent nine-year trend. From a year ago, total retail sales are up 15.8 percent.

Core retail sales, which exclude motor vehicle dealers and gasoline retailers, posted a 0.7 percent decline for the month, leaving that measure with a -0.1 percent annualized growth rate but a 13.8 percent gain from a year ago. Core retail sales are still well above the nine-year trend.

Most categories were down in July with eight posting drops and five showing gains. The gains were led by a 3.5 percent increase in miscellaneous store retailers, followed by gasoline stations (up 2.4 percent for July), and restaurants (up 1.7 percent). Restaurants is the only category to have a gain in each of the last four months (see second chart).

Among the eight categories showing drops in July, motor vehicles and parts dealers were down 3.9 percent, nonstore retailers (primarily online sellers) fell 3.1 percent, clothing and accessory retailers decreased by 2.6 percent, and sporting goods, hobby, musical instruments and book stores lost 1.9 percent.

Overall, retail sales posted a weak result in July, the second drop in the last three months, but remain well above trend.

Unit Auto Sales Fell Again in August as Shortages Drive Inventory Down and Prices Up

Sales of light vehicles totaled 13.1 million at an annual rate in August, down from a 14.6 million pace in July. The August result was the fourth consecutive decline and third straight month below the 16 to 18 million range. Falling auto sales is largely a result of component shortages that have limited production, resulting in plunging inventory and surging prices.

Breaking down sales by origin of assembly, sales of domestic vehicles fell to 9.8 million units versus 11.0 million in July, a drop of 10.7 percent, while imports fell to 3.27 million versus 3.66 million in July, a drop of 10.5 percent. The domestic share came in at 74.9 percent in August versus 75.0 in July.

Component shortages, especially computer chips, have disrupted production for most manufacturers, creating a scarcity for many models, leading to lower inventory and higher prices. Ward's estimate of unit auto inventory came in at 151,400 in July, the lowest on record. The Bureau of Economic Analysis estimates the inventory-to-sales ratio has fallen to a record low 0.683 for July.

The plunging inventory levels are pushing prices higher. The average consumer expenditure for a car was $30,729 in July while the average consumer expenditure on a light truck rose to $46,058. The July levels represent 12-month gains of 13.3 percent and 11.7 percent, respectively.

As a share of disposable personal income per capita, average consumer expenditures on a car jumped to 56.4 percent versus just 41.6 percent in March 2021 while the average consumer expenditure on a light truck as a share of disposable personal income per capita jumped to 84.6 percent versus 64.5 percent as recently as March 2021.

Covid Resurgence Hurts Recovery in Employment

U.S. nonfarm payrolls added 235,000 jobs in August, the third slowest of the 16-month recovery. The gain follows the addition of 1.053 million in July and 962,000 in June. Still, the August gain is the eighth in a row and 15th in the last 16 months, bringing the eight-month gain to 4.687 million and the 16-month post-plunge recovery to 17.029 million. This is still well below the 22.362 million combined loss from March and April of 2020, leaving nonfarm payrolls 5.333 million below the February 2020 peak.

Private payrolls posted a 243,000 gain in August after a 798,000 gain in July and 808,000 increase in June. The August rise in private payrolls is also the eighth in a row and 15th in the last 16 months. The August addition brings the eight-month gain to 4.098 million and the 16-month recovery to 16.810 million versus a combined loss of 21.353 million in March and April of 2020, leaving private payrolls 4.543 million below the February 2020 peak.

Weakness in August was concentrated in the Retail industry and Leisure and Hospitality industry. Within the 243,000 gain in private payrolls, private services added 203,000 while goods-producing industries added 40,000 versus a monthly average of 585,500 over the prior six months for services and 36,667 for goods.

Within private service-producing industries, retail lost 28,500 jobs in August, the third decline in the last five months while leisure and hospitality was unchanged for the month after adding 415,000 in July and an average of 349,833 per month over the prior six months. Among other service industries, business and professional services added 74,000 in August, transportation and warehousing gained 53,000, and education and health care services increased by 35,000 (see second chart).

Within the 40,000 gain in goods-producing industries, construction was down 3,000, while durable-goods manufacturing increased by 31,000, nondurable-goods manufacturing added 6,000, and mining and logging industries increased by 6,000.

After 16 months of recovery, only one of the major private industry groups has more employees than before the government lockdowns – transportation and warehousing. Two industries - Leisure and hospitality (down 917,000 jobs), education and health services (down 687,000) – are down more than half a million jobs each. On a percentage basis, the losses are more evenly distributed. Three of the 14 private industries shown in the report have

declines of 5 percent or more since February 2020. Leisure and hospitality leads with a 10.0 percent drop since February 2020, mining and logging comes in second with a 6.7 percent loss followed by information services at 5.1 percent. For the labor market as a whole, total nonfarm payrolls and private payrolls are down 3.5 percent since February 2020.

Average hourly earnings rose 0.6 percent in August, putting the 12-month gain at 4.3 percent. The average hourly earnings data should be interpreted carefully, as the concentration of job losses and recovery for lower-paying jobs during the pandemic distorts the aggregate number.

The average workweek was unchanged at 34.7 hours in August. Combining payrolls with hourly earnings and hours worked, the index of aggregate weekly payrolls gained 0.8 percent in August. The index is up 9.7 percent from a year ago.

The total number of officially unemployed decreased by 318,000 in August to 8.384 million. The unemployment rate fell to 5.2 percent while the underemployed rate, referred to as the U-6 rate, fell to 8.8 percent in August. In February 2020, the unemployment rate was 3.5 percent while the underemployment rate was 7.0 percent.

The participation rate was unchanged in August, coming in at 61.7 percent versus a participation rate of 63.3 percent in February 2020. The employment-to-population ratio, one of AIER's Roughly Coincident indicators, came in at 58.5 for August, up from 58.4 in July but well below the 61.1 percent in February 2020.

Overall Outlook: Growth facing growing headwinds as Covid surges

The AIER Leading Indicators index posted a 17-point decline in August, the fifth consecutive drop, coming in at 58 versus 75 in July. The August result remains slightly above the neutral 50 threshold and suggests continued economic expansion in the months ahead. However, the string of declines also suggests that sources of growth will likely start to narrow in coming months.

The Roughly Coincident Indicators index held at 100 in August and has been above the neutral 50 level for eleven consecutive months. The strong performance of the Roughly Coincident Indicators index since the government-induced recession of 2020 reflects the broad-based economic recovery but the recent weakness in the Leading Indicator Index raises the likelihood of some setbacks in coming months.

AIER's Lagging Indicators index maintained a weak 33 reading, well below the neutral 50 level. August was the 20th consecutive month at or below neutral. Overall, four indicators remained in an unfavorable trend, while two indicators had favorable trends, and none were in a neutral trend.

The rapid spread of the Delta variant and rising number of new cases is having an impact on consumer attitudes and economic activity. While the outlook is for continued growth, the headwinds are gaining strength. Furthermore, the rebound in demand that has emerged as lockdown restrictions were lifted continues to outpace the recovery in supply, leading to upward pressure on prices, though a 1970s-style price spiral remains unlikely. The resurgence in Covid is likely exacerbating ongoing labor difficulties including a lack of qualified workers, absenteeism, temporary shutdowns, and inability to retain talent. Continued economic expansion is the likely path but caution is warranted.

CAPITAL MARKET PERFORMANCE

(Percent change)

		Latest	Latest	Calendar Year			Annualized		
	August	3M	12M	2020	2019	2018	3-year	5-year	10-year
Equity Markets									
S&P 1500	2.8	7.0	30.5	15.8	28.3	-6.8	15.4	15.5	13.9
S&P 500 - total return	3.0	8.0	31.2	18.4	31.5	-4.4	18.1	18.0	16.3
S&P 500 - price only	2.9	7.6	29.2	16.3	28.9	-6.2	16.0	15.8	14.0
S&P 400	1.8	0.9	42.9	11.8	24.1	-12.5	10.4	12.0	12.2
Russell 2000	2.1	0.2	45.6	18.4	23.7	-12.2	9.3	12.9	12.1
Dow Jones Global Large-Cap Index	2.5	4.1	24.8	14.7	23.8	-10.4	12.4	15.7	9.0
Dow Jones Global Large-Cap ex-U.S. Index	1.8	-1.2	21.5	8.8	18.2	-15.7	7.0	10.3	3.9
STOXX Europe 600 Index	2.0	5.4	28.5	-4.0	23.2	-13.2	7.2	6.5	7.1
Bond Markets									
iShares 20-plus Year Treasury Bond ETF	-0.5	7.5	-8.2	16.4	11.5	-4.2	7.1	1.2	3.4
IiShares AAA - A Corporate Bond Fund	-0.5	2.1	-1.6	7.1	9.1	-5.2	4.1	1.2	NA
Commodity Markets									
Gold	-0.9	-5.2	-8.2	24.8	18.7	-1.7	14.5	6.7	-0.1
Silver	-5.7	-13.0	-12.1	46.8	16.7	-8.3	17.9	5.1	-5.3
Refinitiv CoreCommodities CRB total return index	0.0	6.1	42.5	-9.3	11.8	-10.7	5.3	5.1	-3.8

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

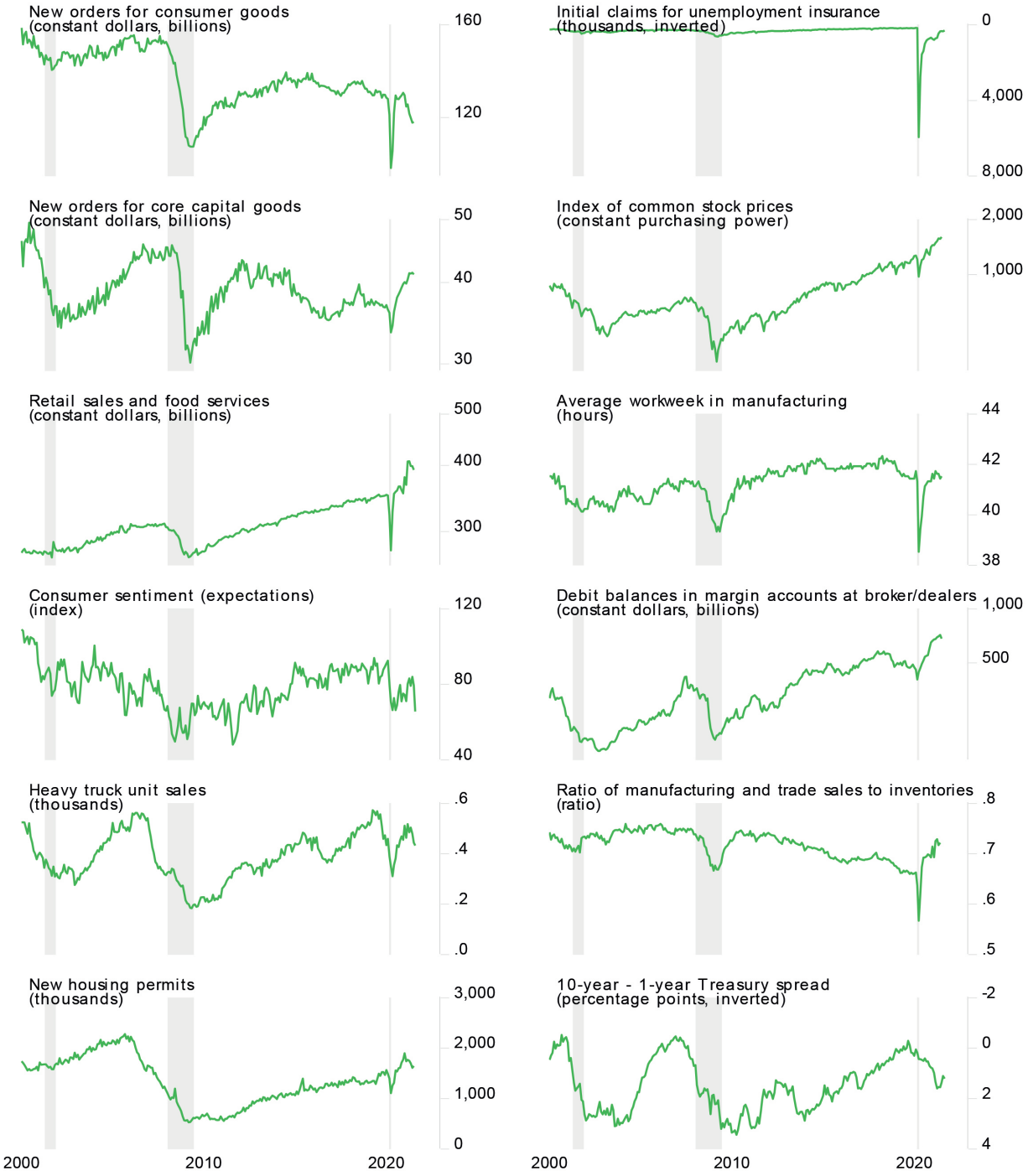
CONSUMER FINANCE RATES

(Percent)

		Latest	Latest	Average for Year			Average over Period		
	August	3M	12M	2020	2019	2018	3-year	5-year	10-year
30-yr. fixed mortgage	2.9	2.9	2.9	3.1	3.9	4.5	3.6	3.8	3.8
15-yr. fixed mortgage	2.2	2.2	2.3	2.6	3.4	4.0	3.0	3.2	3.1
5-yr. adjustable mortgage	2.5	2.6	2.8	3.1	3.6	3.8	3.3	3.3	3.1
48-month new car loan	5.3	5.3	5.1	5.1	5.4	5.0	5.2	5.0	4.8

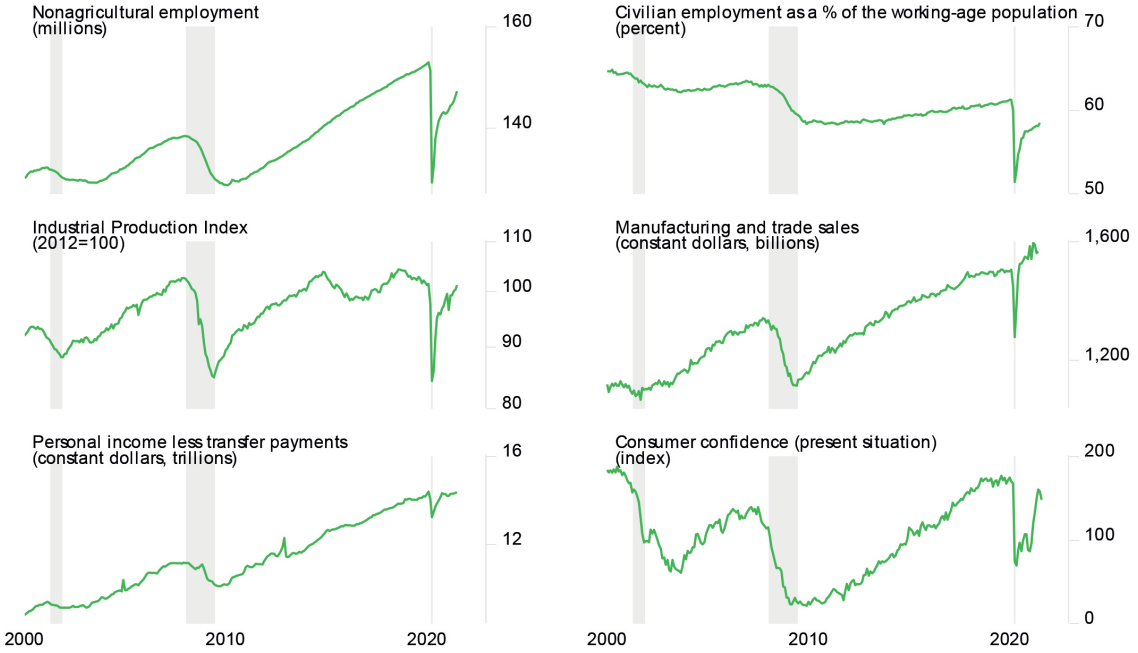
Sources: Bankrate, Federal Reserve.

LEADING INDICATORS (2000-2021)



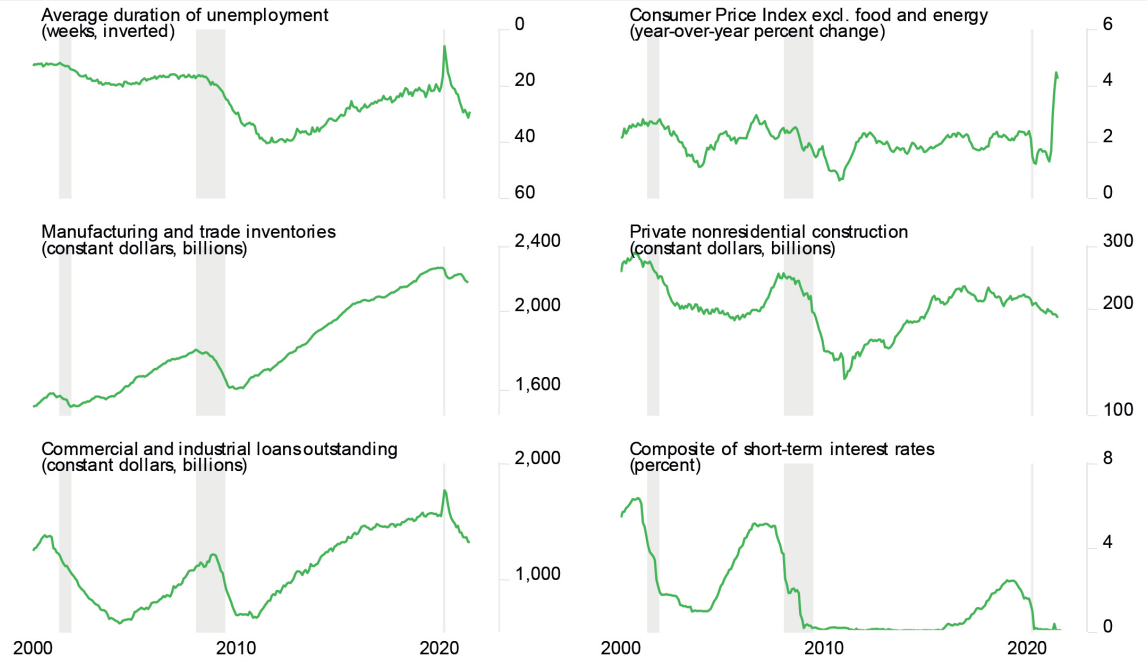
Note: Shaded areas denote recessions.
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, The conference Board, Census Bureau, Department of Labor, Federal Reserve, Institute for Supply Management, Standard & Poor's, AIER (Refinitiv).

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).

Who Fact Checks the Fact Checkers? A Report on Media Censorship

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The advent of fact-checker journalism may be wearing out its welcome. Perhaps the increasing politicization of American life is a contributor to the downward spiral of the fact-checking profession that is primarily run by politically engaged reporters, not expert specialists in the subjects they assess by any sense of the imagination. Not that any one group of experts should have the authority over the truth either. Self-appointed media gatekeepers are a ticking time bomb of political censorship, waiting to be unleashed when the temptations are too great and the necessity for impartiality is even greater. With White House Press Secretary Jen Psaki calling for collusion between social media companies and the government to censor "misinformation", this threat seems to be as close as ever.

Although fact checkers purport to be independent guardians of accountability, recent events have exposed them as mere enforcers of fashionable political positions. This brings us to a relatively new, but powerful company known as NewsGuard, which claims a partnership with Microsoft and gleaming spotlights in major outlets. Its staff and board boast powerful connections to the government, finance, and the media. According to an Op-ed in Politico written by NewsGuards' CEO, rather than simply being a fact-checking company that can only debunk stories after they go viral, NewsGuard rates entire websites' trustworthiness. This new strategy is aimed at discrediting the very source that alleged misinformation or disinformation may come from. NewsGuard publishes lengthy "nutritional labels," rating websites on various criteria of journalistic importance and outlining its reasons for giving certain ratings. Perhaps one day, these ratings may be used to filter out certain websites, which is what NewsGuard's CEO alludes to by citing the great political scientist Francis Fukuyama's article in *Foreign Affairs.*

In fact, the company made the following tweet on July 17, 2021, essentially siding with Psaki's call for a government-media partnership to censor internet content.

Figure I: NewsGuard tweet praising Psaki's statement

Phrases such as "working collaboratively" and "our door is open" reveal that NewsGuard envisions itself as having a prominent role in any collusive arrangement that arises from the White House's recent statements. Their posturing for influence, however, obscures a more basic question: why should we trust a self-appointed fact checker? Indeed, who fact checks the fact checkers?

After receiving a recent request for comments on a "fact-check" article by NewsGuard regarding AIER and the Great Barrington Declaration, we decided to investigate the rise of the fact-checking phenomenon itself, including this strange new company's own performance in evaluating the content of other websites.

We soon discovered that NewsGuard falls far short of the very same criteria for accuracy and transparency that it claims to apply to other websites. Most of the company's fact checkers lack basic

qualifications in the scientific and social-scientific fields that they purport to arbitrate. NewsGuard's own track record of commentary – particularly on the Covid-19 pandemic – reveals a pattern of unreliable and misleading claims that required subsequent corrections, and analysis that regularly conflates fact with opinion journalism in rendering a judgement on a website's content. Furthermore, the company's own practices fall far short of the transparency and disclosure standards it regularly applies to other websites.

How Accurate are Self-Appointed Fact Checkers?

The stated premise of fact-checking is to correct errors in claims published by other websites and outlets. But what happens when the organization doing the fact-checking has its own facts wrong?

A revealing example may be found in NewsGuard's treatment of the "lab leak" hypothesis for Covid-19's origins. Media coverage of the lab leak theory – which posits that the pandemic originated through the accidental infection of workers at the Wuhan Institute of Virology who were studying coronaviruses in bat populations – has changed dramatically in recent months after a closer examination of evidence led several scientists to lend it credence. Political figures including President Joe Biden and White House medical adviser Anthony Fauci now consider the lab leak theory "plausible" and have called for an investigation of the Wuhan facility.

For over a year prior to these recent developments however, NewsGuard aggressively "fact checked" and penalized other websites for even raising the possibility of a lab leak. Some of the most aggressive attacks came from John Gregory, NewsGuard's "Deputy Editor for Health" policy and also the primary correspondent in AIER's exchanges with the company.

In March 2020, Gregory sent a separate inquiry to another website charging it with promoting "unfounded conspiracy theories about the virus' origins," and specifically what is known as the lab leak hypothesis. "There is no evidence that the Wuhan Institute of Virology was the source of the outbreak, and genomic evidence has found that the virus is '96% percent identical at the whole-genome level to a bat coronavirus,'" continued Gregory's email, which also suggested that NewsGuard would be flagging and downgrading the website for publishing "misinformation" about this subject. While the website in question – an "alternative medicine" blog – promoted other fringe claims that warranted scrutiny and legitimate corrections, Gregory's focus on specifically discrediting the lab leak thesis suggests he was injecting his own political opinions into the fact-checking exercise.

In another example from February 2020, Gregory announced by tweet that he had contacted a medical news website after it ran a headline suggesting "Coronavirus may have leaked from China's highest biosafety lab." Gregory demanded a "formal correction or retraction" of the headline. After we contacted Gregory by email to question him about the practice of penalizing websites for discussing the lab leak hypothesis, he responded, "My February 2020 tweet was also accurate," asserting that his position was justified on the grounds that "[t]he lab leak theory remains unsubstantiated and under investigation." NewsGuard has taken a similar line in its reassessment of ratings on some 225 websites where it docked the source for mentioning the lab leak hypothesis, stating that "while not substantiated, [the lab leak theory] is also, as of now, not provably false."

Despite Gregory's tendentious phrasing, he nonetheless quietly deleted the tweet in the days following AIER's inquiry. The company also found itself in deeper trouble over its previous mischaracterizations of the lab leak hypothesis as a "conspiracy theory" – a common refrain in Gregory's articles on the subject. In late June 2021, NewsGuard had to issue at least 21

separate corrections to ratings where it docked websites for reporting on the lab leak theory. According to a statement that the company sent to AIER:

> "NewsGuard either mischaracterized the sites' claims about the lab leak theory, referred to the lab leak as a "conspiracy theory," or wrongly grouped together unproven claims about the lab leak with the separate, false claim that the COVID-19 virus was man-made without explaining that one claim was unsubstantiated, and the other was false. NewsGuard apologizes for these errors. We have made the appropriate correction on each of the 21 labels."

NewsGuard has not published the full results of its audit, or a list of the corrections it made, thereby precluding independent verification of whether its corrections were sufficient to rectify the Covid misinformation it had previously published. The company did not respond to AIER's request for this information.

While these corrections are a welcome development from the company, they also reveal a deeper underlying hubris that characterizes NewsGuard's general approach to vetting Covid-19 content. Gregory and other fact checkers at the site appear to have concluded as early as February and March 2020 that the lab leak hypothesis was nothing more than a fringe "conspiracy theory," and began using this descriptor to attack and downgrade almost any website that subsequently raised the very possibility that it was investigation-worthy. This hubris persisted until a reassessment of the claim led mainstream scientists, as well as political figures such as Biden and Fauci, to deem the hypothesis "plausible" and call for a comprehensive investigation into the Wuhan Institute of Virology. Gregory and his colleagues appear to have simply decided that their own premature dismissal of the lab leak hypothesis equated to "fact" and proceeded to penalize other sites not for factual errors, but rather for diverging from NewsGuard's own editorial position on the same subject. When this position turned out to be mistaken, NewsGuard pivoted to remove the errors – albeit in non-transparent ways that downplay the significance or pervasiveness of their mistake.

AIER's own experience with NewsGuard revealed a similar pattern of carelessness and misrepresentation by Gregory and other writers for the company. Gregory contacted us on behalf of NewsGuard in early June 2021 requesting comments on several articles relating to Covid-19 pandemic policy and the Great Barrington Declaration. AIER's Phil Magness obliged the request by offering to answer his questions in good faith, but quickly discovered that they carried heavy political biases arising from Gregory's own personal beliefs about Covid-19, healthcare policy, American politics, and related subjects.

In one such example, Gregory asked a prejudicial question that attempted to implicate AIER with showing partisan political biases in our publications:

> "We also note that AIER.org refers to itself as nonpartisan. Why then do its articles routinely criticize Democrats, such as a June 2021 article that stated, "Biden has never provided any evidence that he is more trustworthy on corruption than any other career Washington politician," or another recent article that said Biden, Fauci, and House Speaker Nancy Pelosi "do not care if their policies destroy the nuclear family, the educational system, and moral and religious value systems, the very pillars of civil society?"

Gregory's question, however, selectively cherry-picked only two articles on our site where we criticized Democratic politicians. It made no mention of the many examples where AIER has

similarly criticized Republicans such as former president Donald Trump over excessive spending, tariffs, support for lockdowns, and illiberal political posturing. As Magness responded, "[T]he focus of [AIER's] criticism is also shaped by who happens to be in political power at the time." Gregory's line of questioning about Democrats appears to have intentionally ignored "numerous instances where we have similarly criticized Republicans" when they were in power.

Gregory's questions displayed a similar pattern of conflating normative policy positions taken by individual authors on AIER's website – essentially opinion articles, and all properly identified as such – for positive or empirical claims, which could then be "fact checked." As a result, his questions treated prescriptive policy opinions that diverged from his own viewpoints as if they were "scientific claims" – even when the normative nature of the argument was explicitly stated up front (in one example, the authors of a "fact checked" argument prefaced their opinions on how vaccines should be prioritized as their own beliefs, including identifying it as "our views on this" subject). Since AIER publishes a diversity of positions, including arguments that diverge from the viewpoints of AIER's full time research faculty, it is fundamentally inaccurate to portray individual opinion essays as "AIER.org's claim," as NewsGuard does. Indeed, Magness has written at length in favor of expanding vaccination access despite FDA and CDC regulatory obstacles, taking the exact opposite position of the viewpoint that Gregory attributes to the organization. When Magness replied to Gregory by calling attention to the difference between normative and positive arguments as well as the editorial diversity of external contributors to our daily publications, he ignored the distinction. Gregory's subsequent article proceeded to blur the two together, erroneously depicting normative points of disagreement as positive scientific claims that could then be "fact checked" against his own position.

Even more problematic was NewsGuard's portrayal of the Great Barrington Declaration (GBD), signed at AIER in October 2020. Gregory's synopsis of the GBD contained numerous false and misleading claims that were brought to the attention of his company almost immediately after their publication.

Repeating a charge from another website, Gregory wrote that "none of the three [GBD authors] had published peer-reviewed research about the COVID-19 pandemic at the time they authored the declaration." This claim is false. GBD co-author Jay Bhattacharya was part of a team of scientists from Stanford University that conducted one of the first wide-scale seroprevalence studies of Covid-19 at the outset of the pandemic. Their results appeared in the *Journal of the American Medical Association* in May 2020. When contacted by AIER about this error in his article, Gregory conceded that the claim "will require a correction on our part," though he appended it with a snide denigration of Bhattacharya for being "listed as the seventh author" on the study (Bhattacharya was in fact a principal co-author but was listed last, as per a convention with how some medical journal articles identify senior ranked investigators. Bhattacharya was also a primary media contact about his study's findings at the time of its release).

NewsGuard's depiction of the GBD contained other clear misrepresentations of its contents and positions. For example, Gregory wrote that the GBD "argued that restrictions meant to reduce the spread of the COVID-19 virus, such as face masks…should be eliminated for people considered to be at lower risk of severe illness and death from COVID-19." The text of the GBD makes no mention of face mask policy though – only lockdowns and similar restrictions on schools and businesses. NewsGuard did not respond to multiple requests from AIER to correct this erroneous characterization.

Gregory's article also displayed a clear pattern of relying upon dubious and unqualified secondary sources to evaluate the scientific merits of the GBD. In an email to AIER, NewsGuard co-CEO Steven Brill stated "when we make judgments about health care sites…we rely on – and quote — sources who are the experts." This is not the case with their assessment of the GBD.

Rather than quoting scientific experts, NewsGuard's review of the GBD relies primarily on a statement by former UK Health Secretary Matt Hancock – a politician who has no formal scientific or medical training. In a passage quoted by Gregory, Hancock stated that "the Great Barrington declaration is underpinned by two central claims and both are emphatically false. First, it says that if enough people get covid, we will reach herd immunity. That is not true…we should have no confidence that we would ever reach herd immunity to covid, even if everyone caught it."

Hancock's statement, however, is at direct odds with mainstream science on immunology. The World Health Organization specifically defines herd immunity as the combined total of immunity acquired by vaccination and by natural infection and recovery. Although it differs from the GBD authors on how to most effectively reach this point, the WHO does not dispute the existence or attainment of herd immunity itself. Even among pro-lockdown sources, herd immunity is seen as a reachable goal and a primary aim of mass vaccination, contrary to Hancock's claims. Dr. Anthony Fauci, for example, has frequently stated that he anticipates reaching herd immunity after between 70 and 85% of the U.S. population is vaccinated or recovered from Covid-19. Most other public health scientists agree that herd immunity is attainable through a combination of vaccination and natural immunity, even though some of them differ from the Great Barrington Declaration authors about the role of specific policy interventions in reaching this point.

Hancock's statement, cited as authoritative by NewsGuard, further contended, "The second central claim [of the GBD] is that we can segregate the old and vulnerable on our way to herd immunity. That is simply not possible." This is not a scientific statement, but rather Hancock's own political opinion. A detailed plan arguing for the feasibility of focused protection measures was published by the GBD authors to accompany the Declaration itself. More importantly, the scientific literature on Covid-19 mitigation documents clear evidence that the success (or failure) of a country to "shield" its nursing homes through a focused protection strategy is a primary factor in its overall mortality rate. A study by John P.A. Ioannidis in the journal *BMJ-Global Health* compared the nursing home shielding ratios of several countries, concluding that they "varied markedly in the extent to which they protected high-risk groups." Contrary to Hancock's political claims, Ioannidis concluded: "Both effective precision shielding and detrimental inverse protection can happen in real-life circumstances. COVID-19 interventions should seek to achieve maximal precision shielding."

When asked by AIER about their continued reliance on Hancock as a source despite the scientific misinformation contained in his assessment of herd immunity as well as his overall lack of scientific qualifications, Gregory responded that it "was and is relevant to explaining the views of those who criticized the Declaration." Neither Gregory nor NewsGuard responded to follow-up questions about how they reconciled this position, the political nature of Hancock's comments, or Hancock's lack of scientific credentials with Brill's assertion that they "rely on – and quote — sources who are the experts" in the subject matters they evaluate.

In addition to using non-expert assessments such as Hancock to attack the GBD, Gregory included

links to further readings about the Declaration from an extremely dubious source: 9/11 Truther and conspiracy theory blogger Nafeez Ahmed of the *Byline Times* website. Between October 2020 and the present, Ahmed has promoted a flurry of increasingly bizarre conspiracy theories about the GBD, including a false allegation that it was secretly financed by libertarian billionaire Charles Koch in apparent coordination with the British Ministry of Defence and – strangest of all – the proprietor of a resort hotel located in Wales. Far from being based in factual journalism, Ahmed's theories display clear signs of its author's personal paranoias and political biases.

When asked about NewsGuard's promotion of links to Ahmed's blog, Gregory backtracked by noting that "[NewsGuard] sometimes include articles that we come across while researching a website but are not referenced within the label itself." He stated that Ahmed's claims were not used to calculate NewsGuard's ratings and were only included to provide a "history" of the GBD. It did not appear to concern Gregory that Ahmed's "history" was an unreliable conspiracy theory of his own imagination.

As of this writing, NewsGuard has not altered or removed the links to Ahmed's allegations despite its promotion of documented falsehoods about the origins and funding of the GBD. Even more astounding, NewsGuard currently rates Ahmed's blog with a score of 82.5/100, giving it full credit for "gathering and presenting information responsibly." This pattern evinces a clear double standard in which NewsGuard promotes sources that do not appear to meet their own published minimum standards for reliability and uses them to denigrate the credibility of AIER and the GBD.

In sharp contrast to the generally disparaging approach he took to covering the GBD, Gregory holds other websites that attack the GBD in high esteem. In one example, Gregory extended a score of 87.5/100 to CovidFAQ.co, a website set up by a group of pro-lockdown activists in the United Kingdom. CovidFAQ is a joint project of conservative member of Parliament Neil O'Brien, "neoliberal" activist Sam Bowman, and academic Stuart Ritchie. Pro-lockdown UK political strategist Dominic Cummings recently referenced their work as part of a "decentralised" political campaign to discredit the anti-lockdown movement and the GBD, which he proposed while serving as an advisor to Prime Minister Boris Johnson. In his article for NewsGuard, Gregory credits CovidFAQ for "not repeatedly publish[ing] false content." The website's track record is at clear odds with Gregory's assessment.

In January 2021, CovidFAQ published a lengthy attack on the GBD that contained multiple errors and misrepresentations of the Declaration's contents. In one example, the authors of CovidFAQ claimed, "The authors of the Great Barrington Declaration have never given an answer" to how they would implement a focused protection strategy in place of lockdowns. In reality, the GBD website contains a detailed 1,800 word plan for implementing focused protection. When AIER's Phil Magness alerted CovidFAQ co-owners Stuart Ritchie and Sam Bowman to this error in January 2021, the website's editors modified the text to read, "The authors of the Great Barrington Declaration have never given *anything approaching an adequate answer*" to how they would implement focused protection (emphasis added). Rather than a factual correction, CovidFAQ's change inserted their own editorial commentary expressing disagreement with the GBD's published focus protection strategy as a way of disguising CovidFAQ's earlier misrepresentations of the document. Gregory's NewsGuard rating of the CovidFAQ website specifically linked to CovidFAQ's deceptive edit about the GBD, and described it as having met "NewsGuard's standards for regularly issuing corrections."

Figure II: Misleading edit on the CovidFAQ website, classified as an appropriate "correction" by NewsGuard

CovidFAQ.co, original text

2) **Nobody really knows how to "shield" vulnerable people.** It sounds very simple: keep the older and more vulnerable people safe, and let everyone else go about their business. But it's really not that straightforward. Practically, *how* do you keep those vulnerable people safe? Take, for instance, multi-generational households. A great many students and other adult children live with their parents (according to one report, this is around a third of all homes in the UK). In some communities, grandparents often live in the same home as grandchildren. Sharing a home with an infected person is one of the most common ways of catching the coronavirus - one study from South Korea found that home contacts of an infected person were more than six times more likely to have the disease than other contacts. So the question is: where are all the high-risk people supposed to go to "shield" while their younger family members go out and about, merrily catching the virus? The authors of the Great Barrington Declaration have never given an answer.

CovidFAQ.co, amended text (1/25/21)

2) **Nobody really knows how to "shield" vulnerable people.** It sounds very simple: keep the older and more vulnerable people safe, and let everyone else go about their business. But it's really not that straightforward. Practically, *how* do you keep those vulnerable people safe? Take, for instance, multi-generational households. A great many students and other adult children live with their parents (according to one report, this is around a third of all homes in the UK). In some communities, grandparents often live in the same home as grandchildren. Sharing a home with an infected person is one of the most common ways of catching the coronavirus - one study from South Korea found that home contacts of an infected person were more than six times more likely to have the disease than other contacts. So the question is: where are all the high-risk people supposed to go to "shield" while their younger family members go out and about, merrily catching the virus? The authors of the Great Barrington Declaration have never given anything approaching an adequate answer.

Typifying other slanted media coverage of the GBD, NewsGuard concluded its assessment by repeating a false story from October 2020, claiming that the GBD's signature list contained fake names such as "Dr. Johnny Bananas" to inflate its signature count. This story misrepresents the products of an intentional hoax by pro-lockdown journalists including the aforementioned Nafeez Ahmed to flood the website with false signatures. In reality, "Dr. Johnny Bananas" and similar hoax submissions were removed from the GBD website within a few hours of their discovery. An audit of signatures conducted by AIER found that false names amounted to only 0.1% of total signatures on the GBD prior to their removal, with the largest cluster of false names deriving from Ahmed's hoax campaign on October 9th. NewsGuard did not include any of this context in its article, nor did Gregory permit AIER an opportunity to comment on the misinformation contained in its account of the false signatures.

To briefly summarize, NewsGuard's coverage of Covid-19 policy and the GBD in particular suffers from a recurring pattern of frequent errors that warrant correction, reliance on fact checkers and other figures who lack qualifications to make scientific assessments, biased depictions designed to disparage or undermine the scientific credibility of the petition, and the promotion of false information from dubious secondary sources, rather than the "scientific experts" it claims to use. In sharp contrast, NewsGuard writers such as John Gregory take a friendly and non-scrutinizing stance toward pro-lockdown opponents of the GBD such as CovidFAQ website – even when they spread factual misinformation about the GBD's contents and engage in duplicitous editing under the guise of issuing a "correction." The self-appointed fact checker, it would appear, suffers from a biased and deficient internal fact-checking process for its own work on Covid-19.

Is NewsGuard Qualified to Police Facts?

Although there should be no barriers to entry when it comes to how qualified one should be to comment on an issue, it would help, especially for credibility, to have some sort of relevant background in the subjects being evaluated. Degrees in medicine and other hard sciences are always great when it comes to Covid-related topics. Advanced qualifications in social sciences like economics, policy, government, and law are similarly pertinent, given the pandemic's wide-reaching public policy consequences. Several of these fields come with advanced training in the gathering of evidence, statistical analysis, and applying the scientific method – all necessary tools to evaluate the performance of policies such as mask mandates, lockdowns, programs to encourage and distribute vaccination, and the sort.

By contrast, NewsGuard's staff primarily evaluates scientific claims by appealing to the

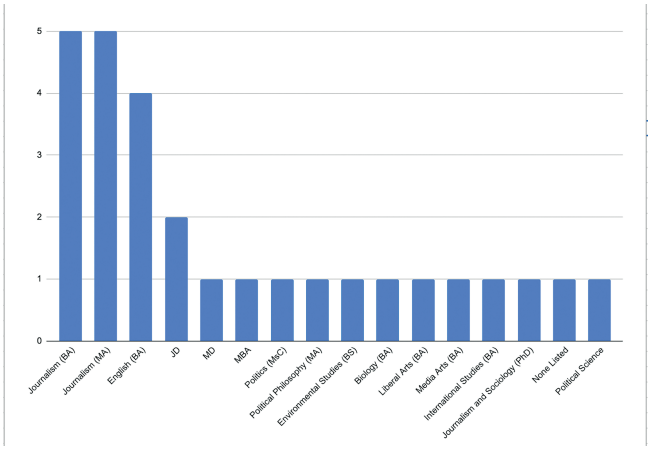
authority of public figures who they designate as "experts" on the subject in question. Their approach generally avoids direct examination of the evidence surrounding contested claims, and instead cherry-picks a figure to treat as an authoritative final word. As their liberal use of Hancock to evaluate the GBD illustrated, many of their preferred authorities are political officeholders rather than persons trained in scientific or social-scientific methods.

By selectively curating cherry-picked political authorities rather than evaluating evidence directly, NewsGuard's approach to fact-checking effectively sidesteps the scientific method. This strategy is rendered even more problematic by the general lack of scientific expertise within NewsGuard's team of writers.

We examined the educational credentials, including the highest degree listed, for 28 publicly identified staff members on NewsGuard's website. The company's staff page reveals shockingly little expertise in either the hard sciences such as medicine or social sciences such as public policy, economics, and related fields. 12 of the 28 listed staffers have primary degrees in journalism or media. The second-most represented subject area is English literature, with 4 degrees. The company's only identifiable medical expert appears to serve NewsGuard in an advisory capacity and seems to hold a separate full-time job teaching science journalism in Italy. Other science and social science qualifications are sparse, and seldom surpass the undergraduate level. Most NewsGuard articles on Covid-19 topics and policies are written by Gregory, whose only identified qualification is a bachelor's degree in Media Arts.

Noting the general deficit of scientific and social scientific expertise, AIER asked NewsGuard's co-CEO Steven Brill if his company employed any individuals with advanced degrees in healthcare, medicine, economics, public policy, or related scientific and social scientific fields. Brill responded, "A lot of us have qualifications and graduate degrees in some of the fields you mention." However the chart below belies his answer:

Figure III: NewsGuard Staff by Field and Highest Degree Attained:



For example, the aforementioned John Gregory would not qualify as an expert in most of the fields he is responsible for fact-checking. Before joining NewsGuard, his journalism background consisted primarily of writing news articles about the Orlando, Florida theme park industry. He also previously worked as a writer for TriMed Media, a for-profit consulting and marketing firm that publishes a series of newsletters targeted toward healthcare industry executives. Although TriMed's focus area is topical to healthcare, it specifically promotes its newsletter products as trade and marketing publications for its clientele within the industry. Neither Gregory's formal training nor his journalism experience appear to convey a reasonable claim to scientific expertise in medicine, healthcare policy, health economics, or related subject areas.

Of course, non-experts have every right to offer opinions on scientific and social-scientific matters. Whether or not they should be taken seriously as fact checkers or act as arbiters of scientific disputes is another question entirely.

Would NewsGuard Even Pass Its Own Tests?
If we're going to be on this topic, we might as well check to see if NewsGuard is a reliable website by its own standards. Indeed, with its partnership with Microsoft and its roster of accomplished staff, the public should understand what kind of organization this is.

To test how NewsGuard holds up to its own rating system, we subjected its website and practices to the same criteria it uses to evaluate other sources. The results reveal a website that preaches a very different standard for others than it adheres to in its own work. The results are as follows:

CREDIBILITY

"Does not repeatedly publish false content"

As documented, NewsGuard has an extensive track record of publishing false and misleading content, particularly related to Covid-19. The site admitted to making corrections to 21 separate articles where it had inappropriately labeled the lab leak hypothesis – since described as "plausible" and "warranting investigation" by mainstream scientists as well as President Biden – as a conspiracy theory. While these corrections are welcome, they are also ubiquitous and point to a pattern of NewsGuard writers jumping the gun to "fact check" claims that are not in error, but rather deviate from their own editorial positions. In the case of AIER and the GBD, NewsGuard had to issue corrections to two separate false claims within days of their article appearing. As of this writing, NewsGuard's coverage of the GBD still includes uncorrected falsehoods about the GBD's position on masks and misleading scientific assessments of its content by non-expert sources such as Matt Hancock. Although NewsGuard's browser app subscription model precludes an independent audit of their fact-checking on other websites and topics, these problems suggest a wider pattern of errors that call into question the reliability of the company's content.

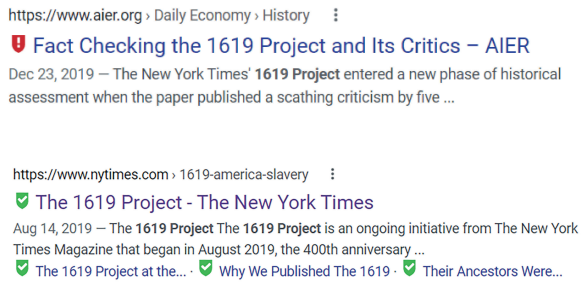
"Gathers and presents information responsibly"

As documented, NewsGuard's staff of fact checkers generally lack appropriate scientific and social-scientific qualifications to arbitrate factual and interpretive disputes in these subject areas. Instead, the company relies primarily on appeals to selectively curated external figures that they deem to be authorities on the relevant subject. When asked about how they select expert opinions, NewsGuard co-CEO Steven Brill told AIER that they always "quote real experts" and again that "we rely on – and quote — sources who are the experts." Our review of NewsGuard's analysis of the GBD, however, found that this was not the case. Instead of scientific experts, NewsGuard primarily relied on political figures such as Matt Hancock, including statements by Hancock that are well outside of the scientific consensus on the concept of herd immunity. When asked if they would be willing to correct Hancock's erroneous statements, NewsGuard writer John Gregory defended his use of this source and did not respond to further follow-up questions.

An additional concern appears with how NewsGuard affixes its "warning label" system to published articles that its writers have not reviewed, let alone identified as failing a fact check. In AIER's own experience with this company, we discovered that NewsGuard had affixed a "red" warning label to several articles we published about factual errors in the *New York Times's* 1619 Project. NewsGuard and its writer John Gregory made no effort to evaluate the contents of these articles, and did not contact AIER for any comment on the application of this label to any subject other than its above-noted disputes over Covid-19 and the GBD. At the same

time, NewsGuard applied a "green" label to the New York Times 1619 Project's own website, despite never evaluating the content contained therein (the 1619 Project, it should be noted, contains significant uncorrected factual errors, and engaged in clear acts of journalistic misconduct to deflect criticism of its historical claims). This disparate treatment of the 1619 Project provides an example of misleading and inappropriate applications of rating labels to contents that are subject to legitimate factual disputes, but that NewsGuard itself did not examine or evaluate before attaching its label. As this example illustrates, NewsGuard's practice of affixing rating labels to websites can create a false impression among its readers that the company has conducted a fact check on articles that it has not even evaluated.

Figure IV: A Comparison of NewsGuard's ratings of the 1619 Project and AIER's content on the 1619 Project, July 2021



"Regularly corrects or clarifies errors"

As noted, NewsGuard periodically corrects certain errors found in its published content. Recent corrections include the aforementioned edits to 21 articles on other website coverage of the lab leak hypothesis, and two corrections to factual misrepresentations about AIER and the GBD. At the same time however, NewsGuard appears to issue its corrections on an inconsistent basis. NewsGuard's Gregory employed evasive wording to justify his continued deprecation of the lab leak hypothesis in other uncorrected articles, describing it as "not substantiated." NewsGuard does not appear to apply similar descriptors to figures such as President Biden, Anthony Fauci, or mainstream journalism outlets such as the *New York Times* – all of which have recently lent credence to the plausibility of the lab leak hypothesis.

In AIER's own case, NewsGuard declined to make an appropriate correction to misleading scientific claims about herd immunity by Matt Hancock. The company did not respond to further requests for corrections to its misrepresentation of the GBD, including the false claim that the Declaration opposes the use of face masks.

NewsGuard's corrections policy does not appear to meet common standards for transparency. While NewsGuard claims to make timely and warranted corrections to its articles, these corrections are not independently verifiable without purchasing the company's internet browser app and searching individual websites one at a time. Furthermore, the company does not appear to retain archived and accessible copies of its uncorrected articles for independent verification of the changes. NewsGuard did not respond to AIER's inquiries about the lack of transparency arising from these unconventional practices.

"Handles the difference between news and opinion responsibly"

Despite imposing a strict standard for separating news from opinion on the other websites it rates, NewsGuard's internal practices substantially blur these lines in its own content. The website claims that it has "no political axes to grind," yet its affiliated personnel appear to be deeply involved in partisan and political causes. The company's board of advisors includes multiple former elected officeholders and political appointees from the Bush and Obama administrations, as well as foreign

governments. When asked about this apparent contradiction, NewsGuard co-CEO modified his descriptor of the company to "politically balanced." In reference to one of his advisory board members, Brill further stated, "I'm curious what "ax" you think someone like Tom Ridge is grinding." Ridge is the former Republican governor of Pennsylvania and Secretary of Homeland Security in the Bush administration (for reference, AIER made no specific claim about Ridge's beliefs save to note that he is clearly a political figure, contrary to NewsGuard's depiction of itself as a non-political company).

Brill himself also has longstanding political interests as an opinion commentator on healthcare policy, including the Affordable Care Act. His advocacy work in this area includes a 2015 book that proposes a "new vision of how we can fix American healthcare" through further addenda to the Obamacare program. When asked about the political connotations of his own writings on healthcare policy, Brill told AIER, "I'm a journalist. I write magazine articles and books that have offended people on both sides of an aisle." This statement strongly suggests that Brill does not differentiate between editorial commentary and news reporting in his own work.

"Avoids deceptive headlines"

NewsGuard's headline practices are responsible within the normal standards of journalism.

TRANSPARENCY:

"Website discloses ownership and financing"

NewsGuard publishes a short list of "financial investors" on its website, but offers no indication of how much money they invested, what their budget is, what percentage of their financial support comes from outside investors, the nature of the contracts they maintain with companies such as Microsoft, or where their revenue comes from. When asked about their policy for handling conflicts of interest between investors and website ratings, NewsGuard co-CEO Steven Brill told AIER that "If there are, they are always disclosed prominently in our Nutrition Label" and offered an example of a disclosure of his co-executive Gordon Crovitz's previous affiliation with the *Wall Street Journal.*

A review of NewsGuard's ratings of several media websites reveals that Brill's statement does not accurately reflect how his company handles several of its listed financial investors. NewsGuard lists former *Reuters* CEO Thomas Glocer among its financiers; however as of July 2021, Glocer's investment in NewsGuard is not disclosed on the site's rating of Reuters news service. NewsGuard similarly reports receiving investments from Nicholas Penniman IV, the retired publisher of the *St. Louis Post-Dispatch*. As of July 2021, Penniman's investment is not disclosed on NewsGuard's rating of the *St. Louis Post-Dispatch*. A list of insufficiently disclosed potential conflicts of interests and NewsGuard's ratings may be found below:

Figure V: NewsGuard ratings of websites with undisclosed connections to its own financial investors, July 2021

Website	NewsGuard Score	NewsGuard Investor with past affiliation	Disclosure on NewsGuard Rating Website (July 2021)
Huffington Post Investigative Fund	87.5	Nicholas Penniman V – Former Executive Director & Cofounder	No
The American Prospect	92.5	Nicholas Penniman V – Former Associate Editor	No
Washington Monthly	100	Nicholas Penniman V – Former Publisher	No

Lincoln Journal-Star	85	Nicholas Penniman V – Former Editor	No
Center for Responsive Politics	100	Nicholas Penniman V – Current Board of Directors	No
St. Louis Post-Dispatch	85	Nicholas Penniman IV – Former Publisher (retired)	No
Arizona Daily Star	85	Nicholas Penniman IV – Former Senior VP	No
Reuters	95	Thomas Glocer – Former CEO	No
C-Span	87.5	Leo Hindery – Former Chairman	No

"Clearly labels advertising"

NewsGuard does not currently advertise on its website, except for its own for-purchase website browser application.

"Reveals who's in charge, including possible conflicts of interest"

NewsGuard generally discloses its staff of writers, including the authors associated with individual articles. It does not however disclose how specific website ratings are assigned to its staff writers, or how NewsGuard decides whether a website will be subjected to its rating system.

As noted, NewsGuard's health policy writer John Gregory was previously employed as a writer for TriMed Media, a for-profit industry consulting firm that publishes newsletters geared toward healthcare industry executives and offers a variety of website and marketing services "to boost awareness and revenue" for healthcare businesses. Gregory's past affiliation with this company is disclosed on NewsGuard's website; however, he describes himself as a "reporter" for this firm's "news publications." The potential for a conflict of interest seems apparent not only in NewsGuard's coverage of healthcare topics, but also from a separate subscription-based "service" that NewsGuard offers to healthcare provider companies for the dissemination of its ratings.

When asked whether his previous connections to TriMed Media presented a potential conflict of interest for his coverage of healthcare issues, Gregory stated that TriMed Media's consulting business was conducted by "the company's separate marketing department, and I worked entirely on the editorial side of the operation." He further stated, "They do not bias my ability to do my work at NewsGuard, as I did not perform any of those marketing department tasks when I worked at TriMed Media between 2016 and 2018." At the time of this writing, TriMed Media's website content does not appear to differentiate its news, editorial, or marketing/consulting departments or functions in the ways that Gregory describes in his response. TriMed Media's website for its newsletter publications depicts their primary audience as for-profit healthcare industry executives. Gregory did not respond to follow-up questions asking him for elaboration on his relationship with and duties at TriMed Media. While Gregory's case does evince disclosure of a past employer with potential conflicts of interest in his website ratings area, that disclosure remains sparse on details and offers an incomplete picture of the nature of TriMed Media's business model. Furthermore, NewsGuard's own subscription platform for healthcare providers illustrates that the company's own business model operates in an overlapping area of the medical industry. Details on this service or how its subscription contracts operate are sparsely accounted for on NewsGuard's website

"The site provides the names of content creators, along with either contact or biographical information"

NewsGuard's articles generally list the identity of writers who contributed to their contents, and accompanying biographies include contact information for each writer.

SCORECARD

NewsGuard applies a 100-point scorecard to the websites it rates, based on the above-listed criteria. Although their exact scoring rubric is only summarized on their website, we applied their publicly disclosed scoring system to each of the criteria above in light of our investigation.

Figure VI: Our "Nutrition Label" for the NewsGuard Website

Category	Points Possible	Points Awarded to NewsGuard
Does not repeatedly publish false content	22	5
Gathers and presents information responsibly	18	0
Regularly corrects or clarifies errors	12.5	6.25
Handles the difference between news and opinion responsibly	12.5	0
Avoids deceptive headlines	10	10
Website discloses ownership and financing	7.5	0
Clearly labels advertising	7.5	7.5
Reveals who's in charge, including possible conflicts of interest	5	2.5
The site provides the names of content creators	5	5
TOTAL	100	**36.25**

In light of all these considerations, it seems that NewsGuard fails to pass a number of important journalistic standards. Furthermore, it is concerning that NewsGuard cannot separate itself from its disagreement with the content of AIER's publications regarding public health, which dominates its report. This is even more concerning when considering its dubious track record to responsibly or reliably use its self-appointed position of power to police the very information it purports to be the arbiter of truth on. Furthermore, it is the supreme height of arrogance to claim a monopoly on scientific truth, not just without a background in science or really any field outside of journalism, but during a novel issue with constantly evolving information.

Our Rating of NewsGuard: 36.25/100.

This website fails to adhere to several basic journalistic standards, and should be used with extreme caution as a source for verifying the reliability of the websites it purports to rate.

Key Takeaways

The truth is best sought through the marketplace of ideas where reason and evidence are the weapons of choice. When we see fact checkers like NewsGuard, who not only fail to uphold their high-sounding principles but even publicly encourage working with the government to suppress speech, we should raise red flags. NewsGuard's behavior illustrates the tired idea that, during events like Covid-19, we should simply do as we're told and not question the government or its experts. On this matter, they have shown themselves to be either unable to appropriately moderate public discourse or act as little more than cheerleaders for favored political figures and their preferred policy approaches to Covid-19. It wouldn't be a stretch if they happen to be both.

– August 11, 2021

How High Will Inflation Be in 2021?

GERALD P. DWYER
Senior Fellow, Sound Money Project

What will inflation be for 2021? Forecasts of inflation on the order of 3 percent or a bit more are common. They are low.

There are various measures of inflation, all with advantages and disadvantages. I use two here. The first is the Consumer Price Index. This sometimes is called the "headline inflation rate" because it is the index in newspapers' headlines. It is also the inflation rate used to adjust Social Security payments. The second is the Price Index for Personal Consumption Expenditures less food and energy. This is the measure that the Federal Reserve uses in its comparisons of inflation with targeted inflation and that it provides in its summary of forecasts by members of the Federal Reserve Open Market Committee (FOMC).

The monthly percentage changes in the Consumer Price Index (CPI) for the first half of 2021 are

2021 Monthly Percentage Increases in the CPI

Month	Inflation rate
January	0.26%
February	0.35%
March	0.62%
April	0.77%
May	0.64%
June	0.90%

It's not very often that people use monthly inflation rates so it is not obvious how to put these numbers in context. As Alan Reynolds notes, there are various ways of doing it, none entirely satisfactory.

A simple question to ask is: What is the inflation rate so far this year? Because these numbers are known and will not be revised, this will give a start on what the inflation rate will be this year. The percentage increase in the CPI so far this year is 3.34 percent. If prices did not increase at all for the rest of the year, the CPI inflation rate for 2021 would be 3.34 percent.

This 3.34 percent increase in the CPI can be compared with inflation rates of 2.47 percent in 2019 and 1.30 percent in 2020. Inflation in 2020 quite likely was lower than it would have been otherwise due to the pandemic and various responses to it. If inflation in 2021 turned out to be 3.34 percent, this inflation rate combined with the low inflation in 2020 would produce average inflation across the two years not much different from 2019.

Inflation, though, is unlikely to be zero for the rest of the year. The Federal Reserve Bank of Cleveland provides "nowcasts" of inflation for July 2021 and the third quarter of 2021. They are "nowcasts" because they are forecasts of what inflation will be for the current period, i.e. now. This estimate of the CPI measure of inflation for the third quarter is 6.42 percent at an annual rate, which is a 1.57 percent increase in the third quarter. This suggests that, at the end of September, prices will have increased 5.00 percent since the start of the year. If inflation continued at the same pace for the fourth quarter, the CPI would increase 6.6 percent for 2021.

A 6.6 percent inflation rate for 2021 certainly

would be remarkable. And it is obvious that it cannot be ruled out. The CPI measure of inflation is likely to be headline worthy, whatever it is.

Does it make much difference if inflation is measured by the Federal Reserve's preferred measure, the Price Index for Personal Consumption Expenditures less food and energy? The monthly percentage changes in the Personal Consumption Expenditure Price Index less Food and Energy (Core PCE) are

2021 Monthly Percentage Increases in the Core PCE

Month	Inflation rate
January	0.22%
February	0.13%
March	0.42%
April	0.64%
May	0.54%
June	0.45%

These are uniformly lower than the values for the CPI, but the increase in the Core PCE inflation still is 2.20% in the first half of the year. The Federal Reserve has an explicit 2 percent average inflation target, but it does not specify the time period over which it aims to achieve 2 percent inflation on average. Unless this price index falls in the second half of the year, inflation will exceed 2 percent for the calendar year. How much higher is inflation likely to be?

The Federal Reserve Bank of Cleveland's forecast of Core PCE inflation for the third quarter is 3.53 percent per year, or 0.9 percent for the quarter. This is a substantial decrease in the rate of inflation from that of March through June. If this forecast is realized, the Core PCE measure of prices for the first nine months of 2021 will be 3.1 percent higher than at the start of the year. If inflation in the fourth quarter continues at a similar pace, the core PCE measure of inflation will be about 4.0 percent for the calendar year.

Core PCE grew at a rate of 1.5 percent in 2020. A 4.0 percent inflation rate in 2021 would put the average inflation rate at 2.7 percent per year for 2020 and 2021. As noted above, the Federal Reserve does not specify the time period over which it aims to achieve 2 percent inflation on average. But a 2.7 percent annual inflation rate over a two-year period seems quite a bit above the 2.0 percent average.

A less attractive possibility for inflation is that core PCE inflation for the rest of the year will not decrease and will be similar to the rates in March through June, which had average core PCE inflation of about 0.5 percent per month. If that occurs, the annual inflation rate will be about 5.3 percent for the calendar year 2021. The average annual rate for 2020 and 2021 in that case would be nearly 3.4 percent.

Inflation will be noticeably higher in 2021 than it has been in some time. An important question is whether it will be followed by the widely predicted lower inflation or by higher inflation in subsequent years.

– August 6, 2021

The Lumber Market Crash

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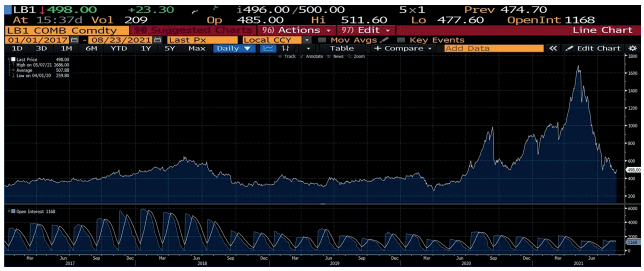
Research Faculty

It was inevitable that lumber prices would eventually return to some state of normalcy. I wrote an article less than 50 days ago noting that futures and cash prices, despite having quadrupled in slightly over a year, had dropped 40% in June 2021. Pandemic measures were being lifted, the effect of stimulus payments were receding, and owing to completion or returning to work home improvement projects were wrapping up. High prices, as they do, drew more wood into the market; mills increased weekly hours for sawmill employees, and substitutes for timber, whether different types of wood or composites, were used where possible.

But over the last week or two, the delirium which began in the summer of 2020 and reached a crescendo in April and May of this year has been utterly inverted. A late July 2021 poll reported that 49% of lumber dealers were suddenly reporting excess lumber inventories. And whereas in April 2021 40% of lumber dealers had reported low stocks, in late July/early August none of the respondents indicated such.

Lumber prices have fallen 75% since the all-time high of $1,686 per thousand board-feet on May 7, 2021. All the price gains since the summer of 2020 have been given back, and at under $500 per thousand board-feet the front month futures price is actually below the average price of lumber back to 2017.

Lumber prices per thousand board-feet (2017 – present)



(Source: Bloomberg Finance, LP)

(A particularly unexpected consequence of the volatility in lumber prices has manifested within another typically staid arena: the Chicago spot-call cheese markets. There are two major cash cheese markets: one calculated on the basis of blocks, the other on barrels. The price of wood is a major input into barrel prices; thus when scarcity took hold and lumber prices burst to record levels, cheese producers shifted to processed cheese, which unlike natural cheese can be stored in plastic-lined cardboard boxes. Processed cheese is easier, faster, and cheaper to produce than natural cheese, and the price collapse of barrel cheese since September 2020 is a third-order effect of Covid policies.)

CME cheese barrel prices, USD/pound (Sept 2020 – present)

(Source: Bloomberg Finance, LP)

Needless to say, the first and second quarters of 2021 were heady times for owners of timberland, mills, and other forestry-related businesses. In mid-July 2021,

> West Fraser Timber recorded net income of $1.49 billion for April, May and June, an amount the company has historically needed years to earn…PotlatchDeltic, which owens timberland in six states and mills in four, said its wood products division was more profitable in the latest quarter than it was during all of last year…Canfor, which operates 10 mills in western Canada and 12 in the US South, followed suit reporting its own record quarter on Thursday. Weyerhaeuser Co., the largest US timberland owner and operator of mills in the US and Canada…said it had its most profitable quarter ever by 40%, with net income of $1.03 billion.

But many of those same sawmills that saw record earnings in the first half of 2021 are suddenly in the red. To get an idea of exactly how inundated dealers and wholesalers of wood building materials have become, late last week the Conifex Timber mill in Mackenzie, British Columbia announced that owing to the "unprecedented collapse in lumber prices" it would reduce lumber production.

> More mills will likely follow Conifex's lead with additional curtailments in the near future. If not, they will need to decide how much of their first-half 2021 profits can be thrown away while awaiting higher prices…Producers in British Columbia's key interior region are now "underwater" with regional mill cash costs around $525 to $575 per thousand board feet in the second half of 2021[.]

To add to this, even a series of wildfires in western Canada haven't interrupted the downward slide in prices.

Percent change in front-month lumber futures price
(May 17 – August 23, 2021)

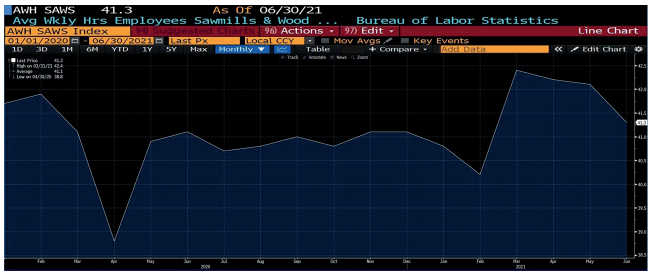
(Source: Bloomberg Finance, LP)

The retracement of prices in lumber adds credence to the assertion that much of what has been called inflation over the past six to eighteen months may simply be the ripple effects of Covid mitigation attempts. And in turn that those disruptions and distortions will prove transient as supply and demand regroup and align. But that assessment oversimplifies the current set of circumstances.

First: although the prices of certain commodities, goods, and services that spiked early on have now declined, others–in particular, financial assets–have remained elevated or advanced further. And second, even though some of those price increases were not inflationary in the monetary sense and (or) prove temporary: the policies which caused anomalous market conditions have nevertheless caused economic damage. Even short-lived government initiatives have an impact upon economic calculation, financial and managerial decisions, and choices regarding the allocation of resources. So to the extent that pandemic responses generate under- or unemployment, mispricings, and other adverse effects, their ephemeral character is scant recompense. (Consider the millworkers who, after joining mills bursting at the seams in April and May,

suddenly face reductions in hours, layoffs, etc.)

Average weekly hours, US sawmill employees
(Jan 2020–Present)



(Source: Bloomberg Finance, LP)

The spread of the Delta and subsequent variants of Covid may induce more kneejerk policies, which are likely to kick off another round of politically-inflicted commercial missteps. Unfortunately, carefully considering trade-offs remains alien to the calculus of public officials. From utter scarcity to crushing abundance in less than 100 days, the lumber epic is entering a new phase.

– August 24, 2021

COVID-19 Vaccines and the Delta Variant

GILBERT G. BERDINE, M.D
Contributor

One can find the entire range of opinion on Covid vaccines if one looks hard enough. Some people claim that if everyone were vaccinated, Covid would be eliminated. Others claim that Covid vaccines are making the problem worse. I will show, based on US data, that the truth is somewhere in between: the vaccines offer a modest benefit but are not a panacea.

There is robust data from all 50 US states and the District of Columbia on Covid cases and deaths. I am not going to discuss whether the definitions of Covid cases and Covid deaths are perfect; I will use the current definitions as they are. Data on vaccination rates are available from usafacts.org. Data on Covid cases and deaths are available from Worldometer. These data provide 51 data points to correlate vaccination rate and consequences from Covid-19.

Figure 1:

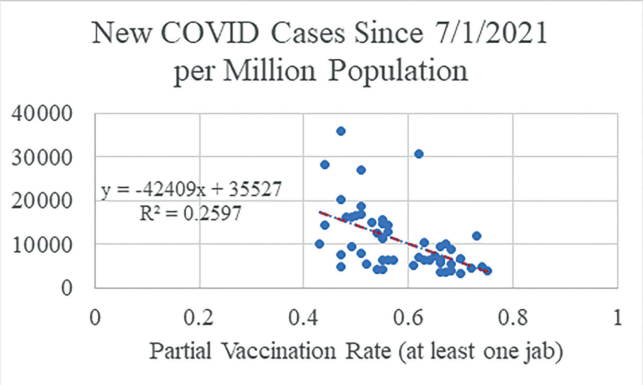


Figure 1: New Covid-19 cases per million population vs. partial vaccination rate. Each data point is for a US state or the District of Columbia. The trend line, linear regression equation, and correlation coefficient are shown. Vaccination rates are from usafacts.org. Case numbers and population data are from Worldometer.

Figure 1 illustrates the scatterplot of Covid-19 cases per million population vs. partial vaccination rate. The case numbers were calculated as the difference between total Covid-19 cases on 8/20/2021 and 7/01/2021. July 1, 2021 is approximately the time when cases began to noticeably increase due to the Delta variant in the US. The partial vaccination rate is the percentage of the population that received at least one jab of a Covid-19 vaccine. Scatterplots using complete vaccination rates (percentage of population that received all of the required jabs for a Covid-19 vaccine) or deaths attributed to Covid-19 have a very similar appearance. The graphs demonstrate several important points.

Point 1: There is some efficacy to the vaccine in preventing Covid-19.

A negative correlation between vaccination rate and Covid-19 cases or deaths is apparent from the scatterplots. The correlations, however weak, are apparent from even a casual inspection of the plots. As vaccination rate increases, Covid-19 events decrease.

Point 2: The correlations between Covid-19 events and vaccination rates are weak.

Just as a casual inspection of the plots demonstrates a trend, a casual inspection indicates that the trend is weak. In other words, vaccination rate is not the entire explanation for Covid-19 events and may not even be the most important determinant of Covid-19 events. The R2 for Covid-19 cases vs. partial vaccination rate was 0.26, for Covid-19 cases vs. complete vaccination rate was 0.39, for Covid-19 deaths vs. partial vaccination rate was 0.26, and for Covid-19 deaths vs. complete vaccination rate was 0.36. These are weak correlations. Vaccination rate may not even be the most important variable as the majority of variance is due to something other than vaccination

rate. North Dakota is that point at the lower left of the plot. North Dakota has nearly the lowest vaccination rate and also nearly the lowest case rate as well as death rate. Hawaii is that point with almost the highest vaccination rate and a slightly above average case rate.

Point 3: The vast majority of people have been unaffected by the Delta variant.

Louisiana had the worst number of Covid-19 cases since July 1, 2021 at about 36,000 per million population. That means that 96.4% of the population in Louisiana were not a new Covid-19 case. Louisiana also had the most Covid-19 deaths since July 1, 2021 at about 252 deaths per million population. That means that 99.97% of the population in Louisiana have survived the Delta variant.

Point 4: The numbers to treat are very high (poor).

We can compute the numbers to treat to avoid a single event from the slopes of the regression lines. For new Covid-19 cases vs. partial vaccination, the slope was -42,409 cases per million population per total population. For new Covid-19 cases vs. complete vaccination, the slope was -54,299 cases per million per total population. For new Covid-19 deaths vs. partial vaccination, the slope was -319 deaths per million population per total population. For new Covid-19 deaths vs. complete vaccination, the slope was -393 deaths per million population per total population. Since the total population is 1 million per million population, the numbers to treat can be calculated as 1 million divided by the slope. From these data, it takes over 23 partial vaccinations to prevent a single case of Covid-19, over 18 complete vaccinations to prevent a single case of Covid-19, over 3,134 partial vaccinations to prevent a single death from Covid-19, and over 2,544 complete vaccinations to prevent a single death from Covid-19 at the current time.

Point 5: The utilitarian rationale for mandatory vaccination is very weak.

The lowest compliance for any US state was 44 percent partial vaccination rate. Mandatory vaccine policies are, therefore, going after at most 56% of a group. An employer would have to have a workforce of at least 4,543 people to have an average expectation of preventing a single death from Covid-19 by forcing all employees to complete vaccination. It is quite likely that significant complications from the vaccine may exceed the average expectation of deaths prevented. It is quite possible that deaths from the vaccine may exceed the average expectation of deaths prevented. Government agencies, including the CDC, should stop exaggerating the benefits and lowballing the risks of these vaccines. At a minimum, everyone deserves the right to informed consent. Informed consent does not include lying about the risks and benefits. No Institutional Review Board would approve a clinical study conducted in the same manner as these vaccine programs. Rather than blaming people who choose not to be vaccinated for a virus that is largely beyond the control of any human action, government agencies should be studying North Dakota to see what they are doing right and Hawaii to see what they are doing wrong, because the answers are not vaccination rates.

– August 30, 2021

Prominent Law Professor Sues His School Over Vaccine Policy

ETHAN YANG
Adjunct Research Fellow

Imposing a constitutionally dubious vaccine policy at a public university that not only has some of the top classical liberal law professors in the country but is also intimately connected with a global network of freedom advocates is a recipe for a lawsuit. That's exactly what George Mason University learned recently when it imposed a school-wide vaccine mandate for students, faculty, and staff. Failure to comply subjects individuals to a list of penalties from social distancing requirements to potential disciplinary action.

The plaintiff is Todd Zywicki, the George Mason University Foundation Professor of Law, who has as impressive of a resume as anyone can imagine. He has held positions at numerous influential think tanks, executive positions in the federal government, and has taught at numerous respected law schools. His lawsuit is joined by the New Civil Liberties Alliance, a non-profit law firm dedicated to advancing constitutional freedoms and founded by the prominent legal scholar Philip Hamburger. AIER contributor Jenin Younes is also a member of their litigation team and one of the attorneys on this case.

Zywicki names the president of the school and numerous other officers as the defendants in his suit *Zywicki v Washington*. He alleges that as a public institution, GMU is obligated to follow the Constitution and its vaccine policy violates the 9th and 14th Amendments as well as the Supremacy Clause. Zywicki contends that his natural immunity from having recovered from a natural Covid-19 infection gives him equal if not superior protection than vaccines. His sentiments are supported by his immunologist, who informed him that receiving a vaccine would be "medically unnecessary", as well as a joint declaration from Dr. Jay Bhattacharya and Dr. Martin Kulldorff, prominent medical professors at Stanford and Harvard respectively. They write that,

> "Multiple extensive, peer-reviewed studies comparing natural and vaccine immunity have now been published. These studies overwhelmingly conclude that natural immunity provides equivalent or greater protection against severe infection than immunity generated by mRNA vaccines (Pfizer and Moderna)."

The declaration, found in Exhibit A of the docket, also explains that the evidence to support mitigation measures such as vaccine mandates and passports is lacking.

Count 1: Violation of the Right to Refuse Unwanted and Medically Unnecessary Healthcare

The plaintiff asserts that GMU's vaccine policy, in practice a mandate, and refusal to acknowledge the merits of natural immunity are problematic because they violate his right to refuse unnecessary healthcare. The complaint states,

> "The Supreme Court has recognized that the Ninth and Fourteenth Amendments protect an individual's right to privacy. A "forcible injection … into a nonconsenting person's body represents a substantial interference with that person's liberty[.]" Washington v. Harper, 494 U.S. 210, 229 (1990)."

The 9th Amendment protects unenumerated rights, which are those that are not explicitly stated

in the Constitution. The 14th Amendment protects due process and equal protection under the law. The Covid-19 vaccine is currently deployed under the Emergency Use Authorization and citizens are therefore entitled to be informed of their right to accept or refuse. This fact, combined with the plaintiff's already robust natural immunity and unlikeliness to infect others with a relatively mild disease, renders such a mandate a violation of privacy. Furthermore, established case law enshrines the right to bodily integrity. The suit asserts,

> "Coercing employees to receive an EUA vaccine for a virus that presents a near-zero risk of illness or death to them and which they are exceedingly unlikely to pass on to others, because those employees already possess natural immunity to the virus, violates the liberty and privacy interests that the Ninth and Fourteenth Amendments protect."

If the state wishes to implement a coercive measure, the burden of evidence is on itself to prove that its policy is narrowly tailored to a compelling government interest. The plaintiffs contend,

> "Defendants cannot show that they have a compelling interest in coercing Professor Zywicki into taking a COVID-19 vaccine, because GMU has no compelling interest in treating employees with natural immunity any differently from employees who obtained immunity from a vaccine."

Count 2: Violation of Unconstitutional Conditions Doctrine and 14th Amendment's Right to Due Process

The Unconstitutional Conditions Doctrine prohibits the government from imposing coercive incentives against exercising a constitutionally protected right. GMU's penalties are therefore an impairment of Professor Zywicki's right to refuse medical care. His complaint states,

> "According to that body of law, GMU cannot impair Professor Zywicki's right to refuse medical care through subtle forms of coercion any more than it could through an explicit mandate."

Furthermore, the school's policy is a violation of due process as it is incongruent, disproportional, and inappropriately flips the burden of evidence onto the plaintiff. In light of the robust immunity established by natural infection, the school cannot logically justify its penalties against those in the GMU community with naturally acquired immunity. The existence of such immunity fully serves the interest of the public health measures implemented by GMU.

The policy is also deficient of proportionality, as the school indicates no intention to assess the level of antibody level of its targets. If the school believes that the prevalence of antibodies is important in advancing its public health goals, then it ought to recognize that they are acquired by both vaccination and infection. The school not only signals any intention to test for antibodies, but makes the premature conclusion that vaccination is superior, even assuming equality of effectiveness amongst all vaccines. The suit asserts,

> "In short, allocating burden of proof responsibility to those with natural immunity like Professor Zywicki, coupled with GMU's stacking the process with presumptions Plaintiff will show are scientifically unwarranted, contravene the Due Process Clause."

The burden of proof is on the school to show that Zywicki's naturally acquired immunity is in fact

inferior to the vaccines accepted by its policy, and noncompliance poses a threat to public safety. The plaintiff alleged the school has not demonstrated this requirement.

Count 3: Violation of the Supremacy Clause

The Supremacy Clause holds that federal law supersedes state law. GMU's policy is Virginia state law and the Emergency Use Authorization (EUA) is federal law. Covid-19 vaccines are authorized by the EUA, which subjects recipients to informed consent. Because GMU's coercive policies conflict with the letter and spirit of the EUA, it is therefore unconstitutional. According to the complaint,

> "That is at odds with the Policy's forcing Professor Zywicki to sustain significant injury to his career if he does not want to take the vaccine (in light of masking, frequent testing, social distancing, and looming disciplinary action)."

For these reasons and more, Zywicki asked the court to declare the policies unconstitutional and an injunction be issued.

Key Takeaways

The fight over the official narrative regarding Covid-19 is still alive and well. This lawsuit is only illustrative of the two camps that have developed and how insulated many core decision makers have been from one over the other. Natural immunity for example, although clearly affirmed by the supporting evidence, seems to be unacknowledged writ large. The disproportionate perceptions of the risk of Covid-19 are still rampant.

The significance of this case cannot be overstated with vaccine mandates and passports being considered and implemented across the country. One does not need a background in law to understand that the pandemic has sent the country into another constitutional inflection point. From emergency powers, to lockdowns, to eviction moratoriums, and now vaccine mandates, the precedents we set today will forever affect the ark of our system of constitutional government.

– August 7, 2021

Good Medicine Requires Second Opinions

BARRY BROWNSTEIN
Contributor

Above a tree line on the rugged trails of Mount Washington in New Hampshire, two hikers coming down the mountain called out in distress, "What trail are we on?" I answered and asked where they were headed. They were hiking a section of the Appalachian Trail. I explained they made a wrong turn at the trail intersection about 0.3 mile back up the trail.

They were puzzled. "What trail intersection? What sign?" they asked with agitation.

Realizing they had wandered off the trail, I encouraged them to follow me to the intersection to rejoin the Appalachian Trail.

Making faster progress than me, once again, they were wandering off the trail. I called out to them, and together as we made our way up the rugged slopes, I gave them updates on how far to the intersection.

My assurances weren't enough. Another party of hikers was coming down the trail; again, the distressed hikers called out, "What trail are we on?"

I was not insulted. It is often wise to seek a second opinion. Accidents and even deaths are not rare on the trails of Mt. Washington.

In matters of health, it is especially wise to seek a second opinion. Nobel laureate in Economics Daniel Kahneman is famous for explaining systematic biases in decision-making. His new book *Noise*, written with Olivier Sibony and Cass Sunstein, brings to light the impact of noise on decisions. They explain the random nature of noise: "Some judgments are biased; they are systematically off target. Other judgments are noisy, as people who are expected to agree end up at very different points around the target."

Forecasting is noisy. Reliable forecasts are made by people with a distinctive thinking style. Kahneman examines the mindset of what Philip Tetlock calls superforecasters. "Sheer intelligence" isn't enough to be a superforecaster. What is essential is an "active open-mindedness" valuing evidence "that goes against their beliefs." Superforecasters are in perpetual beta. Kahneman explains:

> "To characterize the thinking style of superforecasters, Tetlock uses the phrase 'perpetual beta,' a term used by computer programmers for a program that is not meant to be released in a final version but that is endlessly used, analyzed, and improved. Tetlock finds that 'the strongest predictor of rising into the ranks of superforecasters is perpetual beta, the degree to which one is committed to belief updating and self-improvement.' As he puts it, 'What makes them so good is less what they are than what they do—the hard work of research, the careful thought and self-criticism, the gathering and synthesizing of other perspectives, the granular judgments and relentless updating.' They like a particular cycle of thinking: 'try, fail, analyze, adjust, try again.'"

Judgements about Covid have been noisy. During the pandemic forecasts for the spread of Covid, the impact of masks, lockdowns, and other measures has been consistently wrong. This is not a surprise. As Kahneman reports, most forecasts are not reliable.

Dr. Fauci is not a superforecaster. There is little evidence that he works in "perpetual beta," gathering and synthesizing perspectives. On the contrary, he attacks those he disagrees with, such as the authors of the Great Barrington Declaration. Real leaders

listen to others; they don't dominate others.

When it comes to the medical profession, we want to believe we can rely on our doctors. Many people want to believe Dr. Fauci.

Yet, the medical profession is especially noisy. Kahneman reports,

> "Faced with the same patient, different doctors make different judgments about whether patients have skin cancer, breast cancer, heart disease, tuberculosis, pneumonia, depression, and a host of other conditions. Noise is especially high in psychiatry, where subjective judgment is obviously important. However, considerable noise is also found in areas where it might not be expected, such as in the reading of X-rays."

Isn't reading an X-ray or biopsy an objective fact on which nearly all competent radiologists and pathologists would agree? The answer is "No." Kahneman explains:

> "In some specialties, such as radiology and pathology, doctors are well aware of the presence of noise. Radiologists, for example, call diagnostic variation their "Achilles' heel."…Clean, simple tests of noise (and sometimes error) are easier to conduct in radiology. For example, you can return to scans or slides to reevaluate a previous assessment. In medicine, between-person noise, or interrater reliability, is usually measured by the kappa statistic. The higher the kappa, the less noise. A kappa value of 1 reflects perfect agreement; a value of 0 reflects exactly as much agreement as you would expect between monkeys throwing darts onto a list of possible diagnoses."

Consumers of healthcare beware: "In some domains of medical diagnosis, reliability as measured by this [kappa] coefficient has been found to be "slight" or "poor," which means that noise is very high.

Kahneman provides examples: "On the question of whether a breast lesion was cancerous, one study found only "fair" agreement among pathologists. In diagnosing breast proliferative lesions, agreement was again only "fair." Agreement was also "fair" when physicians assessed MRI scans for the degree of spinal stenosis."

Women of childbearing years may be diagnosed with endometriosis. In one study, "108 gynecological surgeons…were asked to judge the number and location of endometriotic lesions. They disagreed dramatically, with weak correlations on both number and location."

For a person diagnosed with cancer, a second or even third opinion would seem to be a necessity. Kahneman cautions, "Whether a patient will be diagnosed with a serious disease, such as cancer, might depend on a kind of lottery, determined by the particular doctor that she will see."

It is not just that existing cancers escape diagnosis. Often cancer is "found" when none exists. For breast cancers, Kahneman notes, "false-positive rates ranged from less than 1% to 64% (meaning that nearly two-thirds of the time, the radiologist said the mammogram showed cancer when cancer was not present)."

Recommendations for heart surgery are noisy. Data reveals "that 31% of the time, physicians evaluating angiograms disagreed on whether a major vessel was more than 70% blocked. Despite widespread awareness by cardiologists of potential variability in reading angiograms, and despite continuing efforts and corrective steps, the problem has yet to be solved."

The more benign forms of skin cancers such

as basal cell have become a nuisance for many. Yet consequences of misdiagnosis of melanomas can be deadly. For melanomas, Kahneman reports "diagnostic accuracy… was only 64%." Another study "found that dermatologists at New York University failed to diagnose melanoma from skin biopsies 36% of the time." Since the removal of a melanoma before it spreads is essential, this failure "has grievous implications for survival of patients."

If you're a believer in early diagnosis through medical screenings, schedule your appointments in the morning. Another study found "doctors are significantly more likely to order cancer screenings early in the morning than late in the afternoon."

Psychiatry is the noisiest of the medical specialties. "Highly trained specialist psychiatrists under study conditions were only able to agree that a patient has depression between 4 and 15% of the time." Add to that the controversial nature of many psychotropic drugs, and it might be understandable why, for mental health, seeking care from a psychologist may be an advisable course of action.

After reading Kahneman, you will understand why seeking a second opinion is a wise course of action when faced with a serious health issue.

The best hospitals in the world, such as the Mayo Clinic, build second opinions into their diagnostic process by utilizing a team approach where world-class doctors are humble enough to consult with each other. When open-mindedness, self-criticism, and the gathering and synthesizing of perspectives are practiced, better health care can be expected.

Coercion Blocks Discovery

During this pandemic, open-mindedness, self-criticism, and the gathering and synthesizing of perspectives have been actively resisted. The "official" version on lockdowns, masks, and vaccines cannot be questioned. The news and social media actively censor opinions contrary to the "official" version, calling it misinformation. Treating Covid patients with ivermectin has been made very difficult.

And now the Federation of State Medical Boards (FSMB) is setting a policy to keep doctors in line with the "official" versions of health authorities. The FSMB has stated, due "to a dramatic increase in the dissemination of COVID-19 vaccine misinformation and disinformation by physicians and other health care professionals on social media platforms, online and in the media," strict action is needed. They warn, "Physicians who willfully generate and spread COVID-19 vaccine misinformation or disinformation are risking disciplinary action by state medical boards, including the suspension or revocation of their medical license."

President and CEO Humayun Chaudhry of the FSMB ominously added, "I hope that physicians and other licensees get the message."

Will the FSMB adopt a YouTube-type standard to censor the dissemination of information on vaccines? Will they label as misinformation any views "that contradicts local health authorities'" or the World Health Organization's (WHO)?"

If a person experiences Bell's palsy after taking the first dose of the vaccine, would it be advisable to get a second shot? Apparently, a physician who advises a patient not to get a second shot would violate official guidance. How about a teenager who experienced myocarditis after their first shot? Again, official guidance is to get the second shot. The FSMB policy puts physicians in an ethical dilemma and incentivizes self-censorship.

Are one-size-fits-all health policies consistent with what we know about biochemical individuality (explained in this essay)? Would a physician face disciplinary action for considering the patient's age, occupation, underlying health, diet, and exercise pattern when advising on vaccination?

Israel has vaccinated 65% of the population. Is

it misinformation to report the Israeli experience of dramatically falling vaccine efficacy for the Pfizer vaccine? Of Covid hospitalizations, the current Israeli experience is that "95% of the severe patients are vaccinated." Is that misinformation because it seems to run counter to the official narrative?

Is it misinformation to present evidence to question Dr. Fauci, who now wants to deploy booster shots, initially for "at-risk" individuals?

The FSMB policy on the dissemination of Covid-19 information is censorship disguised as quality control. State Boards have never been interested in protecting patients; their interest has always been in protecting doctors.

Medical licensure has been used as a tool to reduce competition and lower the quality of healthcare. In *Capitalism and Freedom*, Milton Friedman explains why, "It is clear that licensure is the key to the medical profession's ability to restrict the number of physicians who practice medicine." He adds,

> "I am myself persuaded that licensure has reduced both the quantity and quality of medical practice; that it has reduced the opportunities available to people who would like to be physicians, forcing them to pursue occupations they regard as less attractive; that it has forced the public to pay more for less satisfactory medical service, and that it has retarded technological development both in medicine itself and in the organization of medical practice."

Capitalism and Freedom was published in 1962 but even then, Friedman observed how the profession stifled innovation: "If you are a member of the profession and want to stay in good standing in the profession, you are seriously limited in the kind of experimentation you can do."

Before Covid, famed Johns Hopkins physician Marty Makary wrote *Unaccountable: What Hospitals Won't Tell You and How Transparency Can Revolutionize Health Care*. The unwillingness of the medical profession to root out incompetent physicians and those physicians with addictions prompted Makary's book.

Makary left medical school after seeing a patient die from an operation she didn't want or need. He observes that healthcare is "an industry that does not abide by the same principles of accountability for performance that govern other industries. Instead, our health care system leaves its customers walking in blind. All while simply rewarding doctors for doing more."

Eventually, returning to finish medical school, Makary has become a leading reformer. During the pandemic, Makary has challenged the orthodoxy on masks, herd immunity, and natural immunity.

In his book, Makary reports on how medical boards, hospital administrators, and other doctors protect their profession and fail to root out bad doctors. He observes there are "grossly impaired physicians, doctors with horrible skills, hazardous judgment, ulterior motives, or who suffer from substance-abuse or other problems that make them dangerous. Society ought to be able to deal with this better, not sweep it all under the rug."

Indeed, Makary "never heard of anyone losing their license from a state medical board's action." Makary points to California:

> "The Medical Board of California, like all others, is responsible for licensing and disciplining physicians. On three different audits conducted during the 1980s, the California auditor general found that the board wasn't doing its job. Apart from that announcement, no further action was taken. The board went eighteen years without another audit until

2003, when University of San Diego Law School professor Julie D'Angelo Fellmeth became the medical board enforcement monitor. Then she blew a whistle. Testifying to a Senate committee in 2008 after years of trying to sound alarms, she said the Medical Board of California routinely 'failed to promptly remove from work physician participants who tested positive for prohibited substances.'

The board had five out of five failed audits. Still, rather than address the substance abuse among its staff, it instead decided to terminate its physician substance-abuse program completely."

In short, Makary considers how licensing boards mainly serve "the interests of their stakeholders—doctors:"

"The license legally allows us to do anything in medicine. But unlike with a driver's license, you can screw up royally yet never lose your license to practice medicine. Even doctors in rehab who test positive for illegal drugs or are arrested can keep their licenses and continue to diagnose, prescribe, and operate as before. Unbeknownst to the public, surgeons can be arrested for driving drunk or stoned and then go into surgery the next day. A doctor might not be able to legally drive his car to the hospital, but once he gets there, he can open up your chest for surgery."

Sue Blevins writes, "Once medical professionals are licensed, there are no requirements for proving that they are fully trained to perform the most up-to-date procedures."

Makary writes, "Every doctor knows at least one other doctor who is too dangerous to be practicing." Consider this example of how the profession covers up for doctors who kill:

"This surgeon had six consecutive deaths during routine bypass surgery. One time, right after this notoriously bad surgeon's run of six deaths, my friend was administering anesthesia for him. In front of all the operating-room nurses and technicians, the patient asked my friend before going off to sleep, 'Is my surgeon a good surgeon?' The operating-room staff froze as their eyes popped out of their heads. They stared at my friend to see how he would deal with the direct question. 'He's one of the four best heart surgeons we have here,' he said with a smile."

There were only four heart surgeons in this hospital.

Boards who have turned their backs on incompetent and addicted doctors are now threatening doctors who differ from the Covid vaccine orthodoxy.

Makary reports, "The vast majority of major medical mishaps result from breakdowns in communication." In many organizational cultures, nurses are rewarded for following orders, and self-censorship is rampant. He explains,

"The hospital can be an intimidating place for a health care worker. It has a strong hierarchy. Following orders promptly is valued the same way it is on the battlefield. Defiance is unheard of and punishable with harsh penalties. The nurses and residents taking the orders often don't have as much expertise as the ordering doctors and might question their own knowledge if they are feeling something isn't right."

Censorship and self-censorship kills. Bad ideas only drive out good ideas when bad ideas are granted

legal tender. The FSMB is strangling the medical discovery process and threatening the health of those they claim to be protecting.

The medical profession is noisy; we should not expect infallibility. We should not expect people to agree. We should value active open-mindedness to challenge the orthodoxy and promote discovery. The history of medicine has been filled with dubious and dangerous treatments, along with life-saving discoveries. In the 1920s drinking water infused with radium was hailed as "one of the greatest boons to ailing mankind that ever was discovered. In matters of health, competition and second opinions lead to better medicine.

– August 14, 2021

A $2.26 Trillion American Foreign Policy Blunder and a Big Problem for China

TODD MYERS
Contributor

The optics of America's withdrawal from Afghanistan are terrible. The images of a triumphant Taliban driving into Kabul and people desperately trying to get out of the country are a testament to the failure of a twenty-year commitment of American and NATO forces to stabilize Afghanistan. The efforts of the Western alliance to bring Afghanistan into a globalized community failed. This unfortunate outcome should surprise no one, and the trillions of dollars and thousands of lives lost in this conflict could have been avoided by sticking to a more realistic assessment of our goals, our capabilities, and the context of our actions.

Scholars have spent decades learning about peacekeeping/peacemaking operations. The literature focuses on identifying variables associated with successful and unsuccessful peacekeeping/peacemaking operations. Three variables that stick out as being relevant for determining the success of peacekeeping/peacemaking operations are the number of internal factions in the country, the number of outside states with interests in the country, and the country's geography. The more internal factions within the country, the more state actors with interests in the country, and the more challenging the geography, i.e., mountainous or urban, the less likely peacekeeping/peacemaking operations were to be successful. The profiles of Iraq and Afghanistan with their numerous internal factions, geopolitically active neighbors, and difficult geographies indicated peacekeeping/peacemaking operations in these countries were unlikely to be successful.

When 9/11 came around, Osama bin Laden had taken refuge in Afghanistan. It would be expected that the Americans had learned their lesson about intervention in other countries and the difficulties of long-term involvement in the internal affairs of states. When we mobilized 60,000 boots on the ground, it was a reasonable response to the intransigence of the Taliban and their role in offering al-Qaeda a space for conducting operations against American interests. A well-crafted intervention would have focused on killing as many al-Qaeda operatives as possible, disrupting infrastructure, and punishing the Taliban regime for not supporting the United States in its lawful efforts to punish international criminals. We would spend no more time than one to two years to execute this justifiable mission. This mission would inevitably introduce chaos into Afghanistan, but it was practically impossible for the United States to bring order to that internally fragmented, externally contested, and geographically challenging space.

Our tremendous capabilities permitted us to project power into the region, but Afghanistan had a virtually unlimited capacity to absorb our resources. Clearly limiting what we were willing to put into Afghanistan and defining an exit strategy would save us from a significant fiscal drain while sending a message that America would punish those attacking our national interests.

As of now, the Cost of War Project at Brown University estimates the war in Afghanistan has cost us around $2.26 trillion, roughly eight percent of our current debt. The Vietnam War, though more costly in lives lost, is estimated to have cost us around $1 trillion. Both interventions are viewed as a waste of American resources and lives, given that our interventions seem to have produced on the ground outcomes from the perspective of American national

security similar to what would have happened if we decided to stay home and did nothing.

As we leave Afghanistan, it may be helpful to reflect on the United States' geopolitical environment when it extracted itself from a similarly unsuccessful war – the Vietnam War. The Americans started the war in hopes of stopping Vietnam from becoming a communist state. The war drained American hard and soft power. Henry Kissinger and President Nixon believed that ending the war would open possibilities of cooperating with China and improving the bargaining position of the United States in its negotiations with its Soviet rival. By disentangling itself from Vietnam, America improved its geopolitical position. Vietnam became a communist state and soon found itself in a war with its former ally, the People's Republic of China. Many looked at our strategic withdrawal as an utter failure. Nevertheless, leaving that conflict increased the power of the American state in the long run by affording the country greater diplomatic flexibility. Leaving Afghanistan is likely to offer us greater diplomatic flexibility and eliminate the burden of being tied up in the costly political environment of central Asia.

America is in strategic competition with China for global influence. When the United States involved itself in Afghanistan, it reduced Chinese security concerns by filling a vacuum with American treasure and troops. In some ways, America's involvement in the region could be viewed as a subsidy to China's Belt and Road Initiative to build trading routes with direct access to the Indian Ocean through Pakistan – reducing the country's dependence on sea lanes going through the Malacca Straits and the vulnerability of China to American naval power and alliances. If Central Asia, Pakistan, and Iran are adversely affected by the rise of Taliban power and ideology, China's attempts to expand its influence will experience higher costs. America's "loss" of Afghanistan may be a boon for American geopolitical interests.

The Chinese are aware of this risk and are engaged in vigorous diplomacy with the Taliban. Instability in Afghanistan has made even Chinese business people hesitant to take the chances of becoming too deeply involved in Afghanistan despite the presence of over $1 trillion of mineral wealth. The biggest problem facing the Chinese is that their government is a government of unbelievers, and the Taliban, for all their drug dealing, sex trafficking, etc., believe in the true faith. China's actions to reeducate Uyghurs living within its borders could inspire attacks on billions of dollars of Chinese infrastructure projects in central and South Asia. China's problem with Islam could easily make Afghanistan a massive headache for the People's Republic.

The climate of opinion in Central and South Asia creates difficulties for rational actors pursuing the national interests of secular states. Tales of the Antichrist rising in Israel, the Mahdi coming to gather the Muslims together against this threat, and Jesus returning to lead this army of the believers to a final victory fill the streets and bazaars – sometimes with negative consequences for public health when the vaccines against the Covid-19 are identified as technologies of the Antichrist by local mullahs. Blaspheming against the Islamic faith – rejecting the revealed truth of the Koran or what popular opinion believes that truth to be – may end in death through the hands of an angry mob.

Fortunately, tribal factionalism, state interests, the limited capabilities of those committed to an apocalyptic view of history, and the desire of the average human being to survive and make their life reasonably comfortable limit the realization of the grand and destructive ambitions at the heart of these apocalyptic visions.

Mobilizing apocalyptic ambitions has played a role in Pakistan's national security strategy. Pakistan has used the Taliban as a tool in its struggle with India over Kashmir. In response, the Indians have

cultivated support among a wide range of factions within Afghanistan. The efforts of Pakistan to use the Taliban have resulted in the Taliban having a potentially destabilizing influence inside the Pakistani polity. The Kashmiri issue is likely to be a long-lasting problem that will consume significant resources from both India and Pakistan and keep both actors involved in the internal affairs of Afghanistan. This issue will keep Islamic theology at the center of the politics of Pakistan, Afghanistan, and India and keep ethnic division at the center of the Afghani political stage. The fact that Pakistan and India are nuclear-armed states makes this rivalry a high-stakes game.

Stability in Afghanistan and protecting minority rights is a vital strategic interest for the Islamic Republic of Iran. The Iranian strategy has moved from undermining the American coalition forces operating in Iran to trying to contain the Taliban. With the Americans leaving, it now becomes Iran's challenge to support the emergence of a peaceful Afghanistan where the rights of Shia believers are protected, and the flow of opium into Iran is reduced. The Iranians have begun reaching out to the Taliban. With Americans leaving, sectarian issues and concerns about drug trafficking will become more central to Iran's relationship with Afghanistan. If this happens, it is likely to strengthen the forces of political fragmentation within Afghanistan.

Tajikistan, Turkmenistan, and Uzbekistan have interests in securing their borders and preventing the conflicts of Afghanistan from overflowing into their states. Each of these countries has ethnic compatriots living across the border in Afghanistan. The Northern part of the country has traditionally been a stronghold against the Taliban and the Pashtun tribes that have been the biggest supporters of the Taliban movement. Even now, resistance to the Taliban regime is being set up in the Panjshir Valley. Negotiating with the Taliban to control potential terrorists and navigating the complex politics of dealing with a divided Afghanistan will create substantial tensions between the central Asian republics and a Taliban regime in Afghanistan.

The dynamics of Afghanistan make it very difficult to come up with a stable political order. Success in negotiating with its neighbors requires the Taliban to abandon an ideology of Islamic solidarity to get along with unbelievers and heretics. Dealing with concerns about their export of opium requires them to give up one of the country's most lucrative businesses. Suppose they can overcome ideological obstacles and practical problems and are willing to suppress all groups identified as terrorist actors by their neighbors. In that case, the Taliban may become integrated into the Chinese Belt and Road Initiative – leading to the development of a lucrative mining sector in the economy and tying Afghanistan into Chinese supply chains.

Are people who have lived a life as smugglers and warriors ready to become miners in an industrial market society? A rapid change in beliefs and attitudes about life is not what I would expect from middle-aged, grizzled soldiers, so integrating Afghanistan into China's BRI is a highly improbable event. Far more likely, the jihadis of forty years of war will create problems for China's geopolitical ambitions.

The complex political environment of Afghanistan was present twenty years ago as clearly as it exists today. A long-term commitment to Afghanistan was a blunder for American foreign policy. The Americans bore a good amount of the costs of managing the political problems of Afghanistan and the region with minute progress toward integrating Afghanistan into global society committed to liberal values. The irony is that the United States did not have to get entangled in the complexity of Afghanistan's politics and pay these costs. An in-and-out strategy was viable and would have served as a symbol of American political might and provided

a cost-effective response to our enemies. In contrast, Afghanistan's neighbors have a very challenging set of problems that need to be managed, as do the diverse peoples and interests of Afghanistan. They cannot retreat to a great island protected by two oceans.

– August 25, 2021

The SNAP Boost Will Make the Poor Appear Poorer

GARY M. GALLES
Contributor

The Biden administration has just increased food stamp (now SNAP, for Supplemental Nutrition Assistance Program) benefits by an average of 25%, adding about $20 billion a year to its budgetary cost. This means the 42 million current recipients will all receive additional assistance and that 6 million more people will become eligible.

The administration lauded itself for its help to the poor through that greatest-ever expansion in SNAP, as did allies. For instance, Jamie Bussel, a senior program officer at the Robert Wood Johnson Foundation said, "Plain and simple, this is totally a game-changing moment," with "enormous potential to reduce, and potentially eliminate, child hunger and poverty in this country."

Unfortunately for the administration, the consequence of the SNAP expansion will be reduced earnings and more official poverty for those with low incomes. How can we know? Because of major income and poverty mismeasurements.

And the political theater should be interesting, because Democrats who have long used insufficient progress on measured poverty to "prove" Republicans don't do enough to fight it will soon have to explain away why their major poverty initiatives have not achieved what was promised.

The source of this problem is that official income and poverty data ignore in-kind transfers and taxes. That means benefits from programs such as SNAP, because they are not considered cash transfers, are not counted in those measures. But the market disincentives created by such programs cause recipients to earn less than they would otherwise, and those reduced earnings are counted in the data. When you don't count what you give people, but you do count the reduced earnings that result, such aid makes them appear poorer, not better off.

SNAP benefits will be omitted from measured incomes, so the $20 billion annual increase will show no effect on poverty. However, as affected households earn more money, those benefits are phased out at an effective rate of 24 percent (the statutory rate is 30 percent, but there are some administrative adjustments), creating an effective 24 percent income tax rate on their earnings, in addition to any official taxes they must pay. And that reduction in their take-home incentives leads them to earn less than they otherwise would, making them appear poorer as a result of providing them additional resources.

Similar effects occur on other programs as well. Housing programs are a good illustration. While providing valuable housing services to recipients, because they are in-kind rather than in cash, they are also omitted from official income measures. But public housing and Section 8 subsidy programs require recipients to pay 30 cents more for the same unit for each dollar they earn, which acts like a 30 percent income tax rate. Just as for SNAP, that reduces earned incomes, making recipients look poorer as a result.

Such disincentives are made worse by the fact that many poverty program recipients are in multiple programs, creating multiple effective tax rates as their incomes rise. For example, someone in both SNAP and the Section 8 housing program would face an effective 54 percent cumulative tax rate, just from those programs, as a result. And participating in still more programs would boost that rate further, creating severe disincentives.

Medicaid also imposes what amounts to a sharp

income tax, which worsens with more children in a household. However, rather than reducing benefits as more income is earned, there is an eligibility cliff once a certain income level is exceeded. Obamacare extended eligibility for children up to 133 percent of the federal poverty level (but most states cover children to higher income levels), and states were given the option to similarly extend eligibility to adults. Once a person earns more than that cutoff, their entire family loses access to Medicaid. Since it provides thousands of dollars in benefits per recipient, that is a precipitous hit that grows with family size.

The omission of taxes in official income data adds to the misrepresentation. The most obvious bias introduced is to make higher-income families, who disproportionately bear tax burdens, look better off than they really are. But because taxes are ignored, that means that tax credits are also ignored in the official data. It means that tens of billions of dollars annually in Earned Income and Child Care Tax Credits to lower-income families aren't counted. Further, the vast majority of EITC recipients are in the 21 percent phaseout range of those credits, which acts like an additional 21 percent income tax rate, and consequent reductions in earnings over that range are counted.

Dramatic mis-measures of income have long sustained efforts to justify political redistribution. And they provide convenient cover for a never-ending story supporting expanded redistribution because so many policies that provide resources for the poor actually make them appear poorer in official data. So it will be interesting to see how Democrats, who have usually employed this bias to pillory Republicans, do with the shoe on the other foot. But more important to good policy is the fact that the data we employ is so inaccurate that it is incapable of effectively evaluating these policies and their effects and massive ignorance does not assure us of good policies.

– August 26, 2021

Incremental or Radical Policy Reform?

ROBERT E. WRIGHT
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Those who would reform US public policy in the direction of increased efficiency fall along a spectrum, from those who seek incremental changes at some "margin" to those who seek "root and branch" changes aimed at wiping away decades and sometimes centuries of increasingly intrusive and costly policies.

I'm typically on the root and branch end of that continuum because, as I explained in my 2010 *Fubarnomics*, many seeming market failures today actually stem from ill-conceived New Deal policies that, if reversed or eliminated, would allow private solutions, like those described in Ed Stringham's *Private Governance*, to resume. I would gladly privatize almost everything tomorrow, from food inspection to security services and transportation infrastructure to wealth redistribution, and know from historical experience that it would all work better than current arrangements.

Other reformers, though, think the administrative state, The Swamp as it were, too powerful to be directly challenged and seek instead minor welfare improvements, especially Pareto improving ones, i.e., reforms that make everyone, or almost everyone, better off without making anyone else worse off. John C. Goodman's *New Way to Care: Social Protections that Put Families First* (Oakland: Independent Institute, 2020) is a good example of an incrementalist approach.

Goodman is a smart fellow indeed and his book, though repetitive and a tad off on some Covid-related details, contains many interesting tidbits and important facts, including a whopper about Medicare not incentivizing doctors to treat comorbidities (p. 196). Pre-Covid, that wasted patients' time and left them sicker than they had to be. During a pandemic in which most mortalities were patients who suffered from one or more comorbidities, the skewed system undoubtedly cost many older people their lives by leaving more comorbidities un- or undertreated than would have been the case under more rational incentive structures.

Incrementalism has much to recommend it. Attempts at reform face the risk-return tradeoff inherent in any undertaking and many of Goodman's suggestions are not economically risky. Unsurprisingly, they are also not terribly remunerative, each promising savings of millions or billions instead of the trillions claimed possible by Sean Masaki Flynn in his 2019 *The Cure that Works*, which calls for the radical deregulation of America's healthcare system.

Goodman, by contrast, sees little inefficiencies everywhere that could be reduced without goring anyone's ox. The fact that our society continues to leave the equivalent of $20 bills on the sidewalk, though, is disheartening because it points to the basic irrationality of our leaders, our system of governance, or both.

Consider, for example, international and domestic medical tourism. A procedure that costs, say, $10,000 under Medicare might be had, at the same level of quality, outside of the patient's state, region, or country for, say, $5,000, including travel and other costs. As the rules currently stand, taxpayers will fork over the ten grand because the patient has no incentive to take the cheaper alternative. If Goodman had his way, taxpayers would split the difference with the patient if s/he opted for the cheaper alternative. Everybody wins except, of course, the higher priced doctor, but s/he could be cut in too, if only

to garner political support. It isn't clear that rent recipients are owed anything, morally speaking, other than the opportunity to compete fairly after de-subsidization, especially when their business practices, like the kickbacks received by pharmacy benefit managers, would literally be criminal if not exempted (p. 221).

A large number of other healthcare-related reforms, like home visits and various forms of remote medicine, would also prove Pareto-improving if the ill-gotten gains of rent-seekers are excluded. Prior to the pandemic, it was illegal under Medicare for doctors to treat patients other than face-to-face in their offices thanks to the American Medical Association's successful rent-seeking. That special interest group might prove strong enough to return the masses to the status quo ante pandemus when it comes to remote care (pp. 199-203).

Proposals to allow people to opt out of various aspects of the social security net, from the life annuity to the survivorship benefits to the disability program, are also clearly Pareto, assuming that displaced federal workers will be assigned comparable jobs. The key insight is that many people, especially younger ones, would be willing to give up uncertain future Social Security payments in exchange for a lump sum paid today into an investment vehicle, like an IRA or 401K, less than the actuarial value of the promised Social Security stream. Funding the lump sum payments would be a little tricky, but Goodman has a plan for that.

In fact, Goodman, with help from his staffers, has a plan for everything. And that points to the second great weakness of the incremental approach, the need for plans and schemes designed to keep sundry compromises, half-measures, and transitions headed in the right direction. Goodman is a master of detail and his plans require far less omniscience than the six billion different prices that Medicaid bureaucrats (purport to) manage, but they are still plans, many with complexities that are less mind-boggling and soul-crushing than the government programs they seek to replace, but mind-boggling and soul-crushing nonetheless.

That complexity stems from the fact that reformers need to take care that they don't inadvertently make matters worse, either because they missed some perverse incentive or unintended consequence or because some politician or bureaucrat changes something important in an important way somewhere between inception and implementation. Reform plans, like battle plans, rarely survive first contact with the enemy.

Incrementalists and radical advocates of liberty should not joust each other too much because they face a formidable common enemy, paternalistic statists who assume, rather than establish, the superiority of top-down, one-size-fits-all government "solutions" to individual problems. The United States government may descend into a uniquely American brand of Marxism, fascism, or some other form of authoritarianism, but if American society arises again, like a phoenix from the inevitable ashes, liberty lovers must push to sanctify for all, for all time, the ultimate human rights of economic freedom and individual liberty so that a new Swamp does not again fill American nostrils with the fetid stench of costly, inefficient programs, economic decay, and human misery. Until then, pressing for Pareto-improving reforms like those laid out by Goodman may be the best that can be done.

– August 30, 2021

How Does the Federal Reserve Evaluate Policy?

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Since March 2020, the Federal Reserve has engaged in an unprecedented expansion of the balance sheet, which now stands at over $8 trillion. Another record has been set if you measure the balance sheet relative to the value of currency in circulation. As a fraction of the balance sheet, currency in circulation is just more than a quarter of its total value. The remaining liabilities include deposit accounts and borrowing by the Federal Reserve. These assets allow the Federal Reserve to prevent a majority of dollars from circulating and generating higher rates of inflation.

If you follow the Sound Money Project, this is probably not news to you. What remains unexplained, however, is how exactly the Federal Reserve sets monetary policy. How do Fed officials determine the desired size and composition of the balance sheet? What guides their choice of the federal funds rate?

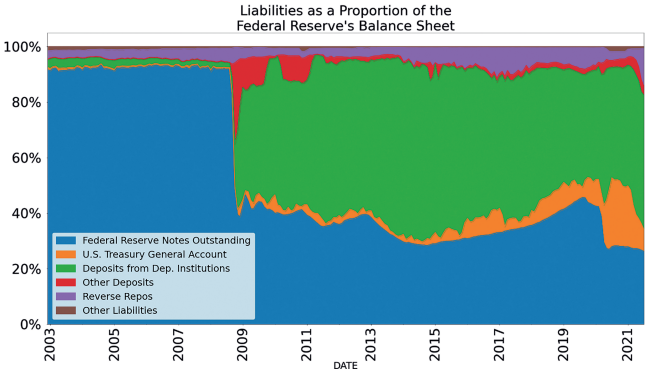
A New Regime

After the financial crisis of 2008, monetary policy no longer restricted its operations to determining the supply of money – reserves – made available to financial markets. For more than two decades before the crisis, policy was implemented by targeting the federal funds rate. If inflation expectations appeared to be pushing interest rates upward, the Federal Reserve could choose to attempt to maintain low rates for a brief period, but would ultimately need to allow the federal funds target to rise in response to pressure from financial markets. With some exceptions – for example, preparation for Y2K and the response following 9/11 – Paul Volcker and Alan Greenspan tended to allow interest rates to rise under these circumstances.

Interest rates might rise due to growing expenditure during periods of economic recovery or if investors expect future monetary policy to be relatively easy. When the Federal Reserve could not target demand for money, expansionary policy tended to be constrained by inflation expectations. The Federal Reserve might succeed in maintaining low interest rates in the short run, but in the long run investors will interpret easy money as being inflationary and will therefore demand high returns on investment to offset expected devaluation of currency.

When Ben Bernanke took the helm at the Federal Reserve, he appreciated that Volcker and Greenspan tamed long-run inflation expectations. However, he feared that their strategy did not appropriately anchor short-run inflation expectations. Perhaps the boom in commodities prices in the early part of his tenure had stoked this concern. By the onset of the crisis, the monetary base was expanding at a record low rate. From 2007 onward, the rate of increase year-over-year never breached 3 percent. And in the first half of 2008, this rate was often less than one percent.

When Bernanke had to choose between increasing the rate of currency in circulation or averting a financial crisis, he chose a third path: create new funds and sequester them by providing deposit accounts at the Federal Reserve. At the time, the Federal Reserve balance sheet more than doubled and since that time, currency in circulation has not exceeded more than half of the value of the balance sheet.



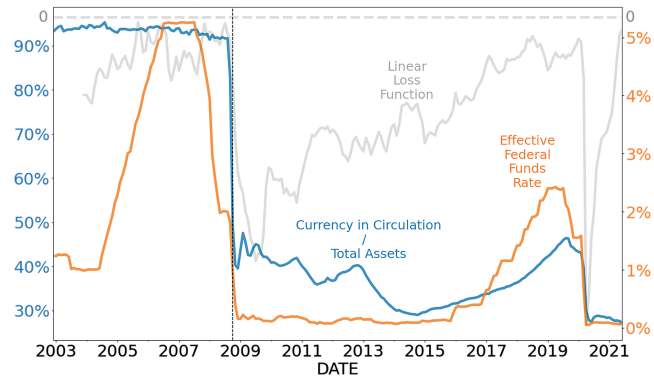
Making Monetary Policy

Again, how does the Federal Reserve set monetary policy in this new system now that it determines the supply of and influences the demand for reserves? In order to answer this question we must first identify (1) how the Federal Reserve targets the supply of and demand for reserves, and (2) how the Federal Reserve identifies whether or not financial markets merit increased support.

The Federal Reserve sets the supply of base money that may serve as reserves for the financial system, typically allowing the quantity of base money to increase modestly over time. Fed policy tends not to allow this rate to increase significantly absent a crisis. Thus, for a given level of currency in circulation, the Fed eases or tightens policy by increasing or decreasing the remaining portion of the balance sheet not composed of circulating currency.

How does the Fed determine whether its stance should ease or tighten? One useful tool is the loss function. It is common for a loss function to measure the efficiency of policy relative to policy targets for the rates of inflation and unemployment. In a recent article for the American Economic Review, former Fed Chair Bernanke judges the efficiency of monetary policy according to the loss function values yielded by his simulation.

The loss function is typically represented as the sum of the squared differences of each component of the loss function. One component compares the observed rate of inflation to the target rate, the other compares the observed rate of unemployment to its target rate. One might evaluate past policy by comparing the evolution of policy to that of the loss function. The data I present below assumes targets of 2% for inflation and 4% for unemployment.



Since we seek to explain the direction of policy and not the efficiency of policy, I present the difference of the inflation component and the unemployment component, indicating the observed value of a variable in each period i:

$$L = (\pi_i - \pi_{target}) - (U_i - U_{target})$$

The loss function presented is a heuristic for determining whether policy should loosen or tighten. As the value of the function rises closer to 0, a winding down of the balance sheet is merited. Before September 2019, Powell seems to have followed this logic as the Fed began tightening when the linear loss function moved closer to 0. A hiccup in the overnight lending market led Powell to modestly lower the federal funds rate. Months later, international lockdown in response to Covid-19 led the linear loss function to move into extreme negative territory. In response, Powell slashed interest rates to zero and has been continuing to expand the balance sheet in excess of currency in circulation.

While Powell has continually advised that he plans to maintain low interest rates at least into the near future, the return of the linear loss function to zero and potentially into positive territory will likely stoke concern from those who prefer a greater level of caution. For the last few months, core CPI has moved well above the average target of 2%. In June, year-over-year inflation was nearly 4.5% by this measure.

In August, Powell indicated that monetary policy would asymmetrically target unemployment and would only tighten monetary policy in response to rising inflation. Since Powell does not seem particularly concerned about inflation at the moment, there is a good chance that the loss target that I have presented moves into positive territory. Powell will have to convince investors that the higher rate of inflation is transitory.

Last month, Jim Bullard of the St. Louis Federal Reserve called for an end to emergency measures. If inflation does not relent in approaching months, this call for a modest tightening will likely develop support from other ranking members of the Fed. I'm willing to bet that support for tightening will be strongly correlated with the value of the loss function presented here.

– August 27, 2021

A Tragic Half Century Without Gold Money

RICHARD M. SALSMAN
Senior Fellow

In 2012 a poll taken by the University of Chicago's Booth School of three dozen academic economists from eight prestigious universities revealed that they all despised the gold standard; they rejected it not so much for its track record but as a possible monetary system for current times. Professors from Chicago (8), Stanford (6), Yale (5), Harvard (5), Berkeley (5), MIT (4), Princeton (4), and Columbia (1) spoke with one voice and not a scintilla of intellectual diversity.

Surely then they must know something I don't know, me being a serious scholar and proponent of the gold standard. Alas, it isn't so. Their view is a product of their time, not of monetary science.

Had similar academics been polled a *century* ago they would have *extolled* the gold standard; they would have expressed deep regret at having just witnessed the political sabotage of the well-functioning, well-respected *classical gold standard* (1870-1913) during WWI (1914-1918); they would have warned against a resort to watered-down versions of the gold standard; they would have opposed arbitrary fiat-money regimes. How do I know this? Because I've read most of the books, articles, and speeches of the major monetary economists of that golden period.

Unlike foes of the gold standard today, the fans of it a century ago had facts and logic on their side; but also, nothing material has transpired since 1921 to make the case *for* a golden monetary system any less valid. Indeed, the current unanchored "system" of monetary nationalism, with its dozens of floating, sinking, and gyrating currencies both defies logic and deranges economies. This is what today's "prestigious" foes of gold implicitly condone: the subjective, the arbitrary.

Today the case for a gold-based monetary system is dismissed out of hand, in parrot-like unison, as unprofessional, as mere quackery; a century ago, *opposition* to gold-based monetary systems likewise was ridiculed as the amateurish rants of cranks. A crucial phenomenon this reveals is that economics–at least "establishment" (*i.e.*, conventional, acceptable) economics–is logically downstream from politics, just as politics (I would argue) is downstream from culture and morals. For good or ill, politicians and bureaucrats get the monetary system that they (and voters) want.

If the philosophy of a previously-free nation changes for the worse–*i.e.*, toward authoritarianism–such that voters demand that government exert free rein in money and public finance, with unlimited scope for fiscal profligacy, any type of gold standard will have to relent. This traditional bulwark of monetary integrity and solidity will be countered, coopted, and crushed. The gold standard wasn't suspended in 1933-34 because it caused the Great Depression or the wave of bank failures, nor did it disappear in 1971 because it somehow "didn't work" anymore. It's been gone since 1971 because fiscal alchemists in charge of profligate states couldn't make it work like magic, meaning: they couldn't expand the *gold supply* as much as they expanded *government*.

Fifty years without a gold-based monetary system is not only unprecedented in human history but unfriendly to economic prosperity. When President Nixon jettisoned the Bretton Woods gold-exchange standard on August 15, 1971, many folks thought it was a temporary measure; not coincidentally, it came with wage and price controls. But the balkanized,

nationalistic non-system that followed 1971 has persisted. The terrible legacy of this fundamentally arbitrary system—one endorsed by Marxists, Keynesians, and Monetarists alike—is a sustained erosion of sound finance.

Most economists who examine the gold standard (a dwindling lot of us, to be sure) tend to focus most on its history or mechanics, regardless of the different forms the standard might take and apart from whether economists identify as fans or foes of gold-based money. By reference to such criteria as efficiency and practicality, it is well-established and well-proven that gold-based monetary systems have best facilitated price discovery, profit calculation, private planning, saving and investment, international trade, and—consequently—economic prosperity.

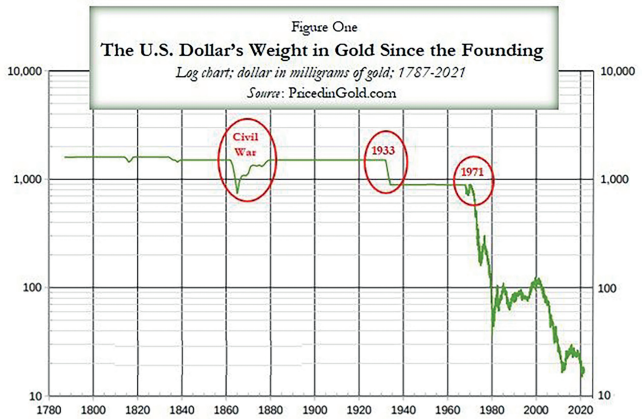
Importantly, efficient, practical success was most evident during the decades of the classical gold-coin standard (1870-1913), but less so when government hoarded and debased gold under the gold-bullion standard (1914-1948), and even less so under the gold-exchange standard (Bretton Woods, 1948-1971), when the U.S. dollar alone was directly redeemable in gold (for foreign central banks) then further debased. A close study of these distinct versions of the gold standard shows that they tracked closely the prevailing size, scope, and power of the U.S. government.

A minimalist, more constitutionally limited government prevailed under the classical gold-coin standard; it was four decades of free trade, no income tax, no central bank, no welfare state, and no major wars. Subsequent versions (1914-1948, 1948-1971) were accompanied by massive increases in the welfare-warfare state; gold money suffered amid wars, deep recessions and depressions, systemic bank failures, and mass unemployment. Disingenuous observers (and perpetrators) of these various catastrophes cleverly (and falsely) blamed the gold standard and capitalism, even as each was assaulted, in accord with the wishes of socialists and fascists.

Successively weaker versions of the gold standard over the century of 1870-1971 mirrored successively stronger (*i.e.*, more statist, more invasive) versions of U.S. federal governance. The welfare state has grown enormously, but for electoral reasons it can't be sustained by ever-higher taxes; it needs more deficit spending, hence more public debt, hence more debt monetization, hence more fiat money creation. None of that is consistent with a gold standard (of any type).

Statism largely explains why gold-based money was jettisoned and why its restoration won't come easily (or soon). It's not the mechanics of gold that bar a clear path to monetary sanity; in fact, it isn't very difficult to end central banking and reinstate the gold standard. The root problem is that central banks exist not to "fix market failure," "smooth the business cycle," or "fight inflation" but to facilitate public profligacy. Thus, central banks will persist so long as fiscal profligacy persists, and the latter will persist–and even intensify–the longer we're left to work without gold money.

Figure One illustrates how the U.S. dollar was "as good as gold" from the time of the nation's founding in 1787 (thanks to Treasury Secretary Alexander Hamilton) until WWI, with the exception of the inflationary "greenback" era during America's Civil War. In this amazing century-and-a-quarter, inventors, capitalists, and entrepreneurs heroically built America's agricultural-industrial-financial might. Gold wasn't an *impediment* to this fine achievement but an *impetus*.



As I've documented previously, the production of money isn't the same as the production of wealth, of real goods that enhance living standards. Humans need wealth more than money, and money only to the extent it facilitates the creation of wealth. Which type of money has best promoted real U.S. output in the past century? Gold-based standards (Table One) with 4.9% per annum growth in industrial output during 1921-1948 (a period which *includes* the Great Depression and the destruction of WWII) and 4.2% per annum even amid the less-solid Bretton Woods gold-exchange standard (1948-1971). U.S. output has grown *least* since 1971 (a mere +2% per annum), when gold was *absent* from the monetary system. Slow growth is now the *norm*. This system is preferred by academic-economic elites today. Are they not the *real* monetary cranks?

Consider, also, the record of U.S. federal deficit spending since 1921. It's been most prominent over the past fifty years, the years *without* the dreaded gold standard. Budget deficits have occurred 94% of the time since 1971. This is now the *norm*. Do academic elites despise the gold standard because they prefer *both* slower economic growth *and* greater public profligacy?

Table One
The Production of Wealth versus Deficit Spending
U.S., 1921-2021

	1921-1948 *(27 years)* gold-exchange standard	**1948-1971** *(23 years)* Bretton Woods System	**1971-2021** *(50 years)* fiat money "standard"
compounded per annum growth in the Industrial Production Index	4.9%	4.2%	2.0%
% of years when the U.S. budget was in deficit	59%	74%	94%

The best that can be done in the near term is to make central banks adopt a gold price rule, an approach I've explained and defended elsewhere ("Real and Pseudo Gold Price Rules," *Cato Journal*, 2020). But even this requires rulers to follow a rule. In today's world, where objectivity and the rule of law are in retreat, while authoritarian discretion is on the march, any rule (of any kind) is dismissed by monetary central planners as too rigid, even dangerous. In truth, the planners want to evade accountability; they also tend to prefer more statist government.

Just as economic-monetary systems reflect political systems, for good or ill, so political systems reflect moral-philosophic systems. The philosophic basis of the gold standard includes an individualistic ethic, a widespread love of liberty, robust entrepreneurship, respect for property rights, the maintenance of constitutionally limited government, free trade, and peace. When these features are diluted, disdained, or dismantled, gold-based money necessarily leaves the scene. A once-*objective* system of *real* money is displaced by *subjective* schemes and "virtual" money.

More than a quarter century ago, I wrote that:

> Free banking and the gold standard require a context of greater political freedom. All over the world, people have been protesting big government and voting for freer political systems. If the growing resentment of the failures of central planning and the growing

> respect for free markets grows further, free market money may be possible one day. The factual evidence of its past performance is a matter of public record—it must be taken seriously by monetary reformers. What is needed above anything else is a clear and unequivocal endorsement of the classical liberal philosophy held by America's Founding Fathers. The prospects for free banking and gold money depend ultimately on the prospects for liberty. (*Gold and Liberty*, AIER, 1995, p. 122)

Prospects for a gold-based monetary system in our future are as bleak as are prospects for liberty.

– August 15, 2021

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