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RESEARCH REPORTS

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BUSINESS CONDITIONS MONTHLY

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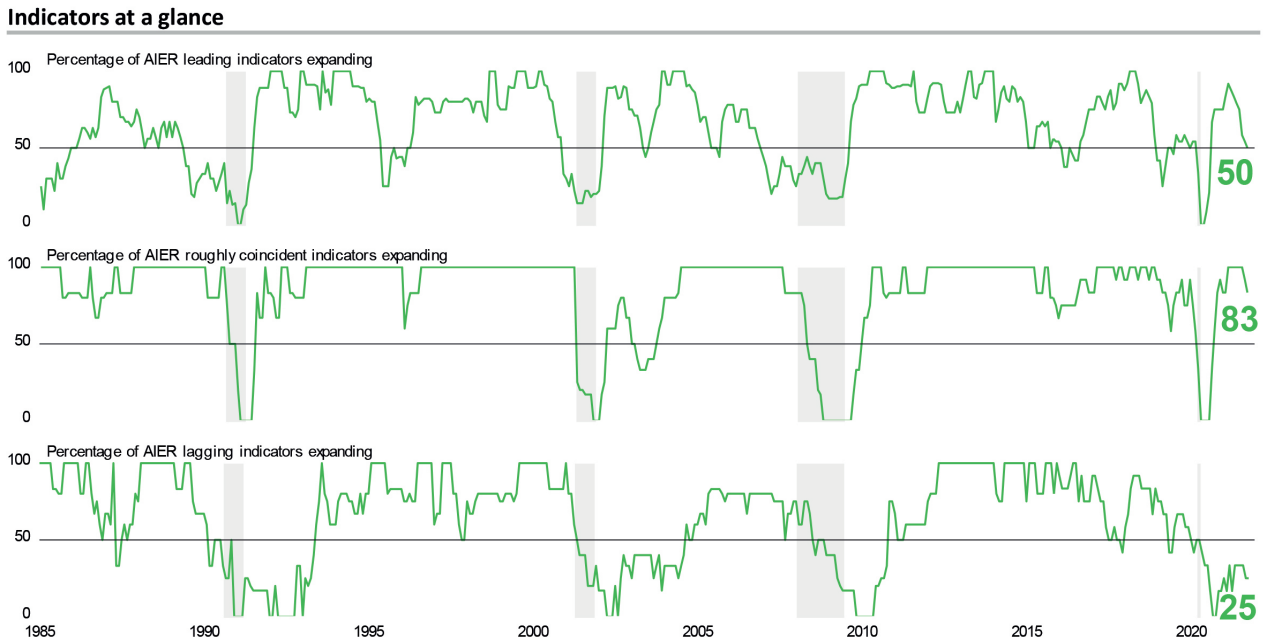
AIER Leading Indicators Index Fall Again, Hitting the Neutral 50 Mark



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

Summary

AIER's Leading Indicators Index fell for a seventh consecutive month in October, hitting the neutral 50 mark. October was the weakest reading since August 2020. The Roughly Coincident Indicators Index fell for a second consecutive month while the Lagging Indicators Index was unchanged, remaining well below neutral. The string of declines in the Leading Indicators Index that began in April is consistent with the weak Gross Domestic Product report for the third quarter. Furthermore, the sagging performance suggests that risks remain elevated and that some caution is warranted. However, the neutral result for October is still a long way from signaling an elevated risk of recession, and the decline in new Covid cases is likely to allow activity to reaccelerate.

The Roughly Coincident Indicators index fell for the second consecutive month following a run of six consecutive months at 100. Despite the decline, the continued strength of the roughly coincident indicators remains a positive sign for the current expansion, but given the deteriorating strength of the Leading Indicators Index, some additional setbacks for the Roughly Coincident Indicators Index over the coming months would not be surprising. The Lagging Indicators Index remained at 25 in October and has been below the neutral 50 level for 18 consecutive months (see chart).

The now-fading resurgence in Covid cases was a significant headwind for the economy in the third quarter. The outbreak compounded difficult labor conditions, exacerbating shortages of materials and logistical issues. These conditions continued to exert upward pressure on prices. However, with new Covid cases now receding, businesses can refocus efforts on finding and hiring labor, expanding production, and easing

supply chain difficulties. Such efforts are likely to be successful, leading to an easing of pressure on prices but it could take some time. Risks to the outlook remain elevated, but for now, continued economic expansion remains the likely path.

AIER Leading Indicators Index Fall to Neutral

The AIER Leading Indicators index posted a seventh consecutive decline in October, coming in at a neutral 50 reading versus 54 in September. The index is now down a total of 42 points over the last seven months from the recent high of 92 in March. October is the fourteenth consecutive month at or above the neutral 50 level, but it is also the lowest reading over that period and the lowest since August 2020 when the index was just 21. The neutral result suggests caution, but continued economic expansion remains the likely path.

Among the 12 leading indicators, six were in a positive trend in October and six were trending lower with none trending flat or neutral. Just one of the 12 leading indicators changed direction in October. The average workweek in manufacturing turned from a neutral trend to a negative trend. The five other leading indicators with unfavorable trends are: the University of Michigan Index of Consumer Expectations, real new orders for consumer goods, total heavy truck unit sales, the Treasury yield spread, and housing permits. Initial claims for unemployment benefits, real retail sales, manufacturing and trade sales to inventory ratio, real new orders for core capital goods, stock prices, and debit balances in margin accounts were the six indicators maintaining favorable trends.

Overall, the Leading Indicators index posted another drop in October, coming in at the neutral 50 level. It was the fourteenth consecutive month at or above 50 but the lowest level over that period. Over the last 14 months, the leading indicators index has averaged 73.5 but the 42-point drop over the last seven months from the recent high of 92 in March is a troubling sign. The results suggest continued expansion is likely but the breadth of sources of growth could remain narrow in coming months and the pace of growth could remain weak.

However, the recent wave of new Covid cases has receded and should allow businesses to refocus on expanding production. Meanwhile, ongoing disruptions to labor supply and production, rising costs and shortages of materials, and logistics and transportation bottlenecks continue to exert upward pressure on prices. These issues are likely to be resolved over time and are unlikely to result in a 1970s-style price spiral, but the extended period of adjustment is likely to sustain a somewhat elevated level of risk for the economy.

The Roughly Coincident Indicators index fell nine points to 83 in October following a 92 result in September and six consecutive months at a perfect 100 reading from March through August. One indicator changed its signal in October as the Real Manufacturing and Trade Sales indicator fell from a neutral trend to a negative trend. Overall, five indicators were trending higher while one was trending lower, and none were in a neutral trend.

The Roughly Coincident Indicators index has been above the neutral 50 level for 13 consecutive months, posting an average reading of 90.4. The continued weakness in the Leading Indicator Index suggests some additional setbacks for the Roughly Coincident Indicators Index in coming months is possible. However, the decline in Covid cases may provide an offsetting boost.

AIER's Lagging Indicators index remained at a weak reading of 25 in October. That was the 22nd consecutive month at or below neutral. The average over the last 22 months is 28.4. There were two offsetting changes in the latest month – Duration of unemployment improved from a negative trend to a neutral trend while Composite short-term interest rates fell from a neutral trend to a negative trend

– leaving four indicators with unfavorable trends, one indicator with a favorable trend, and one in a neutral trend.

Economic growth slowed sharply in the third quarter, hampered by a wave of new Covid cases

Real gross domestic product increased at a 2.0 percent annualized rate in the third quarter, down sharply from a 6.7 percent pace in the second quarter and a 6.3 percent pace in the first quarter. Over the past four quarters, real gross domestic product is up 4.9 percent.

Real final sales to private domestic purchasers, a key measure of private domestic demand, rose at an even more disappointing 1.1 percent annualized rate in the third quarter following a 10.1 percent pace in the second quarter and 11.8 percent pace in the first quarter. Over the last four quarters, real final sales to private domestic purchasers are up 7.2 percent.

Weakness in the third quarter was concentrated in consumer spending but also seen in some components of business fixed investment and net trade. Real consumer spending overall rose at a 1.6 percent annualized rate, well below the strong 12.0 percent pace in the second quarter and 11.4 percent rate in the first quarter. Third quarter consumer spending contributed a total of 1.1 percentage points to real GDP growth versus a 7.9-point contribution in the second quarter.

Among the components of consumer spending in the third quarter, consumer services posted a 7.9 percent rate of growth, contributing 3.4 percentage points to growth, followed by nondurable goods with a 2.6 percent annualized growth rate (and adding 0.39 points to real GDP growth). Consumer durable-goods spending fell at a 26.2 percent pace, subtracting 2.7 percentage points from overall growth. Within consumer durable goods, spending was particularly weak on motor vehicles and parts which fell at a 53.9 percent annual rate and subtracted 2.4 percentage points from real GDP growth. The auto industry has been particularly hard hit by shortages of materials and components.

Business fixed investment increased at a 1.8 percent annualized rate in the third quarter of 2021, contributing 0.24 percentage points to final growth. However, that was below the 9.2 percent pace of growth in the second quarter (which added 1.21 percentage points to second quarter real GDP growth). Within the business fixed investment category, spending on equipment fell at a 3.2 percent pace (subtracting 0.18 points from growth) while spending on business structures fell at a 7.3 percent rate, the seventh decline in over the last eight quarters, subtracting 0.19 percentage points from final growth. Intellectual-property investment posted a 12.2 percent gain, adding 0.61 percentage points to final growth.

Residential investment, or housing, fell at a 7.7 percent annual rate in the third quarter compared to an 11.7 rate of decline in the prior quarter. The third quarter fall is the third decline in the last 6 quarters. The drop in the third quarter reduced overall growth by 0.38 percentage points. Housing had shown resilience throughout the pandemic as extremely low interest rates combined with widespread remote working policies and the desire by some people to move away from virus epicenters had supported increased demand. However, limited supply and surging home prices are pushing buyers out of the market, resulting in slower housing activity.

Businesses liquidated inventory at a $77.7 billion annual rate (in real terms) in the third quarter versus liquidation at a $168.5 billion rate in the fourth quarter, resulting in a 2.1 percentage point contribution to third-quarter growth.

Real exports fell at a 2.5 percent pace while real imports rose at a 6.0 percent rate. Since imports count as a negative in the calculation of gross domestic product, a gain in imports is a negative

for GDP growth, subtracting 0.87 percentage points in the third quarter. The decline in exports subtracted 0.28 percentage points. Net trade, as used in the calculation of gross domestic product, subtracted a total of 1.14 percentage points from overall growth.

Government spending rose at a 0.8 percent annualized rate in the third quarter compared to a 2.0 percent pace of decline in the second quarter, adding 0.14 percentage points to final growth.

Demand Remained Strong for the Manufacturing Sector in October

The Institute for Supply Management's Manufacturing Purchasing Managers' Index fell to 60.8 in October, off 0.3 points from 61.1 percent in September. October is the 17th consecutive reading above the neutral 50 threshold and the eighth month above 60 in the last 11 months. The survey results suggest that the manufacturing sector continues to expand at a robust pace.

Among the key components of the survey, the New Orders Index posted a 6.9-point decline, coming in at 59.8 percent in October. The New Orders Index has been above 50 for 17 consecutive months but broke a string of 15 consecutive months above 60. The new export orders index, a separate measure from new orders, rose to 54.6 versus 53.4 in September. The new export orders index has been above 50 for 16 consecutive months.

The Production Index registered a 59.3 percent result in October, a decrease of 0.1 points in September. The index has been above 50 for 17 months.

The Employment Index rose in October, the second consecutive month above the neutral 50 level, to 52.0 percent. The index has been bouncing around between 49 and 53 for the last six months and may be reflecting the inability to hire rather than the lack of desire to hire.

The Backlog-of-Orders Index decreased in October, coming in at 63.6 versus 64.8 in September. This measure has pulled back from the record-high 70.6 result in May but has been above 50 for 16 consecutive months and above 60 for nine consecutive months. The index suggests manufacturers' backlogs continue to rise at a rapid pace.

Customer inventories in October are still considered too low, with the index coming in at 31.7, unchanged from September (index results below 50 indicate customers' inventories are too low). The index has been below 50 for 61 consecutive months. Insufficient inventory may be a positive sign for future production.

The index for prices for input materials moved back up in October, coming in at 85.7 percent versus 81.2 percent in September. While the index is down from a recent peak of 92.1 in June, it is still very high. Rising input costs have been driven by shortages of materials and labor as well as production issues and logistical and transportation problems. Those issues are reflected in the supplier deliveries index, which rose again in October to 75.6 from 73.4, suggesting deliveries slowed again in October.

Overall, demand for the manufacturing sector remains robust but labor difficulties, materials shortages, and logistical problems continue to hamper the ability to meet that demand. Many of these problems will ease over time, but the prolonged period of normalization will sustain upward pressure on prices and remain a threat to overall economic growth.

Core Capital-Goods Orders Suggest an Improving Outlook for Business Investment

New orders for durable goods fell in September, falling 0.4 percent, just the second decline in the last 17 months. Total durable-goods orders are up 20.7 percent from a year ago and 14.0 percent from January 2020. The September gain puts the level of total durable-goods orders at $261.3 billion, the third-highest level on record.

New orders for nondefense capital goods excluding aircraft or core capital goods, a proxy for business equipment investment, rose 0.8 percent in September after gaining 0.5 percent in August, 0.3 percent in July, and 1.0 percent in June, putting the level at $77.7 billion, another record high and the tenth new high in the last eleven months. Core capital-goods orders had broken the $70 billion mark only once before, in February 2012, but have been above $70 billion for 11 consecutive months.

Among the categories in the report, gainers outnumbered decliners four to three. Among the individual categories, primary metals rose 0.6 percent, fabricated metal products gained 0.7 percent, machinery orders increased by 1.1 percent, and the catch-all "other durables" category added 0.3 percent while computers and electronic products fell 0.3 percent, electrical equipment and appliances were off 0.5 percent, and transportation equipment sank 2.3 percent. Within the transportation equipment category, motor vehicles and parts dropped 2.9 percent as auto manufacturers grappled with ongoing chip shortages, nondefense aircraft lost 27.9 percent, but defense aircraft surged 104.3 percent. From a year ago, every category shows a gain. Likewise, comparing the latest results to pre-pandemic levels, every category shows a gain with all but one posting double-digit growth.

Durable-goods orders continue to run at a high level, particularly the core-capital goods components. Demand remains strong for the manufacturing sector, and the tight labor market creates incentives to substitute capital for labor. The pandemic may be accelerating structural changes to the economy, affecting labor, housing, manufacturing, and services. With the decline of the recent resurgence of new Covid, the outlook for growth is once again strengthening. However, upward pressure on prices continues as demand outpaces supply. As labor, materials, and logistical issues are alleviated, price pressures are likely to ease, but the process may take a significant period of time.

Lingering Effects from Covid and Hurricane Ida Hurt Industrial Output in September

Industrial production fell 1.3 percent in September, the second decline in a row and the largest monthly drop since February. The decline pushed total output back below the February 2020 level. Over the past year, total industrial output is still up 4.6 percent. Much of the decline was accounted for by the lingering effects of Covid which has been causing disruptions to manufacturing (especially motor vehicles production), and the effects of Hurricane Ida (about 0.6 percentage points of the 1.3 percent decline) which shut down significant portions of activity in the coastal region along the Gulf of Mexico, especially for the energy industry.

Capacity utilization fell a full percentage point to 75.2 percent from 76.2 percent in August and is below the February 2020 level of 76.3 percent. Total capacity utilization is also well below the long-term (1972 through 2020) average of 79.6 percent.

Manufacturing output – about 76 percent of total output – posted a 0.7 percent decrease for the month, the second decline in a row and the fourth drop in the last seven months. Manufacturing output is still above its February 2020 level and is up 4.8 percent from a year ago. Effects of Hurricane Ida accounted for about 0.3 percentage points of the 0.7 percent drop in manufacturing.

Manufacturing utilization fell 0.6 points to 75.9 percent but remains above the February 2020 level of 75.5 percent. However, manufacturing utilization remains below its long-term average of 78.2 percent and well below the 1994-95 high of 84.7 percent.

Mining output accounts for about 12 percent of total industrial output and posted a sharp 2.3 percent decrease last month. Over the last 12 months, mining output is up 6.9 percent. The lingering effects of

Hurricane Ida more than accounted for the drop in mining activity.

Utility output, which is typically related to weather patterns and is also about 12 percent of total industrial output, decreased 3.6 percent for the month. From a year ago, utility output is up 1.6 percent.

Among the key segments of industrial output, energy production (about 25 percent of total output) fell 3.1 percent for the month with declines in all five components. Total energy production is still up 4.8 percent from a year ago.

Motor-vehicle production (about 5 percent of total output), one of the hardest-hit industries during the lockdowns, continues to be volatile as the industry struggles with a semiconductor chip shortage. Motor-vehicle production sank 7.2 percent in September following a 3.2 percent drop in August and is down in five of the last eight months. From a year ago, vehicle production is off 13.7 percent. Total vehicle assemblies fell to 8.60 million at a seasonally-adjusted annual rate. That consists of 8.33 million light vehicles and 0.27 million heavy trucks. Within light vehicles, light trucks were 7.18 million while cars were 1.41 million.

The selected high-tech industries index rose 0.6 percent in September and is up 10.7 percent versus a year ago. High-tech industries account for just 2.2 percent of total industrial output.

All other industries combined (total excluding energy, high-tech, and motor vehicles; about 68 percent of total industrial output) fell 0.2 percent in September but are 5.9 percent above September 2020.

Industrial output showed broad weakness in September, hurt by the lingering effects of Covid that has resulted in shortages of materials, and the lingering effects of Hurricane Ida that hit the energy industry particularly hard. While ongoing difficulties with labor, logistics, and materials shortages continue to be challenges for many industries especially in manufacturing, some of these issues may start to ease in the coming months and quarters, helping to reduce some of the upward pressure on prices.

Overall Outlook: Risks ease but remain elevated as Covid recedes but labor difficulties and shortages sustain upward pressure on prices

The AIER Leading Indicators index posted a seventh consecutive drop in October, coming in at a neutral 50 versus 54 in September. The October result suggests continued economic expansion but the string of declines since the March high also suggest that sources of growth may remain narrow. However, the decline in new Covid cases may provide a boost as businesses reaccelerate efforts to attract labor and boost production.

The Roughly Coincident Indicators index also fell in October but has been at or above the neutral 50 level for 13 consecutive months. The solid performance of the Roughly Coincident Indicators index since the government-induced recession of 2020 reflects the broad-based economic recovery, but the continued weakness in the Leading Indicator Index suggests some additional setbacks in coming months are possible.

AIER's Lagging Indicators index remained weak, coming in well below neutral again in October. The latest result was the 22nd consecutive month at or below neutral.

The decline in the recent surge in new cases should allow businesses to reaccelerate efforts to attract labor and boost production. However, ongoing labor difficulties (including a lack of qualified workers, absenteeism, temporary shutdowns, and inability to retain talent), materials shortages, and logistical and transportation bottlenecks are sustaining upward pressure on prices (though a 1970s-style price spiral remains unlikely). The outlook is for continued economic expansion, though the risks to growth remain somewhat elevated. A moderate level of caution remains warranted.

CAPITAL MARKET PERFORMANCE

(Percent change)

		Latest	Latest	Calendar Year			Annualized		
	October	3M	12M	2020	2019	2018	3-year	5-year	10-year
Equity Markets									
S&P 1500	6.8	4.6	41.6	15.8	28.3	-6.8	18.9	16.4	13.8
S&P 500 - total return	7.0	5.1	42.9	18.4	31.5	-4.4	21.5	18.9	16.2
S&P 500 - price only	6.9	4.8	40.8	16.3	28.9	-6.2	19.3	16.7	13.9
S&P 400	5.8	3.4	47.0	11.8	24.1	-12.5	15.3	13.1	12.2
Russell 2000	4.2	3.2	49.3	18.4	23.7	-12.2	15.0	14.0	12.0
Dow Jones Global Large-Cap Index	5.1	3.1	34.0	14.7	23.8	-10.4	15.3	15.8	9.1
Dow Jones Global Large-Cap ex-U.S. Index	2.5	1.0	26.3	8.8	18.2	-15.7	9.5	10.2	4.0
STOXX Europe 600 Index	4.6	3.0	38.9	-4.0	23.2	-13.2	9.6	7.0	6.9
Bond Markets									
iShares 20-plus Year Treasury Bond ETF	2.3	-1.2	-6.3	16.4	11.5	-4.2	9.1	2.4	2.5
IiShares AAA - A Corporate Bond Fund	0.2	-1.8	-1.5	7.1	9.1	-5.2	4.4	1.3	NA
Commodity Markets									
Gold	0.9	-2.6	-5.5	24.8	18.7	-1.7	13.5	6.9	0.3
Silver	11.5	-5.8	1.6	46.8	16.7	-8.3	18.7	6.2	-3.5
Refinitiv CoreCommodities CRB total return index	3.8	9.0	64.3	-9.3	11.8	-10.7	8.6	6.2	-2.3

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

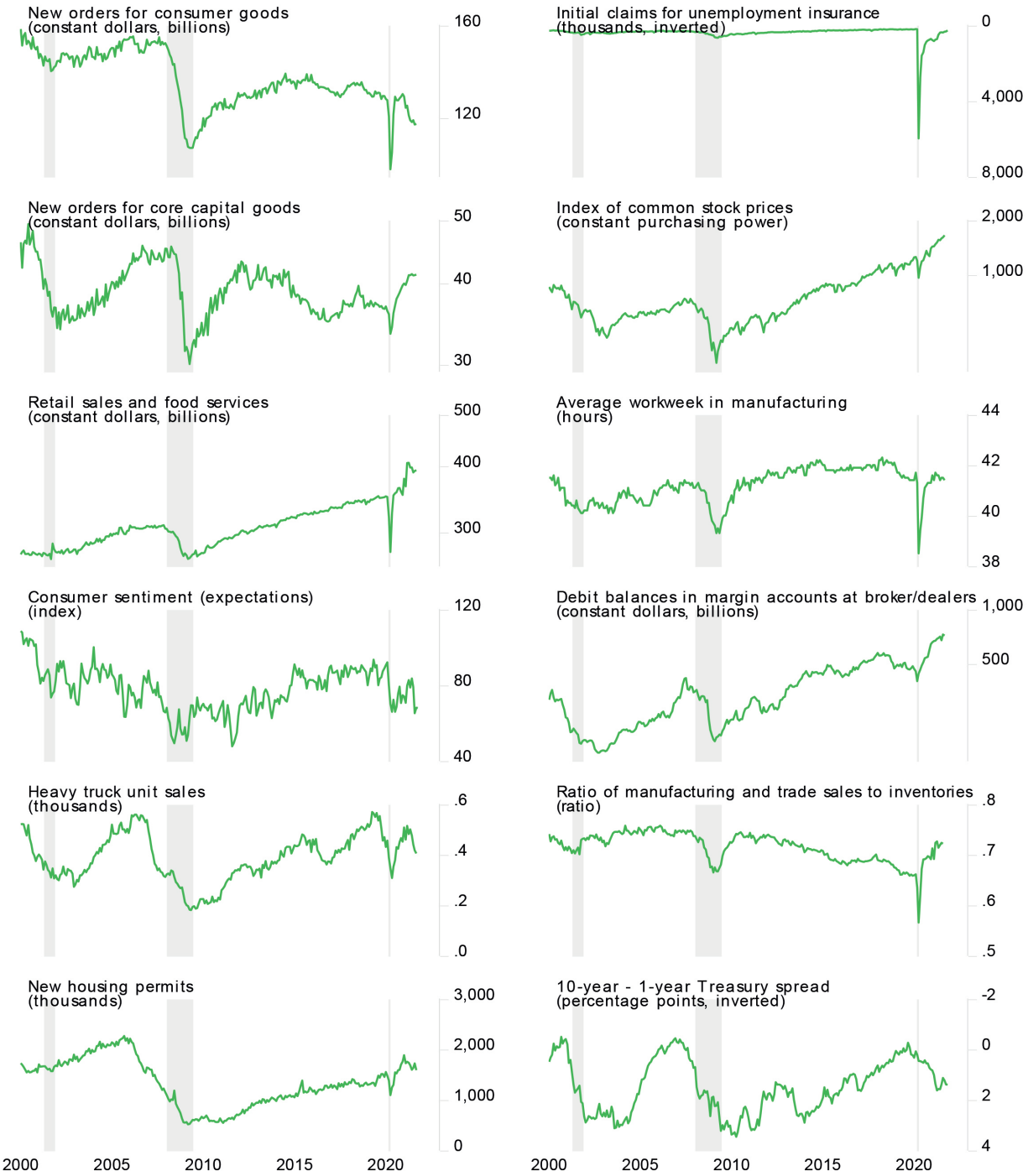
CONSUMER FINANCE RATES

(Percent)

		Latest	Latest	Average for Year			Average over Period		
	October	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	3.5	3.7	3.8
15-yr. fixed mortgage	2.2	2.2	2.3	2.6	3.4	4.0	2.9	3.1	3.1
5-yr. adjustable mortgage	2.5	2.5	2.7	3.1	3.6	3.8	3.2	3.3	3.1
48-month new car loan	5.1	5.1	5.2	5.1	5.4	5.0	5.2	5.0	4.7

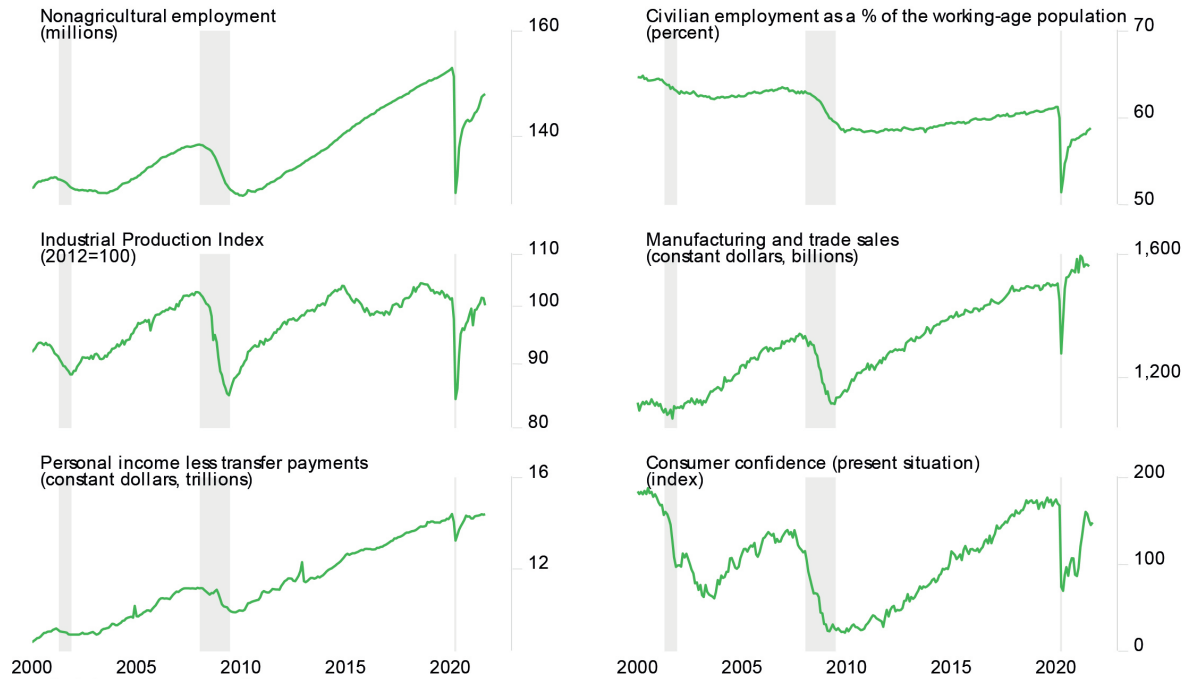
Sources: Bankrate, Federal Reserve.

LEADING INDICATORS (2000-2021)



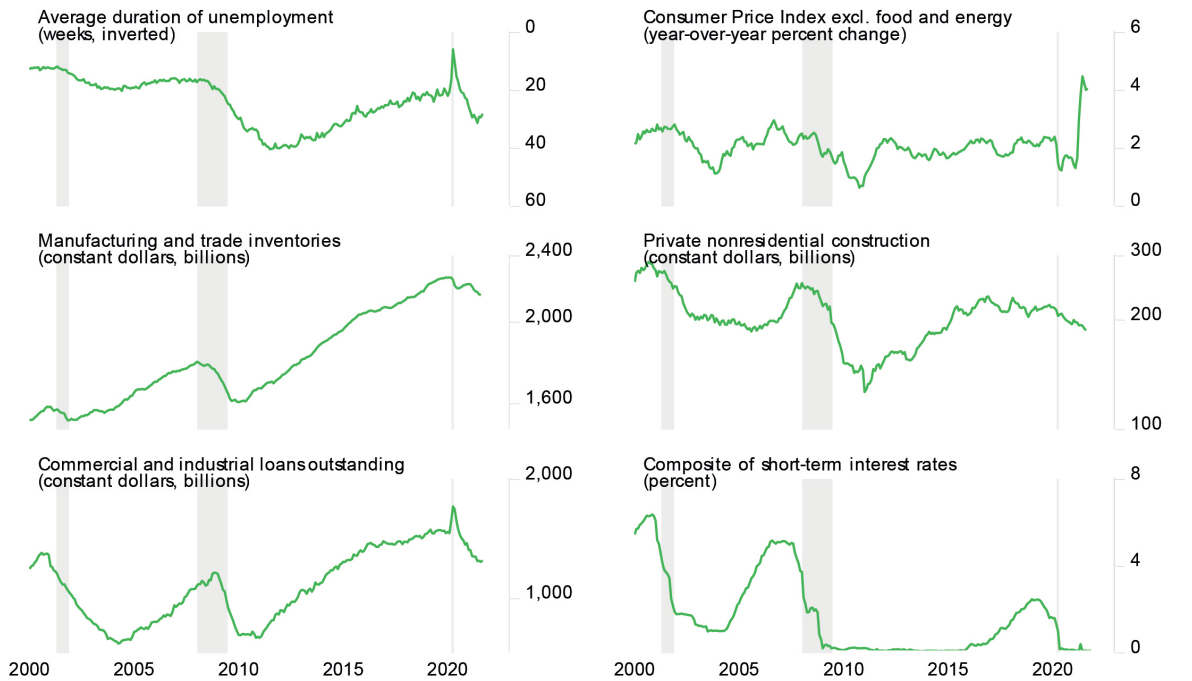
Note: Shaded areas denote recessions.
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, The conference Board, Census Bureau, Department of Labor, Federal Reserve, Institute for Supply Management, Standard & Poor's, AIER (Refinitiv).

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).

The Great Barrington Declaration One Year On

PHILLIP W. MAGNESS (Senior Research Faculty) & JAMES R. HARRIGAN (Senior Editor)

From October 2-4, 2020, the American Institute for Economic Research hosted a small conference for scientists to discuss the harms of the Covid-19 lockdowns, and maybe hint at a path back to normal life. Organized by Martin Kulldorff, Sunetra Gupta, and Jay Bhattacharya, the conference made a scientific case for shifting away from the heavy-handed lockdowns of the initial Spring 2020 outbreak. On their final day together in Great Barrington, the scientists wrote a short statement of principles, calling it the Great Barrington Declaration. This Declaration, their Declaration, touched a nerve well beyond the scientific community, and well beyond anything they or AIER could have expected. So here we are, a year later. Where do we stand?

The aim that our guests had in offering the Great Barrington Declaration was to spark scientific dialogue that had been missing from the lockdown discussions until that point. It was AIER's goal to facilitate this dialogue. The Declaration was a success in bringing, for the first time since the pandemic started, an anti-lockdown voice to mainstream policy discussion. The signatories' stance was generally in line with the pre-pandemic plans that many, if not most mainstream authorities, (the World Health Organization, the epidemiology center at Johns Hopkins University, and the Centers for Disease Control to name just three) held. People tend to forget what the pre-2020 conventional wisdom on pandemics even was.

As successful as we think the Great Barrington Declaration was, it failed in a number of respects as well. We did not, for example, anticipate the vilification the Declaration would receive from any number of people, ranging from the progressive left to self-described libertarians.

Immediately after the website launched, it was hit by a hoax signature campaign instigated on Twitter by pro-lockdown journalist Nafeez Ahmed. Most of the fake signatures were caught within hours and removed, but not before a hostile news media used them to manufacture a false story about their own self-created controversy over signatures from "Dr. Johnny Bananas" and similar easily-caught pseudonyms.

Not to be outdone by his first stunt, Ahmed also let loose what can only be called a flurry of increasingly unhinged conspiracy theories, falsely alleging that the GBD was somehow financially orchestrated by the Koch brothers, the British Ministry of Defence, and even a resort hotel property in Wales. Although Ahmed has a long history of conspiracy theorizing including the promotion of kooky claims about a controlled demolition bringing down the Twin Towers on 9/11, his ravings about the GBD were credulously adopted and shared by prominent scientists, journalists, and any number of other people who should have known better. (For the record, AIER received $68,000 in Koch funding over the last ten years. And that sum was used entirely to offset the costs of a single economics conference in 2017, with no links whatsoever to the GBD). It's much easier to demonize an opponent by accusing them of being on the payroll of "dark money" than it is to engage their arguments on a substantive and scientific evidentiary basis.

The Declaration even came under attack from a targeted propaganda campaign at the highest levels of the British government. Jeremy Farrar, the director of the Wellcome Trust and a pro-lockdown

advisor to the UK's SAGE committee, revealed as much in a recent book about the pandemic. Per Farrar's account, Dominic Cummings – then serving as chief advisor to UK Prime Minister Boris Johnson – announced that he would orchestrate "an aggressive press campaign against those behind the Great Barrington Declaration and to others opposed to blanket Covid-19 restrictions," seeking to discredit any scientist who questioned the wisdom of his government's lockdown strategy.

In a broader and more basic sense, the Declaration was written during a period of deep uncertainty. No one really knew what the correct Covid answers were, but the signatories followed the evidence as it emerged. Most importantly, no one had any way of knowing that vaccines were so close to being available to the public. And while the specific strategies of last fall and winter might well have been different had the signatories known what we know now, everything they wrote was compatible with the anti-lockdown message at the heart of the Declaration.

So how well did the lockdowns perform in practice? Given the intense criticisms leveled at the GBD, one might be inclined to think they worked rather well.

But they didn't. Not by a long shot.

First consider how the lockdowners have continuously shifted their accounts of the very same policies they advocated. In the weeks that followed the GBD, its critics crafted a well-honed and widely repeated message. Lockdowns, they insisted, were already a relic of the past – perhaps a suitable strategy for the uncertainties of spring 2020's "first wave," but no longer a serious consideration given what we came to know about the virus. When the GBD questioned the efficacy of lockdowns, they insisted, it was arguing against a "strawman."

"The kind of lockdown that the Great Barrington Declaration seems to be railing against hasn't been in place in the UK since mid-June," read one retort in *UK Wired Magazine* only two days after the GBD website went live. "When the Great Barrington Declaration authors declare their opposition to lockdowns, they are quite literally arguing with the past." Economist Tyler Cowen echoed the charge in a *Bloomberg* column devoted to attacking the GBD on October 15, 2020: "The critics who emphasize lockdowns are setting up a straw man," he wrote. "What they're trying to do is talk us into something more dangerous than what we ought to accept. The truth is that lockdowns are extremely unpopular, and while they may have to be reimposed in extreme circumstances, they are not the main alternative on the table in the U.S. right now."

After a year and a half or so of lockdowns, we can safely dismiss this response. Less than a month later, the UK returned to full lockdown. Dozens of other countries around the world followed suit in mid-November. When cases spiked again in the United States over the winter, several states reimposed these very same "strawman" lockdown policies that the GBD's critics dismissed with a wave of their hands in mid-October.

Not that any of them would ever admit as much now. Quite the contrary, by early 2021 many of the same scientific commentators and epidemiologists who deployed the "strawman" line against the GBD the previous October had taken to revising the history of their own arguments and claims. One new conspiracy theory even faulted the GBD's authors for allegedly delaying the reimposition of another UK lockdown by a few weeks the previous fall. In October 2020, British epidemiologist Deepti Gurdasani dismissed the GBD's warnings about renewed lockdowns as "a strawman that the science is not only not advocating for, but very keen to avoid." By January 2021 she not only claimed to have supported a "circuit breaker" lockdown as early as the previous September – she also blamed the GBD authors for impeding its adoption.

Yes, you read that right. Lockdowns were just a "strawman" that nobody was seriously pushing for at the time the GBD was signed, but the GBD was also somehow responsible for delaying the reimposition of the very same lockdowns that nobody – allegedly – wanted. Clearly, certain scientists were being less-than-forthright about their intentions to lock down again in the fall of 2020. But rather than admit these errors, they turned to scapegoating the one document that correctly diagnosed their intentions.

More pro-lockdown epidemiologists seemed inclined to grasp the central theme of the badly misnamed John Snow Memorandum in the *Lancet* – drafted in direct response to the GBD. This petition, co-organized by Gurdasani and other pro-lockdown scientists, predictably claimed that drastic nonpharmaceutical measures such as business closures and shelter-in-place orders had a large effect on reducing Covid transmission in the spring and summer of 2020. Recent data indicate that this statement is overblown, and common sense should have researchers looking for the tradeoffs that have to be made in these sorts of large-scale public policies. Be that as it may, the Snow Memorandum was built upon unreliable pro-lockdown studies out of Imperial College-London that have since been discredited.

Another major claim of the Snow Memorandum – that naturally acquired immunity was not robust and Covid-19 reinfections among recovered patients could become widespread – turned out to be incorrect. The best evidence we now have suggests that naturally acquired immunity is very robust. To date, neither the Snow Memorandum authors nor the Lancet have issued an appropriate correction to their erroneous claim.

Most importantly, the main epidemiology model driving the world's Covid-19 response performed disastrously at predicting the actual course of the disease. In March 2020, Neil Ferguson's epidemiology team at Imperial College-London published mortality projections for 189 different countries, based on an array of model scenarios. They missed every single projection at the 1-year mark in 189 out of 189 countries, in both their "do nothing" and "mitigation" scenarios, as well as in 170 out of 189 countries in their most extreme "suppression" scenario – a policy response that no country on earth adopted.

Table I
Imperial College Covid-19 Mortality Projection Model – One-Year Performance Record (3/26/2020 – 3/26/2021)

ICL Model	Model Assumptions	# Countries Over-est.	# Countries Under-est.	Max Mortality Over-est. %	Min Mortality Over-est. %	Median Over-est. %
Unmitigated spread	No policy interventions taken	189	0	1,798,180%	137%	1,983%
Mitigation	Mandatory population-wide social distancing, assumed R0 = 2.4	189	0	937,020%	21%	1,041%
Suppression	75% reduction in contacts until full vaccination, assumed R0 = 3	170	19	360,610%	-57%	535%

That Ferguson's model could be so completely wrong, and yet remain so influential is itself astonishing. But when we learned that Neil Ferguson himself was found to be violating the lockdown order that he had a decisive hand in creating, everyone should have realized that something fishy was afoot.

The last vestige of the lockdown policy, Zero Covid, has been an unmitigated disaster. Indeed, New Zealand and Australia tried and failed to stop the virus with extremely aggressive lockdowns in August/September 2021, and are now set to abandon the ham-fisted policies altogether. And while these terrible policies might well be relegated to the ash heap of history, the memory of menacing, black-clad stormtroopers marching through the streets of Melbourne, asking people why they were out of doors, will remain.

So through it all, what have we learned and what should come next? First, vaccines have been a game changer, and will continue to be so. A forthcoming

Covid-19 treatment pill from Merck might well be even bigger. And there are certainly other treatments coming that we don't know about yet, that will only emerge through the innovative processes of scientific discovery.

Also unknown at present are the costs of the lockdowns. These will be felt for years, if not decades, and will go well beyond lost wages. What will all those foregone cancer screenings mean, in the end? What about all those people who suffered mental health crises as they were confined to their homes alone? What about substance abuse costs? And what of the various financial catastrophes that so many people suffered?

The benefits of the lockdowns are still ambiguous at best, this after a year and a half. We still have no clear empirical evidence that they delivered anything close to what they promised. But because science has been so completely politicized, it will take years longer to arrive at the truth than would have otherwise been the case. Here, we are left to offer advice with a nearly 2,500-year track record: First, do no harm.

– October 5, 2021

An Armor Conspired: the Global Shipping Freeze

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Despite numerous personal shortcomings, Jim Morrison of *The Doors* regularly evinced considerable writing talents. In the poem-song *Horse Latitudes*, he describes the conditions under which stalled galleons would, drifting listlessly at certain latitudes, jettison cargo so as to make their craft more susceptible to the slightest winds. The lyrics begin as follows:

> *When the still sea conspires an armor*
> *And her sullen and aborted currents*
> *Breed tiny monsters*
> *True sailing is dead*

Cargo vessels no longer raise sails or require wind to fill them, but doldrum-like conditions are rapidly manifesting near ports all over the world. Last week,

> [s]ixty-one vessels were anchored offshore on Thursday [September 23rd] waiting to unload cargo as the Port of Los Angeles and the Port of Long Beach…In addition to the anchored ships, 29 were adrift up to 20 miles offshore, meaning they were so far from the coast that their anchors could not reach the ocean floor.

And in the east on Sunday, September 26th,

> [The] Port of New York and New Jersey appears to be facing similar issues as West coast ports…Around 24 cargo ships and oil tankers [were] stuck waiting to dock off the coast of Long Island, New York…As of 9pm local time Saturday, the ships appeared to have been stuck in place for hours.

Explanations for the increasing delays include slow loading/unloading times, rising costs of shipping, and capital shortages. All of those explanations are correct but incomplete and insufficiently descriptive. To uncover the root causes and trace their evolution, we must go back to the very beginning.

Nominal Rigidities

First, the foundations. While bottlenecks are occurring everywhere, at present US ports are disproportionately affected. Docking locations along US coasts are among the slowest in the world: not because of size or technological capacity but collective bargaining hindrances. As Dominic Pino recently wrote,

> Why are our ports so far behind? Not because we don't spend enough on infrastructure, as the Biden administration would have you believe. The federal government could spend a quadrillion dollars on ports, and it wouldn't change the contracts with the longshoreman unions that prevent ports from operating 24/7 (as they do in Asia) and send labor costs through the roof. (Lincicome finds that union dockworkers on the West Coast make an average of $171,000 a year plus free healthcare.) The unions also fight automation at American ports today, "just as they fought containerized shipping and computers decades before that."

Before the public hysterics, lockdowns, and stay-at-home orders, and even before the first offloading was delayed, nominal rigidities had ossified US port operations and made them particularly vulnerable to even the slightest kinks in supply chains.

Where It Began

As is well documented by now, the effects of nonpharmaceutical interventions sent measures of economic activity plummeting throughout the second quarter of 2020. Unemployment skyrocketed to levels not seen since the Great Depression. The US government countered with stimulus payments via the CARES Act (March 2020), the Consolidated Appropriations Act (December 2020), and the American Rescue Plan (March 2021). Although state governors adopted independent pandemic postures, the spectrum of stringency ran a gambit from less to more binding as exemplified by Florida and North Dakota versus Hawaii and California.

The sudden strangulation of in-person commercial activity, coupled with weeks to months of veritable isolation at home, with trillions of dollars being mailed out led to a consumption binge. This was both well documented and empirically verifiable. Where in normal circumstances modern US consumers tend to purchase services more than goods, the circumstances arising of isolation at home for prolonged periods led to a decisive shift toward purchasing goods: electronics, furniture, exercise equipment, home improvement items, and so on.

US GDP (quarterly, chained 2012 dollars, 2019 – present)

(Source: Bloomberg Finance, LP)

It is in the sudden, stimulus-fueled rise in demand falling upon decreasing supply where, in summer and fall of 2020, strains began to wend their way through shipping processes.

Intermodal Transport

Intermodal transport has its roots in the growth of trade in the 19th century, but like so much of what makes the modern world "tick," it goes mostly unobserved and almost entirely unappreciated. The standardization of shipping containers in such a way that they can move from trucks to ships to aircraft, barges, and trains with a minimum of effort is a feat of technology and international coordination.

US Personal Consumption Expenditures, Chain Type Price Index (2016 – present)

(Source: Bloomberg Finance, LP)

Throughout the fall of 2020 and winter of 2021, the US economy was expanding out of the artificial recession imposed in the spring and early summer of 2020. (It bears noting that even in the latter part of 2020 certain US states were still restricting movement, limiting gatherings, and fining employers.) This expansion of activity resulted in the first episodes witnessing a shortage of shipping containers in February 2021.

The *Ever Given* and the Suez

On Tuesday, March 23, 2021, the *Ever Given*–a 1,300 foot, 200,000 tonne container ship carrying over 18,000 containers–became lodged in the Suez Canal. (The canal has closed a handful of times.)

The blockage is believed to have occurred when the combination of an uncommonly strong gust of wind and preoccupied guidance led to the fore of the ship running aground, wedging it across the canal at an angle.

In this one development, some 12% of global trade was held up for 6 days: just under $10B dollars worth of goods and over one million barrels of oil. When the ship was finally freed, shipping journal *Lloyd's List* estimated that some 450 ships were waiting to traverse the canal.

The damage associated with the accident includes the numerous and uncountable cost of delays, the estimated reduction of annual global trade growth (0.2 to 0.4 percentage points), and the leap in the cost of chartering vessels to go around the Horn of Africa (47%). But also, the role that the Suez blockage played in making each of the subsequent transportation snags all the more severe.

Shipping Containers Dwindle

At this point, the combination of rising demand and slowing sea traffic began revealing itself in a paucity of available shipping containers.

Intermodal transport, which contemplates the use of standardized containers that readily transfer between air, sea, rail, and highway conveyance, is perhaps the most underappreciated factor in the globalized economy. Standard dimensions permit planning and maximizing capacity in advance, giving logisticians the ability to capitalize upon changes in the course of shipment. The ability to move a container from train to aircraft to ship results in efficient lading, which has contributed to lower costs and faster delivery times.

The global shipping container inventory tends toward a rough equilibrium state which takes into account surges in demand; the containers tend to last about 12 years, and are produced at a rate generally matching their retirement of some 6 to 8% per year. The greatest and most predictable surge of use occurs between September and December as retailers stock inventories in anticipation of the Thanksgiving to New Year's surge in consumption.

But by the early spring of 2021, with containers filling rapidly in response to Covid-related demand (both lockdowns and reopenings) and additional stimulus payments, available containers and container space became scarcer. Dwindling supply, predictably, was signaled by worldwide container prices. There are markets for newly built shipping containers as well as exchanges where used containers can be acquired. Between early and late 2020, new shipping container prices rose from roughly $1,800 to $2,500 CEU; but roughly one month after the week-long Suez blockage the first of several spikes was witnessed.

> The price for a new container is now $3,500 per cost equivalent unit (CEU, a measure of the value of a container as a multiple of a 20-foot dry cargo unit)…[while] recent price gains have been more extreme in the used container market. Container xChange reported that the price of used containers in China has nearly doubled from $1,299 per CEU in November [2020] to $2,521 in March [2021].

As to why production of new containers didn't ramp up to meet surging demand, there are several perspectives. If the elevated demand was expected to be temporary, it's possible that container firms didn't see the point in increasing output. Another view holds that a rare opportunity to earn outsized profits in a normally staid business was capitalized upon by the producing firms.

Baltic Dry Index (2015 – present)

(Source: Bloomberg Finance, LP)

Yantian Closes

In late May 2021 Yantian, a Chinese port about 50 miles north of Hong Kong shut owing to a number of Covid infections among dockworkers. Authorities halted operations for almost a week, which at a daily operating capacity of 30,000 20-foot containers per day, created a tremendous backlog. The ripple effect saw not only a pileup of unsent goods at that port, but the rerouting of Yantian-bound container ships to other ports straining capacity, creating further delays, and tying up more containers. By Thursday, June 17th,

> [t]he congestion in Yantian ha[d] spilled over to other container ports in Guangdong, including Shekou, Chiwan, and Nansha…The domino effect is creating a huge problem for the world's shipping industry…As of Thursday, more than 50 container vessels were waiting to dock in Guangdong's Outer Pearl River Delta…[But] the snag in operations in Yantian alone is concerning [delaying] more than the total volume of freight impacted by the six-day closure of the Suez Canal in March.

The price associated with shipping goods spiked, with the cost of sending 40-foot containers from Shanghai to Rotterdam increasing over 500% to $11,000 or more. The breach of the $10,000 rate marked a turning point; and it was at this point that, en masse, major shipping companies began alerting their clients of substantial delays, rising costs associated with routing changes, and higher prices associated with acquiring containers. Firms dependent upon ocean shipping began to do something they had been unaccustomed to: considering, and in some cases seizing upon, the newly-developed cost savings associated with air and rail transport.

Containers and Ships Vanish

As container availability dissipated and warehouses near ports overflowed, some shipping firms chose to use the scant containers in their possession as makeshift storage space on docks and truck/rail terminals. And by June 2021,

> Indian exporters to North America and Europe [were] complaining that the wait times to find a shipping container [could] stretch as long as three weeks. British exporters say the shortage [had] delayed shipments to east Asia for up to two months. And in the meantime, container prices…nearly doubled.

On June 14th, Home Depot supply chain managers

> realized that it was time to charter its own vessel. "We have a ship that's solely going to be ours and it's just going to go back and forth…100% dedicated to Home Depot," Chief Operating Officer Ted Decker said… The company [had] been reduced to bringing in items by air…as domestic demand surge[d].

Brokerage prices for short- and long-term charters began to surge. Whether awakened to this possibility by the Atlanta-based retailer or having arrived at the same conclusion independently, over the following weeks Walmart, Ikea, and scores of other large firms entered the private charter market.

Pallets Join Containers

All this was soon accompanied with a new problem deriving from yet another pandemic policy side effect: a pallet deficiency. The price of lumber had, owing to the effect of stay-at-home orders on sawmills and home improvement projects owing to lockdowns, surged roughly five-fold between January 2020 and May 2021. (By one account, an estimated 46% of US hardwood lumber production goes toward pallets.)

Front-month lumber futures price (Jan 2020 – May 2021)

(Source: Bloomberg Finance, LP)

In fact, the international shipment of certain types of goods requires being seated upon pallets within shipping containers. Unbeknownst to materially all the world not familiar with the nuance of international trade, pallets are, just like the shipping containers they are regularly coupled with, nothing short of an integral cog:

Companies…have literally designed products around pallets…There is a whole science of "pallet cube optimization," a kind of Tetris for packaging; and an associated engineering filled with analyses of "pallet overhang" (stacking cartons so they hang over the edge of the pallet, resulting in losses of carton strength) and efforts to reduce "pallet gaps" (too much spacing between deck boards). The "pallet loading problem,"–or the question of how to fit the most boxes onto a single pallet–is a common operations research thought exercise.

And as reported on ShipLilly, a shipping and logistics blog on June 9th, 2021,

> The cost of raw lumber has doubled and sometimes nearly quadrupled. Lumber price increments have exponential impacts on the cost of manufacturing wood pallets. Manufacturers are passing on these costs by way of increased asking prices…If pallets are available, a buyer can expect to pay 400% more.

Hastily-improvised workarounds swing into action, including repairing old pallets, building new pallets from discarded lumber, new loading schemes, and employing alternative means of elevating cargo, including plastic or concrete. This incidentally, put the shipping industry in direct competition with agricultural interests, as transporting produce is also dependent upon pallet availability and prices.

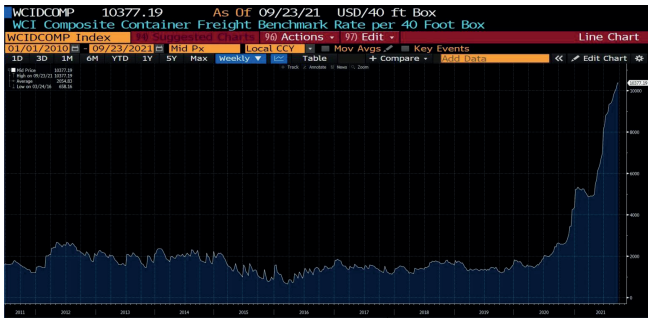
Ningbo Closes

It is yet too early to call what occurred in mid-August 2021 the capstone event, but for now that appellation suffices.

With the detection of a single Covid infection among workers–a worker reported to be 34-years-old, fully vaccinated, and asymptomatic–a large portion of China's massive Ningbo-Zhoushan Port closed for nearly two weeks. The impact of the partial shutdown of the third largest port in the world not only derailed the slow recovery from the Yantian cessation, but

> stretched across the Pacific Ocean to Long Beach port in Los Angeles, where more than 30 ships were waiting to get into port to offload… elsewhere in Southeast Asia, anchored ships off Vietnam's largest two ports rose to six above the median.

WCI Composite Container Freight Benchmark Rate (per 40-foot, 2010 – present)



(Source: Bloomberg Finance, LP)

Necessity being not only mother but father, sibling, master, and servant to invention, creative solutions poured forth from the private sector. Large and small firms began chartering smaller ships to fit into smaller, less congested ports. And many corporate logistical programs, including that of Peloton, began dividing shipments into optimized shipping categories among train, truck, air, and sea routes. And on the demand side, retailers began stock-piling: withholding goods from store shelves and online listings in anticipation of the coming holiday season. (Amazon's decision to purchase 11 Boeing 767s earlier this year looks sagacious in retrospect.)

Early in the pandemic, it was noted that the impact of lockdowns would be proportionately more devastating for smaller firms. And as such, that consolidation and concentration–the frequent target of the very same left political thought that drove nonpharmaceutical interventions–were likely outcomes. And that is indeed the case arising of these secondary and tertiary effects.

> [S]upply chain snags are likely to add dominance to big-box retailers while cutting out smaller companies that don't have the extra funds to charter their own vessels or ship via cargo planes. "Whenever we have a constrained supply like this it's always the big dogs that win," Douglas Kent, executive vice president of strategy and alliances at the Association of Supply Chain Management [said]. "The smaller firms just don't have the capital to keep up. They're already in survival mode. They're going to have to pass on these costs to customers and risk losing out to big-box retailers that can absorb these costs themselves. As a result we will likely see the shuttering of more companies due to these ongoing issues."

Predictably, container carriers are seeing a windfall. The same 40-foot container which cost, at most, $2,000 to ship goods from Asia to the US will now cost $25,000 if the exporting firm has guaranteed (or the importing firm paid for) on-time delivery. In 2020, the shipping industry earned an estimated $15 billion in profit; this year, the number is likely to top $100 billion.

Ongoing Port Congestion

Throughout September 2021 ports all over the United States have been experiencing record ship delays. By September 11th, the logjam at the Los Angeles ports exceeded 50 ships carrying as much cargo as was previously seen in a month. After peaking at 73 ships on Sunday, September 19th, half a week later there were still 62 ships waiting to dock and offload. That's up from an average of zero to one (on a particularly busy day), pre-Covid. And among them were craft and crew that had been waiting for as long as three weeks.

Drewry Hong Kong to Los Angeles Container Rate (40-foot, 2015 – present)

(Source: Bloomberg Finance, LP)

Yet even addressing the rigidities and stickiness discussed in an earlier section–maximum daily/weekly work hours and wages set by long-standing collective bargaining agreements–is mostly unhelpful, owing to the vast number of moving parts in the international supply chain.

> [L]onger hours do little to address the backlog when truckers and warehouse operators have not similarly extended their hours. It's not optimal for truckers to pick up their loads at night, especially when they'd have to find alternative places to store the goods [as] warehouses are not open at night.

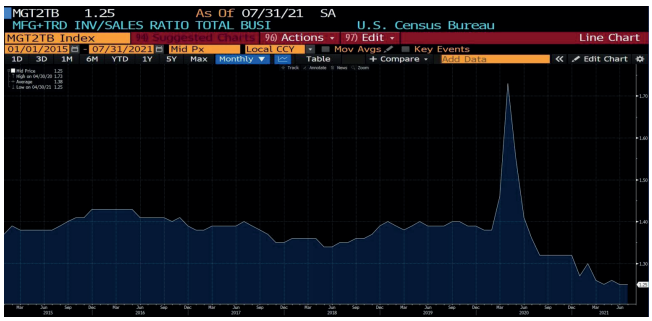
Additionally, broader labor shortages arising from the payment of Federal unemployment bonuses have been impacting every link in the international logistical chain. "Many companies," Business Insider reported, "have fewer workers [now] than before the pandemic started but face significantly more work due to the boom in demand for goods."

The Armor Yet Conspires

As of last week the spot rate for container rates was up 731% over the average of the past five years. As shipping cancellations have risen amid rapid changes in logistical plans, some ocean shipping firms are now requiring full payment up front, adding yet another level of difficulty to an increasingly intractable state of affairs. Amid this, retailers are attempting to stock up for the end-of-year holidays. Predictions regarding a return to normalcy range from 2022 to as late as 2023. Companies including Nike have already warned that certain products are likely to be unavailable before the holiday season.

The effect of blow after blow to global trade on the availability of goods is most visible in the following graph.

Manufacturing and Trade Inventory/Sales Ratio (2015 – present)



(Source: Bloomberg Finance, LP)

Three observations may be made: first, that for some years, the ratio of business inventories to sales in manufacturing, retail, and wholesale trade has been fairly steady. Second: when Covid initially struck, the ensuing policies resulted in the ratio of business inventories to sales rocketing to all-time highs. (Which is to say: goods piled high as consumption plummeted.) And finally, consumption soon soared as people at home began spending, fueled by boredom and stimulus payments. Businesses have reopened and many have kept up with demand, but the ongoing problems of shipping described heretofore have led the inventory-to-sales ratio dropping to all-time lows.

This week it was reported that the fourth largest port in the US, in Savannah, GA, 20 ships are now

delayed. "Dwell times" – the time elapsing between containers arriving at the port and departing by truck or train – have increased from four to as long as twelve days. Globally, a host of other quandaries potentially lie ahead. Typhoons, a shortage of truck drivers in Europe, government responses to new outbreaks of Delta and subsequent Covid variants all threaten to worsen the shipping crisis from where it currently stands.

CTS Average Global Container Price Index (Jan 2016 – July 2021)

(Source: Bloomberg Finance, LP)

There is an unavoidable price for the ceaseless avalanche of goods and services falling around us: it is exposure to an arrant, inherent level of complexity. Only the coordination of a superabundant array of prices, timing, capacity, and information keeps the globally-integrated supply chain functioning. A single, small misstep or error increases the likelihood of subsequent problems at every juncture in the process. The "two weeks to flatten the curve" decision along with other shortsighted, unnecessary (and, as it turns out, ineffective) policy options has generated countless knock-on effects. Those now include shortages of shipping containers, long and increasing port delays, a growing scarcity of essential supply chain components, insufficient labor, higher prices, and a mounting undersupply of final goods. While it may prove hyperbolic, for the first time this week the description of a "global transport system collapse" was employed.

Science and engineering have brought about an era in which doldrums no longer vex modern day mariners. Owing to innovation and entrepreneurship, there are no longer horse latitudes where payloads are dumped overboard by desperate crews. Yet those conditions have reemerged, borne not of nature but of power, mindlessly exercised. The idea that an economy could be indiscriminately shut down and turned back on without far-reaching consequences, as if a light switch or lawn mower, is utterly damnable. It could only come from the mind of an individual, or body of individuals, with no understanding of or consideration for the extraordinary interdependence of the productive sector.

– October 2, 2021

The FDA's War Against the Truth on Ivermectin

DAVID R. HENDERSON (Senior Fellow) & CHARLES L. HOOPER (Contributor)

On July 28, the *Wall Street Journal* ran our article "Why Is the FDA Attacking a Safe, Effective Drug?" In it, we outlined the potential value of the antiparasitic drug ivermectin for Covid-19, and we questioned the FDA's vigorous attack on ivermectin. Many people praised us and many criticized us. We had clearly covered a sensitive subject. It didn't help that one of the studies we referenced was retracted shortly before we submitted our article. Within hours of learning that fact, we sent a mea culpa to the *Journal's* editors. They acted quickly, adding a note at the end of the electronic version and publishing our letter. It's important to address two criticisms of our work. The first is that we exaggerated the FDA's warning on ivermectin. The second is that Merck's stance on ivermectin proved that even the company that developed ivermectin thought that it doesn't work for Covid-19.

First, we didn't exaggerate the FDA's warning on ivermectin. Instead, the agency changed its website after our article was published, probably to reflect the points we made. Second, Merck had two incentives to downplay ivermectin's usefulness against the novel coronavirus. We'll explain both points more fully.

Ivermectin was developed and marketed by Merck & Co. while one of us (Hooper) worked there years ago. Dr. William C. Campbell and Professor Satoshi Omura were awarded the 2015 Nobel Prize for Physiology or Medicine. They earned it for discovering and developing avermectin. Later Campbell and some associates modified avermectin to create ivermectin. Merck & Co. has donated four billion doses of ivermectin to prevent river blindness and other diseases in areas of the world, such as Africa, where parasites are common. The ten doctors who are in the Front Line Covid-19 Critical Care Alliance call ivermectin "one of the safest, low-cost, and widely available drugs in the history of medicine." Ivermectin is on the WHO's List of Essential Medicines and ivermectin has been used safely in pregnant women, children, and infants.

Ivermectin is an antiparasitic, but it has shown, in cell cultures in laboratories, the ability to destroy 21 viruses, including SARS-CoV-2, the cause of Covid-19. Further, ivermectin has demonstrated its potential in clinical trials for the treatment of Covid-19 and in large-scale population studies for the prevention of Covid-19.

Contradicting these positive results, the FDA issued a special statement warning that "you should not use ivermectin to treat or prevent Covid-19." The FDA's warning, which included language such as, "serious harm," "hospitalized," "dangerous," "very dangerous," "seizures," "coma and even death," and "highly toxic," might suggest that the FDA was warning against pills laced with poison. In fact, the FDA had already approved the drug years ago as a safe and effective anti-parasitic. Why would it suddenly become dangerous if used to treat Covid-19? Further, the FDA claimed, with no scientific basis, that ivermectin is not an antiviral, notwithstanding its proven antiviral activity.

Interestingly, at the bottom of the FDA's strong warning against ivermectin was this statement: "Meanwhile, effective ways to limit the spread of COVID-19 continue to be to wear your mask, stay at least 6 feet from others who don't live with you, wash hands frequently, and avoid crowds." Was this based on the kinds of double-blind studies that the FDA requires for drug approvals? No.

After some critics claimed that we overstated or overreacted to the FDA's special warning, we reviewed the FDA's website and found that it had been changed, and there was no mention of the changes nor any reason given. Overall, the warnings were watered down and clarified. We noticed the following changes:

- The false statement that "Ivermectin is not an anti-viral (a drug for treating viruses)" was removed.
- "Taking a drug for an unapproved use can be very dangerous. This is true of ivermectin, too" was changed to the less alarming "Ivermectin has not been shown to be safe or effective for these indications." (Indications is the official term used in the industry to denote new uses for a drug, such as new diseases or conditions, and/or new patient populations.)
- The statement, "If you have a prescription for ivermectin for an FDA-approved use, get it from a legitimate source and take it exactly as prescribed," was changed to, "If your health care provider writes you an ivermectin prescription, fill it through a legitimate source such as a pharmacy, and take it exactly as prescribed." This more clearly acknowledges that reasonable physicians may prescribe ivermectin for non-FDA-approved uses, such as Covid-19.
- The ending statement about masks, spacing, hand washing, and avoiding crowds was replaced with one that recommended getting vaccinated and following CDC guidelines.
- The reasonable statement "Talk to your health care provider about available COVID-19 vaccines and treatment options. Your provider can help determine the best option for you, based on your health history" was added at the end.

The new warning from the FDA is more correct and less alarming than the previous one.

In a statement from February, Merck, the company that originated and still sells ivermectin, agreed with the FDA that ivermectin should not be used for Covid-19. "We do not believe that the data available support the safety and efficacy of ivermectin beyond the doses and populations indicated in the regulatory agency-approved prescribing information."[2]

To some, this appeared to be a smoking gun. Merck wants to make money, they reason, and people are interested in using ivermectin for Covid-19, therefore, Merck would warn against such usage only if the scientific evidence were overwhelming. But that's not how the pharmaceutical industry works.

Here's how the FDA-regulated pharmaceutical industry really works.

The FDA judges all drugs as guilty until proven, to the FDA's satisfaction, both safe and efficacious. By what process does this happen? The FDA waits for a deep-pocketed sponsor to present a comprehensive package that justifies the approval of a new drug or a new use of an existing drug. For a drug like ivermectin, long since generic, a sponsor may never show up. The reason is not that the drug is ineffective; rather, the reason is that any expenditures used to secure approval for that new use will help other generic manufacturers that haven't invested a dime. Due to generic drug substitution rules at pharmacies, Merck could spend millions of dollars to get a Covid-19 indication for ivermectin and then effectively get zero return. What company would ever make that investment?

With no sponsor, there is no new FDA-approved indication and, therefore, no official recognition of ivermectin's value. Was the FDA's warning against ivermectin based on science? No. It was based on process. Like a typical bureaucrat, the FDA won't

recommend the use of ivermectin because, while it might help patients, such a recommendation would violate its processes. The FDA needs boxes checked off in the right order. If a sponsor never shows up and the boxes aren't checked off, the FDA's standard approach is to tell Americans to stay away from the drug because it might be dangerous or ineffective. Sometimes the FDA is too enthusiastic and these warnings are, frankly, alarming. Guilty until proven innocent.

There are two reasons that Merck would warn against ivermectin usage, essentially throwing its own drug under the bus.

Once they are marketed, doctors can prescribe drugs for uses not specifically approved by the FDA. Such usage is called off-label. Using ivermectin for Covid-19 is considered off-label because that use is not specifically listed on ivermectin's FDA-approved label.

While off-label prescribing is widespread and completely legal, it is illegal for a pharmaceutical company to *promote* that use. Doctors can use drugs for off-label uses and drug companies can supply them with product. But heaven forbid that companies encourage, support, or promote off-label prescribing. The fines for doing so are outrageous. During a particularly vigorous two-year period, the Justice Department collected over $6 billion from drug companies for off-label promotion cases. Merck's lawyers haven't forgotten that lesson.

Another reason for Merck to discount ivermectin's efficacy is a result of marketing strategy. Ivermectin is an old, cheap, off-patent drug. Merck will never make much money from ivermectin sales. Drug companies aren't looking to spruce up last year's winners; they want new winners with long patent lives. Not coincidentally, Merck recently released the clinical results for its new Covid-19 fighter, molnupiravir, which has shown a 50% reduction in the risk of hospitalization and death among high-risk, unvaccinated adults. Analysts are predicting multi-billion-dollar sales for molnupiravir.[3]

While we can all be happy that Merck has developed a new therapeutic that can keep us safe from the ravages of Covid-19, we should realize that the FDA's rules give companies an incentive to focus on newer drugs while ignoring older ones. Ivermectin may or may not be a miracle drug for Covid-19. The FDA doesn't want us to learn the truth.

The FDA spreads lies and alarms Americans while preventing drug companies from providing us with scientific explorations of existing, promising, generic drugs.

– October 18, 2021

Assessing Market Expectations of Inflation

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Economists continue to debate whether the high rates of inflation observed over the last few months are transitory or permanent. Year-on-year inflation was 4.3 percent in August. The average annual rate of inflation since January 2020 is around 2.85 percent. Should we expect inflation to return to the Fed's 2 percent average inflation target? Or, is inflation likely to remain high well into the future?

One way to estimate future inflation is to look at market expectations. Bond traders must consider inflation when deciding what they are willing to pay or accept. When they make a trade, they are putting their money where their mouth is. Since they don't want to lose on these transactions, they have a strong incentive to estimate inflation accurately. What do their trades imply about the expected rate of inflation?

Using the Fisher equation and interest rates on traditional Treasuries and Treasury inflation-protected securities (TIPS), it is relatively straightforward to calculate an implied expected rate of inflation. The Fisher equation says the $i = r + E(\pi)$, where i is the nominal interest rate, r is the real interest rate, and $E(\pi)$ is the expected rate of inflation. Rearranging, we get the formula $E(\pi) = i - r$.

Traditional Treasuries promise to pay a specified dollar amount at some point in the future. TIPS, in contrast, adjust the future payment based on the amount of inflation that has been realized. These assets have the same issuer, meaning there is no difference in issuer risk. And, so long as we restrict comparisons to a given maturity date, they have the same duration risk. There is a small difference in inflation risk. But, otherwise, these assets are identical.

Suppose we treat these bonds as equivalent. In that case, we can use the interest rate on traditional Treasuries as a measure of the nominal interest rate (i) and the interest rate on TIPS as a measure of the real interest rate (r). Hence, $E(\pi)$ = traditional Treasuries rate – TIPS rate. The Federal Reserve refers to this implied market expectation of inflation as the breakeven inflation rate. Others call it the TIPS spread.

The breakeven inflation rate, or TIPS spread, is presented below for the five, ten, and thirty-year horizons. At present, the TIPS spread suggests bond traders are currently pricing in an annual rate of inflation of 2.64 percent over the next five years; 2.50 percent over the next ten years; and 2.24 percent over the next thirty years.

Before concluding that the Fed is likely to overshoot its average inflation target, one should recognize two problems with the estimates presented above. First, we have treated traditional Treasuries and TIPS as equivalent bonds. But they are not equivalent. Someone holding traditional Treasures will gain or lose in the event that inflation turns out different than was expected when the asset was purchased. Someone holding TIPS will not gain or lose if inflation is lower or higher than expected, because the final payment is adjusted for inflation. Hence, traditional Treasuries are a little more risky.

Since the rate on traditional Treasuries reflects the additional risk of traditional Treasuries relative to

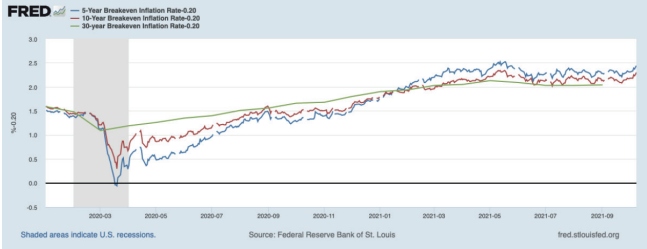
TIPS, the estimate of inflation implied by the TIPS spread is biased upward. The bias is probably very small, though. In the US, the risk that actual inflation will deviate significantly from what is expected is thought to be very low. Still, one should acknowledge that actual inflation expectations are a bit lower than estimated using this approach.

When it comes to assessing whether markets believe the Fed will hit its average inflation target, however, there is a much bigger problem with the TIPS spread. TIPS are adjusted for inflation using the Consumer Price Index (CPI). The Fed targets the Personal Consumption Expenditures Price Index (PCEPI). Since CPI inflation usually exceeds PCEPI inflation, the TIPS spread likely overstates expected PCEPI inflation.

If estimating PCEPI inflation is the goal, the TIPS spread should be adjusted downward. But how much? One relatively straightforward approach is to subtract the average difference between the CPI and PCEPI from the TIPS spread. More formally, E(πPCEPI) = traditional Treasuries rate – TIPS rate – (πCPI – πPCEPI).

From January 2010 to January 2020, CPI inflation (πCPI) averaged 1.78 percent. PCEPI inflation (πPCEPI) averaged 1.58 percent. The average difference (πCPI – πPCEPI) was 0.20 percentage points. Thus, our estimate of expected PCEPI inflation is E(πPCEPI) = traditional Treasuries rate – TIPS rate – 0.20.

Breakeven PCEPI inflation, as measured by the adjusted TIPS spread, is presented below for the five, ten, and thirty-year horizons. At present, breakeven PCEPI inflation is estimated at 2.44 percent over the next five years; 2.30 percent over the next ten years; and 2.04 percent over the next thirty years. This suggests that the Fed is likely to overshoot its average inflation target over the near term, but will gradually bring rates back down to target over the long term.



Let me be clear: this is a very crude adjustment to the TIPS spread. Reasonable people might disagree about the extent to which the TIPS spread should be adjusted downward to estimate future PCEPI inflation. The average difference between CPI and PCEPI inflation from January 2000 to January 2020, for example, was 0.32 percentage points. The economist David Beckworth describes a 0.30 percentage point adjustment as "modest." In another thread, he adjusts the TIPS spread by the difference between professional forecasts of CPI and PCEPI inflation.

More importantly, one should recognize that there is a range of reasonable views. My estimates are a bit higher than Beckworth's and, correspondingly, I am a bit more concerned about inflation than he is. But the difference in our estimates—and, as a consequence, our positions—is pretty small. We are both well within the range of reasonable.

Those denying *any* risk that inflation will remain above target or confidently predicting that 4 percent inflation will be the new normal, in contrast, are not within the range of reasonable. They are rightly ridiculed.

– October 13, 2021

Biden's $3.5 Trillion "Make Big Government Even Bigger" Plan

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President Joe Biden journeyed from the White House to the Capitol building on October 1, 2021. There he admonished and pressured Democratic Party Senators and Congressmen to come together and pass both his $1.2 trillion infrastructure bill and his $3.5 trillion Build Back Better Act, which might more accurately be called the Make Big Government Even Bigger bill. He left with no bill, yet, to sign.

When asked by a reporter about the possibility of the bill passing via a razor thin Democratic majority in both houses of Congress, a majority further divided over the size and content of the bill, Biden replied, "It doesn't matter whether it's six minutes, six days, or six weeks – we're going to get it done."

Reading these words in the printed press, the reader could easily get the impression that here was a calm, collected, and experienced politician taking things all in stride as he "reasons together" with his fellow party members. So what if it takes a few minutes, a few days, or a few weeks, as long as the bills are passed?

Biden's Power-Lusting Arrogant Irritation and Bullying

But if someone caught this brief exchange between the President and a reporter on the television news, things would have seemed much different. Biden, even with his Covid mask covering half his face, clearly was showing irritation, frustration, and even anger.

His nine months as President have shown that his, "Aw, shucks" persona is simply a sophisticated and experienced politician's façade, his public persona to win votes and hide his bullying nature.

When he signed the bill sent to him to prevent the danger of another government shutdown at the end of September, Biden said in a statement, "There is so much more to do . . . for the American people." What such soothing words hide is that for the government to do things "for you," it must have the power to do things "to you." And that is what Joe Biden is all about.

Trillions More for the Biden's Bigger Government Agenda

The $1.2 trillion infrastructure bill is not really about roads and bridges and highways, though even here the actual status of the physical ground transportation network in the United States is far from the disastrous state asserted by the bill's proponents. Instead, it is about government reshaping how we live, how we drive, and how we use energy sources to power production, and heat and cool our homes.

As for Biden's $3.5 trillion Make Big Government Even Bigger bill, it includes $1.8 trillion that would radically extend the welfare state and, therefore, dependency on the redistributive plunder machine in Washington, D.C. There is mandated paid leave for either parent following the birth of a child, or for care of a parent or other relative. Benefits include nearly ⅔ of income for the employee, reimbursement of up to 90 percent of employers' costs and increased financial subsidies for the elderly in the form of price caps on prescription drugs. There are even environmental regulations and financial subsidies to manipulate the energy and manufacturing sectors.

Also in the package is a proposed $726 billion for universal child care for children up to four years of age, tuition-free community college, increased subsidies for racial minority colleges, and increased Pell grants for higher education.

There is also $332 billion for government "investment" in public housing, and home subsidies and guarantees for "equity" in housing. There is $198 billion for government funding of clean energy sources, and $135 billion more to reduce carbon emissions. Add to this another $67 billion for the funding of low-income solar and related climate-friendly technologies.

There is $37 billion for electrifying federal vehicles, and for retrofitting government buildings for clean-fuel electrification, investment in green-materials procurement, and investment in "resilience" (climate adaptability). There is also $83 billion for government-funded research and investment in new climate-adapted technologies, manufacturing, and general economic development. This includes "healthy oceans" investment money for the National Oceans and Coastal Security Fund and the National Science Foundation.

To round this out, there is a planned $107 billion for a fund for lawful, permanent status qualified immigrants," up to $25 billion to fund access to credit, investment, and markets for small businesses, another $20.5 billion for Indian affairs, to assure native Americans more health care programs and facilities, education programs, housing programs, energy programs, and the Native American Climate Corps. Finally, there is $18 billion for veterans' affairs facilities.

Democrat's Self-Image and Survival Requires Big Spending

Given the infighting among Congressional Democrats, with radicals, who want all of this and more on the road to their vision of a progressive socialist America, and moderates, who also want a welfare-state America but worry about the price tag, it remains to be seen how much of the $3.5 trillion price tag actually makes it into the final bill.

But worse for them than facing voters in 2022 will be the dilemma within the party if Democrats fail to pass anything of fiscal substance. What do they run on in 2022?

With all These Trillions Comes Increased Political Control

Rattling off the billions and trillions of dollars Biden and his Congressional supporters want to spend over the next several years with these expanded and new programs fails to highlight some of the most serious consequences that will emerge. It is not merely the dollars spent – though huge by even current government spending standards – or the trillions of "costless" taxes that funding these expenditures will require, which will distort and slow down market-based investment and production possibilities in the future. (See my article, "Biden's Demagoguery that Government Spending is Costless".) It is the extension and intrusion of even more government into the consumption, business, and investment decisions of just about everyone.

Under the fear campaign surrounding global warming, the default position of the government and many in the news and social media arena is that the planet is under imminent threat of irreparable destruction due to human behavior. Only those in political power are able to muster all the resources in order to save the world.

Thus, whether it is subsidized solar power panels, retrofitted government and private sector buildings, penalties on auto makers if they don't conform to Biden-approved electric-powered vehicles, an increased minimum wage, price controls on prescription drugs, further government involvement in health care and medical insurance, everything must reflect and bend to the will of the President's vision of what is "good" for America.

Shifting More Consumer and Business Choices to Government

All of this means taking decision-making out of the hands of each of us and transferring them to those in political power and the bureaucracies that support them. For Joe Biden to "save" us from global warming or the dangers of the Coronavirus, he must have the authority to make us conform to the economic and social shape of things that he and his advisors prefer.

But this, inescapably, denies us our respective freedoms to choose how best to adapt and adjust our consumption and production activities as we think best. Government would leave every individual less free to best use his knowledge in light of changing circumstances.

Utilizing Dispersed Knowledge to Benefit All Though the Market

Austrian economist and Nobel laureate, Friedrich A. Hayek, explained this, perhaps, most clearly:

> The chief task of an effective social order is thus to assure the utilization of knowledge that can exist only in dispersed form among millions or billions of individuals. Now, the main point I want to submit to you is that freedom is the most successful method man has found to cope with the constitutional ignorance of all individuals, and to achieve the maximum utilization of knowledge . . . Coercion is bad precisely because it prevents the individual from making the fullest use of his knowledge and capacities, which are always unique in some aspects . . .
>
> If freedom is essentially a matter of making the best of our ignorance, its importance must increase as society grows in complexity. If nobody can hope to master more than a small fraction of the knowledge that society utilizes, the chief need is increasingly an impersonal mechanism for the coordination of individual actions. The order at which we aim must therefore rest not on specific commands, but on the spontaneous adjustment of the separate individuals to each other.

Such "spontaneous adjustment" is brought about through the decentralized and competitive price system, by which individuals convey both what it is they want as consumers, and what they might be able to produce and supply as sellers. The importance of such a decentralized price system is that it provides the liberty and latitude for each individual, anywhere in the world, to evaluate and decide what is best given his own particular circumstances and situation.

This, in turn, enables all the others in society to determine and decide what that information means for them to appropriately adapt and adjust in terms of (marginal) trade-offs in what they do as demanders and suppliers in their respective corners of the global community. The overall results are constant and continuous coordinative responses of everyone to all the others in society.

Biden's Hubris and Pretense of Knowledge

How does Joe Biden know all of the necessary adaptations and readjustments to address ongoing health hazards and environmental issues? This would require him (not to mention the advisors and experts who surround him) to know far more than any human could.

Hayek called this a "pretense of knowledge." The German free market economist, Wilhelm Röpke, referred to it as "the hubris of the intellect;" that is, an arrogant confidence that a man could possibly know enough to guide society. Biden's impatience, his arrogance, even his rudeness captures the essence of a man who presumes to know what is better for everyone.

The Elitist Mindset of Democratic Dictatorship

In Biden's mind, people are apparently neither capable nor to be trusted to make such choices for themselves, based upon their own circumstances, with their own means through trade-offs and decisions about their own life in the present and the future. Only government can do this.

This is not only insulting to every person in the country, it also reflects an elitist mindset by those who assert their presumptive right to take over ever more corners of our lives, always for our own good.

Their notion of democracy actually results in a social and economic dictatorship of those who know best over those who just have to live with their paternalistic pronouncements. When our betters say that they want government to "serve the people," what they really mean is that they want to use government to control and command people.

Real Progress with Free Markets for More Free and Responsible People

Real social progress is the ability of more members of society to be self-supporting and responsible individuals. Wilhelm Röpke highlighted this in, *Welfare, Freedom and Inflation* (1964):

> It is all too often forgotten that anyone who is serious about human dignity should measure progress less by what the State does for the masses than by the degree to which the masses can themselves solve the problem of their rainy days out of their own resources and on their own responsibility.
>
> This, and only this, is worthy of free and grown-up persons, certainly not constant reliance on the State for assistance which, as we have seen, can, in the last analysis, come only out of the pockets of the taxpayers themselves or from an enforced restriction in the standard of living of those whom inflation really hits . . .
>
> If it is accepted that the modern Welfare State is nothing but an ever-expanding system of publicly organized compulsory provision, then it follows that it enters into competition with other forms of provision available in a free society: personal provision, by saving and insurance, or voluntary collective provision by families or groups.
>
> The more compulsory provision encroaches upon the other forms, the less room will be left for individual and family provision, as it absorbs resources which might be devoted to this purpose and at the same time threatens to paralyze the will towards individual provision and for voluntary mutual assistance.

For Röpke and other free market liberals, the way this becomes more possible for more members of society is to move in the opposite direction of Joe Biden.

What is needed is a repeal of government regulations and restrictions, ending any and all government control over consumption and production, lowering taxes, the end to budget deficits, and working with a balanced budget. Finally, we need to end central bank monetary creation, which fuels government borrowing, manipulates interest rates, and misdirects investment decisions.

Alas, none of this is likely to happen.

– October 8, 2021

Has America's Third "Civil War" Begun?

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The question of whether a third American "civil war" has begun occurred to me after reading a recent *New York Times* piece (deliberately unlinked as it fails fact checking) that claimed that the president can mandate a vaccine today because George Washington did so during America's first "civil war," more commonly called the American Revolution (1775-83).

That much is true, but the article misses a few key differences: it was a wartime measure that applied only to soldiers; it was for smallpox, which was orders of magnitude more deadly than Covid; it was variolation — introduction of small amounts of the live virus into the bloodstream — not experimental gene therapy. (I again call for a Covid variolation option on a voluntary basis.)

Did the *New York Times* admit too much by analogizing from a wartime scenario, or is it simply grasping at straws as usual? Maybe inadvertently some of both?

The Revolution and the Civil War (1861-65) were both "civil" in the sense of being internecine struggles but both were extremely uncivil in the sense that they were violent shooting wars that rent asunder families, towns, counties, and even entire states. Some people call the latter conflict the War Between the States or the War of Yankee Aggression, partly for political reasons but also following the logic of Guns N' Roses: "What's so civil about war anyway?"

Some claim that America is already in a civil, in the sense of non-shooting, "war" with China, which purportedly has deployed its "Three Warfares" strategy of legal, psychological, and public opinion distortion. That would not be surprising. The USA of course waged a long non-shooting conflict, typically referred to as the Cold War, against the Soviet Union. During the decades-long conflict, the two superpowers shot at each other only indirectly, in places like Korea and Afghanistan, while also trying to destabilize each other with espionage, propaganda, and such.

A non-shooting, internecine "war," a civil civil war if you will, is also not unprecedented but it is also not just "politics as usual." There used to be rules and proportionality. It increasingly appears now that one side wants to annihilate the other at any cost, and that the sides are not drawn along strict party lines.

America's civil civil war seems to pit "sheeple" against people, the brainwashed against those capable of independent thought, and "safety first" authoritarians against civil libertarians, left, right, and center. To admit that such a conflict exists does not require a conspiracy theory, just recognition of marginal incentives. Nobody planned America's first two civil wars either; they arose spontaneously from circumstances and incentives in ways so complex that historians still fight over the causal webs that ensnared people and governments in mortal combat.

Of course few Americans today want to "throw down" physically. We've got too much cool stuff and too many followers on social media to risk our lives. It would be a shame to get blood in our hot tubs, pools, or EVs. Moreover, although the sheeple might outnumber the people, the people have more guns, but they really don't want to use them.

Cancel culture was the first weapon deployed. Shame people on social media in the hopes they will turn into sheeple and begin to follow the crowd, or at least injure their income. It often worked, but some people will not or cannot be canceled. If they lose their jobs they sue their former employers or

slanderous media outlets, jump to more lucrative careers on Substack, and so forth. Millions of others simply avoid social media, or keep it strictly to sharing videos of crazy cats or laughing babies.

Vaccines are a new weapon in the civil civil war because they can be used to reach anyone and everyone. Mandates are not a perfect weapon because some rational free thinkers have gotten the stab after due consideration of their individual situations, while some sheeple consider doctors their alphas and follow individualized medical advice not to get the Fauci ouchie. (No weapon kills all of the enemy or prevents all collateral damage, so those instances do not militate against vaccine weaponization.)

That Covid vaccine mandates are about sorting sheeple from people and not about public health is made clear by several facts.

First, if public health were paramount, the mandate would be to test regularly for effective immunity, not shot compliance. Some people do not need a vaccine because they have already survived Covid and have natural immunity far superior to that provided by even the most effective vaccine. In addition, vaccines are not equally effective for everyone. Health officials therefore should be testing front line healthcare workers for immune response levels, not mere vaccine compliance.

Second, the mandates apply to remote workers and others who present no danger to the public. If a Covid-19 Survivors NGO has 100 or more employees, they all have to get vaccinated even if surviving the disease is a prerequisite for employment and even though scientists have warned that taking the vaccine probably does not help, and may even hurt, those with natural immunity.

Third, encouraging the termination of noncompliant employees is unduly punitive. The chances of an unvaccinated employee, especially outside of healthcare, "killing" anyone is vanishingly small and virtually impossible to trace, at least if what public health officials claim about the vaccines is true, i.e., relatively few vaccinated people get Covid, few of those need hospitalization, and almost no vaccinated people die from, or even with, Covid. How is a miniscule risk of barely harming others worth somebody's livelihood?

All the more amazing are reports that people terminated for noncompliance may not be eligible for unemployment insurance because they are being fired "for cause." That will lead to some fun lawsuits, because "for cause" traditionally means for doing something wrong, like stealing, or not doing something right, like showing up for work on time. Sufficient "cause" was a concept that employers and employees worked out together, not a dictate from the executive branch of the federal government.

It's a blatantly unlawful dictate at that! Corporations must start to contest unconstitutional federal policies. Imagine if Biden, in one of his delirious tantrums, said that corporations need to execute non-compliant employees. Would they do so? Presumably not! But by the self-styled progressives' own claims, firing (or not hiring) people is tantamount to slowly strangling them to death. I mean they call it *termination*, right? (Seriously, *Newsweek* in 2010, citing "research," claimed that "layoffs literally kill people.")

Corporations should team up, hire the fanciest of fancy lawyers, and defeat mandates (and vaccine passports), or be counted as an enemy of the people. They can fund the legal expenses out of their oversized charitable donations budgets because saving the Constitution is the most important cause of them all.

Has a civil civil war begun in America? I can't reject that hypothesis so long as irrational wars on the vaccine non-compliant, innovation, and small business, continue. If the authoritarians win those battles, free thinking people who believe in human rights may have to capitulate, or worse.

– October 8, 2021

Frontline Doctors Stand Up to Authoritarian Public Health Officials

MAX BORDERS
Contributor

Imagine you're a doctor. You go into work every day for long hours and figure out how to treat Covid. You are saving lives and doing so patient by patient. Each patient has individual needs that sometimes require custom care, but you know early treatment works.

Suddenly, faraway bureaucrats demand that you abandon your best practices and fall into line around their *grand plan*. Suddenly your patients can't get what you prescribe. Media apparatchiks diminish, invalidate or mock everything you've learned and are doing.

And all of it is being carried out in the name of "science."

The Physicians' Rebellion

More than 10,000 physicians and medical scientists have signed onto a Declaration that accuses public health authorities of, well, doing it wrong–and to devastating effect.

> "WHEREAS, public policy makers have chosen to force a "one size fits all" treatment strategy, resulting in needless illness and death, rather than upholding fundamental concepts of the individualized, personalized approach to patient care which is proven to be safe and more effective;"

The Declaration goes on to assert that "thousands of physicians are being prevented from providing treatment to their patients, as a result of barriers put up by pharmacies, hospitals, and public health agencies" and that "These policies may actually constitute crimes against humanity."

Local Knowledge

Such statements might strike non-physicians as hyperbolic. But consider that many of these doctors, such as Dr. Brian Tyson have each saved thousands of lives through early intervention and best practices developed in the field through trial-and-error, observation, and active communication among peers.

"We started seeing inflammation, so we used anti-inflammatories," Dr. Tyson explains.

> "We saw blood clots, so we used anticoagulants. We saw patients having trouble breathing, so we used asthma medications… It wasn't just one drug. It was the art of what we see and how those patients responded to what we gave them."

Despite treating more than 6,000 patients, Tyson can count the patients he's lost to Covid on three fingers. And yet non-practicing officials are interfering with the work of doctors like Tyson.

The physicians and medical scientists who have signed the Declaration are also frustrated with the authoritarian measures supported by career bureaucrats such as Anthony Fauci. Indeed as more information trickles out, more and more observers suspect Fauci approved funding for dangerous research at the Wuhan Institute of Virology and then colluded with the bioethically disturbed Peter Daszak to propagate the unlikely "natural origins" theory.

Barriers to Treatment

Public health authorities have erected huge barriers to early treatment by:

- Putting pressure on major pharmacies not to fill essential prescriptions,
- Putting pressure on insurers not to cover proven therapies, and
- Putting pressure on Big Tech giants to censor and suppress eminent physicians such as cardiologist Peter A. McCullough, who has expressed concerns about vaccinating children.

Declaration signatories include physicians who figured out how to successfully reduce the death toll while public health authorities dithered and delayed their grand plan to roll out mRNA vaccines for everyone — including, apparently, low-risk populations.

All the doctors agree that greater access to early treatment could have saved thousands of lives– and could save thousands more. The Declaration suggests that public health authorities are trying to steamroll over clinical practitioners when these camps should complement each other.

"We are in a pandemic of undertreatment," said intensive care specialist Pierre Kory, M.D., winner of the British Medical Association's President's Choice Award.

> "Everything else that we've discovered, everything that's in our protocols is because we have used good clinical sense, lots of experience, and we've used trial and error using our best judgments of risks and benefits."

Clinicians or "Experts?"

Why should anyone trust thousands of doctors and medical researchers over public health authorities and other so-called experts trotted out in media campaigns?

- Physicians figured out how to save lives and control Covid by talking to each other and developing best practices.
- Physicians have more local knowledge and more direct experience with real patients.
- Physicians are not as beholden to pharmaceutical companies as public health authorities, particularly as these authorities have gone as far as mandating pharma products for millions.
- Physicians have learned to scale up their practices, including telemedicine, to avoid 'hospital overwhelm.'
- Physicians have learned that early treatment and natural immunity is an effective way to reduce the dangers of a pandemic whose virus was probably funded by… public health authorities.

It's no wonder these doctors are in open rebellion against authoritarian public health bodies who seek to implement monolithic mass behavioral control in place of a dynamic multi-pronged approach that includes clinical best practices.

Intimate, repeated, in-person care, which includes both observational and randomized control studies, has an underappreciated advantage over armchair analysis and "exciting, soul-capturing abstractions," which have "extended themselves over the perception of world and self like plastic pillowcases." And yet the doctors of the Physicians Declaration soldier on.

Nevermind. Fall into line. The government is here to help.

Note: The Declaration by the International Physicians and Medical Researchers is not affiliated with The Great Barrington Declaration hosted by AIER. Yet there are striking similarities in that each group represents a groundswell of opposition to authoritarian public health policies worldwide.

– October 6, 2021

Money and the Constitution

ROBERT F. MULLIGAN
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Ratified between 1771 and 1781, the Articles of Confederation remained in force until they were superseded by the Constitution in 1788. In force for seven years, the Articles formalized some preexisting institutions such as the Continental Congress, but made no provision for a federal executive branch, and very limited provisions for a federal judiciary—one of the few crimes tried in the new federal courts was piracy, leaving nearly all other offenses to the states to prosecute. During this period, Congress requisitioned financial support from the states in proportion to their population, but these assessments were routinely ignored, or fulfilled only in part. The Articles gave Congress no authority to issue money or levy taxes.

Congress and the states emerged from the Revolution both independent and highly indebted. Some states paid their debts while others did not, and Congress had no real means to retire its own debt or honor the continental currency it had already issued. By printing unbacked money during the Revolution, Congress had effectively rendered this currency worthless. Unlike the states, Congress had no taxing authority to acquire the gold or silver it needed to redeem the paper money it had issued, which was characterized as "not worth a continental;" that is, worthless.

In 1779, George Washington complained as General-in-Chief of the Continental Army, "that a wagon load of money will scarcely purchase a wagon load of provisions." As President of Congress under the Articles of Confederation, John Jay cautioned state governors against permitting a perception "that America had no sooner become independent than she became insolvent." From 1781 to 1784, the thirteen states paid less than $1.5 million to the U.S. Treasury, though Congress asked for $2 million in 1783 alone.

A free rider problem became apparent almost immediately, as a few states loyally paid their requisitions but then watched helplessly as other states held back. Furthermore, then as now, some states were in better fiscal situations that made it easier for them to pay, and the political climate in other states made raising local taxes even less palatable.

The U.S. Constitution mentions money only in Article 1, which specifies the structure and powers of Congress. Congress's authority to issue money was a reaction to the Articles of Confederation, which had reserved this authority exclusively to the states. The Constitution reassigned the power to issue money from the states to Congress. Article 1, Section 8 assigns to Congress the power "to lay and collect taxes, duties, imposts and excises," for the first time giving the federal government its own taxing authority.

Article 1, Section 8 also authorizes Congress "to borrow money on the credit of the United States." The states had each borrowed extensively during the Revolution, as well as issuing large quantities of unbacked paper money. Section 8 makes it clear that the federal government can do this also. When the Constitution was ratified, the thirteen states were so highly indebted they had limited ability to borrow more. If the Constitution had permitted the states to print more paper money, that would not have been well received.

Section 8 also authorizes Congress "to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures."

Regulating standards of weights and measures is mentioned because the Constitution assumes a precious metal standard with fully convertible paper money. Congress can also punish counterfeiting. The Constitution gives Congress implicit authority to make monetary policy, but does nothing to make Congress accountable for its monetary policy. In a sense, Congress is not answerable for how well it regulates our money, apart from its ultimately being answerable to the electorate. Though far from ideal, consider the extent that high inflation—that is, poor monetary management—makes it difficult for politicians to stay in office. This makes Congress answerable to us, though often with a significant, even fatal, delay.

Congress plays little direct role in regulating the dollar's value today, having long ago abandoned that responsibility to the Treasury and the Federal Reserve. Congress's principal influence on the value of the dollar comes from implementing fiscal policy through appropriations and tax legislation. This fiscal influence on the dollar is very indirect and also operates with a significant time lag.

The Constitution's Article 1, Section 10 prohibits the states from coining money, issuing bills of credit, making anything but gold and silver coin a tender in payment of debts, or passing any law impairing the obligation of contracts. Although Section 10 suggests that paper money can never be issued by the federal government, it actually only restricts the states from doing so. The bills of credit mentioned in Section 10 were a now obsolete form of paper money, which certified the issuing government's indebtedness. They generally stated an explicit promise to pay some form of hard money. A typical formula might state: "The possessor of this bill shall be paid by the Treasurer of the State of Connecticut, forty shillings in Spanish milled dollars, at the rate of six shillings each, or of other silver or gold coins equivalent, with interest at five percent per annum, by the first day of March, 1785. By order of the Assembly in Hartford, dated the first day of March, 1780."

Some state governments—particularly in New England and the Carolinas—had no means to pay off the bills of credit they had issued during the Revolution without imposing ruinous taxes, which would have principally been tariffs on imports. In this era, this would have included imports from other states. The federal government had assumed the debts of the individual states, though this was not a constitutional feature, but engineered by Treasury Secretary Alexander Hamilton and implemented through the Funding Act of 1790. The promise of federal assumption of the remaining state war debt helped persuade several key states to ratify the Constitution.

After the Constitution was ratified in 1788, the federal government paid off the states' debt of roughly $25 million at face value—though by this time many current holders of this debt had purchased it at significant discounts, thereby accruing significant profits at taxpayer expense. The federal government financed this through import tariffs and a wildly unpopular excise on distilled spirits. Since the spirit excise not only resulted in the Whiskey Rebellion but also generated little or no net revenue, it was abandoned by 1802.

James Madison, the Constitution's principal author, could not have anticipated the Civil War which finally freed the nation from the moral abomination of slavery, nor the war's attendant inflation. The dubious constitutionality of the Federal Reserve System developed in 1912 might have been overlooked if it had provided price stability, lower unemployment, or enhanced economic growth. Since it has given us none of these, we need to look at reforming the Fed, if not abolishing it entirely.

– October 15, 2021

They're Coming for You

ANTONY DAVIES
Contributor

For years, politicians have claimed that the rich weren't paying their "fair share." While it's taken a decade or more for voters to catch wind of the truth, people are finally beginning to realize that the rich actually pay far more than the rest of us. According to Congressional Budget Office figures, the average household in the top one percent earns 120 times what the average poor household earns, but pays 2,000 times the taxes. Even after deductions, exemptions, write-offs, income deferrals, and whatever other accounting and legal arcana the rich throw at their tax returns, in the end, the typical one-percenter paid 32% of his income (all sources combined) in 2018 versus 13% for the typical middle class household and almost 0% for the typical poor household.

It's clear that Americans have figured out the truth about who pays, because politicians are shifting the goalposts. Elizabeth Warren shifted the conversation from what fraction of income the rich paid to what fraction of wealth they paid. President Biden has upped the ante by talking about taxing *unrealized* capital gains.

This is unprecedented. The federal government has no constitutional authority to tax wealth, and never have unrealized gains been considered income – either in the realm of accounting or economics. An unrealized gain is simply an investment "in process." What shows up as a gain today can easily turn into a loss tomorrow. Ask anyone who invested in Bitcoin in March 2021, or gold in August 2011, or housing in 2007. An investment's tale isn't told until the investor cashes out. Unrealized gains aren't gains. They are hypotheticals.

What politicians want is to foment class warfare. If they can get the middle class and poor to resent the rich, those same politicians can expand the scope of federal taxation into areas it has never before touched.

But watch out. Politicians are only partially interested in the rich. They are very interested in the middle class. In 2018, middle and upper middle class households, combined, earned double what the top one percent earned. And the federal government currently taxes the middle classes at rates less than half of what it taxes the one percent. Politicians see the middle class as a largely untapped revenue source.

While President Biden says that a tax on unrealized gains would apply only to billionaires, once instituted, there is nothing stopping the government from applying it to everyone else. If it did so, the middle class would find itself awash in taxation. Most middle class wealth is tied up in home values. The median sale price of existing homes shot up 14 percent just in the past year. If the government applied an unrealized capital gains tax to all homeowners, the median homeowner would get socked with a $7,000 tax bill. And that's for just one year. The value of the median home rises more than 3.5 percent per year. At current capital gains tax rates, the median worker would get hit with an additional $1,500 federal tax each year simply because his home was, on paper, worth more than the year before. The average 401K or IRA account is worth $135,000. Given stock market gains last year, the average saver would have seen around $13,000 in unrealized capital gains – and a $2,000 tax bill if those unrealized gains were taxed.

And what of higher education? The typical four-year college graduate earns over 60 percent more than the typical worker with only a high school education. Currently, the median difference is over

$500 per week. Over a 40 year career, that wage difference adds up to more than $1 million. Should that be taxed?

The college graduate has made an investment in his education that has increased his expected future earnings by $1 million. Of course, the graduate hasn't earned that money yet. But that simply makes it an unrealized gain. If the government can tax other investments before their gains materialize, why can't it tax the graduate's increased income before it materializes? The tax bill there, by the way, would be around $150,000.

What's really going on is that politicians see a coming fiscal storm, and they are desperate to find new sources of revenue before it hits. The Congressional Budget Office estimates that by 2031 the federal debt will have reached almost $36 trillion. Historically, the CBO's ten-year debt projections have underestimated future debt by more than a factor of two. If the CBO's current estimate is off by that same factor, the debt will actually be over $80 trillion by 2031. That's equivalent to running a $5 trillion deficit each year over the next decade. While that sounds unbelievable, it's consistent with what we've seen in the past. Since the late 1960s, the federal debt has grown at an average annual rate of almost 9 percent. If the debt continues to grow at that historical average, by the end of the decade, it will be more than $65 trillion. That's equivalent to running a $3.5 trillion deficit each over the next decade. For comparison, the federal government collected $3.4 trillion in taxes in 2020.

Federal spending is out of control. Politicians know it and they know that they can't stop it.

Those same politicians have realized that raising taxes isn't enough. They need new sources of tax revenue that haven't existed before. Their first step is to institute new taxes on wealth and unrealized capital gains. Once established, their next step will be to expand those taxes to the middle class.

A day of reckoning is coming. Politicians hope that we'll keep pointing fingers at the rich so we don't notice who the real culprits are.

– October 4, 2021

Eyes on the Politicized Prize

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The selection of economist David Card as co-recipient of the 2021 Nobel memorial prize for Economics has, curiously, revived an old story about a war of words from another laureate. According to this account, James M. Buchanan – the winner of the 1986 prize – allegedly denounced Card for finding empirical results that contradicted basic economic theory about the minimum wage.

We'll get to that story in a moment, but first let's look at the background.

David Card's many scholarly distinctions include a 1994 study of minimum wage policies in the fast food industry. In that study Card and his co-author Alan Krueger used the different minimum wage rates in the neighboring states of New Jersey and Pennsylvania to run what was essentially a natural experiment. They surveyed fast food establishments near the borders of the two states to see if the higher minimum wage rate in New Jersey caused an increase in unemployment among fast food workers (conventional economic theory about price floors says that it should, all else equal). Contrary to this expectation, Card and Krueger "found no indication that the rise in the minimum wage reduced employment" in the New Jersey fast food industry. And so began a legend of a feud.

Card and Krueger's paper was intentionally narrow and nuanced in its claims. They only studied a single industry, and did so with a telephone survey that collected self-reported data from the restaurants they called. They concluded by noting that their findings were "difficult to explain with the standard competitive model" of the minimum wage "or with models in which employers face supply constraints (e.g., monopsony or equilibrium search models)" – findings that lend themselves to a call for further investigation. Despite Card and Krueger's heavy use of qualifiers to limit overly broad generalizations of their findings, academics and politicians who already had an ideological disposition toward the minimum wage did exactly that. A myth was soon born that Card and Krueger had "disproven" conventional textbook economic theory where the minimum wage was concerned, showing instead that minimum wages work as their supporters claim.

Fast forward to 1996. President Bill Clinton had just announced a legislative push for a nationwide minimum wage hike as part of his domestic agenda going into an election year. As Congress debated the proposal, the *Wall Street Journal* surveyed a group of economists about the profession's consensus on the wisdom or unwisdom of minimum wage laws.

One of the respondents was James M. Buchanan. Buchanan answered with a colorful quip:

> The inverse relationship between quantity demanded and price is the core proposition in economic science, which embodies the presupposition that human choice behavior is sufficiently rational to allow predictions to be made. Just as no physicist would claim that "water runs uphill," no self-respecting economist would claim that increases in the minimum wage increase employment. Such a claim, if seriously advanced, becomes equivalent to a denial that there is even minimal scientific content in economics, and that, in consequence, economists can do nothing but write as advocates for ideological interests. Fortunately, only a handful of economists

> are willing to throw over the teaching of two centuries; we have not yet become a bevy of camp-following whores.

And so the story was born. Had Buchanan actually called Card and Krueger "a bevy of camp-following whores" on account of his disagreement with their natural experiment's findings?

The claim has popped up from time to time before, but the announcement of Card's prize breathed new life into it. *Bloomberg's* Noah Smith used the opportunity to declare that "James Buchanan — who himself won the Econ Nobel in 1986 — simply laughed at the result," allegedly insulting Card and Krueger in the process. "Of course, Buchanan is completely wrong," he continued, invoking the monopsony model of the minimum wage – which holds that under certain highly specific conditions of labor market concentration, a minimum wage can indeed lead to an increase in employment.

Smith is not the only one to make this charge against Buchanan – he is merely the most recent. Angus Deaton, another Nobel Prize winner, included it in his book The Great Escape, noting that Card and Krueger's "heresy created heated denunciations" from "enraged economists." Buchanan's quip is then put forward by Deaton as Exhibit A in the persecution of their "heresy."

Had Smith, Deaton and numerous others who repeated the tale caught Buchanan in an act of exchanging grade school insults over a disliked empirical result? Or worse, of trying to denigrate and suppress a scientific finding that was supposedly at odds with a long-held economic dogma?

Not so fast. Let's return to the *Wall Street Journal* issue on April 24, 1996, where Buchanan's answer appeared. Contrary to the insinuation by Smith and others, the *Journal*'s question for the economist was actually not about the already two year old study by Card and Krueger – it was about Bill Clinton's proposed minimum wage bill. The newspaper's prompt read simply:

> Congress will soon vote on whether to increase the minimum wage to $5.15 an hour from $4.25 an hour. As usual, the economic arguments for and against a raise in the minimum wage have been obscured by rhetoric. While some economists have become caught up in the rhetorical excess preceding the vote, this does not obscure the real economic effects of raising the minimum wage. We asked a group of prestigious economists what those effects were, and whether there is still a general consensus among economists on this issue.

While Card and Krueger's study was certainly a hot topic of discussion within the profession (and remains so today with large literatures that both claim to confirm and refute its findings), it was not what the *Journal* asked its respondents to comment upon. To the extent that Card and Krueger's paper entered into the equation, it was through the political lens of the Clinton administration's legislative agenda.

Clinton's then-Labor Secretary Robert B. Reich had taken to arguing that the unemployment effects of a nationwide minimum wage hike would be "negligible" and "statistically insignificant." To make his case, Reich cherry-picked several recent pro-minimum wage studies from the academic literature that fit the political story he wished to tell. The first of these was not Card and Krueger, but rather another study by Allison J. Wellington that claimed a 10 percent minimum wage hike reduced teenage employment by less than 1 percent. Reich also referenced similar claims by Jacob Klerman, and finally Card and Krueger. Unfortunately, Krueger himself got drawn into the political debate for a time by Reich, who convinced him to take on an advisory role with the Labor Department in 1995. For the

most part and to his credit, Krueger constrained his political testimony to the narrow, heavily caveated findings of his study of the New Jersey restaurant industry. Reich, on the other hand, invoked it and the other aforementioned studies as unambiguous vindications of the sweeping nationwide minimum wage hike that the Clinton administration sought.

Summarizing his argument in congressional testimony from 1995, Reich asserted that "of the articles published in peer-reviewed American economics journals over the past five years, a majority has found that moderate changes in the minimum wage have an insignificant effect on employment." The accuracy of Reich's claim is both contested and beyond our present scope, although if true it would belie the notion that Card and Krueger had single-handedly bucked the profession. Yet it also establishes the many ways in which the political system had coopted academic research on the minimum wage, and was now deploying it to aggressively argue for policy conclusions that exceeded the narrow scholarly claims of that same body of research.

Although it's possible or even likely he contemplated Card and Krueger's study among the arguments he was opposing, Buchanan never even mentioned it or any of the other academic studies by name. Neither did he refer to its main finding of no disemployment effects in the New Jersey restaurants. Rather, he attacked the much bolder general claim that "increases in the minimum wage increase employment" and did so in reference to the nationwide hike contemplated by Clinton's proposal. (Card and Krueger did find that New Jersey's minimum wage law "may have increased employment in the fast-food industry" relative to Pennsylvania, but they also cautioned against reaching a general conclusion to this effect and concede that the evidence is only weakly suggestive of this finding).

In any case, Buchanan was clearly responding to a question about Bill Clinton's 1996 minimum wage hike proposal, not Card and Krueger or any other specific academic paper for that matter. As to the question of who exactly Buchanan meant to target with his comments, he gives the answer one sentence prior. It is those who "write as advocates for ideological interests" when advancing the minimum wage. In short, he was describing the type of behavior exhibited in Robert B. Reich's recent testimony and public statements.

There's another twist though. After mistaking the nature of Buchanan's remarks and omitting the context of the 1996 Clinton proposal, Smith then proceeds to accuse Buchanan of an error in his economic theory. Recall that Card and Krueger concluded their paper by noting that their "findings are difficult to explain with the standard competitive model or with models in which employers face supply constraints (e.g., monopsony or equilibrium search models)" (emphasis added). The two authors did suggest the monopsony scenario as a possible explanation for their findings that warranted investigation, but they carefully avoided making that claim outright.

Smith and others who have commented on Buchanan's 1996 quip, however, appear to believe that Card and Krueger's paper sustains the monopsony explanation, thereby indicating that Buchanan was in error in addition to being rude.

Smith thus continues:

> Of course, Buchanan is completely wrong. It's very easy to imagine a situation where a small rise in the minimum wage will increase employment — all you need is some monopsony power in the economy. The basic theory of monopsony, which ought to be taught in every Econ 101 class right alongside the perfectly competitive model… It's textbook stuff — or should be textbook stuff, anyway.

Smith, of course, is eager to credit Card and Krueger for bringing the monopsony scenario to the attention of the profession, and even sings their heroics for allegedly challenging a deeply-held convention of the profession. As of 1994, he claims, "Card and Krueger's finding seemed revolutionary and heretical. In fact, other researchers had probably been finding the same thing, but were afraid to publish their results, simply because of their terror of offending the orthodoxy." In that telling, Buchanan thus assumes the role of Grand Inquisitor against the minimum wage-supporting heretics.

Unknown to him and other commentators in the same vein, however, is that Buchanan himself also wrote on the monopsony scenario and its effects on a minimum wage. He wrote a detailed explanation of it some 40 years prior to Card and Krueger and did so in an undergraduate textbook on price theory, co-authored with Clark Allen and Marshall Colberg. As Buchanan and his colleagues wrote in their 1954 textbook *Prices, Income, and Public Policy:*

> The adverse effects of minimum-wage legislation have been stressed so far, and these probably outweigh the beneficial results. On the other side, minimum-wage legislation undoubtedly prevents some employers from paying workers less than their marginal revenue product. This is especially apt to happen when workers do not "shop around" enough to be aware of alternative employment opportunities or if these alternatives are few or nonexistent. This is the monopsony case, discussed in Chapter 13. Under this sort of situation it is possible that the imposition of a minimum wage will make the firm hire more rather than fewer workers. For this effect to follow, however, the legal minimum wage would have to be placed between the wage rate actually being paid by the firm and the marginal revenue product of the labor employed (between OW and OW' in Figure 13.3). This gap will vary from firm to firm. This makes it extremely unlikely that the imposition of a uniform legal minimum wage (affecting all firms) has the overall effect of increasing rather than decreasing employment. The minimum wage affects only relatively unskilled labor which usually has a more substantial number of employment alternatives than does higher-paid, but also more highly specialized, labor. Unskilled workers, on the other hand, are often more ignorant of alternative employment opportunities.

The referenced Figure 13.3 in Buchanan's textbook is the very same diagram of the monopsony model that Smith then repeats in his own article as an example of Buchanan's supposed oversight.

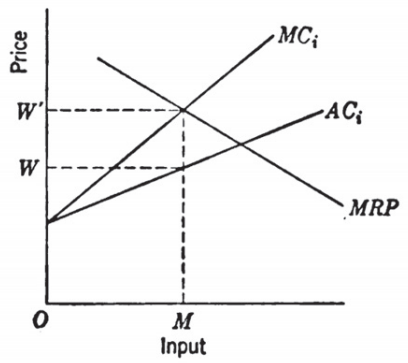

Figure 13.3.

Indeed, Buchanan's 1954 account of the monopsony scenario is precisely the type of "textbook stuff" that Smith unwittingly calls for in the wake of Card and Krueger's paper. The only difference is that Buchanan, while acknowledging the possibility of the monopsony scenario, continues by listing reasons why these conditions are unlikely to be common in practice. The monopsony scenario of the minimum wage was a "theoretical curiosum," to

quote Milton Friedman (who also covered the same scenario in his own 1976 textbook, decades before Card and Krueger). Smith, of course, differs from this assessment and suggests a minimum wage is indeed rendered viable by widespread monopsonistic labor markets. But such a claim also far exceeds Card and Krueger's own presentation of their results.

Nevertheless, we may conclusively establish that the monopsony scenario of the minimum wage was directly anticipated and discussed by economists for decades before Card and Krueger's paper. That scenario is also clearly present in the very same types of economics textbooks that, according to the myth promoted by Smith and others, allegedly neglected this nuanced view of the minimum wage.

And it now appears that the author of one of those textbooks, James M. Buchanan, had the last laugh after all.

– October 12, 2021

To Fix the Shipping Crisis, Start by Repealing the Jones Act

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At 9am EDT on Friday, October 22, the informal commercial flotilla off the coast of California ports reached a new high: 79 container ships were, as of that time, waiting to dock and offload cargo. The total number of vessels offshore, including oil tankers and bulk transports has reached 169. Some have been anchored for more than a month, and there is no reason to think that number won't continue rising in coming days, and perhaps weeks.

The recent "gamechang[ing]" concession which President Biden allegedly extracted from unions–to extend port operating hours to 24/7, the basis upon which most other ports in industrialized nations work–is hollow. In fact,

> Wednesday's announcement was a concession from port operators, not the unions [and] increased hours won't fix the bottlenecks. The added hours will boost cargo movement by less than 10%, or an estimated 3,500 containers a week. The real problem is the unions' tooth-and-nail opposition to labor-saving equipment. Cranes in automated ports operate at least twice as fast as cranes in outdated U.S. ports. Biden's port envoy John Porcari let the truth out when he said last week, it's "your grandfather's infrastructure that we're working with."

There is a single measure which might be undertaken that would alleviate many of the sources of the bottlenecks in shipping but, like so much else, it is a measure fraught with political tensions. The Jones Act, more commonly known as Section 27 of the Merchant Marine Act of 1920, restricts foreign-owned ships from loading cargo in one US port and unloading it in another. It does not restrict foreign-owned vessels from discharging cargo in numerous US ports, or from loading cargo in multiple US ports. But to pick up and drop off at US ports in a single trip–known as cabotage, or intercoastal trade–a ship must be "four times" American: under a US flag, US built, US owned, and US manned.

The original purpose of the Jones Act was to ensure that US shipbuilding capacity wouldn't be dependent upon foreign nations, as well as to keep domestic shipping American. Both, purportedly, so that in the event of war a fleet of merchant mariners could quickly and with relative ease be raised. But whether national security was the actual or nominal focus, the effects have included stifling competition, the creation of an oligopoly, and consequent effects on shipping prices and available services. And as the number of nations that the US trades with and trading volume has increased, the impact of the Jones Act has become increasingly stifling.

For two particularly prominent examples, both the state of Hawaii and the unincorporated territory of Puerto Rico both suffer extreme costs arising of the protectionist elements therein.

And the effects propagate outward from there. Rigid shipping prices owing to artificially suppressed competition beget inflexibility in the pricing structure of dock operations (where wages are often additionally subject to collective bargaining), trucking, rail transport, barges, pipelines, and beyond. Thus to the extent that maritime-related costs of transportation are embedded in the prices of final goods, the Jones Act plays a pivotal role in keeping them elevated. More employment opportunities,

commercial diversity, and a wider range of goods and services from abroad are necessarily hampered by the artificial restraint upon trade that it manifests.

How is it that a century-old, obscure piece of legislation could remain on the books despite clear economic benefits to repealing it? Special interests, of course. Two of the major lobbyists in this regard are the American Maritime Partnership (representing shipbuilders) and the Seafarer's Union, representing mariners. Federal testimony, given in March 2019, made two particularly relevant points. The first is that "[a]mong the foremost challenges to the U.S. Merchant Marine and shipbuilding industry are low-cost foreign competitors," and that the "few remaining large U.S. commercial shipyards rely on the small U.S. domestic market."

It seems likely that growing tensions between the US and China (and actual encounters between the US and Russia) will be cited in support of leaving the Jones Act intact, as may suggestions about the negative effect that its unwinding would allegedly have upon trade, immigration, and other issues. And touting some public obligation to a particular group of "hardworking Americans" is likely as well.

But in fact, the fetters inherent in the Act have already been acknowledged by the government, which has set aside the Jones Act requirements during emergencies, most recently including the aftermaths of Hurricanes Maria and Irma in 2017, Hurricane Sandy in 2012, and Hurricane Katrina in 2005. If not eliminating it completely (as should be the case) the Biden Administration should immediately suspend the Jones Act, at least until the shipping backlog is remedied, whether that takes weeks or months. That, instead of coddling special interests wielding ludicrous (and arguably long out-of-date) arguments, would be a true "gamechanger."

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