

# RESEARCH REPORTS

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## RESEARCH REPORTS

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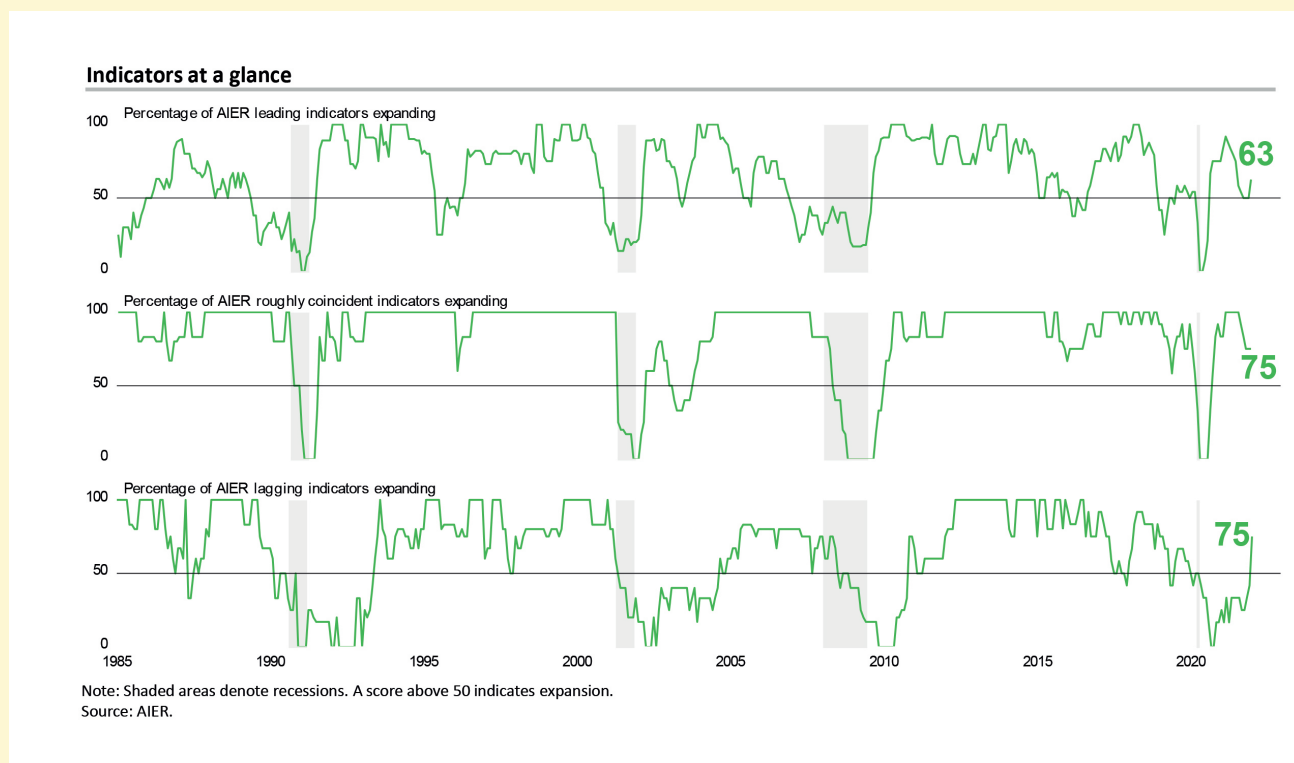
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BUSINESS  
CONDITIONS  
MONTHLY

Robert Hughes  
SENIOR RESEARCH FELLOW



## AIER Leading Indicators Index Shows Improvement, Suggests Continued Expansion



### Summary

AIER's Leading Indicators Index posted a solid gain in January, rising to 63 following three consecutive months at the neutral 50 mark. The gain was the largest one-month increase since September 2020, leaving the index at its highest level since July 2021. The Roughly Coincident Indicators Index was unchanged again in January, holding at 75 for a third consecutive month, while the Lagging Indicators Index posted a 33-point gain, the largest since November 2010, and is at its highest level since February 2019 (see chart). January was the first month since December 2019 that all three AIER business cycle indicators were above the neutral 50 threshold.

The positive result for the AIER Leading Indicators Index suggests continued economic expansion with the potential for a broadening of growth in the economy. However, risks remain elevated as upward price pressures continue due to ongoing production bottlenecks, labor and materials shortages, and logistical problems. In addition, Fed policymakers are likely to embark on a tightening cycle beginning in March, raising the risk of a policy mistake. Furthermore, 2022 is a Congressional election year and may lead to unexpected events given the intensely bitter partisan atmosphere and a deeply divided populace.

### AIER Leading Indicators Index Rises to 63 in January

The AIER Leading Indicators index posted its largest monthly gain since September 2020, rising 13 points in January to 63. The January result is the highest level since July 2021 and follows three consecutive months at the neutral 50 level.

Four leading indicators changed signal in January: the real retail sales indicator weakened from a neutral trend to a negative trend but was more than offset by improvements in the treasury yield spread indicator (neutral to positive), the housing permits indicator (negative to positive), and the heavy truck unit sales indicator (negative to neutral). In total among the 12 leading indicators, seven were in a positive trend in January while four were trending lower and one was trending flat or neutral. Initial claims for unemployment benefits, manufacturing and trade sales to inventory ratio, real new orders for core capital goods, real stock prices, and debit balances in margin accounts were the five indicators maintaining favorable trends while the average workweek in manufacturing, the University of Michigan Index of Consumer Expectations, and real new orders for consumer goods indicators all remained in unfavorable trends.

The Roughly Coincident Indicators index was unchanged in January, holding at 75 for a third consecutive month. Overall, four indicators were trending higher: nonfarm payrolls, employment-to-population ratio, industrial production, and real personal income excluding transfers. One roughly coincident indicator, consumer confidence in the present situation, was trending lower, while the real manufacturing and trade sales indicator remained in a neutral trend.

AIER's Lagging Indicators index increased to 75 in January, up from 42 in December, 33 in November, and 25 in October. January was the first month above neutral since December 2019, ending a run of 24 consecutive months at or below neutral. Three lagging indicators showed improvement in January, with commercial and industrial loans outstanding and real manufacturing and trade inventories improving to a positive trend while the composite short-term interest rates indicator improved from an unfavorable trend to a neutral

trend. Overall, four indicators were in favorable trends, one indicator had an unfavorable trend, and one had a neutral trend.

Overall, 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. Furthermore, continued waves of new Covid cases likely exacerbated these problems in late December and January. Businesses remain focused on improving supply chains and expanding production and are likely to make progress once the wave of new Covid cases crests.

Some recent data reports suggest there may be some progress being made already on the production side while somewhat slower consumer spending could help bring supply and demand back to balance more quickly and help reduce price pressures. The weaker trend for real retail sales (AIER Leading Indicator), positive trend for industrial production (AIER Roughly Coincident Indicator), neutral trend for real manufacturing and trade sales (AIER Roughly Coincident Indicator), and positive trend for real manufacturing and trade inventories (AIER Lagging Indicator) provide some basis for optimism. Even with some easing, a shortage of labor may persist for some time.

### **Inventory Accumulation Boosts Real GDP Growth in the Fourth Quarter**

Real gross domestic product increased at a 6.9 percent annualized rate in the fourth quarter, up from a 2.3 percent pace in the third quarter. Over the past four quarters, real gross domestic product is up 5.5 percent, putting the level slightly above trend.

Real final sales to private domestic purchasers, a key measure of private domestic demand, rose at a more modest 2.8 percent annualized rate in the fourth quarter following a 1.4 percent pace in the third quarter. Over the last four quarters, real

final sales to private domestic purchasers are up 6.4 percent, keeping the level slightly above trend. The trend growth in real final sales to private domestic purchasers is 2.6 percent since mid-2009.

Among the components, real consumer spending overall rose at a 3.3 percent annualized rate, beating the 2.0 percent rate in the third quarter, and contributing a total of 2.25 percentage points to real GDP growth. Consumer services led the growth in overall consumer spending, posting a 4.7 percent annualized rate, adding 2.12 percentage points to total growth while durable-goods spending rose at a 1.6 percent pace, contributing 0.14 percentage points. However, nondurable-goods spending fell at a -0.1 percent pace, subtracting 0.02 percentage points. Within consumer services, spending was particularly strong on transportation services and recreation services.

Business fixed investment increased at a 2.0 percent annualized rate in the fourth quarter of 2021, contributing 0.28 percentage points to final growth. That gain was led by a 10.6 percent jump in intellectual-property investment (adding 0.53 points to growth) and a 0.8 percent gain in spending on equipment (adding 0.05 percentage points). Those gains were partially offset by a decline in spending on business structures where spending fell at an 11.4 percent rate, the third decline in a row, and subtracting 0.30 percentage points from final growth.

Residential investment, or housing, fell at a 0.8 percent annual rate in the fourth quarter compared to a 7.7 annualized drop in the prior quarter. The fourth quarter was the third decline in a row. The drop in the fourth quarter reduced overall growth by 0.03 percentage points.

Businesses added to inventory at a \$173.5 billion annual rate (in real terms) in the fourth quarter versus liquidation at a \$66.8 billion rate in the fourth quarter, adding a whopping 4.9 percentage points to fourth-quarter growth. The inventory accumulation

helped boost the real nonfarm inventory to real final sales of goods and structures ratio to 3.87 from 3.80 in the third quarter and 3.75 in the second quarter. This is still below the 4.3 average for the 10 years through 2019.

Exports rose at a 24.5 percent pace while imports rose at a 17.7 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 2.43 percentage points. The rise in exports added 2.43 percentage points. Net trade, as used in the calculation of gross domestic product, had a negligible impact on overall growth.

Government spending fell at a 2.9 percent annualized rate in the fourth quarter compared to a 0.9 percent pace of growth in the third quarter, subtracting 0.51 percentage points from growth.

Consumer price measures also showed a rise in the fourth quarter. The personal-consumption price index rose at a 6.5 percent annualized rate, up from a 5.3 percent pace in the third quarter. From a year ago, the index is up 5.5 percent. Excluding the volatile food and energy categories, the core PCE (personal consumption expenditures) index rose at a 4.9 percent pace versus a 4.6 percent increase in the third quarter. From a year ago, the core PCE index is up 4.6 percent.

### **Retail Spending Fell Sharply in December**

Retail sales and food-services spending sank 1.9 percent in December following a 0.2 percent gain in November and a strong 1.8 percent jump in October. Despite the December drop, total retail sales are still up 16.9 percent from a year ago and remain about 8 percent above the pre-pandemic trend.

Core retail sales, which exclude motor vehicle dealers and gasoline retailers, dropped 2.5 percent for the month, following a 0.1 percent fall in November but a 1.6 percent increase in October, leaving that measure with a 16.5 percent gain from

a year ago. Core retail sales are 6.5 percent above the pre-pandemic trend. Slower sales may help the demand/supply imbalance that has been putting upward pressure on prices.

With retail sales continuing to run above the recent eight-year trend, measured as a share of disposable income excluding transfers, retail sales are also well above the pre-pandemic range of 3.8 percent to 4.1 percent and even above the 4.2 percent to 4.4 percent range that persisted for much of the 1992 through 2007 period. There is a reasonable expectation that retail sales as a share of income is unlikely to go significantly higher and may even decline to the more recent pre-pandemic share. If so, retail sales should slow noticeably and may help ease some of the post-pandemic demand-supply imbalance.

Among the categories, most were down in December. Just three categories posted gains while 10 showed declines. The gains were led by a 1.8 percent increase for miscellaneous retailers, followed by building material and garden equipment and supplies dealers with a 0.9 percent gain, and health and personal care stores with a 0.5 percent rise.

Nonstore retailers led the decliners, down 8.7 percent, followed by furniture and home furnishings store sales, off 5.5 percent, sporting goods, hobby, and bookstore sales, down 4.3 percent, clothing and accessory store sales, down 3.1 percent, and electronics and appliance store sales, off 2.9 percent.

### **Housing Permits Were Hot in December but Rising Mortgage Rates May Cool Them Off**

Total housing starts rose to a 1.702 million annual rate in December from a 1.678 million pace in November, a 1.4 percent increase. From a year ago, total starts are up 2.5 percent. Total housing permits were very strong in December, posting a 9.1 percent gain to 1.873 million in December from 1.717 million in November. Total permits are up 6.5 percent from the December 2020 level.

Starts in the dominant single-family segment posted a rate of 1.172 million in December versus 1.199 million in November, a drop of 2.3 percent and are down 10.9 percent from a year ago. Single-family permits experienced a 2.0 percent rise to 1.128 million versus 1.106 million in November. Single-family starts are about the same level as they were in October 2020 while single-family permits are about even with their September 2020 level.

Starts of multifamily structures with five or more units increased 13.7 percent to 524,000 and are up a robust 56.0 percent over the past year while starts for the two- to four-family-unit segment were down 66.7 percent at a 6,000-unit pace versus 18,000 in November. Combined, multifamily starts were up 10.6 percent to 530,000 in December and show a gain of 53.2 percent from a year ago.

Multifamily permits for the 5-or-more group rose 19.9 percent to 675,000 while permits for the two-to-four-unit category jumped 45.8 percent to 70,000. Combined, multifamily permits were 745,000, up 21.9 percent for the month and 41.9 percent from a year ago.

Regionally, single-family permits were up in three regions: the West saw a 7.0 percent drop to 238,000 while the South managed a modest 0.5 percent increase to 650,000, the Midwest gained 12.1 percent to 158,000, and the Northeast gained 32.3 percent to 82,000 in December.

Multifamily permits had two regions with gains in December. The Northeast surged 172.8 percent to 221,000 and the Midwest jumped 39.7 percent to 109,000. On the downside, the South fell 3.9 percent to 249,000 and the West dropped 14.0 percent to 166,000. The surge in the Northeast was largely driven by a jump in permits in the Philadelphia area as tax law changes were enacted affecting real estate permits issued after December 31, 2021.

Lumber prices are once again soaring, coming in around \$1,279 per 1,000 board feet in mid-January. The increase in lumber costs will pressure profits



at builders and may lead to more price increases for new homes. Furthermore, mortgage rates have jumped recently, with the rate on a 30-year fixed rate mortgage hitting 3.45 percent in mid-January. Higher home prices and higher mortgage rates are likely to slow future housing activity.

Meanwhile, the National Association of Home Builders' Housing Market Index, a measure of homebuilder sentiment, fell back slightly in January, coming in at 83 from 84 in December, but remains at a generally favorable level. Overall sentiment remains relatively high, but inflation and supply chain disruptions continue to be significant problems. It should be noted, the survey was taken in early January before the recent jump in mortgage rates. The impact of higher rates, if they are sustained, are likely to be more fully reflected in the February Housing Market Index.

Two of the three components of the Housing Market Index fell in January. The expected single-family sales index fell to 83 from 85 in the prior month and the traffic of prospective buyers index was down to 69 from 71 in December but the current single-family sales index remained unchanged at 90.

### **New Single-Family Home Sales Jump but Prices Sink**

Sales of new single-family homes posted a gain in December, jumping 11.9 percent to 811,000 at a seasonally-adjusted annual rate from a 725,000 pace in November. Despite the gain, sales are down 14.0 percent from the year-ago level. New home sales surged in the second half of 2020 but then slowed sharply in the first three quarters of 2021, hitting a low of 649,000 in October. Since October, sales have increased for two consecutive months.

Sales of new single-family homes were up in three of the four regions of the country in December. Sales in the South, the largest by volume, rose 14.9 percent while sales in the West gained 0.4 percent,

and sales in the Midwest increased 56.4 percent while sales in the Northeast were off 15.6 percent for the month. From a year ago, sales were up 2.1 percent in the West but are off 34.1 percent in the Northeast, down 23.2 percent in the Midwest and off 17.5 percent in the South.

The median sales price of a new single-family home was \$377,700, down sharply from \$416,100 in November (not seasonally adjusted). The gain from a year ago is just 3.4 percent versus an 18.6 percent 12-month gain in November. On a 12-month average basis, the median single-family home price is still at a record high.

Despite the jump in sales, the total inventory of new single-family homes for sale rose 1.5 percent to 403,000 in December, putting the months' supply (inventory times 12 divided by the annual selling rate) at 6.0, down 9.1 percent from November but 57.9 percent above the year-ago level. The months' supply is at a relatively high level by historical comparison and is substantially higher than the months' supply of existing single-family homes for sale. The relatively high months' supply may be one reason for the plunge in median home price. The median time on the market for a new home remained very low in December, coming in at 2.8 months versus 2.9 in November.

### **Existing Home Sales Fell in December and Supply Remains Extremely Tight**

Sales of existing homes decreased 6.0 percent in December, to a 6.10 million seasonally adjusted annual rate. Sales are down 8.3 percent from a year ago.

Sales in the market for existing single-family homes, which account for about 89 percent of total existing-home sales, dropped 5.9 percent in December, coming in at a 5.44 million seasonally adjusted annual rate. From a year ago, sales are down 8.1 percent.

Condo and co-op sales fell 7.0 percent for the month, leaving sales at a 660,000 annual rate for the

month versus 710,000 in November. From a year ago, condo and co-op sales were off 9.6 percent.

The dominant single-family segment saw sales decline in all four regions. Sales fell 6.8 percent in the West, 7.5 percent in the South, the largest region by volume, 1.6 percent in the Northeast, the smallest region by volume, and 4.2 percent in the Midwest. Sales are also down in all four regions measured from a year ago (-17.3 percent in the Northeast, -5.5 percent in the Midwest, -9.8 percent in the West, and -6.0 percent in the South).

Condo and coop sales were down in two regions in December, -20.0 percent in the West and -5.9 percent in the South but were unchanged in the Northeast and the Midwest. From a year ago, sales are off in three regions and unchanged in the Midwest.

Total inventory of existing homes for sale fell in December, declining 17.1 percent to 920,000, leaving the months' supply (inventory times 12 divided by the annual selling rate) down 0.3 months at 1.8.

For the single-family segment, inventory was down 17.7 percent for the month at 790,000 and is 10.2 percent below the December 2020 level. The months' supply was 1.7, down from 2.0 in the prior month.

The condo and co-op inventory fell 15.4 percent to 126,000, pushing the months' supply down to 2.3 from 2.5 in November. Months' supply is 20.7 percent below December 2020.

The median sale price in December of an existing home was \$354,300, 14.6 percent above the year ago price. For single-family existing home sales in December, the price was \$360,300, a 14.9 percent rise over the past year. The median price for a condo/co-op was \$305,200, 12.0 percent above December 2020.

Persistent faster price gains for the single-family segment have resulted in a significant gap developing over the past decade. While median prices were about equal between 2004 and 2014, since 2014, faster price gains for the single-family

segment have pushed the median price for existing single-family homes about 18 percent above the median condo price.

## CAPITAL MARKET PERFORMANCE

(Percent change)

	January	Latest 3M	Latest 12M	2021	Calendar Year 2020	2019	3-year	Annualized 5-year	10-year
<b>Equity Markets</b>									
S&P 1500	-5.4	-2.3	20.7	26.7	15.8	28.3	18.1	14.2	13.0
S&P 500 - total return	-5.2	-1.6	23.3	28.7	18.4	31.5	20.7	16.8	15.4
S&P 500 - price only	-5.3	-2.0	21.6	26.9	16.3	28.9	18.6	14.7	13.2
S&P 400	-7.3	-5.7	12.6	23.2	11.8	24.1	12.8	9.3	10.9
Russell 2000	-9.7	-11.7	-2.2	13.7	18.4	23.7	10.6	8.3	9.9
Dow Jones Global Large-Cap Index	-4.5	-3.2	11.4	16.2	14.7	23.8	13.6	15.1	8.5
Dow Jones Global Large-Cap ex-U.S. Index	-3.3	-4.3	1.1	4.9	8.8	18.2	6.8	9.2	3.6
STOXX Europe 600 Index	-3.9	-1.4	18.5	22.2	-4.0	23.2	9.3	5.4	6.3
<b>Bond Markets</b>									
iShares 20-plus Year Treasury Bond ETF	-3.9	-3.6	-6.3	-6.0	16.4	11.5	5.3	3.5	1.7
iShares AAA - A Corporate Bond Fund	-3.1	-3.7	-5.7	-4.2	7.1	9.1	2.0	1.1	NA
<b>Commodity Markets</b>									
Gold	-1.4	1.1	-3.3	-4.0	24.8	18.7	10.8	8.2	0.4
Silver	-2.6	-6.3	-17.9	-12.8	46.8	16.7	11.9	5.4	-3.9
Refinitiv CoreCommodities CRB total return index	9.8	7.4	46.5	38.5	-9.3	11.8	13.3	7.0	-1.4

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

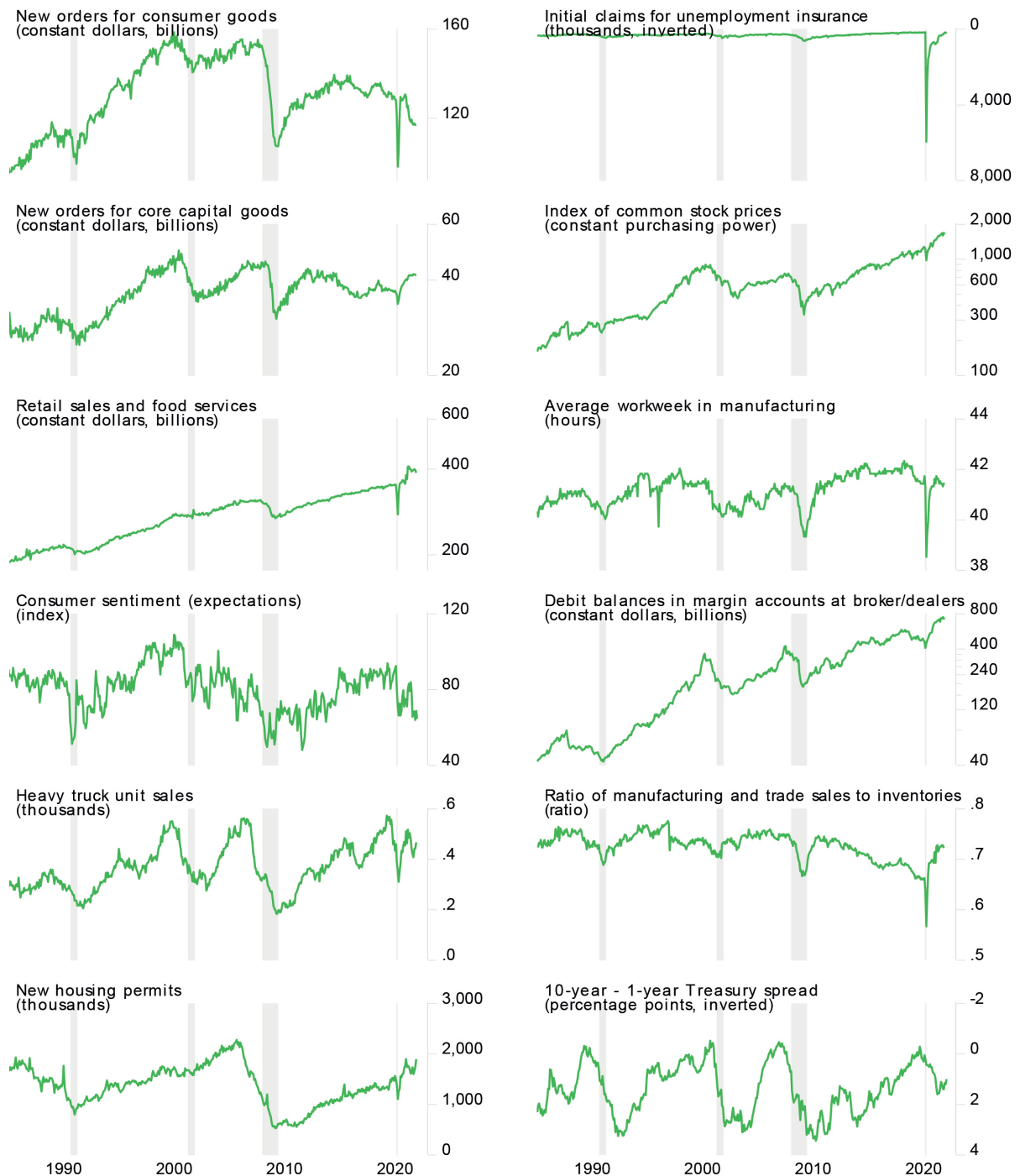
## CONSUMER FINANCE RATES

(Percent)

	January	Latest 3M	Latest 12M	2021	Average for Year 2020	2019	Average over Period 3-year	5-year	10-year
30-yr. fixed mortgage	3.1	3.1	3.0	3.0	3.1	3.9	3.3	3.7	3.8
15-yr. fixed mortgage	2.4	2.3	2.3	2.3	2.6	3.4	2.8	3.1	3.1
5-yr. adjustable mortgage	2.4	2.5	2.6	2.6	3.1	3.6	3.1	3.3	3.1
48-month new car loan	4.6	4.6	5.1	5.1	5.1	5.4	5.2	5.0	4.7

**Sources:** Bankrate, Federal Reserve.

## LEADING INDICATORS (1985-2022)

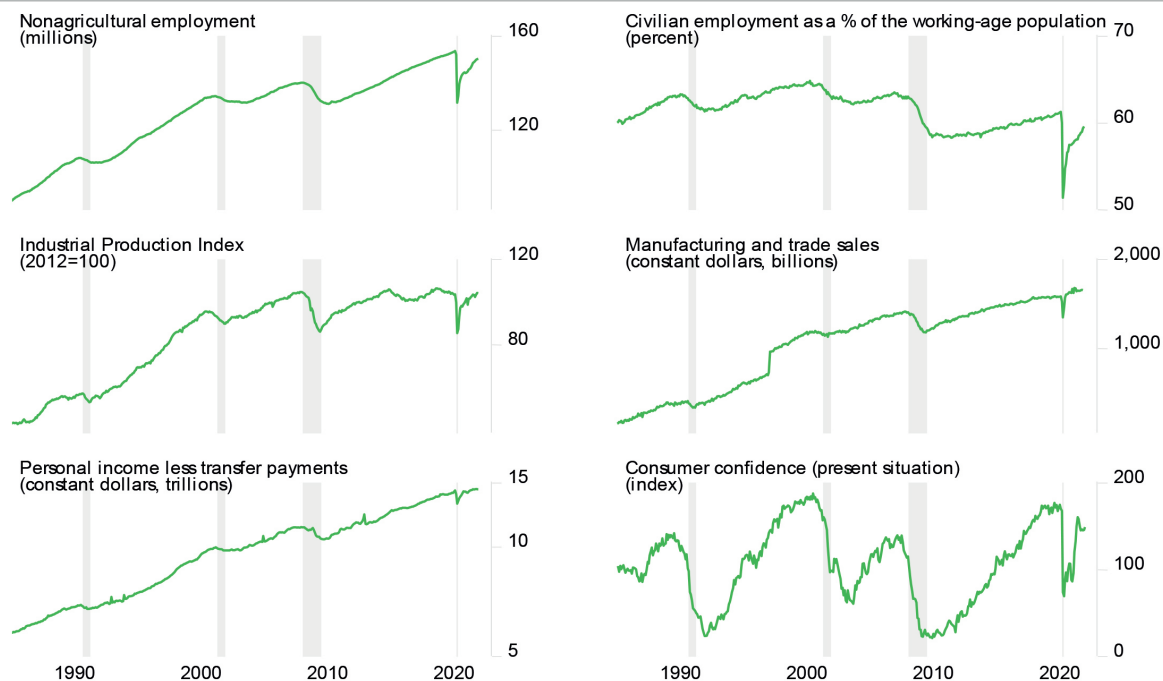


Note: Shaded areas denote recessions.

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).



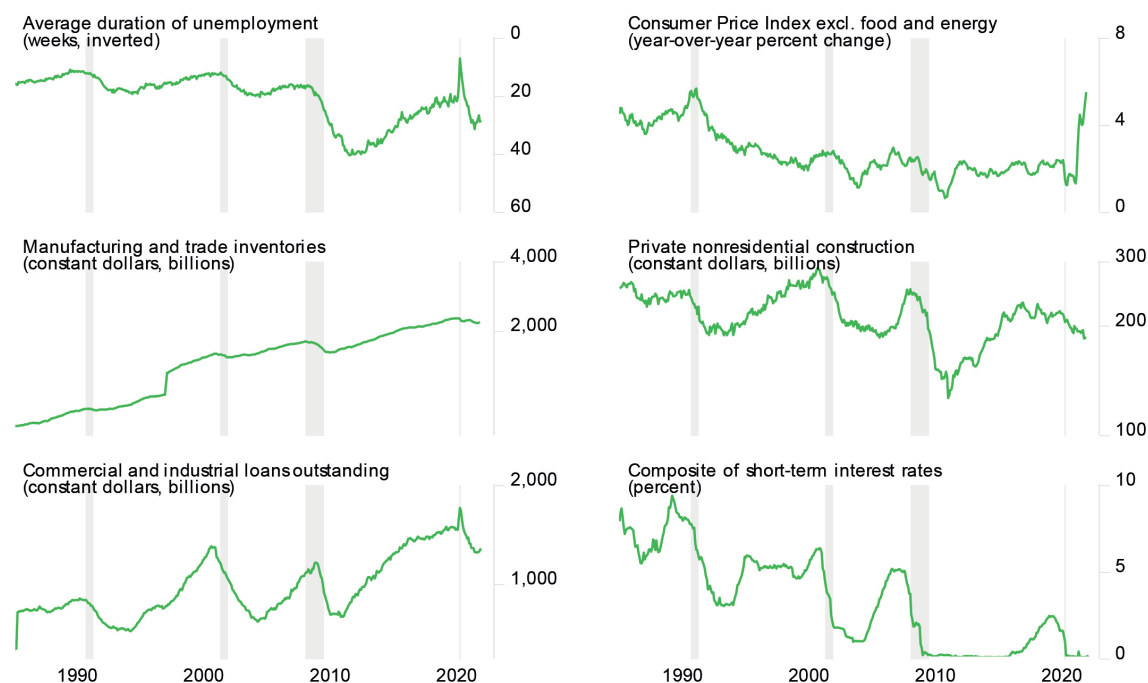
## ROUGHLY COINCIDENT INDICATORS (1985-2022)



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 (1985-2022)



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).

# 2021 In 21 Numbers

PETER C. EARLE

Research Faculty

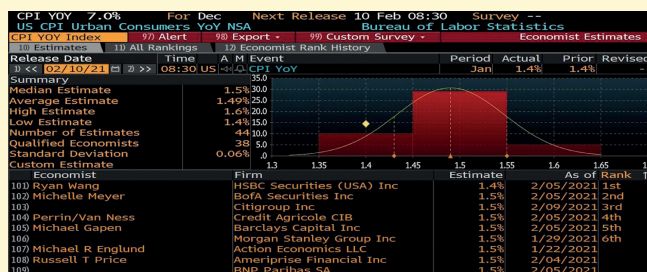
In 2021, we saw the unwinding of a number of policies and practices put in place in 2020, as well as the reversal of certain trends. Even as some states cast off lockdowns, compulsory masking, and other pandemic policies, others lifted and reapplied stringent measures time and time again. Even in the last weeks of the year there remained some policy-makers acting as if it were February 2020. Political rifts in American society seem as deep and divisive as they've been in the living memory.

Inflation is back, the current administration is being pilloried in polls, transportation snarls are everywhere, Russian troops are poised to invade a neighboring country, and in retrospect 2021 looks more and more like 1979.

Here, in my sole estimation, are 21 noteworthy data points—prices, percentages, dates and other forms of quantitative information—that highlight or exemplify certain developments in 2021, the second year of the pandemic.

## 1. 1.4%

The year began with the Bureau of Labor Statistics January 2021 US CPI (Urban Consumers Index, YoY) reading coming in at 1.4 percent (below consensus estimates of 1.5 percent) on February 10, 2021.



(Source: Bloomberg Finance, LP)

## 2. 680 Percent

The publicly traded stock of GameStop, the video game retailer, increased by this amount in January of 2021. Despite questionable financials, groups of retail traders coordinated a short squeeze which caught many hedge funds in the low-liquidity stock by surprise. While the media played up egalitarian angles, on both the long and short side the event exemplified the distortion of sound risk management following policy-induced market volatility and effectively zero interest rates.



(Source: Bloomberg Finance, LP)

## 3. 27, 40, 78, or 100

By various accounts the Shiba Inu coin increased by one of these amounts—in millions of percent—in 2021 before collapsing in price. At one point an \$8,000 investment became worth several billion dollars... if a counterparty could be found to sell to.

## 4. 160.72 Percent

Shortages of chemicals and increases in natural gas prices led to a jump in fertilizer prices, as the 2021 increase in the Green Markets North America Fertilizer Price Index depicts. Scarcity of ammonia, urea, potash, sulfur, and a wide variety of other

fertilizers throughout last year have led farmers to both shift toward less fertilizer-intensive crops as well as reducing overall harvest sizes.



(Source: Bloomberg Finance, LP)

## 5. -88.75 Percent

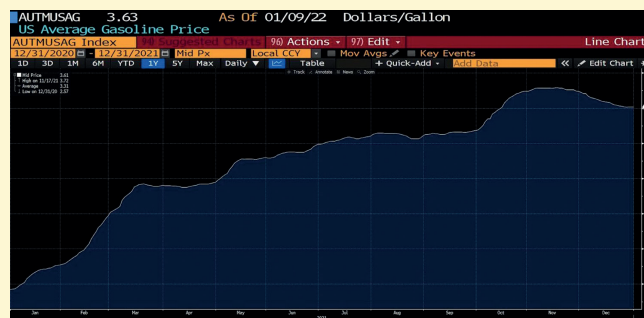
Loss in China Evergrande Group common shares in 2021. The conglomerate, owing to highly leveraged investments in real estate, fell from a high of \$17.26 in mid-January to a low of \$1.45 in mid-December.



(Source: Bloomberg Finance, LP)

## 6. \$1.25 and \$1.15

The price to which many formerly \$1.00 goods at Dollar Tree and Dollar General have risen, as well as many 99 Cent Pizza places in New York City in 2021. And the low-to-high change in the US Average Gasoline Price (from \$2.57/gallon to a high of \$3.72/gallon) during the year.



(Source: Bloomberg Finance, LP)

## 7. 2.97 Percent (297 basis points)

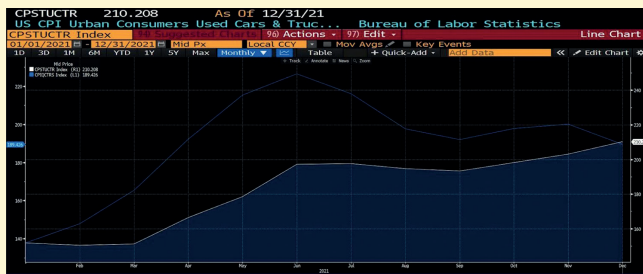
The highest 2021 value of the 10-year zero coupon US inflation swap, predicting an average annual inflation of nearly 3 percent over the next ten years.



(Source: Bloomberg Finance, LP)

## 8. 39 Percent and 38 Percent

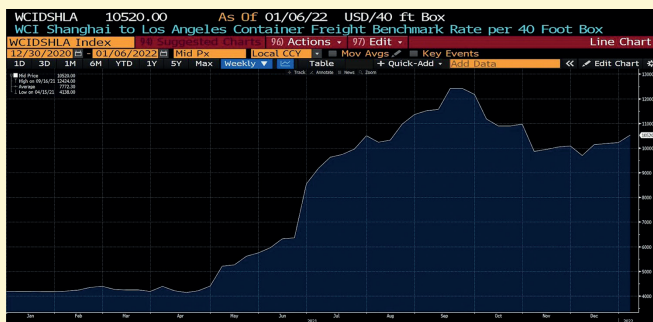
Owing to semiconductor shortages, shipping/transportation delays, and stimulus payments, used (meaning, completed/available) and rental car prices shot up in 2021. By the end of 2021, the CPI index that accounts for used cars and trucks had risen 39 percent, while the rental index rose 38 percent. (Rental prices had come down from being up as much as 64 percent by June 2021.)



(Source: Bloomberg Finance, LP)

## 9. \$6,326

Between January 2021 (\$4,194) and December 2021 (\$10,520), the increased cost of sending a 40-foot container from Shanghai to Los Angeles per WCI.



(Source: Bloomberg Finance, LP)

## 10. 2, 2, and 1

The number of US publicly-traded firms which, respectively, surpassed \$1 trillion (Tesla and Facebook/Meta), \$2 trillion (Microsoft and Alphabet), and \$3 trillion (Apple) in market capitalization in 2021.

At a \$3T market cap, Apple alone was worth more than AT&T, Boeing, Coca-Cola, Comcast, Disney, Exxon Mobil, Ford, Goldman Sachs, IBM, McDonald's, Morgan Stanley, Netflix, Nike, and Walmart combined.



(Source: Bloomberg Finance, LP)

## 11. \$335 Billion

Peak net worth of innovator Elon Musk, reached in early November 2021 upon the announcement that Hertz would purchase 100,000 electric vehicles from Musk's Tesla Corporation.

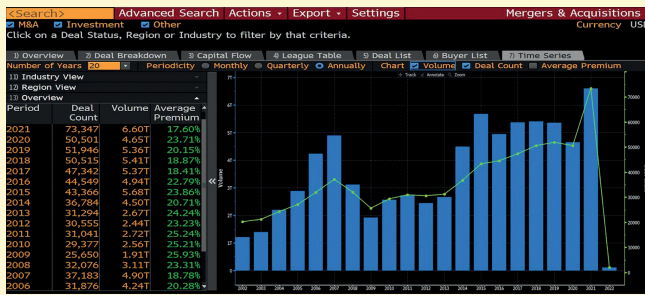


(Source: Bloomberg Finance, LP)

## 12. 61,193

Number of acquisitions, mergers, and other major corporate transactions struck in 2021 accounting for \$5.8 trillion worth of deals. It's an all-time record, it's the first time the total value surpassed \$5 trillion, and the continuation of a trend that has roots in low interest rates, rising asset prices, and the decimation of small/medium-sized firms owing to lockdowns and stay-at-home orders. (Note: Bloomberg data employs a different count methodology.)

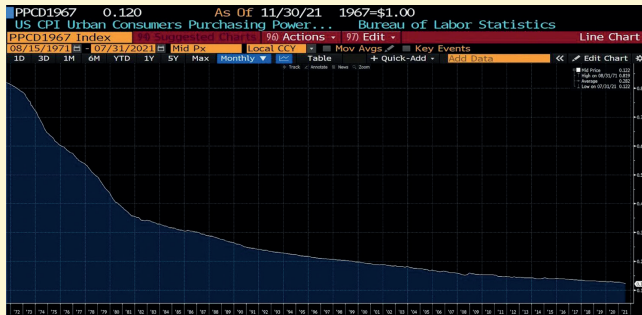




(Source: Bloomberg Finance, LP)

### 13. 50

On August 15, 2021, it was exactly 50 years to the day since President Richard M. Nixon closed the gold window and with it the last tie between the US dollar and gold. Although there are a number of estimates, by one measure the dollar has lost 85 percent of its purchasing power since then.



(Source: Bloomberg Finance, LP)

### 14. 4.5 million

In the November 2021 Job Opening and Labor Turnover Summary of the US Bureau of Labor Statistics reported 4.5 million quits: 3.0 percent, a record going back decades. The industries seeing the largest number of voluntary departures included food services, accommodations, hospitality, healthcare, transportation, warehousing, and utilities. The regions most affected are the Northeast, the Midwest, and the South.



(Source: Bloomberg Finance, LP)

### 15. 2

The number of Federal Reserve officials to resign after it was revealed that they traded in brokerage accounts before policy announcements. Robert Kaplan (President of the Dallas Fed) and Eric Rosengren (President of the Boston Fed) left their offices in 2021 after disclosures regarding the timing of certain investment decisions.

Federal Reserve Vice Chair Richard Clarida resigned following similar revelations in January 2022.

### 16. -44 Percent

Loss of value of Turkish lira vs the US dollar in 2021 amid economic mismanagement and a 36 percent rate of inflation (annualized).



(Source: Bloomberg Finance, LP)

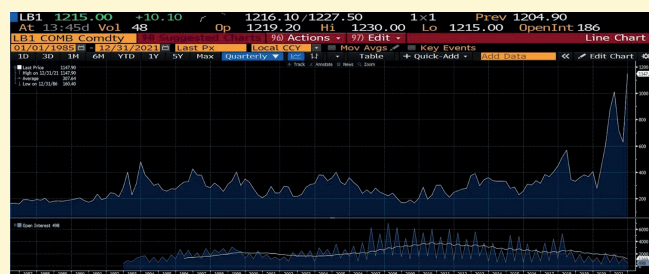
### 17. 15 June 2021

Date of acceptance of an article entitled "Inter-Hospital Escalation-of-Care Referrals for Severe Alcohol-Related Liver Disease with Recent Drinking

During the COVID-19 Pandemic” in the journal *Alcohol and Alcoholism*. In the coming years, this article will likely appear as an early, canary-in-the-coal-mine warning about one consequence of lockdowns.

## 18. 10

Lumber was a commodity of particular focus throughout 2021, driven by a combination of pandemic-policy shutdowns, stimulus payments, an explosion of DIY projects, and tariffs. At one point, because so much panic buying had taken place as prices rose from \$400 to \$1,700 per thousand board-foot, inventories of major lumber yards, wholesalers, contractors, and homebuilders were full. Ten is the number of times in 2021 that front-month lumber futures crossed over or under the \$1,000 per thousand board-foot price in 2021, after trading at an average price of \$291.31 per thousand board-foot for over three decades.



(Source: Bloomberg Finance, LP)

## 19. 70

The number of new highs hit by the S&P 500 in 2021 as it notched a 26.9 percent return. (Going back several decades, the average number of new highs hit per year is 18, a record only beaten in 1995 at the start of the dot-com era.) Among other indices, the Dow Jones Industrial Average returned 18.7 percent and the Nasdaq Composite 21.4 percent.



(Source: Bloomberg Finance, LP)

## 20. -3.64 Percent

Net change in the price of an ounce of gold in 2021 from \$1,898.36 on December 31, 2020 to \$1,829.20 on December 31, 2021.



(Source: Bloomberg Finance, LP)

## 21. 7.0 Percent

On January 12, 2022, the December 2021 US CPI Urban Consumers Index (YoY) came in at 7 percent, marking the highest year-over-year US inflation rate since 1982.



(Source: Bloomberg Finance, LP)

– January 20, 2022

# All Cause Mortality in the United States During 2021

GILBERT G. BERDINE, M.D

Contributor

The CEO of the OneAmerica insurance company recently disclosed that mortality in the 18-64 age group was 40 percent higher during the 3rd and 4th quarters of 2021 than during pre-pandemic levels. For reference, the CEO indicated that a 10 percent increase would have been a 1-in-200-year event. Furthermore, most of the deaths were not attributed to Covid.

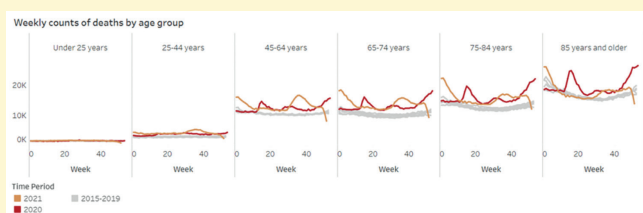


Figure 1: US weekly deaths by age group. Data is from the CDC.  
The gold curve is data for 2021. The red curve is data for 2020.  
The gray curves are data for 2015-2019.

The OneAmerica insurance company serves a subset of the US population. The CDC collects mortality data for the entire US population. Figure 1 illustrates the weekly US mortality from 2015-2021 by age group. Several generalizations are readily apparent. The years 2015-2019 were very similar for all age groups forming a tight band of usual expectation. The tightness of the band for 2015-2019 means that relatively small increases in mortality are very significant events. There has been nothing unusual about mortality for the Under-25 age group during the Covid period compared to recent history. The last 10 weeks of data for 2021 are incomplete due to delays in reporting death certificates. Otherwise, mortality for the Over-25 age groups have been higher than historic norms starting in about March of 2020 and continuing to the present time with one big exception for the 85+ age group.

There is a very interesting interval from Week 10 (March 7) 2021 to Week 24 (June 13) 2021. Deaths in the 85+ Age Group are **LOWER** than average during this interval. Total deaths for Weeks 10-24 averaged 248,536 during 2015-2019, but were 242,372 during 2021. For the 25-44 age group, total deaths for Weeks 10-24 averaged 38,955 during 2015-2019, but were 54,789 (40.6 percent higher) during 2021. Daily Covid deaths (7-day moving average) in the US were declining from 1,689 on March 7, 2021, to 387 on June 13, 2021. This time period was the decline phase of the winter outbreak that peaked around January 18, 2021, and reached a nadir around July 8, 2021 prior to the Delta surge. One cannot plausibly attribute the above average deaths for the 25-44 age group during this time period to Covid. What was responsible for these deaths?

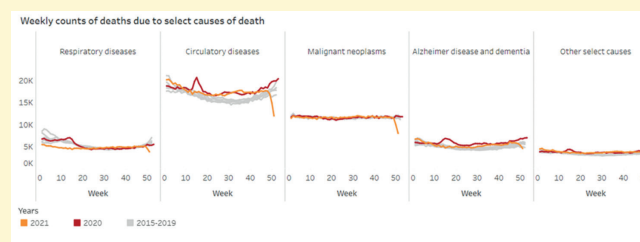


Figure 2: Weekly US mortality by Cause Group. Data is from the CDC.  
The gold curve is data for 2021. The red curve is data for 2020.  
The gray curves are data for 2015-2019.

Clearly there is a very significant above average number of deaths across the US that cannot be attributed to Covid. As was the case for the Age Group graphs, data for the last 10 weeks are incomplete due to delays in reporting of death certificates. Deaths attributed to Malignant Neoplasms were average during the entire pandemic period. Although there was an increase in deaths from

Alzheimer Disease and dementia in 2020 after the onset of the pandemic, this was less apparent during 2021. There was an increase in deaths attributed to Other select causes (which include suicides and drug overdoses), but the magnitude was much smaller than what is seen in the Circulatory diseases category. Deaths attributed to Circulatory diseases include strokes, heart attacks, and heart failure (including myocarditis). The Circulatory diseases category is clearly the most important category for excess deaths during 2020 and 2021. Notably, deaths attributed to Respiratory diseases were below average during 2021 for the period of interest between Week 10 and Week 24 of 2021. Covid is a respiratory disease and leads to acute respiratory distress syndrome with hypoxemia and respiratory failure in severe cases. During the period of interest between Week 10 and Week 24 of 2021, Covid deaths were steadily declining, deaths attributed to Respiratory diseases were below average, but deaths due to Circulatory diseases were significantly above average. It is difficult to explain the data between Week 10 and Week 24 of 2021 on the basis of lung injury caused by Covid infection.

The spike protein enables entry of the virus into the host cells. The spike protein targets the angiotensin converting enzyme-2 (ACE-2) receptor. Angiotensin converting enzymes play an important role in the regulation of blood pressure. Angiotensin receptor blockers (ARB) and angiotensin converting enzyme (ACE) inhibitors are both important classes of drugs used to treat hypertension. It does not require a stretch of the imagination to suspect that the spike protein could cause elevation of blood pressure. Acute elevation in blood pressure is known to be a risk factor for stroke, acute myocardial infarction (heart attack), and congestive heart failure. Spike protein is also associated with clotting, presumably due to endothelial injury, which would also increase risk for myocardial infarction and stroke. It is not clear why spike protein from the Covid virus would

explain above average deaths attributed to Circulatory diseases during a time period when Covid cases and deaths were declining. However, the Covid virus was not the only source of spike protein during this time period. The mRNA vaccines led to the production of spike protein by host cells and Weeks 10-24 of 2021 were immediately followed by the mass introduction of mRNA vaccines to the US public. The data is not proof, but it is certainly a red flag.

The appropriate method to assess vaccine efficacy and safety is all cause mortality. Deaths from all causes are compared between the vaccine group and a control unvaccinated group. This method has not been used. Rather, the CDC and FDA determine on a case-by-case basis whether reported adverse events can be attributed to the vaccine. If a footballer drops dead during a game, one would not be inclined to attribute the cause to a vaccine given 10 weeks earlier. However, when 5 footballers drop dead every week, one will be looking for **ANY** common denominator between the dead footballers. Neither the CDC nor the FDA are impartial observers of vaccine safety. Both agencies have vested interests in promoting the vaccines. When the CDC or FDA analyze events on a case-by-case basis, they are inclined to say that an event was not due to a vaccine (especially if the people at the CDC and FDA include former executives from Pfizer). However, when the entire US population has a significant number of events compared to historic basis, one must look for the common denominators in the people with the events. The existing data is not proof that the vaccines are causing deaths due to Circulatory diseases. The burden of proof, however, lies with the CDC and FDA to prove that the vaccines are not causing deaths due to spike protein. It is scientific irresponsibility to eliminate the control group via vaccine mandates and make future assessment of vaccine safety scientifically impossible.

– January 30, 2022



# Inflation is High, Will Remain Elevated for Years

WILLIAM J. LUTHER

Director, Sound Money Project

As anticipated, the latest data show that prices continued to rise at an incredible pace in December. The Personal Consumption Expenditures Price Index (PCEPI), which is the Federal Reserve's preferred measure of inflation, grew at a continuously compounding annual rate of 5.6 percent from December 2020 to December 2021. Inflation has averaged 3.5 percent since January 2020, just prior to the pandemic.

The Federal Reserve (Fed) is officially committed to a 2 percent average inflation target, as explained in its Statement on Longer-Run Goals and Monetary Policy Strategy. But supply constraints and a surge in nominal spending have pushed prices well above target. In December, the price level was 3 percentage points higher than it would have been had prices merely grown at 2 percent since January 2020.

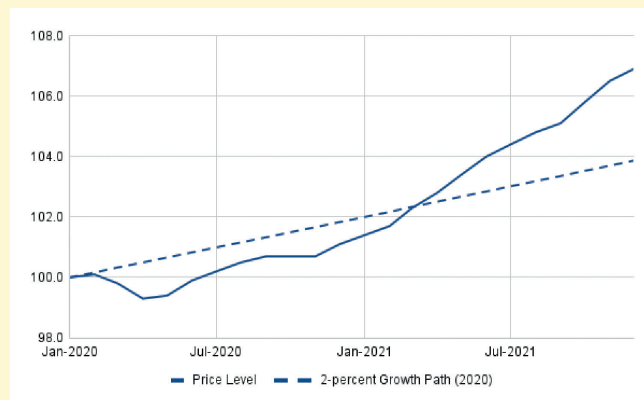


Figure 1. Personal Consumption Expenditures Price Index (PCEPI) and 2-percent Growth Path

The Fed reaffirmed its commitment to a 2 percent average inflation target on January 25, 2022. But, so far, it has done little more than say it would tighten monetary policy in the coming months.

Following last week's Federal Open Market Committee (FOMC) meeting, the Fed announced

it would leave its federal funds rate target and the interest rate it pays on reserve balances unchanged. It will reduce its monthly asset purchases, but the size of the Fed's balance sheet will continue to grow for now. None of this really amounts to tighter monetary policy, and yet the Fed seems to have convinced markets that it is serious about bringing down inflation.



Figure 2. Estimated PCEPI Inflation Expectations

Inflation expectations have gradually declined since mid-November. According to my estimates, bond markets were pricing in nearly 3 percent PCEPI inflation per year over the next five years and 2.6 percent per year over the next ten years. Now, they are pricing in around 2.6 percent inflation per year over the next five years, and 2.2 percent per year over the next ten years.

That the most recent estimate over the five-year horizon exceeds that over the ten-year horizon means bond markets expect inflation will decline over time. The FOMC has similarly projected that inflation would decline over the coming years. However, the precise estimates suggest bond markets currently

expect inflation will exceed FOMC projections in the near term. The median FOMC member projected inflation would be 2.6 percent for 2022, and then fall to 2.3 percent in 2023.

At this stage, two things seem pretty clear: Inflation is high and will likely remain above target for a few years. My own view is that the FOMC is painting a rather rosy picture, and that market expectations provide a better guide for estimating inflation. Even if I am wrong and the Fed delivers on its projections, inflation will likely exceed 2 percent through 2024.

*Note:*

*The charts in this article are taken from the  
monthly inflation report [link for "monthly inflation report":*

*<https://www.getrevue.co/profile/inflationreport>*

*I produce with Florida Atlantic University student Morgan Timmann.*

– January 31, 2022

# The Impact of Higher Inflation on US Asset Class Returns

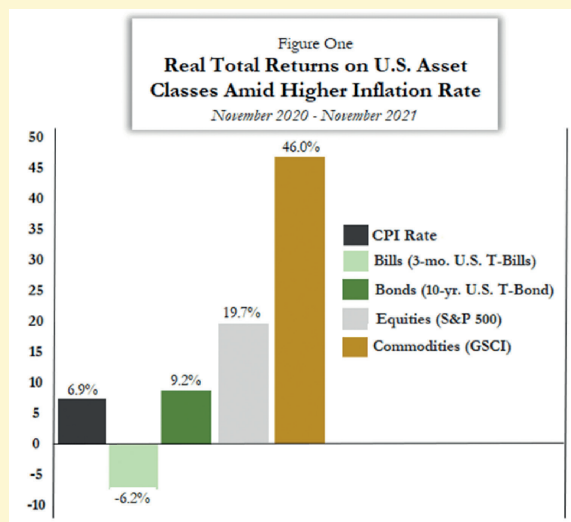
RICHARD M. SALSMAN

Senior Fellow

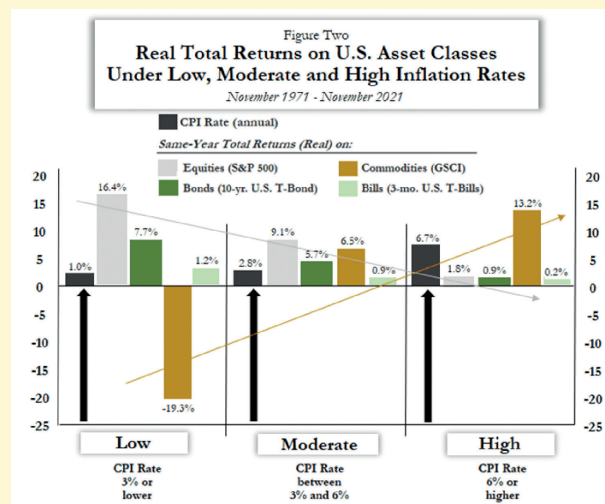
Which US asset classes perform best or worst amid periods of high inflation (6% or more)? Answer: commodities perform best, while bills perform worst. It's commonly recognized that bonds are not a good inflation hedge – and they aren't – but less recognized is that equities also fail in this regard; each has returned only a bit more than bills amid periods of higher inflation.

With the US CPI up by 6.9% over the past year – the highest rate since 1982 — have US asset returns reflected this longer-term history? Mostly, but not perfectly. Figure One illustrates how commodities have outperformed all other assets over the past year (through November, the latest available CPI data), with a real gain of 46%. Bills have lost 6.2%, also consistent with the history.

The outlier is equities, which have gained 19.7% in real terms. This is contrary to history. Why? Probably because the Fed until recently chose not to “chase” the higher inflation rate with rate hikes; yet this month it hinted that it would raise rates three times (by 75 basis points) in 2022.



Now consider the longer-term history. Figure Two shows that commodities have materially outperformed equities (13.2% versus 1.8%) under periods of high inflation (averaging 6.7% p.a.) while significantly underperforming (by -35.7% points p.a., or -19.3% versus 16.4%) amid low inflation (average: 1.0% p.a.). Equities have returned far more (16.4% p.a.) under episodes of low inflation versus 9.1% p.a. under moderate inflation and only 1.8% p.a. under high inflation. Meanwhile, bonds have returned 7.7% p.a. under low inflation, 5.7% p.a. under moderate inflation, and just 0.9% points p.a. under high inflation.



Clearly, financial assets perform poorly under high inflation (versus tangible assets). Less recognized is that equities serve no better than bills or bonds in protecting investors from the erosion of capital caused by high inflation (and by the higher interest rates that typically result). Huge equity gains amid high and rising inflation are historically (and economically) unjustified and unsustainable. Higher

inflation also depresses equity valuation (again, due to higher interest rates). US equities are up nearly 20% in real terms over the past year, most likely because we have yet to observe the higher interest rates which tend to accompany higher inflation rates.

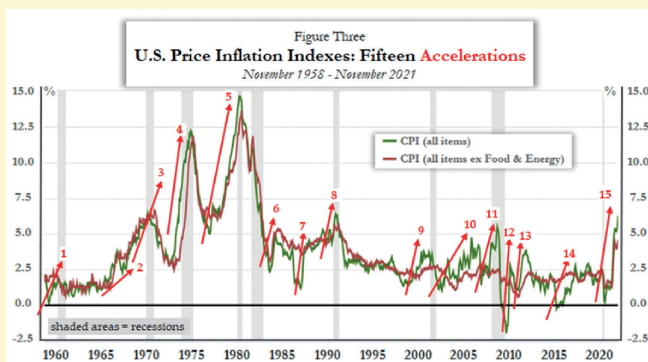
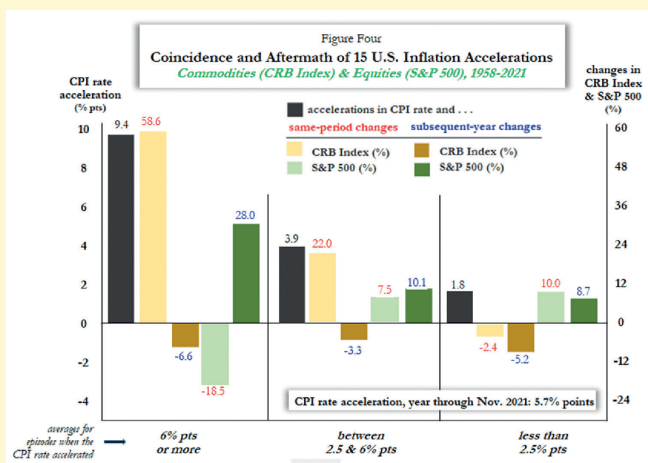


Figure Three shows that Fed Chairman Jay Powell has presided over the biggest US inflation acceleration in decades. What does that mean for US asset returns? We’ve had fifteen major inflation accelerations since 1958 (Figure Three). Figure Four makes clear that during these periods commodities have dramatically outperformed equities – and the greater the inflation acceleration, the greater the outperformance. A year later, however, equities beat commodities.



Not until recently has Powell conceded his agency’s culpability in higher US inflation; initially

he blamed it on an economic recovery, post-Covid lockdowns (as if more real output causes inflation). Initially he also insisted that higher inflation was “transitory.” Now he’s not so sure. What exactly is his theory of inflation? He’s eclectic about it. It seems he’s got a grab bag of factors.

Is Powell aware that since he became chairman in January 2018 his Fed has increased “high-powered money” (the monetary base = currency plus bank reserves) by 65% (from \$3.8 trillion to \$6.4 trillion)? Over that same period, M1 (spendable money supply = currency plus checkable-transferable accounts) increased by 448% (from \$3.7 trillion to \$20.1 trillion). Inflation is a monetary phenomenon, entailing both money supply and money demand; it is not caused by real factors – whether employment, jobless rates, economic growth rates, or “output gaps.”

Just as the Fed has mimicked Bank of Japan (BOJ) policies (with a decadal lag) regarding ZIRP (“zero interest rate policy”) and QE (“quantitative easing”), it may now also be copying the BOJ’s long-term policy of largely ignoring accelerating inflation. Japan’s CPI rate has accelerated materially on three occasions since the BOJ adopted ZIRP and QE in the mid-1990s and in each case the BOJ deliberately avoided rate hiking. In the first case Japan’s CPI rate accelerated by 3.1% points (from -0.6% in the year through November 1995 to 2.5% in the year through October 1997); in the second case the rate accelerated by 2.5% points (from -0.2% in the year through September 2007 to +2.3% in the year through July 2008); in the third case the CPI rate accelerated by 5% points (from -1% in the year through March 2013 to +4% in the year through May 2014).

The BOJ resisted raising its policy rate in recent decades because doing so might have raised yields on Japanese Government Bonds (JGBs). It doesn’t want to do that, given that the ratio of Japan’s central

government debt to its GDP is now 235% – double what it was in 1998. Japan’s Ministry of Finance wants the BoJ to keep fostering cheap public borrowing. The Fed seems to be acting likewise in recent years, and may continue doing so, again mimicking the BoJ by refusing to raise rates (or not raising them materially) not because US inflation is “too low” or high or “transitory,” but because the Fed likewise is intent on satisfying the US Treasury’s need to borrow cheaply. The ratio of US federal debt to GDP ratio is now 125% – double what it was in 2007.

Central banking “independence” from politics (fiscal profligacy) seems to be a thing of the past.

If the Fed is to be a mere BoJ copycat, does that mean that it can keep US equities artificially elevated by a perpetually low policy rate? No more than the BoJ has been able to do for Japanese equities. The NIKKEI today remains 25% *below* its all-time high at the end of 1989, not because Japan has suffered “deflation” (it hasn’t) or too little inflation, but because public policy has imposed dozens of deficit-spending “stimulus” schemes that in truth only deaden incentives and divert capital to fundamentally unproductive public securities. US policymakers are doing likewise, of course.

– January 4, 2022

# Inflation in Oil Prices Will Soon Slow to Zero

ALAN REYNOLDS

Senior Fellow

Monthly reports about inflation are too often uncritically expressed on a year-to-year basis, such as the percentage change in the consumer price index from November 2020 to November 2021. Relying on year-to-year percentage increases to describe or predict trends in inflation is frequently misleading, however, for reasons I previously enumerated here, here, here and here. In the third quarter of 2021, year-to-year changes made it appear as if inflation was speeding up when it was slowing down.

Trying to predict the future by gazing in the rear-view mirror at previous year-to-year monthly changes will invite the opposite confusion in 2022, by creating a false expectation that the largest one-time price changes between 2020 and 2021 may continue into 2022.

In November 2021, the two most noticeable 12-month increases in the consumer price index (CPI) were the 33.3 percent increase in the price of energy and the 31.4 percent increase in the price of used cars. By the summer of 2022, the year-to-year increases in prices of energy and used cars will be near zero, if not below zero.

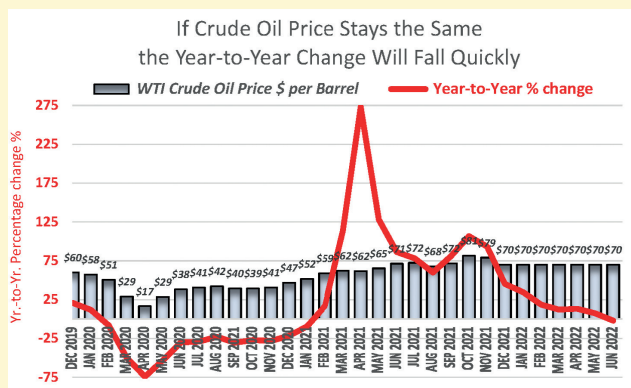
The reopening of world economies in the Spring of 2021 made year-to-year price changes inflate price trends because changes were measured against flat or falling prices during global lockdown months. But demand and prices recovered when restrictions on commerce and transportation were largely ended by February 2021.

By the Spring of 2022, the confusing habit of describing monthly inflation by year-to-year percentage changes will begin to push in the opposite direction. Prices that are rising at the same rate as before will appear to be slowing rapidly on

a year-to-year basis. Prices that are not changing at all will be seen as falling toward zero or less.

The first graph provides a straightforward way to illustrate these anomalies by examining one pivotal price that affects many others – the price of crude oil – by showing what would happen to monthly year-to-year percentage changes if crude oil remains near \$75 (well above the 2021 median of \$69).

From April 2020 to April 2021, the spot price of a barrel of West Texas Intermediate (WTI) crude oil rose by 273 percent to \$61.70 in April 2021. That was not because \$61.70 was unusually high (it was higher in April 2019; \$63.80), but because the \$16.55 price of April 2020 was so deflated that U.S. crude oil production collapsed from 13 million barrels a day in March 2020 to 10.45 million in September 2021, before partly recovering to 11.65 million near year-end.



With U.S. oil supply falling and world demand rising as economies reopened, the average price of regular gasoline (which had fallen from \$2.88 a gallon in April 2019 to \$1.72 in April 2020) quickly recovered to \$2.72 in April 2021. The gasoline



price was widely reported as 58 percent “inflation” although gasoline was cheaper than in April 2019.

By October 2021, the price of WTI crude peaked at \$81.48, though the year-over-year change *slowed* to 107 percent. The price then settled down to \$70 during the first 20 days of December. On December 21, the Energy Information Agency predicted “prices will remain near current levels in 2022, averaging \$70 (using Brent crude which is pricier than the WTI). That would be higher than the pre-pandemic price below \$60 or the 2021 median price of \$69.

If the EIA forecast is right and the monthly price averages \$70 a barrel before the November elections, that *would rapidly shrink the year-to-year change to 35 percent in January, 19 percent in February, 12 percent in March, -1.9 percent in June, and -16.4 percent by October 2022*. The 12-month rate of oil price inflation would not fall as quickly if the oil price instead averages \$75 a month – as depicted in the graph – but the year-to-increase would still drop to 5 percent by June and to -7.4 percent by October.

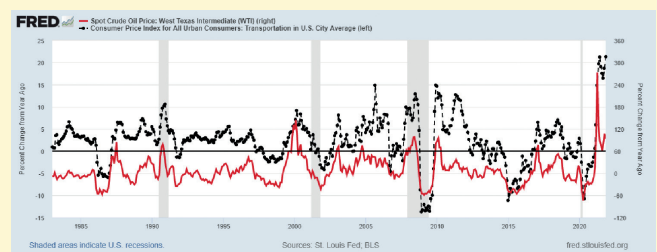
A year-to-year drop of 7-16 percent in the oil price would be modest by previous experience. Year-to-year crude oil prices fell by 34-58 percent in 1986, 1991, 1997, 2001, 2009 and 2015, though it sometimes took more than 12 months for the price to fall that much. Falling year-to-year oil prices, in turn, brought slow or negative year-to-year CPI inflation.

In October 1990, when the price of WTI crude oil was up 78.8 percent from the same month in 1989, the consumer price index was up 6.4 percent from a year earlier. But one year later, WTI crude oil had fallen 35.3 percent and year-to-year CPI slowed to 2.8 percent.

In July 2008, when the price of oil was up 79.9 percent from a year before, consumer prices were up 5.5 percent. But one year later, the crude oil price had fallen 52 percent year-to-year and CPI inflation turned negative, to minus 2 percent.

As we now look ahead to 2022, the year-to-year rise in oil prices will start to turn negative by June if oil stays around \$70 or October if it stays near \$75. Year-to-year reported inflation in energy-intensive goods and services can likewise be expected to slow sharply as 2022 progresses.

The second graph from FRED (Federal Reserve Bank of St. Louis) shows how year-to-year changes in the CPI for transportation, for example, move up and down with year-to-year changes in the oil price. Producer prices for oil-intensive products such as fertilizer and plastics also follow oil prices up and down. Like transportation costs, those prices also greatly affect prices of other products – such as grain, dairy, and meat prices in the case of fertilizer, and packaged goods in the case of plastics.



## A Price That Rises Only Once is Not Inflation

Crude oil is only one price among many that rose rapidly in 2021 but will appear to be falling on a year-to-year basis by the summer of 2022 – even if the monthly price remains the same. (The same logic does not apply, however, to rent and other prices that increased little in 2021).

Used cars offer another excellent example of a 12-month pace of inflation that cannot possibly continue. The CPI for used cars and trucks peaked at 160.4 in January 2001 and had fallen to 139.5 by July 2020. Even in March 2021, the used car index was still below the 1994 peak (151.2) before leaping 30 percent to 197.2 in June. Headlines promptly reported that as an alarming 45.2 percent rate of “inflation” in used car prices, as if it was part of an

ongoing trend. But at that pace, used cars would quickly become far more valuable than new cars and the index would reach 286.5 by June 2022 – an impossible trajectory.

The used car index remained roughly unchanged from June to November, averaging 197.3. Even if that number could somehow remain at that record high through June 2022, the recorded year-to-year change of 45.1 percent in June 2021 would nonetheless drop to 18.6 percent by April 2022, then 10.5 percent in May and zero in June.

If the used car price index in June 2022 instead dipped back to the more-normal level of March 2021, that would amount to a 23.3 percent decline in used car prices compared with a year before. Discounting of overpriced used cars is to be expected as new vehicle production picks up. IHS Markit forecast a 16.9 percent rise in North America in production of cars and light trucks in 2022, and a 17.8 percent rise in Europe. And KPMG predicts that used car prices could crash by roughly 30 percent before October 2022, a warning that could dampen demand for the increased number of new vehicles by reducing trade-in values.

In short, one thing we can confidently project about 2022 is that year-to-year measures of “inflation” in prices of used cars and energy will be near zero by the third quarter, if not below zero. That is nearly a sure thing, baked-in-the cake.

Once the new Spring and Summer consumer price statistics begin rolling in, embarrassed economists and reporters who had long been pointing backwards at year-to-year price changes to warn of ever-increasing future inflation may have to either switch to a different way to measure inflation or switch to a different tune.

– January 11, 2022



# Does Monetary Policy Matter?

THOMAS L. HOGAN

Senior Research Faculty

Monetary economists believe that the growth rate of the money supply is an important determinant of short-run economic outcomes. Good monetary policy can help minimize volatility and keep the economy on a stable growth path. Bad policy, in contrast, can worsen economic downturns and misallocate capital investments.

Some economists and pundits dismiss the role of monetary policy as either purely mechanistic or simply unimportant. History shows, however, that discretion in monetary policy does matter and that mistakes by the Federal Reserve can have catastrophic effects on the U.S. economy.

## **Textbook monetary policy**

Standard macroeconomic courses teach that the Fed can steer economic growth by manipulating short-term interest rates. Lower market interest rates encourage businesses to borrow and prompt individuals to save less and spend more, whereas higher rates discourage spending and borrowing.

The banking system plays a key role in this process. In response to lower interest rates, banks are more likely to create new bank loans, which expand the money supply and increase spending in the economy. The relationship between interest rates and bank lending is vital to the operation of the Fed's monetary policy.

Textbooks often assume the Fed's interest rate policies will have important effects on lending and the money supply. But how effective are such policies in practice?

## **Is monetary policy mechanical?**

Many economists seem to have a mechanical view of the economy in which the Fed uses interest rates to determine inflation and unemployment. In this view, the Fed sets interest rates at a level that Fed officials believe will accomplish their inflation goals, often based on some formula or monetary rule. Inflation then determines the rate of unemployment through the Phillips curve, the basis of practically all Fed models.

Yet, as AIER contributors have pointed out, the Fed does not set market interest rates. It merely targets a range for the federal funds rate with the hope that short-term interest rates will affect broader measures like bank lending and total spending. Nor does the Fed follow a monetary rule in practice.

Since 2008, the Fed has also engaged in quantitative easing (QE) programs aimed at influencing long-term interest rates and broad monetary aggregates. Research on the effectiveness of these programs shows mixed results.

## **Is monetary policy unimportant?**

Some argue that Fed policy has no effect at all on lending. In this view, the Fed has zero influence on market interest rates or total credit in the economy. Monetary policy, therefore, does not affect aggregate demand, inflation, or total economic activity.

On the contrary, most economists believe that monetary policy has had important effects on the economy, especially when Fed officials got their policies wrong. Poor Fed policy was a major cause of two of the largest economic disruptions in US history: the Great Depression of the 1930s and the Great Inflation of the 1970s.

## The margin matters

The reality appears to lie between these two opposing views: Fed policy has effects *on the margin*. When Fed policy is able to effectively lower (or raise) the interest rates that banks pay to each other or the rates on safe assets like short-term U.S. Treasury bonds, this lowers (or raises) banks' costs of borrowing and lending. A slightly lower interest rate, in turn, makes it easier for businesses to borrow, while a higher rate makes them less likely to borrow.

Of course, not all businesses will change their borrowing behavior due to small changes in interest rates. Only the *marginal* businesses, which were already on the fence about whether or not to take out a loan, will be affected by the change.

This moderate view – that Fed policy has some but not complete influence on lending – is the most consistent with historical evidence. Prior to the 2008 financial crisis, the Fed did not set interest rates directly but simply targeted the federal funds rate by buying and selling Treasury bonds. In the decade after 2008, the Fed paid a higher rate on bank reserves than was available on other safe assets, which encouraged banks to hold more reserves and discouraged lending. Monetary growth since the pandemic has had only limited effects on lending, although it may be too soon to judge the ultimate effects of these policies. In each of these cases, the Fed influenced lending and money but did not fully control them.

## The seen and unseen

Milton Friedman likened good monetary policy to a thermostat which automatically adjusts when the temperature is too low or too high. Likewise, the Fed should hasten or slow money growth as needed in order to keep the economy on a smooth path with only minor deviations from its stable growth trend. Just as a thermostat will not control the temperature outside, the Fed cannot change the real fundamentals

of an economy. But that doesn't mean the thermostat and the Fed have no effect on anything.

If a thermostat does its job, it will regulate the temperature inside. Likewise, if the Fed does its job, it will regulate the supply of money. A well-functioning thermostat makes it appear as if there is no relationship between outside temperature and inside temperature. A well-functioning central bank makes it appear as if nominal shocks have no effect on output and employment. In both cases, the apparent lack of a relationship results because the device is working well to offset external forces. The relationship is only visible when the device works poorly. The effects of good monetary policy go unseen. The effects of bad monetary policy cannot be ignored.

Unfortunately, the Fed's actual performance has not been ideal. Its monetary policy mistakes have had dire consequences for ordinary Americans and the US economy. Those mistakes make it clear that monetary policy matters.

– January 13, 2022

# Publicly Traded Companies Prevail Despite Covid

GREGORY VAN KIPNIS

Chairman of the Board of Trustees

Nearly a year ago I argued that the angst over high price–earnings levels was likely misplaced. The financial press was full of negative prognostication. Heavy emphasis was given to the work of Nobel laureate Robert Shiller’s CAPE index, which was backward-looking, trailing 12 months price/earnings ratio (PE-12). Other pundits stressed that current earnings’ PEs and ratios of market capitalization to GDP also pointed to an overheated market.

We took a different and more fundamental approach based on classical valuation, focusing on 12-month forward earnings projections and the persistence of historical total returns. The entrepreneurs that manage publicly traded, private sector companies have innovated new ways to expand their markets, and do so profitably. They have succeeded through the thick and thin of business cycles, financial crises, wars, severe inflation episodes and other shocks to the economy.

We argued that the delivery of future earnings is what counts. And, one should not underestimate the entrepreneurial talents of businessmen to adapt and innovate. On balance, innovators manage their business and stabilize and grow earnings despite adversity, whether caused by calamities, intense competition or even market interventions by government. To survive and thrive, entrepreneurs necessarily must understand markets and consumer needs and how to innovate better solutions to fulfill those needs and even create new markets for new products. That has been the story for the past century and a half, as documented in our previous study.

In that report last January, we concluded that the S&P 500 was somewhat undervalued.

While the worst fears about Covid fevered the minds of the unimaginative, free markets found solutions and cures that overcame business setbacks and unique logistical problems.

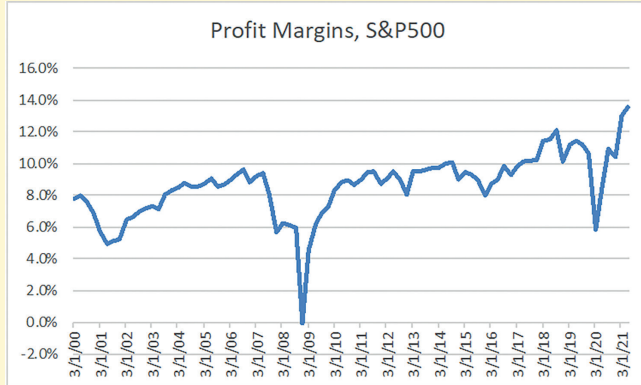
As 2021 unfolded, advances in stock market prices led to press reports diagnosing severe market vertigo. A course of Dramamine would have been a better prescription. On a total return basis, the S&P 500 closed the year up 26 percent from year-end 2020.

This leads to the obvious question: where are we now on a valuation basis? Clearly the stock market advance to higher values is impressive, but are they now out of line with prospective earnings and historical norms?

Profits recovered spectacularly from the depths of the 2020 Covid-induced recession. How was that accomplished? Sales growth alone was not enough to explain the profit recovery. Entrepreneurs, especially the publicly traded ones, found ways around supply chain interruptions and scarcity of labor and expanded profit margins. They innovated ways to control costs.

In the second and third quarters of 2021, profit margins reached unprecedented high levels of 13.5 percent. The average over the 20 years prior to 2021 was slightly over 8 percent (see Chart 1 below). There has been an observable upward trend, but the spike in 2021 was unexpected. A fuller explanation of this development must be left for a separate analysis. Suffice it to say it was remarkable.

CHART 1



During December of 2020 the conventionally measured PE reached 40. Today PE is 25 and, based on current earnings and 21 based on 12-month forward earnings.

We had argued in the earlier article that in a world of low interest rates it was not unreasonable to obtain higher PEs than was the case when interest rates were higher. That conclusion follows logically from the standard valuation model of equity prices, where expected income is discounted to present by an interest rate. The lower the interest rate the higher the P and, therefore, the higher the PE. The conventional current year earnings PE benchmark, based on 50 years of history is 16. During that period the long-term interest rate averaged 4.5 percent.

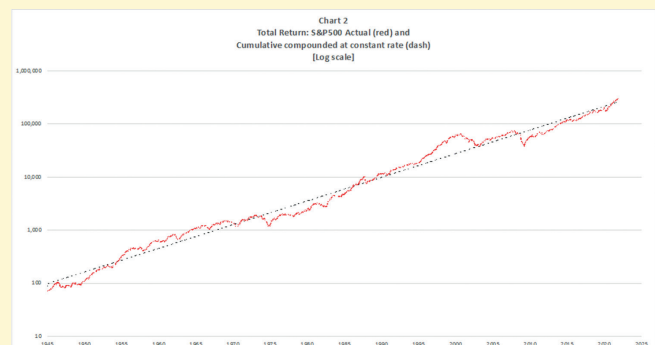
Over the past 10 years, long-term interest rates declined and averaged 2.1 percent. Logically, PEs have moved inversely and averaged 21.7. Interest rates have been even lower in recent years and PEs averaged higher still.

However, this does not imply that the market cannot get ahead of itself relative to its long-term total return prospects.

Recall that total return isn't just about price appreciation. Owners of publicly traded securities also receive dividends, and they are further benefitted when companies buy back shares and reduce the

shares outstanding. In recent years these two actions have resulted in an effective yield of 3-4 percent.

Corporate America has delivered a compound annual return of 10.8 percent since 1945 (Chart 2). Actual returns have deviated around this trend. These variations have averaged plus or minus (+/-) 6.4 percentage points – which does not conform to the same interpretation of the standard deviation measurement drawn from a normal distribution. Given the nature of momentum in market returns, this measurement of deviations isn't random in its implications. A deeper analysis shows that the pattern of deviations combines random elements with deviations that exhibit a high degree of positive autocorrelation. That means there is momentum in price movements until interrupted by an economic event. Such a pattern in deviations from trend suggests two things: (1) A deviation in one direction tends to be followed by another deviation in the same direction for a period of time; and (2) eventually, unexpected and seemingly random events interrupt the trend and set up a cycle in the opposite direction (Chart 3).



Given the current persistence in the uptrend of deviations, one might conclude that the uptrend will continue.

“Seemingly random events” can change the direction and trend quite abruptly. The birth of the computer age, the dot-com revolution, and the pervasive access to high-speed internet which led to nationwide integration of commerce and communication were events that expanded markets, productivity, prosperity, and wealth. There is no reason to believe the process and cycles of innovation will not continue in the US.

## **Conclusion**

The market has reached a level that is approximately 13 percent above its long-term expected trend. This outperformance is not without concern. The recent sharp increase in price inflation is already leading to higher interest rates. On the other hand, earnings per share is expected to increase by 9-10 percent by the end of this year. Furthermore, companies have stepped up their share buyback programs. That may add another 2 percent to the results.

While worries about the price inflation picture are concerning, they cut two ways. Input costs are rising but output prices are rising as well and appear to be keeping step, ensuring stable profit margins. In some sectors analysts see expanding profitability.

Despite the troubling picture regarding national issues, ranging from Covid to monetary and fiscal policies, entrepreneurs are minding the store and finding new and better ways to serve their markets.

On balance we expect positive returns in excess of the price inflation rate and interest rates in the year ahead.

– January 18, 2022



# Stagflation Pales Compared to America's Dirty Growth Diamond

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Like a fire bell in the night, Americans awaken to the cry “Stagflation is coming! Stagflation is coming!” **Stagnation plus inflation** spells big trouble in 2022, multiple pundits and investment gurus predict. Events may prove them right, but the economic situation is actually much worse. America’s “Growth Diamond,” the set of institutions and incentives that have rendered the nation one of the world’s most productive for over two centuries, grows dirtier by the day.

The “Growth Diamond” is a pedagogical heuristic that financial historians George D. Smith, Richard Sylla, and I developed at New York University’s Stern School of Business in the years before the Global Financial Crisis. The diamond refers to the four bases of a baseball or softball field, not the extremely valuable and hard carbon-based mineral.

What students showed us in literally thousands of term papers is that every developed economy throughout history grew wealthy as a consequence of developing four key institutions. They all started by forming a government that provides a “tolerable administration of justice,” i.e., enough protection of the key human rights to life, liberty, and property to achieve relatively high economic freedom scores for at least a significant segment of the population (home plate). Then all developed a modern financial system (first base: stable money, effective intermediaries, liquid securities and risk markets), an open access system of entrepreneurship (second base: inexpensive entry and exit), and finally the ability to efficiently manage large economic entities (third base).

The Dutch developed their diamond first, then the British, then, in the last decade of the eighteenth century, the United States. Canada, France, Germany, Italy, and Japan developed theirs in the nineteenth

century, followed by Scandinavia, Australia, and the Asian and Celtic “dragons” in the twentieth.

Consistent with the notions of Adam Smith as well as the “varieties of capitalism” literature, all of those countries took somewhat different routes to prosperity, with many skipping or skirting the heavy industrialization associated with the “Industrial Revolution.” But all rounded the bases specified in our Growth Diamond heuristic.

What the Growth Diamond does not explain is when or why nations develop growth-allowing governments, what Daron Acemoglu and James Robinson call the “narrow corridor of liberty.” Governments impede growth when they are too weak to protect citizens from each other or foreign encroachments, but they also do so when they are strong enough to extract significant resources from their subjects without offering sufficient services in return. A lot of happenstance seems to be involved threading that governance needle, even, or perhaps especially, in the case of the United States, the initial success of which was long attributed to Divine intervention.

Perhaps it is unsurprising, then, that most countries today remain economically undeveloped (and poor unless sitting on oil) because their governments remain too rapacious to spur the development process, which occurs spontaneously when enough people awake each day asking “How can I improve my lot?” instead of “How can I live another day?” That started to change following the end of the Cold War but the over-the-top response to Covid has stopped and even reversed progress since 2020.

And it hasn’t helped that the governments of the world’s two largest economies currently probe the

boundaries of the narrow corridor of liberty. The rapid economic development of China following reforms that promised a modicum of economic freedom and protection of human rights shows how people yearn for prosperity even in uncertain circumstances. But we know from cases like Vichy France and Argentina, long an economic basket case after a stint in the top income bracket, that even formerly wealthy places can suffer great reversals once focus shifts from improvement to just getting by.

The Chinese Communist Party seems to believe that it can gaslight most Chinese into believing that they have incentives to innovate and improve productivity by preventing them from learning about, let alone publicly discussing, the Falun Gong, Hong Kong, Jack Ma, Peng Shuai, Taiwan, Tiananmen Square, and the Uighurs. Maybe it can.

And maybe the US government can continue to gaslight enough Americans to encourage some innovation. Dismisinfoganda is alive and well, largely due to the educational system's successful infantilization of many Americans. Believe it or not, some Americans purport to believe that only two pesky Democratic US Senators stand between them and Nirvana.

On the other hand, though, the types of people who create the most, and the most important, innovations tend to be well-grounded empirically and many have seen warning signs since the formation of the post-9/11 security state. According to a 2016 study by MIT researchers Andrew McAfee and Erik Brynjolfsson, "business dynamism and labor market fluidity" have been on the decline in the U.S. for the last few decades, suffering death "from a thousand cuts" as business and labor regulations grew in number and bite, with no end in sight. Matters improved a bit during the Trump administration, until Covid anyway.

Negative sentiments about economic freedom in the US have grown stronger since 2020 due to the

George Floyd riots and the 6 January kerfuffle at the Capitol. Both put the federal government in a very bad light, first because it did not intercede to stop violence, then by going overboard in response to a mostly peaceful protest. When arsonists go free and trespassers spend a year in jail, confidence in the Rule of Law is bound to ebb. The size and power of the modern American administrative state hardly breeds confidence either.

Little wonder, then, that FedEx feels the need to spend untold millions to put anti-missile lasers on its cargo aircraft in response to several attempts to shoot down its planes. All incidents so far have happened abroad, but executives can easily reimagine a future where Americans with the right politics or identities can shoot down cargo planes with impunity in the name of equity or social justice or some such. Cargo train looting is already rampant in Los Angeles.

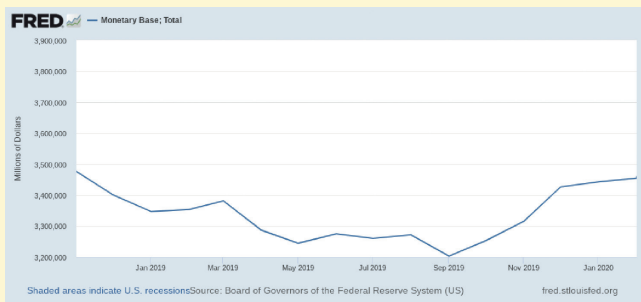
Mark Skousen, the innovator behind Freedom Fest, says that America is not yet a "banana republic" but headed in that direction. A few decades ago, he would have been laughed off stage for such a claim but today thinking people stroke their chins in contemplation. Yes, SCOTUS blocked the most egregious of Biden's vaccine mandates but the mandate was so clearly unconstitutional that it should never have been announced in the first place. Yes, Kyle Rittenhouse was acquitted but he should never have been charged to begin with. America's administration of justice has become too politicized, or intolerable in Smith's lingo.

Moreover, the President's utterances have remained polarizing and inflammatory. After calling Texans Neanderthals for making the correct public health call and dropping mask mandates, Biden has labeled millions of American parents domestic terrorists for taking an interest in their children's educations. He recently called a reporter the dumb son of a female dog, if you know what I mean, for asking a question about inflation. Biden has also

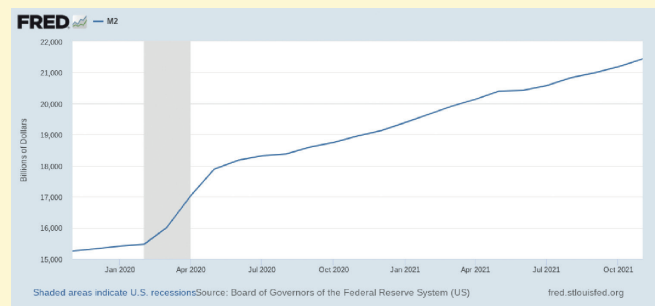
claimed, despite widespread knowledge of massive numbers of breakthrough cases, that the unvaccinated exacerbated the pandemic. That is exactly the sort of rhetoric associated with dictators, Latin American and otherwise. It is as if Biden read the book *How to Be a Dictator*.

The other two bases of America's growth diamond also appear to be in trouble. Time was one could graduate from a decent business school with a good idea about how to run a large, complex organization, be it commercial or nonprofit. Today, however, one is more likely to come away with an MBA in woke ideology rather than bleeding edge managerial skills.

Finally, something may be amiss in the financial sector as well. Few recall, but there were some odd things going on in overnight loan markets in mid-September 2019 and the banking sector was showing some signs of softness. The Federal Reserve explained it all away, but the Fed's balance sheet and the monetary base, which had been shrinking for months, did begin to expand again after the event:



plaining when the monetary base exploded upward in response to government stimulus. Of course the resulting growth in the money supply (see the M2 chart below) drives the current bout of inflation and the necessity of tamping down on it portends economic stagnation, if not recession.



But America's dirty Growth Diamond also portends stagnation. Policymakers would do Americans the most service by actually cleaning up the diamond, especially home plate, rather than pretending to do so or claiming that it is already as clean as it gets. If America turns into another Argentina, everyone will be worse off, especially those already the worst off.

— January 29, 2022



# Why Deficits Matter

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The US is experiencing the strongest price pressures in 40 years. Financial and economic commentators are searching frantically for the culprit. Many on the right blame massive budget deficits. Are government budget deficits responsible for inflation?

The logic is simple: when governments run deficits, they inject purchasing power into the economy. This stimulates total spending on goods and services, what economists call “aggregate demand.” When aggregate demand rises, production and prices go up. The result is more stuff selling at higher prices.

But there’s a problem here. If you blame fiscal policy for rising prices, you also have to credit it for increased output. You can’t have one without the other. Since conservatives sometimes argue both sides—deficits aren’t responsible for the economic recovery, but are responsible for rising inflation—we need to clear up this misunderstanding.

Over at *National Review*, Douglas Carr summarizes the conventional wisdom on deficits and inflation: “The correlation between government deficits and inflation has been zero since the mid 1990’s.” But then he attributes inflation to deficits in our post-Covid, inventory-constrained environment. To make sense of this in the workhorse model of applied macroeconomics, we’d say production bottlenecks and inventory drains resulted in significant short-run supply inelasticities. That’s econ-jargon for acknowledging output and prices go up following aggregate demand stimulus, with the caveat that the effect on output is minimal while the effect on prices is significant.

I certainly believe supply-side problems contribute to ongoing inflation. But those supply

difficulties matter independently of deficits. The hard-won knowledge of the economics profession is that fiscal policy isn’t very effective at boosting output and prices. We don’t need to make an exception in this case. Government budget deficits are good at shuffling resources around, changing the composition of aggregate demand. They’re not so good at raising aggregate demand as a whole. That’s why supply inelasticities don’t explain why deficits are causing inflation. You still need to make an argument for why aggregate demand expands in the first place to confront those inelasticities. Instead, it makes more sense to explain current inflation by some combination of monetary policy and supply chain problems. How you analyze the particulars of the situation determines the weight you place on each.

If the macroeconomic effects of deficits aren’t very big, do we need to worry about them? While deficits are largely a red herring when it comes to stabilization policy, they matter a great deal for political-economic viability. When the government appropriates a larger share of the economy’s output, it diverts resources from the for-profit sector to the not-for-profit sector. Since the incentives are much stronger for stewardship in the for-profit sector, we should worry about public sector waste, whatever the effects on the national income statistics.

Furthermore, deficits create political conflict. Government spending creates an immediate group of beneficiaries. In contrast, who bears the costs doesn’t get sorted out until later. At some point in the future, taxes will have to increase or spending will have to decrease to pay for today’s borrowing. But the rough-and-tumble melee of partisan politics

will determine who ultimately bears the cost of today's borrowing. The larger the debt, the greater the political stakes. And high-stakes politics makes for an unstable country full of cranky, suspicious citizens.

If we want to argue deficits matter more conventionally, we'll have to do some more theoretical heavy lifting. The usual aggregate demand stories we tell don't cut it.

– January 11, 2022

# Benefits of a Balanced Public Health Strategy

PETER C. EARLE (Senior Research Faculty) & RYAN M. YONK (Senior Research Faculty)

On March 11, 2020, the World Health Organization declared Covid-19 a pandemic, deeming the virus to be a critical issue in global health. As of December 31, 2021 nearly two years after the first cases were detected, there have been an estimated 290 million confirmed cases worldwide, with some 5.5 million deaths.

The early responses from policymakers around the world recommended traditional hygienic interventions: social distancing, increased handwashing, and self-quarantine, all commonly suggested interventions in the face of infectious disease. The desire for a clear plan to defeat the pandemic, however, quickly became the mantra of virtually every elected official and policymaker. These plans featured universal mandates and increasingly strict responses driven by newly ascendent public health policymakers who dominated the planning process. Their suggestions and ultimately the plans adopted included large-scale lockdowns, stay-at-home orders, capacity restrictions, travel bans, and compulsory masking. Since pharmaceutical interventions have arrived, these plans have included mandatory vaccinations, vaccine passports, and the redefinition of full vaccination in accordance with recent booster evidence.

What is most striking about these plans is both the stringency of the policy approaches, and the assertion that deviating from them, or even suggesting that other considerations might be necessary, are out of bounds. Policy responses across geographies, population densities, life patterns, and local circumstances are indistinguishable.

By April 2020, when roughly half of Earth's population – 3.9 billion people, in no less than 90

countries or territories – were under some form of government order to stay at home illustrates this well. The demands for continuing those lockdowns have played out again and again through progressive waves of reinfection and new variants, and both the traditional and more authoritarian measures have been instituted, lifted, and reinstituted.

Whether and to what extent the plans adopted and policies they required helped thwart or delay the spread and potential lethality of Covid-19, especially where the elderly and individuals with comorbidities are concerned, was initially uncertain. The evidence since those early days shows lockdowns and other approaches to “flatten the curve” have offered diminishing marginal benefits at best. The cost of these measures however, which include increases in poverty, depression, alcoholism, drug addiction, child and spousal abuse, suicide, undetected cancers, interrupted education, and other consequences of heavy-handed measures will outpace the benefits of the plans in years to come.

The reality of negative outcomes like these is especially clear when comparing rural and urban health outcomes. Long-standing research identifies, for example, differences between fighting infectious disease outbreaks in urban versus rural environments. Population density, proximity to mass transportation, the prevalence of chronic health conditions and other factors make the epidemiological approach in cities considerably different than in open, more sparsely populated areas.

Less populated areas tend to be disproportionately impacted by significant economic downturns, and experience faster, more severe increases in poverty and longer recovery periods. These economic

conditions started to emerge when the most stringent plans to combat Covid-19 were implemented. The 2007-2009 economic downturn provides strong evidence for the health impacts these downturns can have. In the years following the downturn, rural areas documented more problems with substance abuse, obesity, diabetes, and low birthweight than more urban communities. The rural health literature is replete with calls for tailored interventions that acknowledge the on the ground realities in dealing with health outcomes in rural communities.

Internationally, health and welfare outcomes are well studied, and vary based on diet, climate, and social customs. National Geographic's "Blue Zone" project, for example, identified a handful of places on Earth where individuals in improbably frequent numbers live to 100 years of age or older. Curiously, these places are diverse in many ways, and include Ikaria, an island off the coast of Greece, Okinawa, Japan, the highlands of Sardinia, the Nicoya Peninsula of Costa Rica, and perhaps most surprisingly of all, Loma Linda, California.

Virtually all share dietary hallmarks: largely (but not exclusively) plant-based diets, healthy fats, and an avoidance of tobacco and most alcohol. But the Blue Zones also share intangibles which are impossible to plan. A component of the extraordinary health permeating those communities is found in strong, indeed lifelong associations common within their societies. Further in each, fitness tends not to be derived from programs designed to achieve these ends but from natural human behaviors: walking and gardening, mostly.

Policymakers attempting to draw direct, clear, and transferable principles from the Blue Zone regions would be hard pressed to come up with anything beyond a handful of guidelines, let alone anything resembling a plan to achieve the same outcomes. And if the operation of local economies and local culture were to be taken into account, even

less of what's known would be functionally viable as guidelines.

No one aware of the vast, varied diversity of climates, geographies, and cultures around the world can reasonably argue for one-size-fits-all policies. Among the most profound contributions of the 1974 Nobel Prize-winning economist Friedrich Hayek was his framing of the Knowledge Problem. Collectivist economies fail because of the inability, indeed the impossibility, of those in charge to gather and possess every piece of information about every part of their economy at any given moment in time. Even if central planners could get anywhere near this amount of information, they would see the circumstances they face, and even the relative importance of those circumstances change from one moment to the next. Thus, their attempts to plan are clumsy, and unsuccessful.

For the same reason the economic planner fails, so does the public health planner in responding to a pandemic. Public health planners have information which is at best stale, inevitably partial, and as we have seen in this pandemic, the realities they face continually change. Resorting to universal policy approaches destroys the nuance that necessarily distinguishes the realities of human life.

A better pandemic response must acknowledge two fundamental realities. Health policies must first be comprehensive in the sense that they take into account what makes up overall human health, and do not simply target the spread of a single disease. Second, policymakers must recognize and harness the reality of difference that defines human life. Disease mitigation policy that fails to incorporate diverse demographic, geographic, cultural, and even historical subtleties that characterize localities will see the same long tail of unintended consequences and policy failure.

— January 10, 2022

# How Threat-Free Are Americans from Covid-19? Late January 2022 Update

JON SANDERS

Contributor

The month of January 2022 has witnessed the fastest rise in Covid-19 cases since the pandemic began. At its peak a year ago, the weekly increase in new cases had reached 1.75 million. The peak earlier this January had reached 5.6 million. Nevertheless, based on the most recent government data, as of January 24 only about three Americans in a hundred could conceivably transmit Covid-19 to someone. In other words, an estimated 97.0 percent of people in the United States pose no threat to anyone of spreading the virus.

Even with such a rapid influx of new cases, nearly 85 percent of total cases are recovered, meaning not only that those people are no longer threats, but also that they now have the strongest form of immunity against Covid-19.

In the weeks since the last update, cases have surged from seasonality and the more infectious but relatively milder Omicron variant, leading to some reflexive tightening of Covid restrictions in pockets of the world and in leftist urban enclaves. The Threat-Free Index reached its lowest point earlier in January, reaching 96.8 percent. In raw numbers this case surge is the worst so far, despite two years and every mandate the central planners could muster, and that reality has shaken the faithful from their certainty that government health experts actually knew what they were doing. The hardest hit areas were frequently the most Covid-orthodox. Doctrinaire devotees were left dumbfounded, protesting like Pfc. Loudon Downey at the end of “A Few Good Men”: “I don’t understand ... What did we do wrong? What did we do wrong? We did nothing wrong!”

Having done everything right but still ending up infected, these infectees have even started

questioning the government’s changeable dictates. Fifteen days to stop the spread, wear masks until we have vaccines, put the masks back on even if you’re vaccinated, say goodbye to work and travel unless you’re masked and vaccinated, you’re not vaccinated until you’ve had a booster, looks like you’re going to need a booster to go with that booster — where does it all end?

We’re left with a deeper question; when will it ever start working?

## Cracks in the edifice

Politics, not the pursuit of public health, has dominated the government’s reaction to Covid-19, and the fallout from the current surge and its implications are perceived to threaten influence on the critical midterm elections. In consequence, we have witnessed some key changes in recent days. Some of it has been a welcome admission of fallibility, though mostly without the applied lesson of such humility, which would be a wholesale repeal of their ineffective mandates and a willingness to rethink failed strategies.

For example, a Jan. 19 report from the Centers for Disease Control showed, among other things, that natural immunity from a prior infection of Covid-19 provided significantly stronger protection against the Delta variant than that offered by the current vaccines. The finding alone isn’t unusual; the research literature is suffused with studies (146 and counting as of this writing) attesting to the superior strength of natural immunity to Covid-19. What makes this finding significant is that it is from the CDC, which had previously recognized natural immunity only to cast doubt upon it in comparison with vaccine-induced immunity.



In recent weeks major media and health officials have begun to talk openly of the virus entering the endemic phase, a transition indicated by Omicron. Even Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, suggested at the World Economic Forum's Davos Agenda on Jan. 18 that Omicron could signal the beginning of the "endemic phase" of the virus, raising the possibility that it could "be the live virus vaccination that everyone is hoping for."

At the close of 2021, the CDC changed its guidance shortening the period of Covid-19 isolation and also no longer requiring PCR testing of people at the end of their isolation. CDC Director Rochelle Walensky told *Good Morning America* that the PCR tests can return positive for up to 12 weeks. Viewers were left to infer what others have warned about from the outset, including even the *New York Times* on August 29, 2020, that the PCR tests are "diagnosing huge numbers of people who may be carrying relatively insignificant amounts of the virus."

The Associated Press published an article on Jan. 4 titled "Why are so many vaccinated people getting Covid-19 lately?" that sought to correct readers' thinking. "People might mistakenly think the COVID-19 vaccines will completely block infection, but the shots are mainly designed to prevent severe illness," wrote Laura Ungar. People "might mistakenly think" such a thing if people were still thinking in the old definitions of *vaccine* and *vaccination*, unaware that the CDC had changed them (see before and after).

Then on Jan. 12 the AP made this announcement: "The Associated Press has recently told its editors and reporters to avoid emphasizing case counts in stories about the disease. That means, for example, no more stories focused solely on a particular country or state setting a one-day record for number of cases, because that claim has become unreliable."

Meanwhile, speaking about the Omicron variant, Pfizer CEO Albert Bourla told Yahoo Finance's Anjalee Khemlani on Jan. 10 that "we know that the two doses of the vaccines offer very limited protection, if any; the three doses, with a booster, they offer reasonable protection against hospitalization and deaths — against deaths, I think, very good, and less protection against infection."

The CDC changed more guidance on Jan. 14, this time concerning face masks, "clarifying" that cloth masks offer the least protection. The research literature is and has been clear since before Covid-19 about the ineffectiveness of face masks against airborne viruses, and it has also been clear about how masks are harmful to children. The CDC admission concerning the masks forced on people and especially schoolchildren for the past two years pivoted suddenly into promoting N95 and KN95 masks. The Biden administration then announced a plan to send out 400 million N95 masks from the Strategic National Stockpile to pharmacies and community health centers to distribute for free.

It may be that people will accept that the answer now is higher grade masks and an undiscovered number of future injections to make up for the deficiencies of the first two. It may also be that the administration is trying to keep governmental control measures at the forefront while they run out the clock on the Omicron "live virus vaccination," so as to credit themselves and those control measures later for cases' eventual decline. New case numbers appeared to start declining about mid-January.

The politics are still dicey for the Biden administration, as already discussed, and as also seen in the U.S. Supreme Court's more-welcome-than-not split ruling Jan. 13 in the two cases challenging the president's vaccine mandates. In the more far-reaching case, the Court blocked the Occupational Safety and Health Administration's Covid-19 mandatory vaccination and testing emergency temporary standard



(ETS) against large employers, but it somehow allowed the Centers for Medicare and Medicaid Services mandate against 10 million health care employees to stand.

The Court's decisions left too much uncertainty to discern, however. A ruling to split the baby is only Solomonic if it results in true justice, not an actual split. In consequence, OSHA decided to withdraw the emergency temporary standard but *not the proposed rule behind it*: "Although OSHA is withdrawing the Vaccination and Testing ETS as an enforceable emergency temporary standard, OSHA is not withdrawing the ETS to the extent that it serves as a proposed rule under section 6(c)(3) of the Act, and this action does not affect the ETS's status as a proposal under section 6(b) of the Act or otherwise affect the status of the notice-and-comment rulemaking commenced by the Vaccination and Testing ETS."

The politics got the better of Prime Minister Boris Johnson, however, who had to announce an effort to "restore the ancient liberties of this country" on Jan. 19, namely an end to his country's Covid-based restrictions. As reported by the *New York Times*, his government will "drop its guidance on wearing face masks on public transportation and in school classrooms, encourage workers to return to their offices and end the requirement that people show vaccine certificates or proof of recovery from a recent coronavirus infection to enter large public events."

"We will trust the judgment of the English people," Johnson said.

### **Threat-Free Index numbers as of January 24**

The Threat-Free Index provides a different perspective to the unrelenting media alarmism over ever-rising Covid case counts by offering context to the numbers and the people they represent — our friends, neighbors, even family members. The index has several components, all easily derived from official government data. They include:

**Active cases:** the number of people currently with lab-confirmed cases of Covid-19. These are the people who could conceivably transmit the virus to others. The number of active cases is generated by taking the total number of cases and subtracting out presumed recoveries and deaths.

**Presumed recovered:** the number of convalescent people who have had a lab-confirmed case of Covid-19 and are no longer sick and infectious. The CDC had considered recovery to be generally 10 days post-infection. For my index I have been rounding that to two weeks (14 days). The number of presumed recovered is generated, then, by taking the total number of cases from two weeks prior and subtracting out all deaths from or with Covid-19.

**Deaths:** the number of people who have died either from or with Covid-19.

**Population:** the daily U.S. population estimate provided by the US Census Bureau. The index states the above numbers also as proportions of the US population.

Here are the Threat-Free Index estimates as of January 24:

- Active cases: 10,068,146 among a population of 332.5 million
- Presumed recovered: 60,883,762
- Percent of total cases presumed recovered: 84.8%
- Percent of total cases that are active: 14.0%
- Percent of the total U.S. population with active cases of Covid: 3.0%

- Percent of the U.S. population to have died with or from Covid-19: under 0.3%
- Percent of the U.S. population posing no threat of passing along COVID-19: 97.0%

These are estimates, of course, and the data are incomplete. They are reflective of a point in time. Also, the estimates will vary regionally, though not by much.

Importantly, the index does not distinguish among cases according to their severity, an oversight in common with daily news reports on rising case counts. The raw case numbers are being increasingly decoupled from hospitalization and deaths, however, which is additional context that should help allay people's fears as well as undercut extreme emergency edicts.

The Threat-Free Index gives a close approximation of the current risk to a hypothetical person going out in public somewhere in the United States of encountering someone with a transmissible Covid infection. Notice that the risk estimated here is of *encountering someone with a transmissible infection*, not of *contracting an infection*. Becoming infected requires a greater range of circumstances than a chance encounter. It includes length of time spent near an infected person, proximity, location, air circulation and purification, how symptomatic the person is, and one's own immune protection (especially if one has acquired natural immunity from fighting off a prior infection).

## Conclusion

While the risk at the end of January is higher than it was in December or November, it is still much lower than what people have been made to believe. The risks from government tyranny excused by this belief are much, much higher, and they include the risks that this tyranny becomes endemic as the virus does.

Failures of government to defeat this virus were predictable and by now are self-evident. The tools

they used, however, must be taken away before they use them against us for other emergencies, real or fabricated. If unconstrained power becomes wielded over us as a matter of course, it won't matter a whit if we originally thought it was for use only during Covid.

As Lance Cpl. Harold W. "Hal" Dawson said in response to Downey, "We were supposed to fight for people who couldn't fight for themselves."

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