RESEARCH REPORTS

Volume LXXXIII

March 2022

published by
AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

RESEARCH REPORTS

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BUSINESS CONDITIONS MONTHLY

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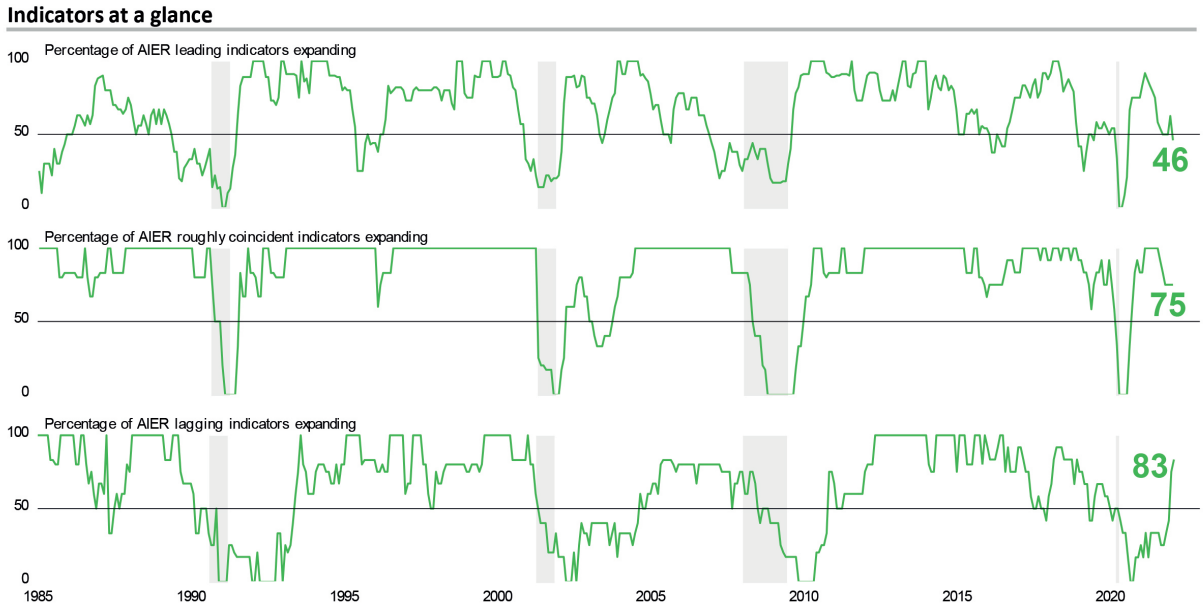
AIER Leading Indicators Index Posts Sudden Drop, Risks Rise



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

Summary

AIER's Leading Indicators Index posted a surprising 17-point drop in February, more than erasing the solid 13-point gain in January. The Leading Indicators Index dropped to 46 from 63 in January and follows three consecutive months at the neutral 50 mark from October through December. The drop matches a similar decline in August 2021, tying for the largest one-month decrease since May 2020. The Roughly Coincident Indicators Index was unchanged again in February, holding at 75 for a fourth consecutive month, while the Lagging Indicators Index posted an 8-point gain and is at its highest level since December 2018 (see chart).

Just one month after all three AIER business cycle indicators turned positive, suggesting an improving outlook, multiple yellow flags have emerged. While the cresting of new Covid cases was a clear positive development that supported efforts by businesses to refocus on boosting output and easing supply chain issues, geopolitical events have sent shockwaves through financial markets and the global economy. Increased volatility should be expected to continue in capital and commodity markets and begin to show through in economic statistics over coming months. Both are likely to cause volatility for the AIER business cycle indicators as well. Extreme caution is warranted.

AIER Leading Indicators Index Drops Below Neutral in February

The AIER Leading Indicators index posted a surprise drop in February, falling 17 points and more than offsetting the 13-point gain in January. The February level is the first reading below neutral since August 2020 in the wake of government lockdowns that sent the U.S. economy to the worst recession in history.

The February result follows a 63 result in January and three consecutive months at the neutral 50 level for October through December.

Three leading indicators changed signal in February, each for the worse: the manufacturing and trade sales-to-inventory indicator weakened from a favorable trend to a neutral trend as did the real new orders for core capital goods indicator. The debit balances in margin accounts indicator weakened sharply, dropping from a positive trend to a negative trend. Among the 12 leading indicators, just four were in a positive trend in February while five were trending lower and three were trending flat or neutral. Adding to the concern is the strong likelihood that the real stock price indicator will flip to a negative trend from its current positive trend given the sharp decline in nominal stock prices in February.

The Roughly Coincident Indicators index was unchanged in February, holding at 75 for a fourth 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 83 in February, up from 75 in January. January and February were the first back-to-back months above neutral since November and December 2019. One lagging indicator showed improvement in February: the composite short-term interest rates indicator improved to a positive trend from a neutral trend. Overall, five indicators were in favorable trends, one indicator had an unfavorable trend, and none 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. While cresting numbers of new Covid cases in late January and early February had the potential to support businesses' efforts to improve supply chains and expand production, geopolitical turmoil surrounding the Russian invasion of Ukraine has had a dramatic impact on capital and commodity markets, launching a new wave of potential disruptions to businesses. The outlook has become highly uncertain and extreme caution is warranted.

Nominal-dollar Retail Spending Rebounded in January

Retail sales and food-services spending rose 3.8 percent in January following a 2.5 percent drop in December. The strong gain suggests first quarter gross domestic product may be off to a good start. However, today's retail sales data are not adjusted for price changes. Therefore, it's likely that the real or price-adjusted results would be less robust. Still, total retail sales are up 13.0 percent from a year ago and remain about 11.5 percent above the pre-pandemic trend.

Core retail sales, which exclude motor vehicle dealers and gasoline retailers, also jumped 3.8 percent for the month, following a 3.2 percent fall in December, leaving that measure with a 11.4 percent gain from a year ago. Core retail sales are 9.8 percent above the pre-pandemic trend.

Most categories were up in January with eight posting increases while five showed declines. The gains were led by a 14.5 percent surge for nonstore retailers following an 11.4 percent plunge in December. Furniture and home furnishings store sales posted a 7.2 percent gain for the month followed by motor vehicles and parts dealers with a 5.7 percent gain, building material and garden equipment and supplies dealers with a 4.1 percent rise, and general merchandise stores with a 3.6 percent advance.

Sporting goods, hobby, and bookstore sales led the decliners, down 3.0 percent, followed by gasoline,

down 1.3 percent, food services and drinking sales, off 0.9 percent, and health and personal care store sales, down 0.7 percent.

Real Retail Sales Remain in a Downtrend

While nominal retail sales continue to grow, the real retail sales indicator in the AIER Leading Indicators Index remains in a down trend. The Rapid acceleration in consumer prices has accounted for most if not all of the gain in nominal retail sales, resulting in a downward trend in real terms. November 2021 was the last month the real retail sales indicator was in a positive trend, with December dropping to a neutral trend and January and February both coming in with downward trends.

Overall, total and core nominal retail sales posted robust rebounds in January following steep drops in December, keeping them well above pre-pandemic trends. The strong results in January suggest that first quarter nominal gross domestic product may have gotten off to a good start. However, after adjusting for price changes, real or price-adjusted results are much weaker.

February Unit Auto Sales Slowed as Assemblies, Inventories, and Prices Stabilize in January

Sales of light vehicles totaled 14.1 million at an annual rate in February, down from a 15.0 million pace in January. The February result was a 6.4 percent fall from the prior month and was the ninth consecutive month below the 16 to 18 million range, averaging just 13.7 million. Weak auto sales are largely a result of component shortages that have limited production, resulting in plunging inventory and surging prices.

Breaking down sales by origin of assembly, sales of domestic vehicles decreased to 11.2 million units versus 12.0 million in January, a drop of 7.6 percent, while imports fell to 3.21 million versus 3.28 million in January, a decline of 2.1 percent. Domestic sales had generally been in the 13 million to 14 million range in the period before the pandemic, averaging 13.3 million for the six years through December 2019. The domestic share came in at 77.2 percent in February versus 78.2 in January.

Domestic assemblies decreased slightly in January, coming in at 9.35 million at a seasonally adjusted annual rate. That is down from 9.47 million in December but still well below the 11.2 million pace for the six years through December 2019.

Component shortages, especially of computer chips, continue to restrain production for most manufacturers, creating a scarcity for many models, leading to lower inventory and higher prices. Ward's estimate of unit auto inventory came in at 106,700 in January, near the all-time low. Inventory may be stabilizing as the average over the last five months was 110,060 and has not dropped below 100,000. The Bureau of Economic Analysis estimates the inventory-to-sales ratio fell to 0.171 in January, a new record low, just slightly below the previous record low of 0.188 in November 2021.

The plunging inventory levels have pushed prices sharply higher over the last two years. However, prices may be stabilizing with the average consumer expenditure for a car coming in at $32,926 in January, down 1.1 percent from December. The average consumer expenditure on a light truck fell to $48,312 from $48,332 in December. The January levels represent 12-month gains of 17.7 percent and 13.7 percent, respectively.

As a share of disposable personal income per capita, average consumer expenditures on a car came in at 59.9 percent versus 60.7 in December but just 41.6 percent in March 2021 while the average consumer expenditure on a light truck as a share of disposable personal income per capita was 87.9 percent versus 88.1 percent in December and 64.5 percent as recently as March 2021. Both measures are still below their all-time highs.

Consumer Sentiment Fell Sharply in Early February

The preliminary February results from the University of Michigan Surveys of Consumers show overall consumer sentiment fell sharply in early February, hitting the lowest level since October 2011. The composite consumer sentiment decreased to 61.7 in early February, down from 67.2 in January, a drop of 8.2 percent. The index is now 19.7 percent below the year ago level and 36.5 percent below the 2018 – 2019 average.

The current-economic-conditions index fell to 68.5 from 72.0 in January. That is a 4.9 percent decrease and leaves the index with a 20.5 percent decrease from February 2021 and a 39.1 percent decline from the 2018 – 2019 average.

The second sub-index — that of consumer expectations, one of the AIER leading indicators — sank 6.7 points or 10.5 percent for the month, dropping to 57.4. The index is off 18.8 percent from a year ago and 34.2 percent from its 2018 – 2019 average.

All three indexes are now below the lows seen in four of the last six recessions.

According to the report, "The recent declines have been driven by weakening personal financial prospects, largely due to rising inflation, less confidence in the government's economic policies, and the least favorable long-term economic outlook in a decade." The report goes on to add, "Importantly, the entire February decline was among households with incomes of $100,000 or more; their Sentiment Index fell by 16.1% from last month, and 27.5% from last year."

The one-year inflation expectations rose to 5.0 percent in early February, the highest level since hitting 5.1 percent in July 2008. The one-year expectations has spiked above 3.5 percent several times since 2005 only to fall back. The five-year inflation expectations remained unchanged at 3.1 percent in early February. That result remains well within the 25-year range of 2.2 percent to 3.5 percent.

According to the report, "The impact of higher inflation on personal finances was spontaneously cited by one-third of all consumers, with nearly half of all consumers expecting declines in their inflation adjusted incomes during the year ahead. In addition, fewer households cited rising net household wealth since the pandemic low in May 2020, largely due to the falling likelihood of stock price increases in 2022."

The report adds, "The recent declines have meant that the Sentiment Index now signals the onset of a sustained downturn in consumer spending. The depth of the slump, however, is subject to several caveats that have not been present in prior downturns: the impact of unspent stimulus funds, the partisan distortion of expectations, and the pandemic's disruption of spending and work patterns."

Manufacturing-Sector Survey Showed Strong Results in February

The Institute for Supply Management's Manufacturing Purchasing Managers' Index rose to 58.6 in February, up 1.0 point from 57.6 percent in January. February is the 21st consecutive reading above the neutral 50 threshold. The survey results indicate that the manufacturing sector continues to expand despite ongoing labor and material constraints. The report suggests demand remained strong and despite complications from Covid, production improved. The report also suggests labor shortages from quits and retirements remain a significant headwind. Overall, survey respondents remain optimistic.

The new orders index rose 3.8 points to 61.7 percent in February. It has been above 50 for 21 consecutive months, and it moved back above 60 after a one-month dip below 60 in January; the index is now at the highest level since September 2021. The new export orders index, a separate measure from new orders, rose to 57.1 versus 53.7 in January. The new export orders index has been above 50 for 20 consecutive months.

The Backlog-of-Orders Index posted a strong gain in February, coming in at 65.0 versus 56.4 in January, an 8.6-point jump, to the highest level since August 2021. This measure has pulled back from the record-high 70.6 result in May 2021 but has been above 50 for 20 consecutive months. The index suggests manufacturers' backlogs continue to rise and that the pace accelerated in February.

The Production Index registered a 58.5 percent result in February, a rise of 0.7 points from January. The index has been above 50 for 21 months and while the level is below the results of late 2020 and early 2021, the index remains at a favorable level by longer-term historical comparison.

The Employment Index pulled back in February but remained at or above neutral for the fifteenth consecutive month, coming in at 52.9 percent. Despite the slower pace of expansion in February, the run of results at or above neutral is an indication that some of the labor issues plaguing production may start to ease in coming months.

Customer inventories in February are still considered too low, with the index coming in at 31.8, off 1.2 points from January (index results below 50 indicate customers' inventories are too low). The index has been below 50 for 65 consecutive months. Insufficient inventory is a positive sign for future production.

The index for prices for input materials fell slightly in February, off 0.5 points to 75.6 percent versus 76.1 percent in January. The index is down from a recent peak of 92.1 in June 2021 but still at a high level by historical comparison. Meanwhile, the supplier deliveries index registered a 66.1 result in February, up 1.5 points from the January result. The rise suggests deliveries slowed again in February and that the pace accelerated somewhat. While both of these indexes remain elevated by historical comparisons, they are down significantly from the 2021 peaks.

Overall, demand for the manufacturing sector remains robust but labor difficulties, materials shortages, and logistical problems continue to hamper the ability to meet that demand. While there has been some modest progress, the period of normalization has been extended by recurring waves of Covid, labor turnover, and worker retirement. The delayed return to normalcy is sustaining upward pressure on prices. Furthermore, geopolitical turmoil as a result of the Russian invasion of Ukraine has had a dramatic impact on capital and commodity markets, launching a new wave of potential disruptions to the global economy and businesses.

Services-Sector Growth Slowed by Labor, Materials, and Logistical Constraints

The Institute for Supply Management's composite services index fell to 56.5 percent in February, losing 3.4 points from 59.9 percent in the prior month. The index remains above neutral and suggests the 21st consecutive month of expansion for the services sector and the broader economy but is now at its lowest level since February 2021. The declines over the last three months suggest that growth has likely slowed with respondents to the survey blaming labor shortages and turnover, materials shortages, logistical issues, and price pressures.

Among the key components of the services index, the business activity index fell 4.8 points to 55.1. That is the 21st month above 50 but also the lowest reading since a 40.9 result in May 2020 in the aftermath of government shutdowns that caused the worst recession in American history.

The services new-orders index fell to 56.1 percent from 61.7 percent in January, a drop of 5.6 percentage points. The new orders index has been above 50 percent for 21 months but is now at the lowest level since February 2021. For the latest month, 11 industries reported expansion in new orders while three reported drops.

The nonmanufacturing new-export-orders index, a separate index that measures only orders for export,

rebounded in February, coming in at 53.0 versus 45.9 percent in January. Seven industries reported growth in export orders against two reporting declines.

Backlogs of orders in the services sector likely grew again in February as the index increased to 64.2 percent from 57.4 percent. February was the 14th month in a row with rising backlogs. Thirteen industries reported higher backlogs in February while three reported a decrease.

The services employment index dropped below the neutral 50 percent level, coming in at 48.5 percent in February, down from 52.3 percent in January and a recent high of 57.0 percent in November 2021. Seven industries reported growth in employment while eight reported a reduction.

Supplier deliveries, a measure of delivery times for suppliers to nonmanufacturers, came in at 66.2 percent, up from 65.7 percent in the prior month. It suggests suppliers are falling further behind in delivering supplies to services business and the slippage accelerated slightly from the prior month. Sixteen industries reported slower deliveries in February while none reported faster deliveries.

The nonmanufacturing prices paid index rose to 83.1 percent, up from 82.3 percent in January, and just below the all-time high in December 2021. Eighteen industries reported paying higher prices for inputs in February while none reported lower prices.

The February report from the Institute of Supply Management suggests that the services sector and the broader economy expanded for the 21st consecutive month in February. Respondents to the survey continue to highlight strong demand but also continued price pressures, materials shortages, logistics, and transportation issues, and challenges hiring and retaining workers. As the latest wave of Covid fades, some improvement in production is expected, but the overall shortage of labor is likely to be a lingering problem.

CAPITAL MARKET PERFORMANCE

(Percent change)

	February	Latest 3M	Latest 12M	Calendar Year 2021	2020	2019	Annualized 3-year	5-year	10-year
Equity Markets									
S&P 1500	-2.8	-4.0	13.9	26.7	15.8	28.3	15.8	12.7	12.2
S&P 500 - total return	-3.0	-3.9	16.4	28.7	18.4	31.5	18.2	15.2	14.6
S&P 500 - price only	-3.1	-4.2	14.8	26.9	16.3	28.9	16.3	13.1	12.3
S&P 400	1.0	-1.7	6.6	23.2	11.8	24.1	11.7	9.0	10.5
Russell 2000	1.0	-6.9	-7.0	13.7	18.4	23.7	9.1	8.1	9.7
Dow Jones Global Large-Cap Index	-3.1	-4.0	6.1	16.2	14.7	23.8	11.6	14.3	7.7
Dow Jones Global Large-Cap ex-U.S. Index	-2.3	-1.8	-3.1	4.9	8.8	18.2	5.4	8.7	2.8
STOXX Europe 600 Index	-3.4	-2.1	11.9	22.2	-4.0	23.2	6.7	4.1	5.5
Bond Markets									
iShares 20-plus Year Treasury Bond ETF	-1.8	-7.7	-2.3	-6.0	16.4	11.5	5.2	2.8	1.8
IiShares AAA - A Corporate Bond Fund	-1.8	-5.4	-5.3	-4.2	7.1	9.1	1.4	0.5	NA
Commodity Markets									
Gold	6.0	7.0	10.2	-4.0	24.8	18.7	13.1	8.7	0.9
Silver	8.2	6.5	-8.8	-12.8	46.8	16.7	15.5	5.9	-4.2
Refinitiv CoreCommodities CRB total return index	5.5	22.8	41.4	38.5	-9.3	11.8	14.6	8.3	-1.2

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

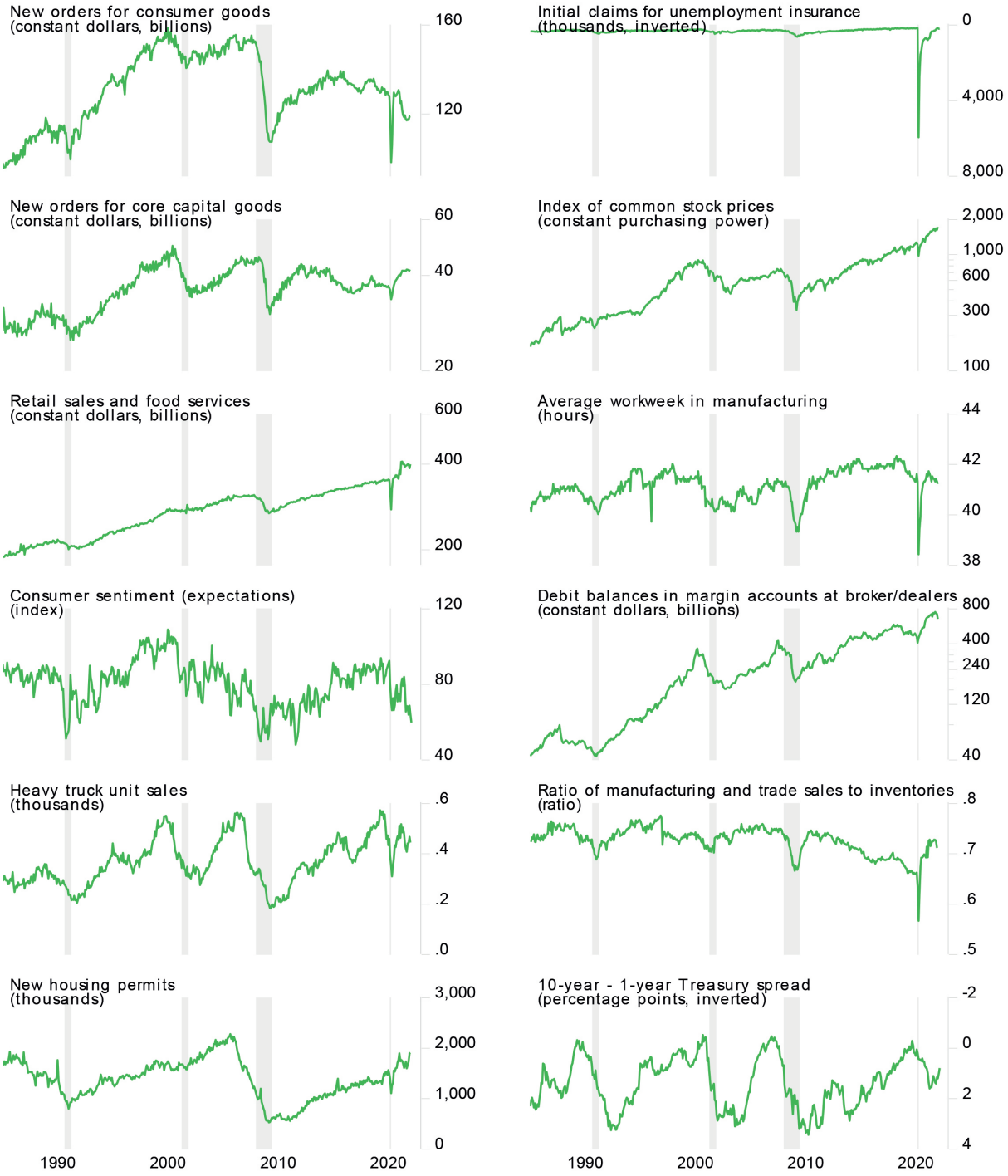
CONSUMER FINANCE RATES

(Percent)

	February	Latest 3M	Latest 12M	Average for Year 2021	2020	2019	Average over Period 3-year	5-year	10-year
30-yr. fixed mortgage	3.5	3.2	3.0	3.0	3.1	3.9	3.3	3.7	3.8
15-yr. fixed mortgage	2.7	2.5	2.3	2.3	2.6	3.4	2.7	3.1	3.1
5-yr. adjustable mortgage	2.6	2.5	2.6	2.6	3.1	3.6	3.1	3.2	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

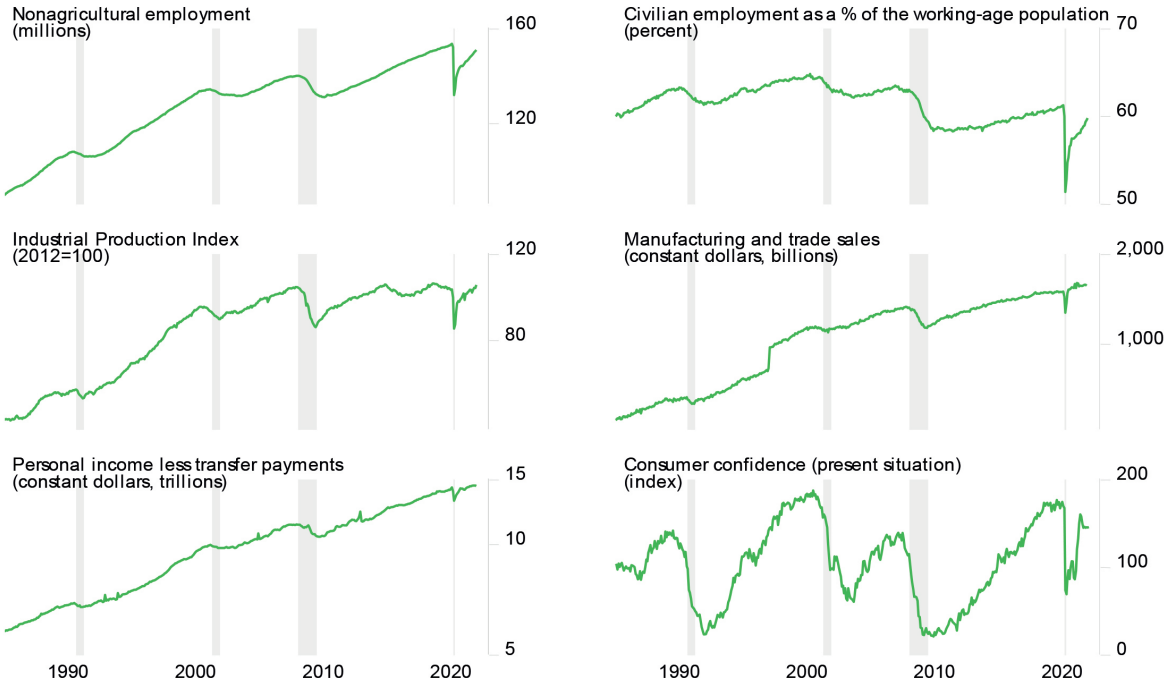
Sources: Bankrate, Federal Reserve.

LEADING INDICATORS (1985-2022)



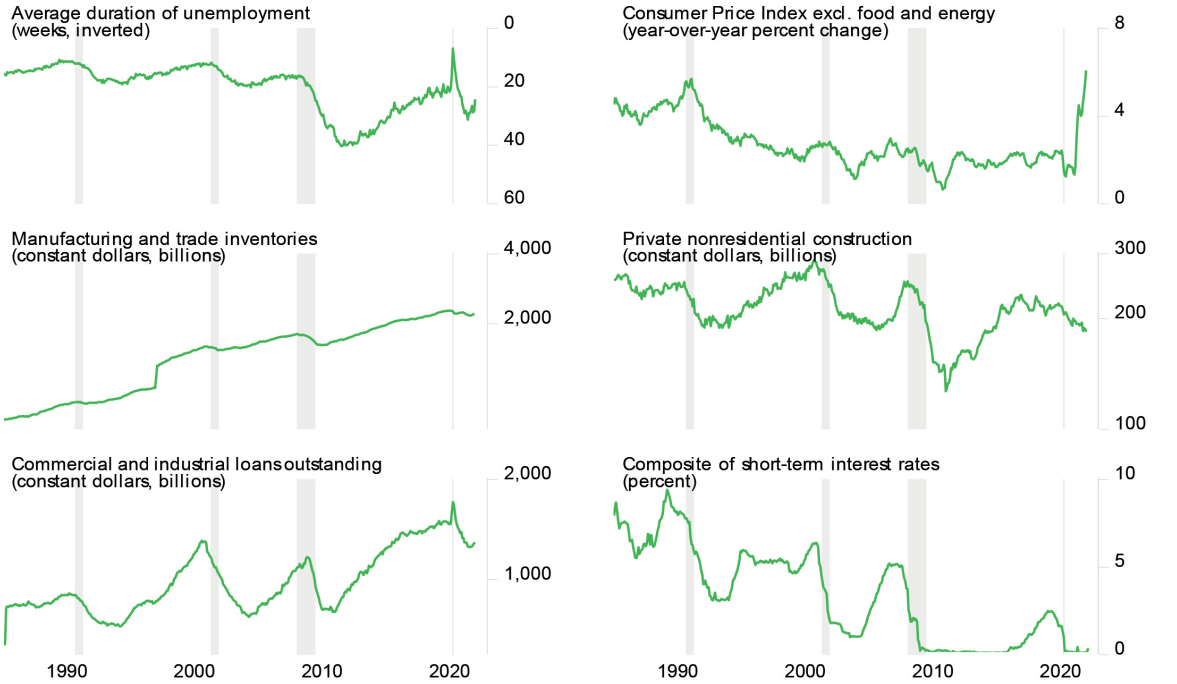
Note: Shaded areas denote recessions.
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, The conference Board, Census Bureau, Department of Labor, Federal Reserve, Institute for Supply Management, Standard & Poor's, AIER (Refinitiv).

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).

Political Partisanship Has No Place at the Federal Reserve

PHILLIP W. MAGNESS (Senior Research Faculty) & DAVID WAUGH (Managing Editor)

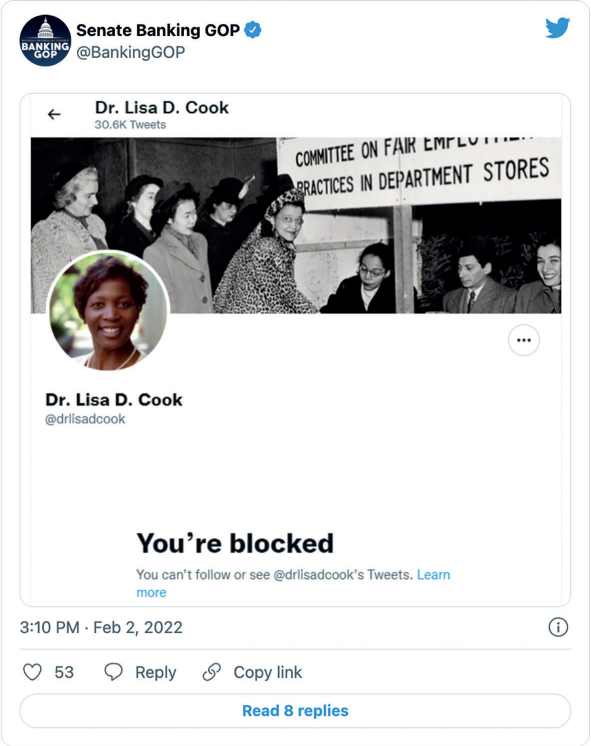
Afew weeks ago President Biden nominated three appointees to the Federal Board of Governors, Sarah Bloom Raskin, Lisa Cook, and Philip Jefferson. The nominees will participate in a confirmation hearing with the Senate Banking Committee on February 3, 2022. Of the three candidates, Jefferson's nomination is largely seen as uncontroversial. Cook and Raskin, however, face criticisms surrounding their qualifications on monetary economics, as well as questions over whether they will attempt to draw the Federal Reserve into political debates over climate change, race, and economic inequality.

Writing in the *Washington Post* last week, conservative columnist George Will questioned both Raskin and Cook's suitability for the job, suggesting that they are each likely to draw the central bank into political questions that fall well outside its statutory mandates of price stability and employment. As examples, Will pointed to Cook's support for slavery reparations and Raskin's attempts to use financial regulations as a tool to address "climate risk."

Given these potential impediments to their nominations, it would make sense for Cook and Raskin to signal that concerns about the politicization of the Fed are misplaced. Curiously, this is not the route that Cook appears to be taking.

In response to criticisms in the vein of Will's column by Republican members of the Senate Banking Committee, Cook took the unusual action of blocking the Republican committee staff's Twitter account. Whatever one may think of the merits of each candidate's appointment, the move suggests that Cook has already written off any chance of trying to gain support from a full half of the evenly-split U.S. Senate (the Democrats currently owe their majority to Vice President Kamala Harris's role as the tie-breaking vote in the 50-50 chamber).

Instead, Cook's Twitter blocking of the very committee she will face tomorrow suggests she believes her confirmation will happen on strictly party lines. In doing so, she unintentionally validates the charge that she will bring partisan politics into the central bank.



An Independent Fed?

Put simply, the Fed's mandate is to "promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."

In recent years, the Fed has increasingly stepped outside of these bounds, delving into environmental and social policy. This shift prompted harsh criticism from economists. As research by Clinton and Obama

administration veteran Lawrence Summers argues, politicized central banks are generally less effective at controlling price stability than independent central banks.

Regardless of whether one accepts Summers' conclusions, the importance of an independent Federal Reserve was once a widely held belief by members of both political parties. Former President Donald Trump eroded this belief by regularly attacking the actions of Federal Reserve chair Jerome Powell, but the Democratic Party is also culpable, as their officials increasingly view the Federal Reserve as a tool to accomplish left-wing political goals.

Given the current high levels of price instability in the United States, further politicizing the Federal Reserve defies both its stated mandate and economic consensus. The Fed already lost credibility by missing its stated inflation target, and the nomination of partisan actors such as Cook would further throttle its credibility. While Cook is an impressive academic economist with important work on race and economics, her political partisanship is cause for concern. Cook had the opportunity to defuse these concerns by demonstrating herself as a nonpartisan economist, but unfortunately, she has done the opposite.

And while she might have been looking to Vice President Harris to push her nomination over the top, New Mexico Senator Ben Ray Luján's recent stroke brings a different sort of math to the proceedings.

That Twitter blockage seems less wise by the day.

– February 3, 2022

Putin, Ukraine, and Covid

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Research Faculty

One of the difficulties inherent in writing are lags. Once ideas or predictions are on paper and in the public eye, they are memorialized; the vagaries of time and happenstance can convert them into something prophetic or ridiculous. It is a hazard inherent in going on the record, albeit a far lowlier one than many, indeed most professions face.

As this article is being edited, an estimated 130,000 Russian troops are massed on the border of Ukraine, fueling worry about an invasion. Recent reports indicate that combat aircraft and blood stores have been moved close to the troop buildup as well, further suggesting impending conflict. There are news blurbs about Kiev citizens arming themselves, and the Brent crude oil contract recently hit highs not seen since the fall of 2014. From the US, Western Europe, and their global allies, the response has been predictable: posturing and warnings. The response from Russia has been mostly to dismiss concerns while adding that the Donbas insurgency threatens its national security.

Both sides, of course, are challenging one another's standing: Russia on the basis of Ukraine being a neighboring nation, and the US and Western Europe on the basis of Ukraine's sovereignty. The least-heard stakeholder in the rising tensions, Ukrainian President Volodymyr Zelensky, has accused the West of attempting to create panic while indicating that talks are continuing.

The roots of the Russia-Ukraine relationship are deep, complex, and far beyond the scope of this article. There are many social and cultural links between the two. But in considering people all over the world, geographic proximity, cultural similarity, or linguistic similitude do not imply integrity.

Pandemic Origins

Like the rest of the world, Russia was struck by the global Covid outbreak two years ago. At that point, the Russian government had been attempting to balance policies emphasizing growth and stability for some time. Being an energy exporter, its economy relies disproportionately upon oil and gas; commodity price swings impact Moscow's revenue and spending potential. In the last 5-10 years, Russian President Vladimir Putin has put a particular emphasis on stability at the cost of growth. Russian per capita GDP is less than half that of the US, and although the comparison is somewhat inapt, the GDP of Texas is larger: in 2018, the US state's GDP was $1.70T versus Russia's $1.28T.

In response to the pandemic, the Russian government imposed a nationwide lockdown. That, of course, incurred an artificial recession. Not long after that, with the bottom dropping away from global oil demand, an oil price war between Russia and Saudi Arabia resulted in a veritable tidal wave of oil hitting world markets. The May 2020 West Texas Intermediate oil contract closing at -$37/bbl (barrel) is directly representative of the state of world oil markets at that point. With so much oil hitting virtually demandless markets, storage, rather than oil itself, became traders' end games.

The Russian ruble, as it tends to, suffered in sympathy with a worsening energy outlook, with a 30 percent drop between January 1 and March 18th. Soon thereafter prices began to spike, rising from roughly 2.5 percent (Russia CPI, Federal Service of State Statistics) in February 2020 to nearly 5 percent by the end of the year. Also, by December 2020, the budget surplus which Moscow had expected to run

(930 billion rubles/$11.4 billion USD) was a deficit. But it was another trend which arguably contributed to what is now happening along the border of Ukraine, and may or may not have developed by the time this is read.

RUB/USD cross (2019 – end of 2021)

(Source: Bloomberg Finance, LP)

A decision was made by Putin's government in Moscow for reasons that can only be understood via educated guesses. The central government of Russia chose to push most Covid policy decisions out to local regions. After the nationwide lockdowns and then a handful of tax breaks and interest-free loans, crisis mitigation efforts were delegated to regional governments. Whether that decision was a tacit nod to the benefits of decentralization or an effort to deflect criticism for ineffective policies, we cannot know for certain. But over the second half of 2020 and throughout 2021, two numbers as closely scrutinized within the Russian government as outside of it began falling: Vladimir Putin's public approval and trust ratings, as measured by the independent (and often criticized) Levada Center.

Part of the growing disapproval of Putin's handling of the crisis stemmed from the length of the lockdowns and the view that direct state aid was insufficient. On May 4, 2020, Russian football player Yevgeny Folov appeared on national television, saying:

> What the president says on television is all nonsense. There are no real actions. When talking to real businessmen, one can learn that banks will never issue soft loans and will not give a loan delay. We are forced to stay at home, and there is no help from the state. People are being fined [for going outside]. People have no money, and the average fine is 5,000 [rubles; at that time about $80]. People are going a second month in a row without a salary. This is not the case in Europe. And we see how our police work: they just twist people's hands or hit them in the face and take them away.

The slow decline of faith in the Russian government didn't start with Covid, but rather began when 2018 pension reforms were put in place, resulting in (among other changes) an increase in the retirement age (more about this, later). In January 2020, the most extensive efforts at modifying the 1993 Russian Constitution began; it was only in March of 2020, though, that a clause allowing a sitting president to sidestep term-limits would appear. After being passed by the Russian parliament, Putin insisted upon putting the measure to a national vote; and to induce voter participation, such populist measures as a ban on gay marriage were included.

Putin took office in May 2000, and since then has swapped between roles as Russia's president and prime minister to stay at the top of the power structure. Where he would've had to relinquish his office in 2024, he can now rule until 2036.

Mr. Putin's political idyll was short-lived. As Henry Foy wrote for *The Irish Times*:

> Just 10 days after winning a popular vote designed to depict the country as united behind its leader, protests erupted that instead demonstrated the level of simmering popular discontent. They also underscored the gulf between the president's Kremlin and ordinary citizens after his more than two decades in power…The protests, spanning an unprecedented 18 consecutive days unhindered by local police, have left Mr. Putin looking detached and listless in contrast to his usual decisive and hands-on image…"The Kremlin has forgotten how to politically respond to issues like this. They are losing their ability to respond to societal discontent," said Tatiana Stanovaya, founder of political analysis firm R. Politik.

"Society," Ms. Stanovaya commented, "is beginning to impose itself on the Kremlin rather than the other way around."

Oil markets soon recovered. But like most other nations in 2020, in Russia political promises to kickstart growth were abandoned. To their credit and underscoring the policy emphasis on stability rather than growth, an oil income "rainy day fund" was brought to bear on the hardship. (When Brent is priced over $40/bbl, a portion of oil revenue is set aside as a potential stabilizer in difficult times.) Although still unsatisfactory for many citizens, that fund helped expedite some of the economic recuperation. Nevertheless, there were early attempts to paint a rosier picture of the performance of Russia's nonpharmaceutical interventions than facts warranted.

> Russia has the world's highest tally of coronavirus cases, but relatively fewer deaths… These promising signs, however, have been met by claims that the country's official death statistics do not correspond to the actual situation in the country. Some outlets, including The New York Times, have reported that Moscow's death rate may be more than double official numbers…Those who die at home are not examined and are not included in the official count…[and in late May] Riga-based Russian language outlet Meduza reported that, of 509 medical workers who responded to a survey, one-third claims they were instructed not to list pneumonia-related deaths as having resulted from Covid-19, even though pneumonia is a common illness when Covid-19 spreads to the lungs,

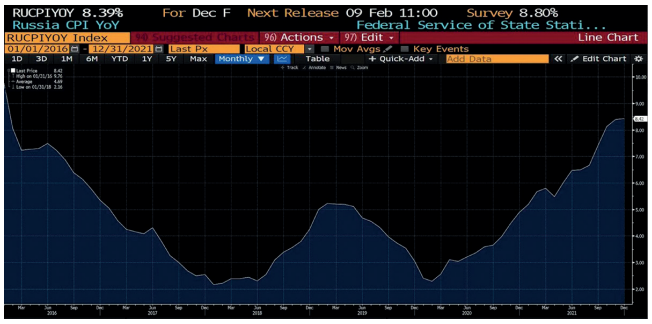
By the early summer of 2020, considerably darker tactics seemed to be at work.

> Three Russian medical workers have fallen out of windows, two of them fatally, under mysterious circumstances in the past two weeks. Alexander Shulepov, a paramedic from the city of Voronezh, is in critical condition after falling out of a second-story window at a hospital where he was being treated for COVID-19 last Saturday. Shulepov had earlier posted a video online along with a colleague in which he complained of being forced to work even after testing positive for the virus. The colleague had earlier been questioned by police for allegedly spreading fake news after complaining publicly about PPE shortages… On May 1, Elena Nepomnyashchaya, head doctor at a hospital in the Siberian city of Krasnoyarsk, died of her injuries from falling out a window during a meeting about turning the hospital into a coronavirus treatment facility. Nepomnyashchaya reportedly opposed the plan because of equipment shortages. On April 24, Natalya Lebedeva, head of emergency medicine at Star City, the training base for

> Russian cosmonauts, also died after a fall from a window…Defenestration is also sadly not an implausible fate for critics of government policies in Russia. A number of journalists have also died after falling from windows under mysterious circumstances in recent years.

In January 2021, Bloomberg reported that despite a breather, the Russian economy appeared to be stalling again. It didn't happen. In fact, last year Russia saw its strongest growth in 13 years, but by the end of 2021 Putin's approval ratings remained close to their lowest levels in two decades. Inflation had risen steadily throughout the year, hitting levels last seen in 2016. And in the wake of the cyber-hacking scandal, in April 2021 US sanctions for the first time targeted not just the personal fortunes of elites, but the country's sovereign debt. By blocking the purchase of newly-issued ruble-denominated Russian debt, the strength of the recovery from Covid was muted. By late 2021, predictions for Russia's economic health in 2022 were dialed back.

Russia CPI year-over-year (2016 – end 2021)



(Source: Bloomberg Finance, LP)

And it is at this point, in November and December 2021, that a deployment of Russian troops and equipment toward the border of Ukraine that began in March 2021 became a sizable, rapid build-up. In fact, some sources guess that through the second half of last year Russia's offensive capability in the Western Caucasus doubled. Additionally, the

> Russian deployment has been slow and deliberate. This allows Moscow greater freedom to select the potential timing of an operation while retaining some element of surprise. Of course, seasonal weather, hardening of terrain, the presence of foliage for camouflage, and other factors may affect the Russian calculus on what the optimal time might be for a military campaign.

Indeed, Russia may just be rattling its proverbial saber at the West. And the fact that any Russian move toward Europe and the US pushes oil prices up, which is good for Moscow, cannot be discounted. An invasion or conflict is by no means a foregone conclusion.

The Crimean Playbook

But although no one would or should allege a solitary causal factor, there is no argument that Covid isn't a major factor leading to this development. As Daniel Sixto of the Jack D. Gordon Institute for Public Policy summarizes:

> Putin's inadequate response to the coronavirus [has] eroded the trust between Russian citizens and the Kremlin…[his] attempts to demonstrate power and Russian order [have] only backfired, leading to increased unrest…[his] obsession to celebrate the World War II Victory Day Parade demonstrated [his] lack of commitment to initially tackle rising coronavirus cases in Russia…[and in] late August, Alexei Navalny, Putin's leading opponent in Russia, was hospitalized after a suspected poisoning from the Kremlin. Russia's poisoning of Navalny represents one of many acts of intimidation. This time,

> however, Moscow's plans backfired, and the opposition leader's approval rating surged… Putin's inability to lead Russia amidst the Covid-19 pandemic left a power imprint on his legacy…[s]ince the virus reached Russia in late January [2020] Russia's closest allies have turned on Moscow and anti-Kremlin protestors [have been] flood[ing] the streets…[V]oters won't likely forget the effects of Covid-19 on their livelihoods, possibly mounting a considerable opposition in the 2024 election.

While Putin's approval ratings didn't fall as far as they have recently, between 2011 and 2012, there was a sizable drop. Then too, the growing perception was of an increasingly inert government unable to address citizens' largest concerns. Daniel Treisman analyzes the fall thusly:

> Between February 2011 and April 2012, the proportion [of the population] finding Putin "businesslike, active, energetic" fell from 51 to 39 percent. Fewer than 8 percent by 2012 found Putin pleasant, appealing, and charming or honest, decent, and not corrupt. Six weeks after his election, fewer than 40 percent of respondents thought that Putin would still have won the Presidency if Russia had "a free press and television, which could freely talk and write about abuses of the authorities."

In 2012, Dmitry Medvedev and Putin swapped positions as Russia's Prime Minister and President, respectively. The approval ratings of both fell further, and protests broke out across the country as allegations of broken promises and corruption swept through the popular mind. Throughout 2013, amid confrontations between the US over Edward Snowden's asylum and intervention in Syria, approval ratings stabilized in the mid-60s; not bad, but far below the range from mid-2005 to late-2010 in which they had ranged from the mid-70s to the mid-80s.

In February 2014, when the decision was made to annex Crimea, Putin's approval ratings sat at a tepid 69 percent. Within one month it had leapt by the greatest month-to-month amount ever, to 80 percent. And by the end of 2014 it was hovering close to 90 percent. By mid-2015, *The Guardian* reported that

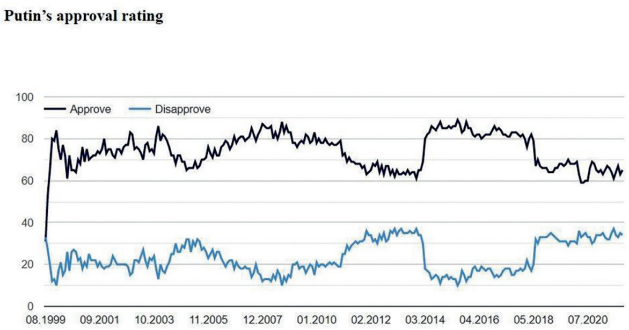
> Putin's approval rating is at record levels, with nine out of ten Russians saying they have a positive view of their president. Putin had an approval of 87 percent in July, and an all-time high of 89 percent in June, according to Levada Center polling. Following a drop in popularity in 2012 and 2013, when Putin's approval ratings dropped into the 60s, the Russian President's popularity picked up again last year on the back of events in [eastern] Ukraine…Some 70 percent of Russians believe the country should stick to its current position on Ukraine, while 20 percent say it would be better to make concessions in order to avoid sanctions. 87 percent support the annexation of Crimea, and only 4 percent think that the eastern regions of Donetsk and Luhansk should return to their pre-conflict status.

Not only did many Russians wholeheartedly support Putin's move, but reliable opposition members did as well. Kseniya Sobchak, a television figure regularly expressing disapproval of the Putin regime's policies, commented that the essentially bloodless operation might elevate him "in history to the level of a great [akin to Peter and Catherine, et al], and there's nothing [anyone] can do about that." And while a huge leap in public sentiment was not guaranteed, the Crimean push "tap[ped] into deep-seated nostalgia, not so much for the Soviet system as for the

superpower's imperial reach." The Crimean annexation popularity boost lasted well into 2018.

Will Pandemic Failures Lead to War?

As noted earlier, a litany of geopolitical, historical, social, and cultural factors are at play in the Russian-Ukrainian standoff. Energy market disputes factor in as well. But could the Russian government's poor performance during the Covid pandemic, resulting in plummeting public support, have played into the decision to stare down NATO?



(Source: Levada Center, https://www.levada.ru/en/ratings/)

Almost undoubtedly. In November 2018, Russian forces blocked access to the Azov Sea, and opened fire on several Ukrainian ships. Adam Taylor of the *Washington Pos*t wondered at that time whether

> domestic concerns [could] be forcing Russia to take [that] aggressive stance? Russia's economy is stuck in the midst of long-term stagnation, and a plan to raise the retirement age has proved unpopular with voters…Kimberly Marten, a Russia watcher at Barnard College, pondered whether with the sudden escalation in Azov, Russian President Vladimir Putin might be "provoking yet another international crisis in hopes of winning support at home."…Indeed, when you look at polling from Russia and compare it with acts of Russian aggression, there does seem to be some sort of correlation…
>
> [T]here are two [other] important dates when Russia took foreign policy moves that may have been motivated by domestic popularity concerns: the 2014 annexation of Crimea, and the invasion of Georgia in 2008.

Russia is not, by far, the only nation for which the Covid pandemic starkly exposed a variety of limitations. In many, indeed most countries, the period between 2020 and the present has been punctuated by outright lies, partial truths, and the denial of readily apparent facts by state officials and international organizations. Conflicting messages, renewed propaganda, and brutality have frequently followed the discovery that policy measures wreaked unnecessary wreckage upon people's lives and futures with little or no impact upon thwarting the spread of infection.

At this writing, it remains a fast-moving, tense situation. The US and its allies are allegedly preparing a withering raft of sanctions which may include a ban on financial transactions in any ruble-denominated debt, new or issued. Peace or an unhappily brokered stalemate may still result. Or Ukraine may become the point where a decision to project Russian influence into Eastern Europe forcefully by thrusting a thumb deep into the eye of NATO converges, awfully. In any event, this point will have come amid an uncountable series of influences. A major military power appears poised to attempt to wrest back the perception of irreproachable faculty to gin up public sentiment. Whether in volumes or a few paragraphs, history must reflect the role that one of many influences, a global pandemic, played.

It is 8:55pm EDT on January 31, 2022. Covid's direct toll on human life and liberty has been monstrous, mostly for unnecessary reasons. One hopes upon hope that its indirect toll will be mollified, starting just north of the Black Sea.

– February 2, 2022

Deescalate Conflict in Ukraine

TODD MYERS
Contributor

Tucker Carlson has ruthlessly mocked President Joe Biden, neocon intellectuals, war-mongering politicians, and liberal media elites who have been beating the drum for conflict with Russia over Ukraine. Carlson's mockery appears to be hitting the mark. American rhetoric has been so intense about the imminence of a Russian invasion of Ukraine that the President of Ukraine, Volodymyr Zelensky, has called for President Biden to tone down his rhetoric. The American strategy in Ukraine has severely underestimated Russian concerns, capabilities, and motivation, neglected the realistic interests of Ukraine, and can be counted among one of our numerous foreign policy failures in the post-Cold War world.

When the Soviet Union dissolved in 1991, prospects for cooperating with the West were bright. But the economic collapse and subsequent rise of the oligarchs in Russia, along with the policies of the West that focused on incorporating many of the successor states of the Soviet Union into the EU and the NATO created an environment that led many in Russia to be skeptical about the benevolence of the unfolding new world order. The uncertainty of Russia's eventual path led many to seek strategic gains where they might.

The expansion of NATO proceeded, and the alienation of Russia from the West followed suit.

Ukraine occupied a complex space in this new world order. Many in the country looked toward the West as a model of prosperity, and Russia as a fragment of a failed Soviet legacy. As with so many hopeful and simple visions, reality challenged Ukraine's exodus to the West. First, substantial numbers of Ukrainians were ethnically or culturally Russian. Second, the founding of the modern state of Ukraine posed some difficult security problems for Ukraine and Russia. Would Ukraine become a nuclear-armed state? How would the Black Sea fleet be divided, and what would major naval bases' status in the region be? What would be the relationship between an independent Ukraine and Russia?

Ukraine denuclearized in exchange for Russia's recognition of its borders. It agreed to give Russia over eighty percent of the Black Sea Fleet and rent the Crimean naval bases to Russia for initially twenty years, renewing the lease for 32 more years in 2010 in exchange for discount pricing of Russian natural gas. Ukraine became a founding member of the Commonwealth of Independent States established by Russia to coordinate the economic and political cooperation of former members of the Soviet Union, but Ukraine never ratified the treaty.

Up until the 2014 Russian annexation of Crimea, most Ukrainians held favorable attitudes toward Russia. Russia was Ukraine's most important trading partner. In 2004, the Orange Revolution opened the door to political leaders who aspired for Ukraine to become more strongly integrated with the West. The victory of Victor Yanukovych in 2010 placed into power a leader more sympathetic to the Russian Federation, and his rejection of an agreement with the European Union in favor of a deal with Russia spurred political protests. Yanukovych responded to the riots with police, and over 100 people were killed. Various theories about the motives and identities of snipers associated with the deaths were and are bandied about.

The heavy hand of Yanukovych's government failed to end opposition to his policies, and the Euromaidan movement, as it would later be called,

succeeded in pushing him out of Western Ukraine and establishing a new government dedicated to cultivating better relations with the West at the expense of ties with Russia. Russian intransigence about Ukraine's modest moves toward the West contributed to anti-Russian sentiments.

The Americans played a significant role in encouraging anti-Russian sentiment. The American ambassador to Ukraine, Victoria Nuland was famously caught on tape opining whom she believed should and should not be part of the new Ukrainian government, and later vulgarly dismissed the concerns of Angela Merkel about the inappropriateness of her comments. The Europeans understood the dangers of provoking the Russians better than the Americans.

Breaking relations with the Russian Federation and pursuing greater integration into the West would not be an easy path and has proved to be costly for Ukraine. Ethnic groups sympathetic to the Russian Federation were heavily concentrated in the Southern and Eastern parts of Ukraine. The Ukrainian government of Crimea was deposed by local separatists with significant help from Russia. Crimea elected to separate itself from Ukraine in a referendum and joined the Russian Federation. Separatist movements in the Donbas region with Russian support followed suit with the proclamation of the Donetsk and Luhansk republics.

In response to these political actions of Russian ethnic groups in coordination with support from the Russian Federation, the United States and Western Europe imposed sanctions on the Russian Federation. These sanctions have been estimated to cost the Russian Federation around $50 billion per year since 2014. Of course, the cost of the Russian/Ukrainian conflict has been devastating to Ukraine, shrinking the economy from $183 billion in 2013 to a low of $91 billion in 2016. The Ukrainian economy is still 15% below its 2013 numbers.

Anyone concerned about the immediate well-being of the people of Ukraine would have put a brake on the political transformation initiated by the Euromaidan movement. Aid from the West has not come close to compensating for the economic harm caused by the break with the Russian Federation, and politics has not become noticeably less corrupt.

The heating up of rhetoric surrounding the situation in Ukraine does little good to get the country back on track to have a positive relationship with the Russian Federation. The current Ukrainian government is seeking shelter in NATO. Still, all thoughtful members of that organization are hesitant to bring a member into the alliance while it is entangled in an intractable conflict with Russia. With the Budapest Memorandum securing the borders of Ukraine in shreds, some Ukrainian security officials lament giving up a nuclear deterrent, but alas, no such deterrent is available in the immediate future, and Ukraine must negotiate with a partner many times more powerful than itself.

Escalating rhetoric about Ukraine and trying to fashion negotiations about its future through an analogy to Munich intensifies the conflict while offering no capabilities to resolve it in favor of a hardline Ukrainian position against Russia. The only hope the Ukrainians have is implementing the Minsk agreements and repairing their relationship with Russia, all while keeping doors open to the West. This implementation will be no easy feat, but the future of Ukraine is not in the Western alliance, but as a neutral border state, neither East nor West. Threading this needle is made more difficult by the Russian Federation recognizing the breakaway provinces as sovereign states, but fighting to exert sovereignty over these territories and Crimea risks the economic health of Ukraine as it becomes a garrison state on the borders of a new cold war.

The late Stephen Cohen, one of our leading luminaries on Russia, warned us against overly

simplistic thinking in our dealings with Russia and reminded us of the humanity of the people on both sides of the conflict in Ukraine. Intensifying economic warfare against the Russians and adding a few thousand troops in Poland and Romania does little good in bolstering Ukraine or improving relations with Russia. These actions make it more difficult to build a global order dedicated to trade, health, and sustainability.

A cynic might think the movement of Ukraine to the center stage of American foreign policy concerns was an effort to tap into the mythology of the Cold War to distract Americans from more significant issues. The ghosts of the past obscure the problems of the present, and this is true for Americans, Ukrainians, and Russians. It is hard not to wish the people of Ukraine well, but they should have no illusions about the support they will receive from the United States. Only the stupidest of blunders could bring the Americans fully on to team Ukraine, and the Ukrainians suffering from the aftermath of Euromaidan understand the fruits of impassioned political positioning without the capabilities to back up political posturing.

– February 22, 2022

Mandate This!

ROBERT E. WRIGHT
Senior Research Faculty

Do the people who want to mandate masks and vaccines realize that their arguments apply even more strongly to firearms, at least in America?

To see this, consider the Second Amendment, which through the doctrine of selective incorporation through the Due Process Clause of the Fourteenth Amendment, applies to state governments. It reads:

A well regulated Militia, being necessary to the security of a free State, the right of the people to keep and bear Arms, shall not be infringed.

The main clause is clear as day: The government shall not infringe on the right of the people to own and wield firearms. Its exact meaning in terms of policy is disputed and currently under the Supreme Court's review, but an increasing number of states have taken it to mean what the Founders did: that governments cannot heavily tax or otherwise regulate firearms ownership or transportation. They can enforce laws forbidding people from shooting their guns into the air or in other unsafe ways, but aside from that their power is slight. Other states think they can prevent law-abiding citizens from owning or carrying certain classes of firearms, like handguns or so-called "assault rifles," on public safety grounds, but I have pointed out before how that amounts to wishful thinking, as the states with the least restrictive gun laws are safest from gun violence.

But what interests me is the first part of the Amendment, which is a policy assertion. Such assertions are not generally found elsewhere in the Constitution. The part banning states from issuing fiat paper money (Article I, Section 10), for example, doesn't explain that unchecked fiat emissions lead inevitably to inflation (depreciation of the paper bills of credit vis-a-vis specie), it just bans them from doing it, and rightfully and thankfully so or we would be awash in junk California and New Jersey paper money.

The policy assertion in the Second Amendment is that to remain "a free state" or nation, the government must allow militias. The Founders were rightfully afraid of permanent armies of professional soldiers, because they could be bought and used to oppress individual Americans, especially ones not well-organized and armed, including with cannon, and as President Biden helpfully explained, advanced weapons as well.

Note that I asserted in the previous paragraph that American governments must *allow* militias, not necessarily organize and run the units themselves. As I explain elsewhere, in the 18th and 19th centuries, Americans regularly formed private militia units, proof of the existence of which suffuses military histories and state statutes. Many such units obtained special charters of incorporation and took on names like the Ringgold Dragoons (mounted infantry based in a small town northwest of Frederick and northeast of Hagerstown), which the Maryland legislature chartered during its December 1846 session.

Despite being constitutionally mandated, militias, private and state, were eventually supplanted by a second or "reserve" standing military called the National Guard and a third with various names like SWAT teams. Today, the US government considers private militias tantamount to terrorism. Start one and you are likely to end up dead, or in a supermax federal pen.

And I do mean constitutionally mandated. In the Founding era, men of prime military age, generally between 16 and 50-something, who did not muster

for militia duty were subject to fines and/or imprisonment. Fines were imposed by their private militia units if they opted to join one, or if they joined a fire-fighting company, which many states recognized as substitute service. Joining a private militia or fire company gave men the option of dying next to a buddy instead of some stranger, and also made exemptions easier to obtain because everybody in the private unit knew each other, and hence that Joseph's dad just passed away and Eliphalet was in Boston on business.

Mandatory militia service faded away after the Civil War in part due to the realization that as long as the American people remained armed, they could form militias if and when necessary. More importantly, the military-industrial complex realized that it could get higher congressional appropriations if the American people felt vulnerable to invasion from Mexico and/or Canada, with help from some Eurasian or East Asian power of course. Mandatory militia service remains alive and well, though, in Israel and Switzerland, and Kennesaw, Georgia has mandated gun ownership since 1982, though enforcement is lax.

How could the leaders of those democracies, as well as America's Founders, justify forcing citizens to bear arms? Well, via the negative externality argument many use to justify mask and vaccine mandates. See, your not carrying a gun imposes at least five major negative externalities on me, and everyone else.

1. The unarmed cannot defend themselves, which might force others to do so out of some ingrained or involuntary Smithian empathetic impulse.
2. The unarmed cannot defend themselves, so they *attract* attackers, who might kill innocent bystanders in the process.
3. The unarmed cannot defend their communities, so all Americans have to pay higher taxes for a militarized police force, the overbearing tactics of which led to several waves of massive urban uprising riots in the 1960s, 1990s, and 2020.
4. The unarmed cannot defend the country, so all Americans have to pay higher taxes to support standing armies and navies.
5. The unarmed cannot defend the country, so all Americans have to suffer the existence of a military-industrial complex, which has been known to initiate attacks on "our democracy" by currying favor with politicians and rendering them more hawkish.

Obviously, those externalities are far more costly than the cost of mandating firearms for all, even if taxpayers have to pick up the tab for the guns and ammo.

While firearms are proven safe and effective, especially in the hands of people trained in their proper use, they remain imperfect. Sometimes the contagion of violence spreads so rapidly that individuals will run out of bullets before a threat ends. That is why it is so important to mandate that Americans carry not just one gun but two, or perhaps three or four, just to be safe. And to make sure that the weapons function when needed, maybe the government will have to mandate that every American carry new guns every year, or maybe every six months. And I do mean every American, though of course children should have smaller guns. Anyone old enough to spray Covid is old enough to spray bullets.

If mandating baby firearms for babies or being forced to serve in a militia makes you uncomfortable, consider a reasonable alternative, mandating *liberty* instead. Let individuals choose whether or not they want to bear arms, or bare their arms for a shot, or their teeth for a photoshoot. Negative externalities suffuse our social existence but rarely rise to a level that mandates a mandate, especially in a society that purports to celebrate diversity, which is to say heterogeneous subjective judgments of right and wrong.

– February 25, 2022

American Law Schools: Becoming More and More Dysfunctional

GEORGE LEEF
Senior Research Faculty

Law school in The United States used to be merely a needless barrier to entry into the market for legal services, helping to keep down competition. Starting back in the 1920s, the American Bar Association started flexing its muscles to prevail upon states to forbid anyone from taking the bar exam who hadn't graduated from an ABA-accredited law school. The ABA insisted that law school take three years. Prior to that time, many lawyers attended shorter law school programs or learned what they needed to know on the job without going to law school at all.

The simple fact of the matter is that there is no piece of knowledge or skill that can only be learned sitting in a law school classroom. The mandatory three years of that is entirely unnecessary. (I have been making that argument for a long time; see, e.g., this 1997 article in *Regulation* magazine.)

Then, starting in the 1970s, the academic left began infiltrating law schools with courses and programs intended to turn out "progressive" radicals, as Professor Charles Rounds explained in a 2010 article for the James G. Martin Center, "Bad Sociology, Not Law."

Of late, matters have taken still another terrible turn. The problem is that "woke" law students are beginning to rule the roost with their demands for ideological purity. And even though they're merely students, they tend to get their way because the higher ups don't want to confront them.

University of Illinois-Chicago

Professor Jason Kilborn has been on the faculty of UIC's law school since 2010, teaching civil procedure and other courses. On an exam he gave in late 2020, he set up a factual situation where a business manager had treated a black woman employee badly. In the question, Kiborn had him calling her "n_____" and "b____." Soon after the exam, one of the students who had taken it complained to the Black Law Student Association at the school that the question had been so distressing that it interfered with her ability to concentrate on the exam. The BLSA then demanded that the administration terminate the professor (who has tenure) because of his supposed insensitivity.

The law school's administration ought to have replied that Kilborn had done nothing wrong. Future lawyers, no matter their race, need to be able to deal with unpleasant circumstances such as abusive managers. There is no reason why professors should have to word exam questions so delicately that no student could possibly claim to be hurt or offended.

But that's not how the school reacted, of course. It suspended Kilborn and insisted that he undergo "training" so that he would never again act in an insensitive manner.

At that point, the Foundation for Individual Rights in Education (FIRE) entered the picture. FIRE sent a letter to the dean, stating that Kilborn's actions were protected under the school's commitment to academic freedom and the Constitution. With the assistance of a local attorney recommended by FIRE, Professor Kilborn then worked out a compromise with the school under which it would monitor his classes, but he wouldn't have to submit to a reeducation camp.

But then the school blew up that deal by insisting on the "training" after all. That was the final straw; Kilborn has filed suit over the violation of his rights. UIC will now face a high price for its inability to say "No" to the unreasonable demands of a small

group of student zealots.

Commenting on the UIC case here, columnist George Will pointedly asks, "Could those who concocted this sentence ever recognize their kinship with the moral purifiers of Cambodia's Khmer Rouge? Or of Mao's Cultural Revolution? Or of the Stalinist interrogator Gletkin in Koestler's 1940 novel *Darkness at Noon?* If so, would UIC's unconscious emulators be discomfited by the resemblance? Unlikely."

Emory Law Journal

Law reviews and law journals are often discussed as if they were authoritative expressions of legal knowledge, akin to the *Journal of the American Medical Association*. The truth, however, is that law reviews and journals are run by students. Second and third-year law students select and edit the articles, which are mostly submitted by professors or occasionally attorneys and judges. The students wrote short notes and edited the submitted articles to make certain that the citations were correct. In the past, it emphatically was not their role to decide whether the substance of the articles met with their approval.

That has begun to change, however. The same zealotry that causes students to complain about professors whose questions make them unhappy is now asserting itself in law journals. A case in point is the way the student editors at Emory Law Journal reacted to an article submitted by Professor Larry Alexander for an issue honoring Professor Michael Perry. Alexander graduated from Yale Law School in 1968 and has been on the faculty of the University of San Diego Law School since 1975. He has written a dozen books and a great many law review articles. He knows legal scholarship.

In his article, Alexander argued against the idea that "institutional racism" is a problem. That displeased the students editing the issue and they demanded that he revise the article extensively, in a way that took out the core of his case, informing him that his writing was "hurtful and unnecessarily divisive." Alexander declined to water down his article to suit the sensibilities of the students and withdrew it. Two other professors then withdrew their submissions in protest against the journal's breach of scholarly standards and etiquette.

Commenting on this kerfuffle in an essay on Minding the Campus, attorney Louis Bonham wrote, "Thus, what was supposed to be an honor to Professor Perry and a contribution to constitutional law scholarship has now degenerated into an episode of cancel culture writ large, and a huge black eye for the ELJ, Emory University School of Law, and, quite possibly, the careers of the students involved."

Georgetown Law School

When Supreme Court Justice Stephen Breyer announced his resignation in January, President Biden promptly stated that he would nominate a black woman to succeed him. Quite a few Americans found it unseemly that the president would categorically rule out everyone who didn't have those characteristics, among them Ilya Shapiro. Shapiro, long a legal scholar with the Cato Institute, had recently been appointed to a faculty position at Georgetown. He tweeted that Biden's decision meant that the position would not go to the best-qualified individual, but instead someone of lesser qualifications.

All hell broke loose.

Students demanded that Shapiro be fired. They did not, of course, deign to offer any arguments as to why Shapiro was wrong. That isn't the style of "woke" students. If something upsets them, they immediately demand punishment for the person responsible.

How did the law school's administration react? Do you need to ask?

Dean William Treanor declared that Shapiro's tweet was appalling and hurtful. He said he would suspend Shapiro and launch an "investigation" into him. Meeting with the aggrieved students, he promised

to "listen" to them, and that he would "do better."

Seeing a chance to leverage their complaints against Shapiro, students then called for the defunding of Georgetown's Center for the Constitution (where Shapiro would be teaching) on the grounds that it promotes an Originalist approach to the Constitution, which bothers them.

FIRE issued a statement on this brazen attack on academic freedom: "Dean William Treanor has made the wrong decision in authorizing this witch hunt, and every day that it continues is an affront to free speech and fairness at Georgetown."

And in this op-ed, American Enterprise Institute fellow Max Eden points out the dean's amazing hypocrisy in taking no action against Professor Carol Fair, whose tweets during the confirmation hearings on Brett Kavanaugh approved of violence against his supporters. Eden nails the truth when he writes, "Treanor is the very model of the modern university administrator: Fearful of all, respected by none…. Georgetown's infantilized law students no doubt sense that his weakness can be further exploited by whatever further pretext they prefer to manufacture."

The American Bar Association

As if the problem of ideological radicalism wasn't bad enough in law schools, the American Bar Association (ABA) has adopted an accreditation proposal that would make things worse. The ABA is the sole organization recognized by the federal government as an accreditor of law schools and it wants to use that power to compel law schools to include "training" for students covering bias, racism and cross-cultural competency.

Thus, we see how the legal profession in this country is actively promoting leftist ideology. This new requirement will further inflame radical law students and eventually undermine the neutrality of the judiciary.

– February 27, 2022

Understanding GDP

ROBERT F. MULLIGAN
Senior Fellow

Gross domestic product (GDP) is the most commonly used measure of economic performance. It serves as a standard measurement to compare economic activity and production across countries. The US Department of Commerce's Bureau of Economic Analysis (BEA) estimates real GDP and the GDP growth rate. GDP is measured in two different ways: the income approach and the expenditure approach. These use different numbers, and generally differ by millions of dollars, so they act as a check on each other.

The expenditure approach adds expenditures on consumption, investment, government purchases, and net exports. Net exports are total exports minus total imports. Some parts of both consumption and investment expenditures include imports. This is true to some extent for government purchases, but because most of what the government buys is produced locally by people who vote, this is generally less of an issue. Imported goods and services are not produced in the US, so they are not part of US GDP. Adding net exports, exports minus imports, subtracts any imports that were included in any other category such as consumption or investment. This arrives at the current market value of all goods and services produced in the US in a given year or quarter.

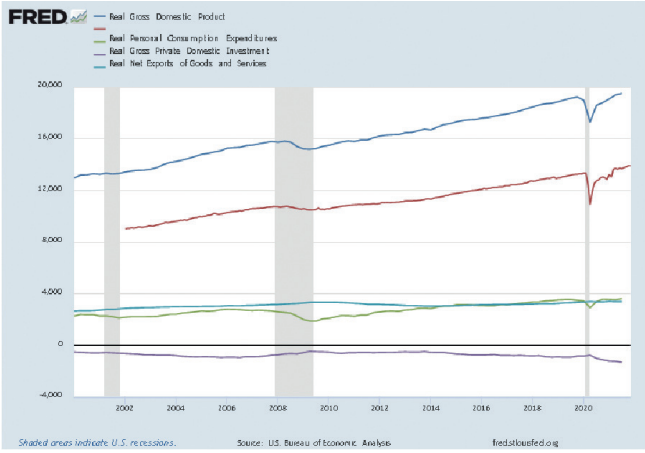


Figure 1—US Real GDP & Components 2000-2021

Consumption purchases generally account for about 70 percent of US GDP (Figure 1). Investment is highly volatile, and can account for less than 10 percent to more than 20 percent. For example, during a recession, investment generally falls, usually in greater proportion than any other part of GDP. Government purchases generally account for 20 percent of GDP. Net exports are negative for the US, since about 1970, and recently accounted for about -6 percent of US GDP. Figure 1 shows that investment fell rather dramatically during the 2007-2009 Great Recession. Note though that during the Covid-19 recession in 2020, consumption spending fell more, and took a long time to recover—this shows that the Covid-19 recession was highly unusual.

GDP is measured in dollar terms because there would be no other way to add up the value of all the things we produce in the US economy: tons of steel, barrels of oil, bushels of wheat, hours of management consulting services, and so on. The

BEA adjusts this nominal GDP to reflect inflation with the GDP deflator. Because GDP is measured in dollar terms, it has to be adjusted to reflect changes in the dollar's value and purchasing power. As the dollar loses value through inflation, a dollar of unadjusted or nominal GDP means less in real terms. Real GDP is adjusted with this estimate of the general price level, the GDP deflator. This is similar in concept to the consumer price index (CPI), except that the CPI only includes consumer goods, and does not attempt to remove imported goods. Real GDP for 2021 was about $19.3 trillion in 2012 dollars; that is, adjusted for inflation at 2012 prices.

Per-capita GDP adjusts GDP for population growth, and makes dollar-denominated real GDP figures comparable from one country to another. Because it's adjusted for both population size and inflation, per-capita real GDP measures how wealthy countries are in relation to one another. The US economy is much larger than Luxembourg's but our per-capita real GDP is $63,400 and theirs is a whopping $115,000. Neighboring Belgium's is $45,000 and tiny Liechtenstein's is an impressive $175,000–apparently all the middle-class people there live across the border in Switzerland or Austria. Monaco's is the highest at $190,000.

The income approach is an alternative measure of GDP which acts as a check on the expenditures approach. The income approach looks at the income earned by the factors of production: land, labor, capital equipment, and management or entrepreneurial planning. This adds wages paid to labor, rental income on land, interest paid to rent capital equipment, and profits earned by firms. The largest component of income is compensation for labor, generally accounting for about 70 percent of US GDP.

GDP estimates the money value of what an economy produces in a year, but it does not consider the composition of goods and services that are produced, how equitably income is distributed, or how output is produced. A number of alternative measures of overall economic performance and well-being have been proposed to supplement, or even supplant, the GDP concept. The best known and most widely used is the UN Development Programme (UNDP)'s Human Development Index (HDI). The HDI combines relative measures of national income, years of education, and life expectancy.

Inequality-adjusted HDI (IHDI) adjusts the raw HDI downward the less equally income is distributed among the country's households. The rationale is that if income is high but not equally distributed, it does not offer everyone the maximum benefit from the high average income. To appreciate the benefit of this, consider the extreme hypothetical of an economy where one person received an astronomically high income, but everyone else received zero. The average could be relatively high, if the one rich person were in fact rich enough. This hypothetical country's relatively high per-capita real GDP would mask the fact that it was a nation of paupers.

What is produced, and how it is produced are just as important as how much is produced. The composition of GDP can vary dramatically within the approximately $20 trillion of GDP the US produces today. Of the nearly infinite different possible combinations of output, some satisfy people's wants better than others, but this does not necessarily affect the total. The argument can be made that consumption expenditures are relatively optimal because the combination of goods and services are freely chosen by consumers who seek to maximize the satisfaction of their wants with their limited incomes. A similar argument can be made that entrepreneurial planners are disciplined by profit-and-loss accounting to make the best use they can of every dollar they spend on investment purchases. The same argument cannot be made for government purchases, because the benefits sought by the decision-making politicians and bureaucrats are always paid for by someone

else, the taxpayers. This argues that we should seek to minimize the extent of government purchases as a percent of GDP. This would improve efficiency and ensure that expenditure decisions contribute the most to improving overall welfare, by restoring the direct link between costs and benefits.

It is important to realize that government purchases only include purchases by the government at all levels, federal, state, and local, of output that has to be produced and which provides income for the producers. Government purchases do not include transfer payments, such as welfare programs, the progressive income tax, or corporate subsidies, which aim at redistributing income more equitably. To the extent that these programs successfully increase household incomes, they enable those households to increase their consumption spending, enabling them to purchase additional GDP which has to be produced. Unfortunately, these programs are notoriously inefficient, with high percentages going to overhead, advertising, promotion, monitoring, evaluation, etc., so that only a small percent reaches the intended beneficiaries. Corporate subsidies are a perverse form of transfers that redistribute income from the poor to the rich, and serve to aggravate existing inequality. Far from being curious anomalies in the federal and state budgets, the amounts the US spends on this kind of redistribution are astronomical.

If GDP is produced through technologies that are particularly environmentally destructive or polluting, this could degrade the quality of life directly, but would not be picked up in GDP numbers. If it is bad enough to lower life expectancy, clearly the people are worse off, regardless of their material wealth. This would be captured in the HDI but not in GDP. Since pollution degrades the quality of life even if it does not lower life expectancy, this points to a limitation of both GDP and the HDI. The same is true for habitat loss and environmental degradation.

A further consideration is leisure. If two countries with the same population produce the same dollar value of output, but the citizens of one country enjoy more leisure while producing the same GDP, they are clearly better off. The leisure is beneficial even though it does not raise GDP. In this example, to produce the same GDP while working fewer hours, the workers of one country would have to be more productive, perhaps because they use a more advanced production technology, or produce higher-valued output. Too much leisure is clearly not beneficial to a poor country that is unable to employ its whole labor force, but voluntary leisure is clearly beneficial—a so-called first-world problem. Forced leisure, or in other words, unemployment, lowers GDP and is a problem.

To summarize, GDP is a crude measure of economic performance, but it has the value of capturing a tremendous amount of information in a single number. It provides a one-dimensional measure of the output of a complex and multidimensional modern exchange economy. For the US, as with virtually every modern economy, this is a mixed economy with a still dominant private sector but with a significant and still growing government sector.

– February 8, 2022

What Did the Fed Know in the Great Recession?

THOMAS L. HOGAN
Senior Research Faculty

Federal Reserve officials pride themselves on making data-dependent decisions using the most up-to-date information on the state of the economy. Fed Chair Jerome Powell says that the Fed "has gone to great lengths to collect and rigorously analyze the best information to make sound decisions for the public we serve."

Sound monetary policy decisions, however, require not only recent data on the economy but also predictions about its future direction. As Milton Friedman described, monetary policy works in "long and variable" lags, often of a year or more. To manage the money supply effectively, the Federal Open Market Committee (FOMC) must have accurate predictions of the economy in order to make informed policy decisions.

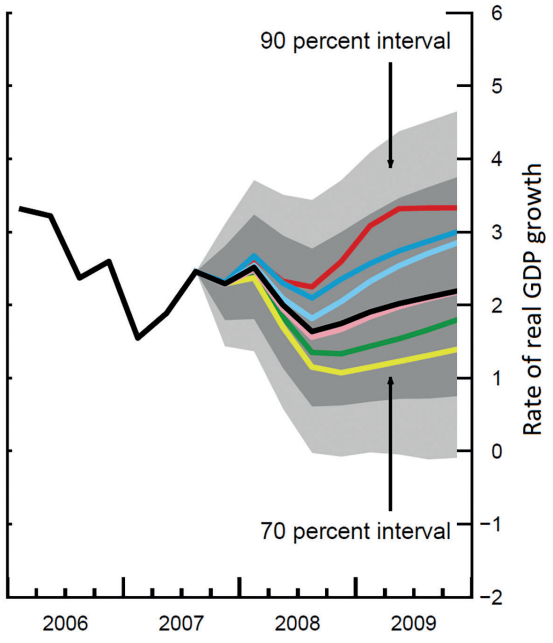
Let's look at the Fed's economic forecasts during the Great Recession of 2007-2009 and consider how they might have affected its monetary policy decisions.

Before the recession

Most research prior to the Great Recession found the Fed's forecasts to be quite accurate. Research by Christina and David Romer, for example, found that forecasts by the Federal Reserve Board (FRB) staff's economic models outperformed private forecasts and were even better than projections by the individual FOMC members.

However, recent research including the time period of the Great Recession finds much different results. Figure 1 shows the FRB staff's forecast of GDP growth as of October 2007, just prior to the start of the recession. The black line is the base-case forecast of the four-quarter percentage change in real GDP growth. The colored lines represent alternative scenarios based on different assumptions. The dark and light gray areas respectively represent the 70 percent and 90 percent confidence intervals.

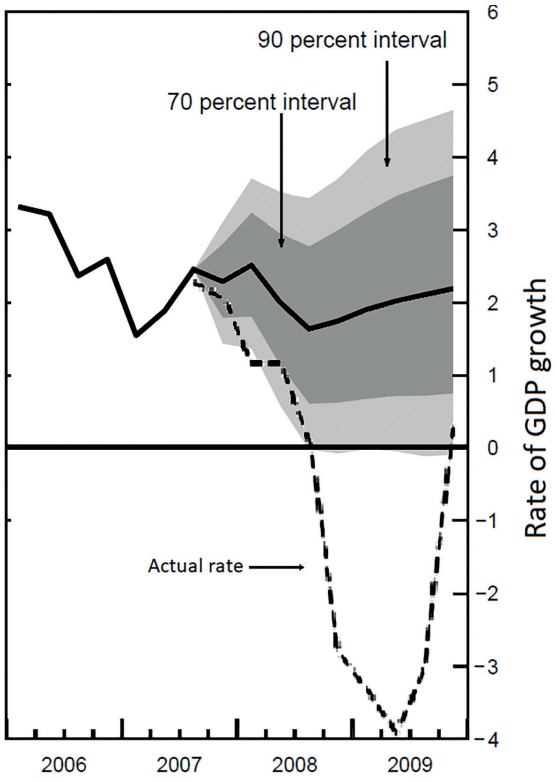
Figure 1. FRB staff GDP growth forecast, October 2007



Source: FRB Greenbook (p.I-20)

The FRB staff's base-case forecast was fairly stable around 2 percent GDP growth through the end of 2009. The 90 percent interval barely touched zero in 2008 and 2009, indicating that the FRB staff was almost 90 percent confident there would not be a recession. Obviously, that forecast was very wrong.

Figure 2. Actual GDP growth vs FRB staff forecast, October 2007



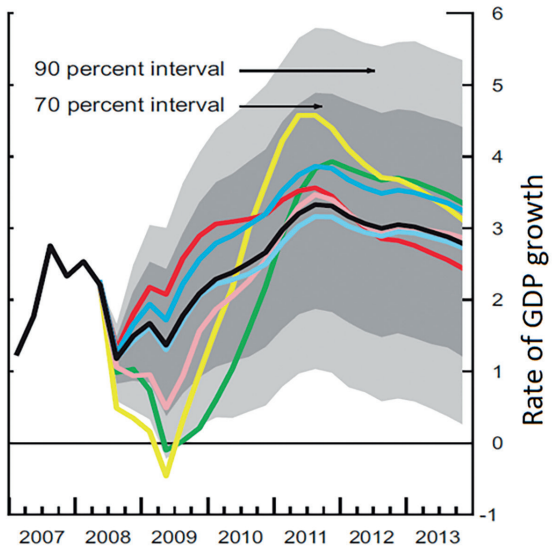
Sources: Forecast based on FRB Greenbook (p.I-20), actual rates from the Federal Reserve Bank of St. Louis

Figure 2 shows the FRB staff's base-case forecast in addition to a dashed line representing the actual rates of GDP growth over the period. Clearly the FRB staff forecast was quite different from the actual rates, which were below the FRB's 90 percent confidence interval for most of 2008 and 2009.

During the recession

The FRB staff's forecast errors persisted throughout the recession. Figure 3 shows the FRB staff's forecast from September of 2008. Again, the black line represents the base-case forecast, and the colored lines are alternative scenarios. Though slightly obscured, the light gray area appears to only briefly fall below zero, again indicating that the FRB staff was 90 percent confident we would avoid a recession.

Figure 3. FRB staff GDP growth forecast, September 2008



Source: FRB Greenbook (p.I-26)

According to data from the National Bureau of Economic Research, the recession officially began in December of 2007. The forecast in Figure 3 is from September of 2008, the tenth month of the recession.

The economy had been in recession for 10 months, and the Fed staff was still predicting there would be no recession!

The FRB staff's overoptimistic forecasts were partly due to overconfidence in the Fed's monetary policy. In early 2008, the FOMC adopted a more expansionary policy by reducing its interest rate target from 4.25 percent in early January to 2.25 percent by late March.

The FRB staff's models predicted that this policy change would be sufficient to avoid a recession. For this reason, the FOMC left its target practically unchanged for the next six months until after the peak of the financial crisis in September 2008.

Had Fed officials realized the extent of the economic downturn, they almost certainly would have pursued more expansionary monetary policy. In his autobiography, for example, Fed Chair Ben

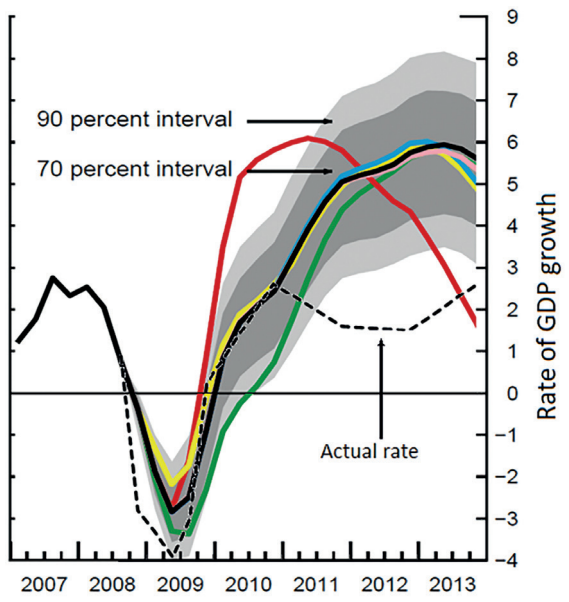
Bernanke said that the decision to leave rates unchanged in September of 2008 "was almost certainly a mistake."

A quick recovery?

It could be argued that the failure to foresee the downturn of the Great Recession was a one-time event and that Fed economists should not be held at fault. Economic shocks are, by their nature, unpredictable. But even once they recognized the depth of recession, the FRB staff continued to wildly overestimate the future rates of GDP growth.

Figure 4 shows the FRB staff's GDP forecast as of December of 2008, which finally shows a major recession in 2008-2009. However, the base-case forecast as well as each of the alternative scenarios all predicted a huge rebound following the recession. Each scenario reaches about 6 percent growth by 2013. That obviously did not happen. The actual rate of real GDP growth in 2013 was just 1.57 percent.

Figure 4. FRB staff GDP growth forecast, December 2008



Source: Forecasts based on FRB Greenbook (p.I-25), actual rates from the Federal Reserve Bank of St. Louis

What is particularly interesting about Figure 4 is the narrowness of the 90 percent confidence interval shown in light gray, which reaches as high as 8 percent in 2012. On the lower end, the 90 percent interval in 2012 appears to be above the post-World War II average of 3.1 percent, meaning that the FRB staff was more than 90 percent confident that GDP growth would exceed 3.1 percent in those years.

Fed economists believed that 8 percent GDP growth in 2012 was more likely than 3 percent! And even 3 percent is almost twice as high as the actual rate of 1.57 percent in that year.

What do these mistaken forecasts tell us about monetary policy? First, Fed economists should revise their forecasting models, particularly the FRB/US model which yielded the predictions above. Second, economists should pay more attention to knowledge problems at the Fed. Models of monetary policy typically assume the Fed has a good understanding of the effects of its policies. Clearly, that was not the case in the Great Recession.

More fundamentally, the Fed's poor forecasting record should make us skeptical of its ability to effectively manage the money supply in times of economic turmoil. It would be prudent to consider structural reforms that might improve FOMC's decision-making process.

This article is based, in part, on the paper "The Calculus of Dissent: Bias and Diversity in FOMC Projections," now forthcoming in the journal Public Choice.

– February 2, 2022

Inflation Exceeds Fed's Projection

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Director, Sound Money Project

As Nobel Prize-winning physicist Niels Bohr once quipped: "Prediction is very difficult, especially if it's about the future." Members of the Federal Open Market Committee (FOMC) can surely relate. Despite having ten months of data and the levers of monetary policy in hand, inflation has overshot their projection for 2021.

On December 15, 2021, the Federal Reserve released its Summary of Economic Projections, which reports the median, central tendency, and range of projections for inflation and other macroeconomic variables submitted by FOMC members. FOMC members are instructed to make projections based on the assumptions that the Fed conducts monetary policy appropriately, as they see it, and that the economy is not affected by any further shocks. The median FOMC member projected inflation at 5.3 percent for 2021. The central tendency was 5.3 to 5.4 percent and the range was 5.3 to 5.5 percent. Hence, most FOMC members projected 5.3 percent inflation for 2021, and none projected inflation in excess of 5.5 percent. These projections can be used to forecast the price level, as shown in the figure below.

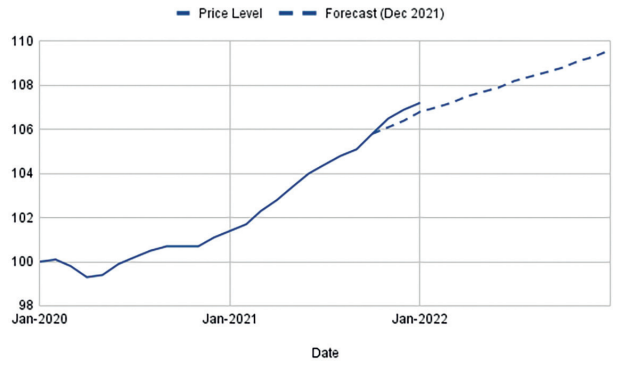

Figure 1. Personal Consumption Expenditures Price Index (PCEPI) and Forecast of PCEPI Based on FOMC Projections

It is worth noting that at the time when the Summary of Economic Projections was released, Fed officials had access to at least ten months of price level data for the year. The personal consumption expenditures price index (PCEPI) for October had been available since November 24 and inflation had been relatively high up until that point. If prices continued to grow at the same rate as they had over the first ten months of 2021, annual inflation would have clocked in at nearly 5.5 percent—the high end of their projections. In projecting 5.3 percent inflation for 2021, the median FOMC member was implicitly saying they expected inflation to fall over the last two months of the year.

They were wrong. Inflation did not fall. Prices climbed above the Fed's forecast in November and remained elevated in December. Inflation averaged 5.6 percent for the year—exceeding the entire range of projections offered by FOMC members in December.

Why did FOMC members underestimate inflation? The assumptions underlying their projections offer two explanations, neither of which is very satisfying.

Recall that FOMC members are instructed to make projections based on the assumptions that the Fed conducts monetary policy appropriately, as they see it. Perhaps the Fed did not conduct monetary policy appropriately. That would explain the poor projections. But it would raise an even bigger question: Why can't a majority of FOMC members ensure that monetary policy is conducted appropriately?

Recall further that FOMC members are instructed to assume the economy is not affected by any further shocks over the projection period. All else equal,

an unexpected decline in total factor productivity or surge in nominal spending would cause prices to rise more than expected. But it is hard to point to any such shocks over the period in question.

The FOMC made its inflation projections in mid-December, with just sixteen days remaining in the year. Although the precise price level data was not yet available, FOMC members were aware of the events that had unfolded in November and nearly half of December. It is difficult to imagine how a shock big enough to cause a 20-basis point miss would have gone unnoticed by the well-briefed members of the FOMC.

I chalk it up to wishful thinking. Fed officials were not yet willing to tighten monetary policy. They hoped inflation would get better on its own. It didn't, and their projections underestimated inflation as a result. That's understandable. But we should keep this error in mind when considering future FOMC projections.

– February 17, 2022

CDC Spreads Misinformation on Masking, Not Science

AMELIA JANASKIE (Research Associate) & DAVID WAUGH (Managing Editor)

Twisting the truth is our current Federal Government's *modus operandi*. Look no further than White House Press Secretary Jen Psaki's latest political gymnastics when she claimed, "We've not been pro-lockdown – most of the lockdowns actually happened under the previous President."

While technically true (most actual lockdowns happened in America under Trump), the reality is that Biden praised pro-lockdown governors like Andrew Cuomo of NY, deified lockdown advocate Anthony Fauci as "America's scientist," and insisted throughout his 2020 campaign that lockdowns were necessary.

While our government officials may struggle with cognitive dissonance, Americans are taking notice as their trust in the federal government continues to plummet.

The Biden Administration aside, the Centers for Disease Control and Prevention's (CDC) approach to the pandemic has been concerning, especially regarding its ability to offer reliable information to the public. The latest example of this trend occurs in a misleading infographic, which if taken at face value, conveys that wearing a cloth mask provides 56 percent more protection than no mask at all.

The CDC cites the results from its new study on masking, which states that "wearing a cloth mask (aOR = 0.44; 95 percent CI = 0.17–1.17) was associated with lower adjusted odds of a positive test compared with never wearing a face covering but was not statistically significant." If one looks closely at the infographic, the hash symbol at the bottom indicates the results for cloth masks are "not statistically significant."

Even though the CDC is technically honest in reporting this fact on the infographic, the situation still raises the question: if it admits in fine print that its infographic isn't backed by reliable evidence, then why are they publishing it in the first place? Moreover, if the evidence suggests that wearing cloth masks has no statistically significant relationship with reducing the probability of testing positive, then why does the CDC continue to say we should use them?

Vinay Prasad, Professor of Epidemiology at the University of California, San Francisco, echoes this sentiment, scrutinizing the rigor of the study itself. According to Prasad, there are multiple issues with how the researchers conducted the survey, including significant response and selection bias. In a Cato working paper, Prasad, along with other researchers, highlights the main concern with broadcasting flawed research:

> Although weak evidence should not preclude precautionary actions in the face of unprecedented events such as the Covid-19 pandemic, ethical principles require that the strength of the evidence and best estimates of amount of benefit [should] be truthfully communicated to the public.

Unfortunately, this behavior is typical for the CDC, which has debased itself to the level of partisan media outlets that spin the results of medical studies. Admitting that cloth masks don't reduce the odds of testing positive would disrupt its existing narrative and result in political uproar against the CDC from the public and other highly influential groups, such as the Biden Administration and teachers unions.

Relenting on its stance will further erode the CDC's recommendation for universal masking in schools, enraging teachers unions, who we know influenced its school mask guidance. Despite the growing evidence against masks, the CDC is intent on maintaining its position on school masking.

Power Grabs and Misinformation

According to its official mission, the CDC "serves as the national focus for developing and applying disease prevention and control, environmental health, and health promotion and health education activities designed to improve the health of the people of the United States." Since the beginning of the Covid-19 pandemic, there have been many cases in which the CDC stepped outside its mission.

We must not forget the eviction moratorium. On September 4th, 2020, the CDC, citing the need to control Covid, stopped landlords from evicting tenants. The data backing this argument was shoddy, and the moratorium was later deemed unconstitutional by the Supreme Court.

In addition to controlling landlords, the CDC also ignores research that opposes its position on the robustness of natural immunity. According to famed Johns Hopkins researcher Marty Makary, the results of the latest data on reinfection rates demonstrated that "natural immunity was 2.8 times as effective in preventing hospitalization and 3.3 to 4.7 times as effective in preventing Covid infection compared with vaccination."

Yet, the CDC spun the truth when reporting on this study. They claimed "vaccination remains the safest strategy for averting future SARS-CoV-2 infections, hospitalizations, long-term sequelae, and death," based on a comparison between hybrid immunity (combination of prior infection and vaccination) with natural immunity. They did not clarify what the study's results actually show: that vaccination does not significantly reduce the risk of hospitalization for those with natural immunity.

But why would they? These findings directly dispute the position held by the CDC and the Biden administration. The current CDC Director Rochelle Walensky will not budge on her position either. In October of 2020, she signed the John Snow Memorandum, which still states "there is no evidence for lasting protective immunity to SARS-CoV-2 following natural infection."

The Game Is Up

The American people are being misled, and they know it. Their trust in the CDC is falling. Its lack of transparency damages public health in the long run,

hindering its ability to provide effective messaging during future health emergencies.

If they want the trust of the American people, they have to work harder to regain it. Unfortunately, the CDC is beholden to special interest groups, which leads it to renege on its mission of providing accurate public health recommendations. The CDC faces incentives that prompt it to follow the concentrated interests of special interest groups at the cost of providing reliable information to the public.

The CDC's actions have completely bewildered the American people. If it continues down this road, it will only erode what little credibility it has left.

– February 7, 2022

How the Coddled Kids Graduated But Never Grew Up

JOAKIM BOOK
Research Fellow

Aquote apocryphally attributed to Winston Churchill, Oscar II of Sweden, or the 19th century British statesman Benjamin Disraeli goes something like this: If you're not a socialist (or democrat, or liberal…) when you're 20, you have no heart; if you're not a conversative at 40, you have no brain.

The point is to capture a common trajectory in many people's political leanings. Most passionate, left-leaning youngsters grow out of their passion – correlated, roughly, to when the government takes money out of their pocket instead of putting it there. Their socialist/democrat/American-liberal ideals grow out of them, and with age they start appreciating the values of markets, small(er) government, of community, and upstanding morals. In short, they grow up.

The tendency is old, and radical young movements of a left-leaning kind never really bothered people too much. Yeah, yeah, let them play and try ideas that are new to them. They'll come around.

In a podcast with Jordan Peterson last year, the *New York Times* outcast Bari Weiss explained this process. What happened on university campuses in the '60s or '70s stayed on university campuses. You graduate, go to work at McKinsey, and leave those silly ideas behind.

So when the woke revolution really got started in the 2010s, with the Yale Halloween protests surrounding Erika and Nicholas Christakis, most real-world people shook their heads in disbelief. Here were the most elite of young America, the most prosperous and promising generation ever to arrive at the hallowed halls of academia, mysteriously fearing for their lives. Emotionally distraught students were yelling incomprehensibly at a more-than-patient professor whose error was very hard to decipher.

When Jonathan Haidt and Greg Lukianoff wrote the immensely popular 'The Coddling of the American Mind' in *The Atlantic* (and later expanded the argument in book form), most learned people worried about the new silencing trend on campuses, but didn't think too much about it. They'd grow up, most people reasoned; they'll get a job, settle down, and calm down, like every other radical social movement of young people had.

Fast forward to the last few weeks, and the popular podcaster and MMA commentator Joe Rogan has found himself in a witch hunt. During his decade in the public eye, he's been known for speaking liberally, taking on guests with controversial opinions, and has been happy to investigate even very fringe ideas. It's part of the appeal to hear some really strange people lay out their worldview in long-form podcasts – in addition to the many extraordinarily learned and clever people he also has spoken to over almost 2,000 episodes.

What's so fascinating about Joe Rogan's conversations isn't just that they're honest, as Jordan Peterson says in a recent 4-hour show that contributed to the sh*tstorm, but that they're *so long*. In a time with 10-second attention spans and great difficulty in engaging the minds of anyone for longer than a funky TikTok dance – or God forbid, a *full book* – people sit down to listen to high-level conversations for hours on end. That's quite something.

And then, the magic spell broke.

Over the last few months, peaking with his media poodles and Spotify's harsh shakeup of its star podcaster, Rogan poked the wrong people. Last year, he repeatedly spoke to guests who had denounced the Covid regime, had questioned the efficacy and use

of the vaccines, and defied the medical rules we've lived under for almost two years. Neil Young was angry, and many others with him pulled their music from Spotify. In the last few days, the Twitterati kept digging up dirt on Rogan. On his own accord, or pressured by Spotify or the pitchfork-wielding mobs, over a hundred pre-Covid episodes have been taken down for reasons that elude everybody.

He got too big to be tolerated, too much of a thorn in the (medically) woke rulers' side.

If we take a step back, we could have foreseen events like this from that cloudy November day in New Haven in 2015. The coddled kids of the 1990s, whose overprotective parents overthrew the traditions of letting kids play and investigate the world, saw horror and terror and harm everywhere they went. Protect kids from all harm, ran the mantra, even the harm of unorganized play or having your dreams and feelings hurt. Those kids, coddled to a T, imbued with an extraordinarily self-centered worldview and lavished with participation prizes, went to universities in unheard-of-quantities. They learned that reality was wrong, that *their feelings*, no matter what they were, mattered more than said reality. That everything and everyone who came before them was corrupt and oppressive, racist and evil. They, the brave warriors of the (un)enlightened bunch, had the opportunity to overthrow what caused them such pain.

These bright, credentialed, and coddled kids graduated, but they never grew up. They went into McKinsey, to the tech giants, and into every other Fortune 500 company around. They pushed their way around at Google and at Evergreen State College, making massive news stories and examples out of both. They took up positions in government, academia, and journalism. And in 2020, in the name of justice, they rioted in the streets of American cities, while credulous and complacent journalists called it "mostly peaceful protests." We heard the warnings, but nobody heeded them. As Michael Lind explained for *Tablet* magazine last year:

> As university graduates go into business and finance and media, they bring the technocratic progressive values they learned in college. This explains in part the phenomenon of 'woke capitalism' driven by the younger generation in the private sector.

The fervor with which publicly listed companies focus on seemingly irrelevant aspects of their business – environmental, social, and governance mandates, or gender and diversity quotas – makes much more sense. The mad scramble for every institution, even central banks, to do something – anything! – related to climate is no longer odd. The uproar among staff at the publisher Penguin when Jordan Peterson walked through the office before the release of his *Beyond Order* becomes more comprehensible. Even though book sales from megatitles like his literally pay their salaries, they want none of it.

These things were not accidents or isolated events, even though they seem unconnected. Those of us who had the misfortune to be at university campuses in the 2010s saw the coddled kids in action. We saw how their feeble minds and their hurt feelings bullied their way into positions of authority, professionally among staff and socially among peers. If you weren't woke, you were behind the times – or worse, evil and complicit in crimes against humanity. If it didn't make sense to us then, it does now. Our classmates and fellow students were playing a different game, and we didn't see the bigger picture.

Early in the pandemic, the same Nicholas Christakis, whose much-too-sanguine book about the pandemic probably won't age well, said in an interview for *The Atlantic*: "clamping down on people who are speaking [out] is a kind of idiocy of the highest order."

Over the next two years, the woke political establishment – always attracted to idiocy – took that challenge to heart. Last year, and so far into this year, have been times of clamping down hard. Anybody who speaks words unacceptable by the authorities must be "fact-checked," soft-censored by algorithms, and subject to a "devastating published takedown," as Francis Collins taught us. Anybody who thinks, speaks, or listens to words that others find offensive or wrong, must be spreading "dangerous misinformation" (or "malinformation" that Homeland Security so horrifically Orwellian has put it). Everyone in a position to stop them has the moral obligation to do so. Anybody who doesn't toe the woke party line will get canceled.

And what a witch hunt it has been. Undereducated journalists have "fact checked" things they're not qualified to understand, "misinformation" now seems to mean "words by anybody who disagrees with me." With the Joe Rogan debacle, it all falls into place.

The coddled kids didn't grow up, and now they're in positions of authority everywhere. The madness of crowds had long been simmering at the doors of American institutions – then its halls, and then its board rooms.

Now they run the show, and it's not clear how we get out of it.

– February 18, 2022

$30 Trillion With Neither a Whimper or Bang

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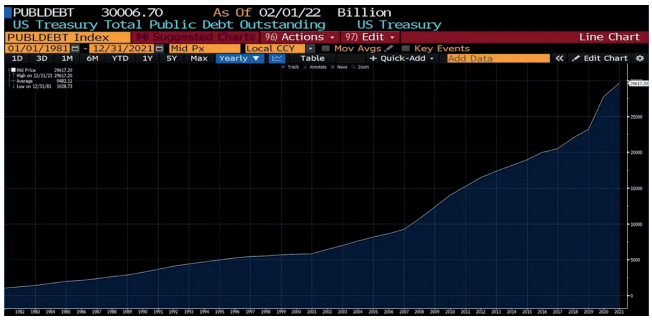
On Tuesday, February 1, 2022, the United States national debt surpassed $30 trillion for the first time.

It's the latest in a series of recent fiscal and monetary benchmarks received with increasing blitheness. I counted only a handful of headlines reporting on it. Two of which, interestingly, were the *New York Times* and Xinhua, the official press organ of the People's Republic of China.

In 1789, the youthful US government assumed responsibility for $75 million (approximately $1.6B in 2022) in debt incurred to fight the War of Independence. In less than 50 years, and amid fluctuations, that number had been paid down to less than $40,000 (roughly $1.25 million in 2022). While the Civil War was still being fought, the national debt surpassed $1 billion (about $22B in 2022) for the first time.

By the mid-1970s, following the Progressive Era, World Wars I and II, the Great Depression and New Deal, the Cold War, Korean War, Vietnam War, and the Great Society, the debt hit $500 billion ($2.5 trillion in 2022). In 1981, the $1 trillion barrier was crossed. The $10 trillion mark came and went in 2008, $20T in 2017, $25T in 2020, and here we are.

US public debt from $1T to $30T (1981 – 2022)



(Source: Bloomberg Finance, LP)

There are two particularly noteworthy things about this particular debt level being hit at this moment. First, the Federal Reserve is in all likelihood within sixty days or less from beginning its first rate hike campaign–one targeting not a return to normalcy, but rising price levels–in decades. And this one is being undertaken with a sense of urgency. That matters, because rising rates will increase the debt service (interest payments the US government must pay on the outstanding Treasury securities). The second is that the Congressional Budget Office projected two years ago that the $30T debt number wouldn't be hit until 2025. And the US gross national debt exceeded the size of the US economy (GDP) in 2021, nearly a decade faster than expected.

And unless I am mistaken, credit rating agencies issued nary a peep when the $30T milestone was hit.

And so it goes. Traditionally a crescendo of warnings waft up at these moments only to dissipate within a few days. Predictions of impending fiscal catastrophe are as schematic as breathless warnings of impending hyperinflation ("Right around the corner!") any time the Fed engages in expansionary policy measures. In both cases, rather than raising awareness, they are increasingly received as empty, Cassandric screeds: episodically less heard, and even then summarily brushed off.

Instead of engaging in unsubstantiated forecasting or policy attitudinizing, a more productive and considered approach would focus on social science, historical precedent, and moral principle. It is precisely because we *do not* and *cannot* know where and when national debt levels are "too" high, or what will happen to global interest rates as the slug of US debt lumbers higher, or what the next

congressional spending whim will embrace that we should look to the very public record of disastrous fiscal (and monetary) extravagance. We *know* that rising indebtedness brings colossal opportunity costs, which in turn affect every American citizen and our national security. And clearly, in a world of unlimited desires amid scarce resources, political decisions to trade the future for the present tempts further, possibly more withering assaults upon the already decremented soundness of the US dollar to meet rising obligations.

Gold spot ($/oz, 1920 – present)

(Source: Bloomberg Finance, LP)

Not knowing precisely when or what the exact circumstances will be that bring decades of short-sighted monetary and fiscal policy to a head need not, and should not, prevent individuals from taking the necessary steps to safeguard the fruits of their labors.

– February 4, 2022

Biden Administration: Incompetent, Naïve, or Desperate?

DOUG BANDOW
Contributor

Quiet desperation stalks the White House. The President who promised to bring Americans together has thrown himself into the arms of his party's radical progressives. The thin Democratic majority fractured when pressed to massively expand the US welfare state. Rapid and excessive monetary and fiscal expansion triggered inflation rates not seen for decades. Democratic pols believe their House majority is already lost and Senate control is in jeopardy.

Internationally the President has done no better. He appears torn between representing the American people, who have tired of policing the globe, and listening to his appointees, who still imagine enforcing Pax Americana. He acted courageously in facing down the Washington foreign policy "Blob" and leaving Afghanistan, but badly botched the withdrawal. He earned an indelible reputation for incompetence, which now taints his every international action.

After running as the anti-Trump he adopted his predecessor's hostile policy toward China, enforced mostly by huffing and puffing. He blundered away the best chance to reinstate the nuclear deal with Iran, and has no answer to North Korea as the latter continues testing missiles. After promising to emphasize human rights he embraced the brutal Saudi monarchy and continued support for its murderous war against Yemen.

Most serious today, he won't take the one step necessary to resolve the Ukraine crisis: end US support for NATO expansion toward Russia. Instead, his insistence on a theoretical possibility which virtually no member supports could lead to war at Europe's periphery, which would speed conflict and disruption across Europe and beyond. The president's latest gambit has been to ask the People's Republic of China to help keep the peace in Ukraine.

Seriously.

After nearly a half-century in Washington, the President acquired the reputation as a seasoned foreign policy hand. However, only a naïf would imagine that President Xi Jinping, busy acting as Mao reincarnated—returning to totalitarianism, strengthening party authority, and crushing his enemies as he assembles a personal dictatorship—would take Washington's side against Moscow.

Start with the bizarre choice of messenger, Under Secretary of State for Political Affairs Victoria Nuland, to deliver the administration's message: "We are calling on Beijing to use its influence with Moscow to urge diplomacy, because if there is a conflict in the Ukraine it is not going to be good for China either." She explained, "There will be a significant impact on the global economy. There will be a significant impact in the energy sphere."

Nuland did her best to create the current crisis over Ukraine. In 2014 the US backed a street putsch against the elected (though highly corrupt) and Russo-friendly president of Ukraine. Nuland was caught roaming the streets of Kyiv talking with US colleagues about who she believed should take over the new government.

Unfortunately though, while Beijing said nothing about Nuland's role, it almost certainly took note. The CCP is a malign force, but it's not attempting to rule the rest of the world. What it most reviles is outside intervention and apparent efforts at regime change. Washington's attempts are likely to backfire. Warned the Carnegie Endowment's

Evan S. Medeiros and Ashley J. Tellis: "Few U.S. allies and partners would support undermining the Chinese party-state—blunting perhaps the most important tool in Washington's strategic arsenal. Such an approach would isolate the United States and intensify its already deep rivalry with Beijing." If the CCP believes its overthrow is Washington's ultimate objective, East Asia could become an even more dangerous tinderbox. Yet Nuland is a symbol of America's policy of constant intervention.Then there is the overall bilateral relationship which is not, shall we say, very friendly these days. To the contrary, America is increasingly locked in what appears to be a new cold war with the PRC. And that's a cold war that could go hot.

The Trump administration initiated a trade war against China while targeting leading Chinese telecommunication and chip manufacturers, urging "decoupling" of supply chains, sanctioning Beijing over human rights, blaming the PRC for the Covid-19 pandemic, and launching an ideological campaign against the Chinese Communist Party.

And now another administration has taken a more aggressive military role in the Asia-Pacific to counter Chinese maneuvers and pressed American allies to commit to supporting Taiwan against the PRC. Although neither Beijing nor Washington wants war, the increasing number of military activities in the Asia-Pacific could lead to confrontations between China and American treaty allies or US forces directly.

Candidate Biden tagged Russia as America's primary security threat and merely treated China as an economic competitor, but has since gone Trump-lite, maintaining Trump policies, just with less contentious rhetoric. Indeed, in some ways this administration has been more aggressive, responding sharply to Chinese intimidation of Taiwan while policymakers debated making an unambiguous commitment to the island's security. The administration has tightened relations with Australia and Japan to work against China. Congress is moving forward on a mammoth piece of legislation targeting the PRC. And the president launched a "diplomatic boycott" of China's ongoing Winter Olympic games.

An important impact of Washington's hostile policy toward both Russia and China has been to push them together. This is a dramatic reversal of Richard Nixon's opening to the PRC in 1971, which resulted in a loose partnership against the Soviet Union. There is much that divides Moscow and Beijing; indeed, in civilizational terms Russia belongs with the West. However, the US has suffered from the classic vice of hubris, needlessly insulting and confronting friend and foe alike. Mutual antagonism toward Washington has encouraged increasing economic, political, and even security cooperation between America's two most important competitors/adversaries. A Chinese lurch toward Moscow against the US and Europe would only increase the Putin government's indebtedness to Beijing.

Yet the administration believes the PRC will take America's side against Russia?

[Wild laughter ensues, only slowly subsiding.]

After Nuland made her pitch, Chinese Foreign Minister Wang Yi spoke with Secretary of State Antony Blinken. Helping settle Ukraine did not appear to be high on Wang's list of priorities. He complained that "what the world sees is that the tone of US policy toward China has not undergone substantive change; nor [have] President Biden's statements been truly implemented." In particular, noted Wang, "As a matter of urgency, the U.S. should stop interfering in the Beijing Winter Olympics, stop playing with fire on the Taiwan issue and stop creating various anti-China 'cliques' to contain China."

Preventing the start of World War III in Europe is apparently not so important. Wang cleverly dissed the US by exhibiting moral equivalence in calling

on all parties to "remain calm and refrain from doing things that stimulate tension." Then he went on to join Moscow, insisting that "Russia's reasonable security concerns should be taken seriously and resolved."

So much for the administration gambit!

It's hard not to think back to President Jimmy Carter, a good, decent man, but also hopelessly naïve and incompetent, and in the end, desperate. After the Soviet invasion of Afghanistan in December 1979, Carter wailed, "My opinion of the Russians has changed more drastically in the last week than even the previous two and a half years." Didn't he realize that the ruling regime murdered and imprisoned millions of people? Apparently not. He seemed personally offended that Communist Party General Secretary Leonid Brezhnev lied—well, Carter wouldn't use that word, instead noting that the Soviet leader provided a "completely inadequate and completely misleading" response. Sigh.

There is no easy solution to the Ukraine crisis. The only realistic strategy is diplomatic. The US should state the obvious—it isn't going to fight a nuclear war to defend Kyiv. Washington also should recognize that America would never have accepted its own behavior. Imagine if Brezhnev had backed a coup in Mexico City, publicly discussed who he wanted in the new government, and encouraged Mexico to join the Warsaw Pact. Washington would be in a war frenzy. Neutralizing Ukraine militarily while ensuring its political and economic independence is likely the best possible outcome today.

However, China isn't going to help. Indeed, America's relationship with the PRC is more difficult than that with Russia. Beijing possesses the world's largest population, second biggest economy, and third most powerful military. It is an ancient civilization with global influence, and it poses a multi-front challenge, including political, ideological, economic, technological, and security. Instead of courting war with Russia and hoping for aid from China, the US should find a *modus vivendi* with Moscow and concentrate on Beijing.

That won't be easy for any administration. It might be impossible for one headed by a president who is incompetent, naïve, and desperate. Buckle up, as the fabled (though probably faux) Chinese curse, "May you live in interesting times," comes true.

– February 12, 2022

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