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BUSINESS CONDITIONS MONTHLY

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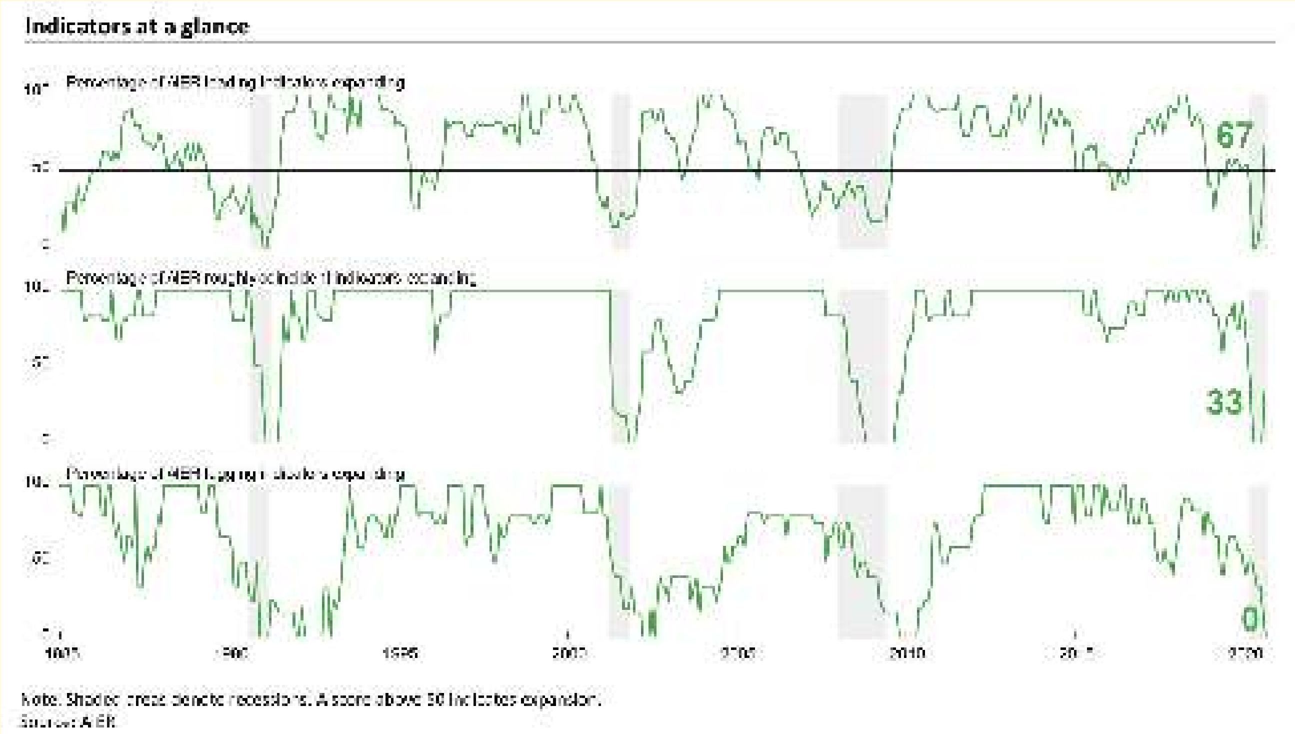
AIER’s Leading Indicators Index Surges in September as Recovery Broadens



The recovery from the historic plunge in economic activity resulting from the repressive lockdown policies implemented to slow the spread of Covid-19 has broadened significantly over the past month. However, ongoing restrictive policies, the inability to contain the spread of Covid-19, and shifts in consumer and business behaviors continue to challenge the nascent expansion.

AIER’s leading and coincident indexes rose sharply in September with the Leading Indicators index jumping to 67 and the Roughly Coincident Indicators index increasing to 33; the Lagging Indicators index, however, fell to zero. The sharp gain in the leading index suggests the recovery has broadened substantially and may signal the end of the recession (see chart).

Damage to the economy during the lockdowns has been massive. Gross domestic product plunged at a historic rate in the second quarter and more jobs were lost than at any other time in history. While the economy has begun to expand again and about half the jobs that were lost have been recovered, the pace of recovery appears to be slowing, suggesting a long time until complete recovery. Furthermore, there are a number of areas that continue to experience disruption, suggesting that while the recession may be over, the fallout is likely to continue.

AIER Leading Indicators index points to expansion

The AIER Leading Indicators index surged to a reading of 67 (on a scale of 0 to 100) in September, up from 21 in August, and the second largest monthly increase on record. The September result is also the highest reading since November 2018.

Six leading indicators changed signals in September with all six turning to positive trends, five from a negative trend and one from a neutral trend. The real stock price indicator improved from a neutral trend to a positive trend based on data through August (the latest data available). However, nominal stock prices moved lower in September, suggesting this indicator could revert to a neutral trend if weakness continues.

The other five leading indicators to move to positive trends in September were housing permits, real new orders for nondefense capital goods excluding aircraft, real new orders for consumer goods, manufacturing and trade sales to inventories ratio, and average workweek in manufacturing. Housing has become one of the strongest areas of the economic recovery, supported by ultralow interest rates and a surge in demand for single-family housing as many consumers who were living in high-density urban areas decided to move to less dense suburbs (see more on housing below).

The four remaining leading indicators to turn to a positive trend were related to manufacturing. Unlike housing where many measures of activity have already returned or exceeded pre-pandemic levels, manufacturing activity remains mixed. A rebound off the lockdown lows has turned the AIER indicators to a positive trend but some measures of activity remain restrained (see more below).

The overall results among the 12 leading indicators show eight indicators in uptrends, four indicators still in downtrends, and none in neutral trends compared to two indicators in a positive trend, nine in negative trends and one neutral last month.

The Roughly Coincident Indicators index jumped to 33 in September following four consecutive months at the lower bound of zero. The last time the coincident indicators index spent multiple months at zero was in 2008-09 when the index spent a total of 11 consecutive months at the bottom. The index spent five months at zero in 1991 and four months there in 1981-82.

Two roughly coincident indicators changed signs in September: nonfarm payrolls and real manufacturing and trade sales both improved from negative trends to positive trends. The story for the labor market is similar to the manufacturing sector; while improvements off the lows that occurred during the worst of the lockdowns have turned the nonfarm payrolls indicator to a positive trend, the level of nonfarm payroll employment remains well below the pre-pandemic level (see more below).

Overall, two roughly coincident indicators had positive trends in September while four remained in negative trends and none were in neutral trends versus all six indicators trending unfavorably last month.

AIER's Lagging Indicators index fell to 0 in September from 17 in August. Commercial and industrial loans fell from a positive trend last month to a negative trend in the most recent report. That change pushed all six indicators to unfavorable trends.

Overall, strong gains for both the Leading Indicators index and the Roughly Coincident Indicators index suggest that the end of the recession may have occurred or is imminent. However, the National Bureau of Economic Research is unlikely to declare an official end to the recession for some time as the risk of a doubledip recession is not insignificant. Some areas of the economy benefited from the initial push to reopen and posted sharp gains in recent months following massive drops in March and April. However, the latest data indicate that the rebounds may be starting to falter in some areas. Furthermore, with Covid-19 still out of control, restrictive policies still in place (and being reimplemented in some areas), and the potential for a rise in personal and business bankruptcies, the full fallout has likely not developed. The outlook for the economy remains highly uncertain and full recovery to pre-pandemic conditions is likely many quarters away.

Single-family housing recovery well underway

Housing activity – starts and permits – posted mixed results in August as declines in the multifamily segment offset gains in the single-family segment. Within the single-family area, there were gains in starts and permits with strength spread across most regions.

Total housing starts fell to a 1.416 million annual rate from a 1.492 million pace in July, a 5.1 percent decrease. The August decline followed three consecutive gains from an April low.

The dominant single-family segment, which accounts for about 70 percent of new home construction, rose 4.1 percent for the month to a rate of 1.021 million. Starts of multifamily structures with five or more units plunged 25.4 percent to 375,000. From a year ago, total starts are up 2.8 percent with single-family starts up 12.1 percent and multifamily starts down 16.9 percent.

For housing permits, total permits fell 0.9 percent to 1.47 million from 1.48 million in July. Total permits are 0.1 percent below the August 2019 level. Single-family permits were up 6.0 percent at 1.036 million, the highest rate since May 2007 while permits for two- to four-family units gained 17.8 percent and permits for five or more units decreased 17.4 percent to 381,000.

Permits for single-family structures are up 15.6 percent from a year ago while permits for two- to four-family structures are up 26.2 percent and permits for structures with five or more units are down 28.5 percent over the past year.

Sales of new single-family homes rose at the fastest pace since September 2006. Total sales rose 4.8 percent in August to a 1.011 million seasonally adjusted annual rate and are up an astonishing 43.2 percent from a year ago.

Total inventory of new single-family homes for sale declined 3.1 percent to 282,000 in August, the fifth decrease in a row, leaving the months' supply (inventory times 12 divided by the annual selling rate) at 3.3 – a record low, down 8.3 percent from July's 3.6 months, and 40.0 percent below the year-ago level.

Sales in the market for existing single-family homes rose 1.7 percent in August, coming in at a 5.37 million seasonally adjusted annual rate. From a year ago, sales are up 11.0 percent. The August pace is the highest since December 2006.

The existing single-family home segment saw inventory fall 2.3 percent to 1.27 million, pushing months' supply to 2.8 from 3.0. Months' supply for the existing single-family segment is also at a new record low.

Housing is one of the areas that may be experiencing structural change. If it is believed that higher density living represents a higher risk in future pandemics, then there may be sustained added demand for less dense suburban and rural housing, especially single-family dwellings. This trend could be boosted if businesses implement permanent work from home policies, to make employees happy but also to cut down on high-cost commercial real estate, especially in high-density, high-cost cities. Near-record-low interest rates are also a positive support for housing.

Labor market improvement is decelerating

U.S. nonfarm payrolls posted a fifth consecutive monthly gain in September, adding 661,000 jobs. However, the latest gain is the slowest so far in the recovery, and the five-month total gain of 11.42 million is far from offsetting the 22.2 million loss in March and April.

Private payrolls added a more impressive 877,000 jobs in September but was also the slowest of the recovery and brings the five-month total gain to 11.39 million versus a loss of 21.2 million in March and April. Total and private payrolls remain well below the February peaks.

The report suggests that the labor market recovery is continuing as restrictive government policies are lifted. However, the slowing pace of gain reinforces concerns that a sizable portion of the job losses may be very slow to return or may not return at all.

Within the 877,000 gain in private payrolls, private services added 784,000 while goods-producing industries gained 93,000. For private service-producing industries, the gains were led by a 318,000 increase in leisure and hospitality followed by retail with a gain of 142,000, and health care and social-assistance industries with a 108,000 increase. Within the 93,000 gain in goods-producing industries, durable-goods manufacturing increased by 46,000, construction added 26,000 jobs, nondurable-goods manufacturing rose by 20,000, and mining and logging industries added 1,000 jobs. Despite the gains over the last five months, every industry group had fewer employees in September than in February. The net losses range from a 0.8 percent drop in utilities workers to a devastating 23 percent plunge in leisure and hospitality.

The government sector cut 216,000 employees in September, with local government education payrolls dropping by 231,100, state government eliminating 49,400 education positions, and the federal government cutting 34,000 workers. Local government outside of education added 96,400 new employees.

The total number of officially unemployed fell to 12.58 million in September, a drop of 970,000 from August. The number of officially unemployed in February was just 5.8 million.

The unemployment rate fell to 7.9 percent from 8.4 percent in August while the participation rate ticked down to 61.4 percent from 61.7 percent. The participation rate was at a cycle high of 63.4 percent in January 2020 and fell to a low of 60.2 in April during the lockdowns.

The underemployed rate, referred to as the U-6 rate, fell from 14.2 percent in August to 12.8 in September; the peak was 22.8 percent in April.

The September jobs report supports the view that as government restrictions are lifted, payrolls are likely to rise. However, without a credible understanding of Covid-19 and with a flood of incorrect and misleading information drowning society, consumers may be reluctant to return to pre-pandemic behaviors. In addition, with enduring restrictions and heightened uncertainty surrounding government policies, businesses may be reluctant to return to previous levels of employment and investment. The longer these conditions continue, the more likely businesses are to shrink or close permanently.

Manufacturing improving

New orders for durable goods posted a fourth consecutive month of rebound in August, rising 0.4 percent following a gain of 11.7 percent in July, 7.7 percent in June, and 15.0 percent in May. The gains followed drops of 18.3 percent in April and 16.7 percent in March. Durable-goods orders excluding aircraft and parts fell 0.8 percent for the month following gains of 8.3 percent in July and 15.8 percent in June. That puts the level of orders at $231.3 billion, within the $225 to $235 billion range they have been in since mid-2018.

New orders for nondefense capital goods excluding aircraft, a proxy for business equipment investment, rose 1.8 percent in August after gaining 2.5 percent in July, putting the level at $67.7 billion. This important category had been in the peak $65 to $70 billion range for several periods over the past 15 years before dropping to $61.3 billion in April 2020. The $61.3 billion pace was the slowest since August 2017.

Industrial production rose 0.4 percent in August following a jump of 3.5 percent in July, a surge of 6.1 percent in June and a gain of 1.0 percent in May. However, the four consecutive months of gains were not enough to overcome the back-to-back declines of 4.4 percent and 12.9 percent in March and April, respectively. Over the past year, industrial production is down 7.7 percent and 7.2 percent below the pre-pandemic level in February.

Manufacturing output, which accounts for about 75 percent of total industrial production, rose 1.0 percent after a gain of 3.9 in July, a record increase of 7.5 percent in June, and an increase of 3.9 percent in May. The four gains follow declines of 5.0 percent and 16.1 percent in March and April. The four consecutive gains still leave manufacturing output 6.9 percent below year-ago levels. With the manufacturing output index at 97.9 for August, output is 6.7 percent below the 2018-2019 average index level.

The gains in industrial production in August were generally widespread across nearly all major market and industry groups with two notable exceptions: energy and motor-vehicle production. Energy production fell 1.3 percent for the month after gains of 2.8 percent in July and 3.0 percent in June. From a year ago, energy production is down 10.9 percent.

Motor-vehicle production, one of the hardest hit industries during the lockdowns, fell 3.7 percent in August after gains of 113.9 percent in May, 119.5 percent in June and 31.7 percent in July. Motor-vehicle production had fallen by 80 percent in March and April.

High-tech industries output rose by 1.2 percent in August, the third monthly gain in a row and is up 4.9 percent versus a year ago. All other industries combined gained by a healthy 1.4 percent in August but are still 7.3 percent below August 2019. Compared to pre-pandemic levels, motor vehicles and high tech are above the December 2019 level while energy and the total production excluding energy, motor vehicles and high-tech index were still below.

Consumer and business balance sheets diverge

Despite the pandemic, restrictive government policies, and the worst economic contraction in history, household net worth rebounded in the second quarter to a new record. Household net worth rose to $118.955 trillion, up from $111.348 trillion in the first quarter and above the previous record of $118.576 trillion at the end of 2019.

The rebound was due to an increase in financial assets, led by a recovery in equities, and nonfinancial assets, led by a rise in real estate. Total assets rose to $135.4 trillion ($94.5 trillion of financial assets and $40.9 trillion of nonfinancial assets), a rise of 5.9 percent. On the liabilities side, total household liabilities were essentially unchanged at $16.5 trillion.

Two key measures suggest that household balance sheets are generally healthy. As of the second quarter, total household liabilities to assets were 12.2 percent, down from 12.9 percent at the end of the first quarter and near a four-decade low. Data for the second quarter also show the financial obligations ratio, household debt service plus other financial payments as a share of disposable income, was 13.6 percent, a record low back to 1980.

Nonfinancial corporate balance sheets appear far less healthy than households. Nonfinancial corporate liabilities have been rising rapidly over the past decade, generally posting annual increases in the five to ten percent range. As of the second quarter, nonfinancial corporate liabilities totaled $30.7 trillion, up from $28.9 trillion at the end of the first quarter and $28.5 trillion at the end of the second quarter 2019, a rise of 7.9 percent. Assets meanwhile posted a 4.1 percent gain from a year ago, totaling $46.5 trillion. Those results put the ratio of liabilities to assets at 66 percent, a new record high. While low rates make servicing debt easier, and Fed intervention in broader capital markets may ease some liquidity issues, high levels of nonfinancial corporate liabilities are a very dangerous condition given the state of the economy.

Of all the sectors in the domestic economy, the financial position of the federal government is the most troubling. Total public debt outstanding is up to 107.7 percent of gross domestic product as ongoing deficits run around $3 trillion.

Total debt across the entire economy rose to $59.3 trillion as of the second quarter. The increase was led by the federal government which saw a jump to $22.5 trillion from $19.6 trillion at the end of the first quarter, a rise of almost $3 trillion or about 15 percent. That follows a 2.8 percent gain in the first quarter. From a year ago, federal government debt is up 21.9 percent and since the end of 2015, debt has surged 48 percent. The federal government now accounts for 37.9 percent of all domestic debt outstanding, a record high.

Nonfinancial corporate debt is up 3.3 percent in the second quarter to $11 trillion following a 5.9 percent rise in the first quarter. From a year ago, nonfinancial corporate debt is up 11.1 percent.

Household debt was essentially unchanged at $16.1 trillion while financial sector debt fell to $17.3 trillion from $17.7 trillion at the end of the first quarter. Nonfinancial, noncorporate business, primarily small businesses such as partnerships and limited liability corporations, boosted debt by $245 billion to $6.6 trillion, a rise of 3.9 percent while state and local governments increased debt to $3.1 trillion. All government debt (federal plus state and local) accounts for 43.2 percent of domestic debt outstanding.

Managing debt has been a challenge for all sectors of the economy at different times in history. Inevitably, excessive debt creates instability and can drive or contribute to boom-bust cycles. Debt management across all sectors should be monitored carefully.

CAPITAL MARKET PERFORMANCE

(Percent change)

		Latest	Latest		Calendar Year			Annualized	
	September	3M	12M	2019	2018	2017	3-year	5-year	10-year
Equity Markets									
S&P 1500	-3.9	8.1	11.3	28.3	-6.8	18.8	9.2	11.4	11.2
S&P 500 - total return	-3.8	8.9	15.2	31.5	-4.4	21.8	12.3	14.2	13.7
S&P 500 - price only	-3.9	8.5	13.0	28.9	-6.2	19.4	10.1	11.9	11.4
S&P 400	-3.4	4.4	-3.8	24.1	-12.5	14.5	1.2	6.3	8.8
Russell 2000	-3.5	4.6	-1.0	23.7	-12.2	13.1	0.4	6.5	8.4
Dow Jones Global Large-Cap Index	-3.6	7.6	9.7	23.8	-10.4	42.9	5.7	8.6	6.4
Dow Jones Global Large-Cap ex-U.S. Index	-2.7	5.1	0.9	18.2	-15.7	41.0	-1.0	3.8	1.4
STOXX Europe 600 Index	-1.5	0.2	-8.2	23.2	-13.2	7.7	-2.4	0.8	3.4
Bond Markets									
iShares 20-plus Year Treasury Bond ETF	0.7	-0.4	14.1	11.5	-4.2	6.5	9.4	5.7	4.5
iShares AAA - A Corporate Bond Fund	-0.5	0.0	5.5	9.1	-5.2	2.9	3.1	2.5	NA
Commodity Markets									
Gold	-3.5	6.5	28.9	18.7	-1.7	12.6	14.0	11.3	3.9
Silver	-13.3	33.0	37.5	16.7	-8.3	3.8	12.1	10.1	0.7
CRB all commodities	#N/A	#N/A	#N/A	-1.9	-5.4	2.2	#N/A	#N/A	#N/A

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

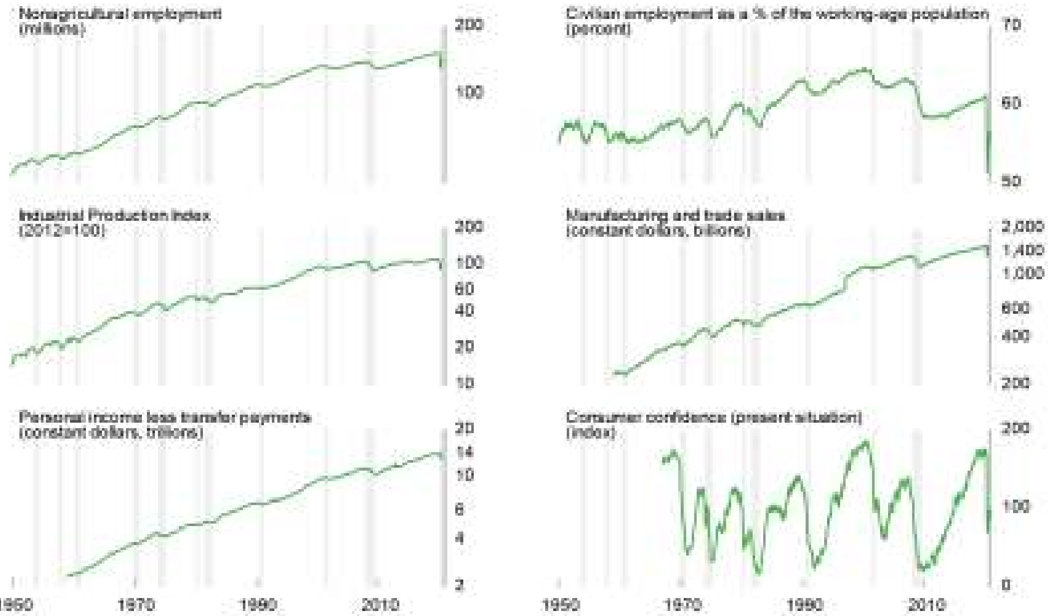
CONSUMER FINANCE RATES

(Percent)

		Latest	Latest		Average for Year			Average over Period	
	September	3M	12M	2019	2018	2017	3-year	5-year	10-year
30-yr. fixed mortgage	2.9	3.0	3.4	3.9	3.7	3.9	4.0	3.9	4.0
15-yr. fixed mortgage	2.5	2.5	2.9	3.4	2.9	3.1	3.4	3.3	3.3
5-yr. adjustable mortgage	2.9	3.0	3.2	3.6	2.9	2.9	3.5	3.3	3.2
48-month new car loan	5.1	5.1	5.3	5.4	4.3	4.2	5.1	4.8	4.9

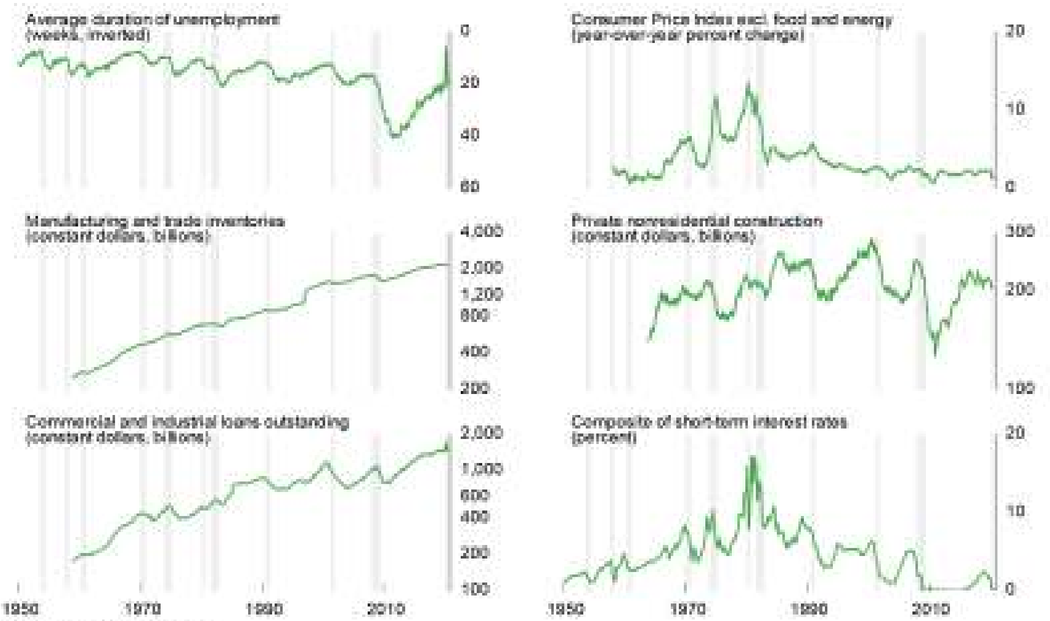
Sources: Bankrate, Federal Reserve.

ROUGHLY COINCIDENT INDICATORS (1950-2020)



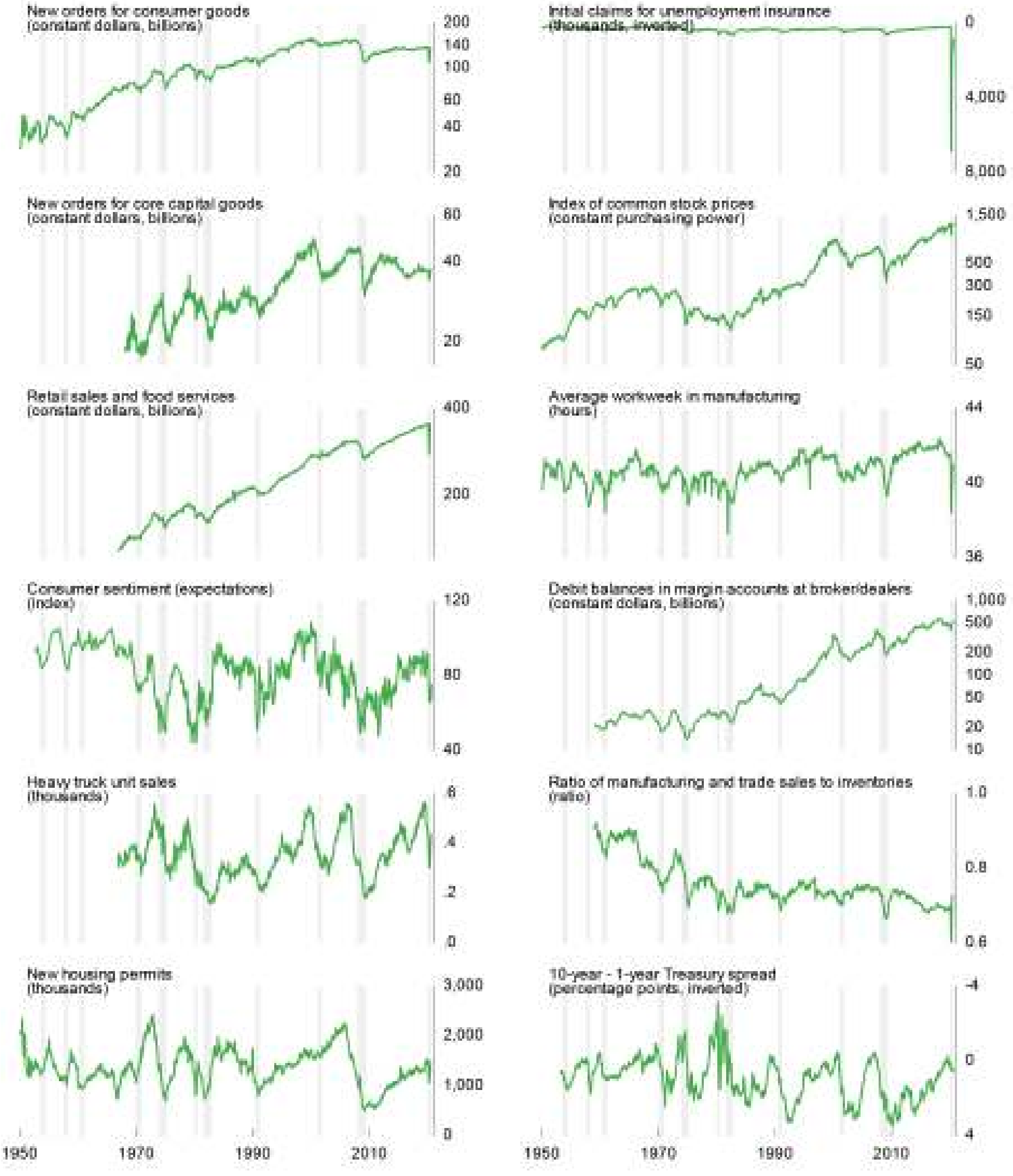
Note: Shaded areas denote recessions.
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, The conference Board, Census Bureau, Department of Labor, Federal Reserve, Institute for Supply Management, Standard & Poor's, AIER (Refinitiv).

LAGGING INDICATORS (1950-2020)



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).

LEADING INDICATORS (1950-2020)



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).

Open Letter from Medical Doctors and Health Professionals to All Belgian Authorities and All Belgian Media

AIER STAFF

The following letter has made an impact on public health authorities not only in Belgium but around the world. The text could pertain to any case in which states locked down their citizens rather than allow people freedom and permit medical professionals to bear the primary job of disease mitigation.

So far it has been signed by 394 medical doctors, 1,340 medically trained health professionals, and 8,897 citizens.

* * *

We, Belgian doctors and health professionals, wish to express our serious concern about the evolution of the situation in the recent months surrounding the outbreak of the SARS-CoV-2 virus. We call on politicians to be independently and critically informed in the decision-making process and in the compulsory implementation of corona-measures. We ask for an open debate, where all experts are represented without any form of censorship. After the initial panic surrounding covid-19, the objective facts now show a completely different picture – **there is no medical justification for any emergency policy anymore.**

The current crisis management has become totally disproportionate and causes more damage than it does any good.

We call for an end to all measures and ask for an immediate restoration of our normal democratic governance and legal structures and of all our civil liberties.

‘A cure must not be worse than the problem’ is a thesis that is more relevant than ever in the current situation. We note, however, that the collateral damage now being caused to the population will have a greater impact in the short and long term on all sections of the population than the number of people now being safeguarded from corona.

In our opinion, the current corona measures and the strict penalties for non-compliance with them are contrary to the values formulated by the Belgian Supreme Health Council, which, until recently, as the health authority, has always ensured quality medicine in our country: “Science – Expertise – Quality – Impartiality – Independence – Transparency”.

We believe that the policy has introduced mandatory measures that are not sufficiently scientifically based, unilaterally directed, and that there is not enough space in the media for an open debate in which different views and opinions are heard. In addition, each municipality and province now has the authorisation to add its own measures, whether well-founded or not.

Moreover, the strict repressive policy on corona strongly contrasts with the government’s minimal policy when it comes to disease prevention, strengthening our own immune system through a healthy lifestyle, optimal care with attention for the individual and investment in care personnel.

The concept of health

In 1948, the WHO defined health as follows: ‘Health is a state of complete physical, mental and social well-being and not merely the absence of disease or other physical impairment’.

Health, therefore, is a broad concept that goes beyond the physical and also relates to the emotional and social well-being of the individual. Belgium also has a duty, from the point of view of subscribing to fundamental human rights, to include these human rights in its decision-making when it comes to measures taken in the context of public health.

The current global measures taken to combat SARS-CoV-2 violate to a large extent this view of health and human rights. Measures include compulsory wearing of a mask (also in open air and during sporting activities, and in some municipalities even when there are no other people in the vicinity), physical distancing, social isolation, compulsory quarantine for some groups and hygiene measures.

The predicted pandemic with millions of deaths

At the beginning of the pandemic, the measures were understandable and widely supported, even if there were differences in implementation in the countries around us. The WHO originally predicted a pandemic that would claim 3.4% victims, in other words millions of deaths, and a highly contagious virus for which no treatment or vaccine was available. This would put unprecedented pressure on the intensive care units (ICUs) of our hospitals.

This led to a global alarm situation, never seen in the history of mankind: "flatten the curve" was represented by a lockdown that shut down the entire society and economy and quarantined healthy people. Social distancing became the new normal in anticipation of a rescue vaccine.

The facts about covid-19

Gradually, the alarm bell was sounded from many sources: **the objective facts showed a completely different reality**.

The course of covid-19 followed the course of a normal wave of infection similar to a flu season. As every year, we see a mix of flu viruses following the curve: first the rhinoviruses, then the influenza A and B viruses, followed by the coronaviruses. There is nothing different from what we normally see.

The use of the non-specific PCR test, which produces many false positives, showed an exponential picture. This test was rushed through with an emergency procedure and was never seriously self-tested. The creator expressly warned that this test was intended for research and not for diagnostics.

The PCR test works with cycles of amplification of genetic material – a piece of genome is amplified each time. Any contamination (e.g. other viruses, debris from old virus genomes) can possibly result in false positives.

The test does not measure how many viruses are present in the sample. A real viral infection means a massive presence of viruses, the so-called virus load. If someone tests positive, this does not mean that that person is actually clinically infected, is ill or is going to become ill. Koch's postulate was not fulfilled ("The pure agent found in a patient with complaints can provoke the same complaints in a healthy person").

Since a positive PCR test does not automatically indicate active infection or infectivity, this does not justify the social measures taken, which are based solely on these tests.

Lockdown

If we compare the waves of infection in countries with strict lockdown policies to countries that did not impose lockdowns (Sweden, Iceland …), we see similar curves. So there is no link between the imposed lockdown and the course of the infection. Lockdown has not led to a lower mortality rate.

If we look at the date of application of the imposed lockdowns we see that the lockdowns were set after the peak was already over and the number of cases decreasing. The drop was therefore not the result of the taken measures.

As every year, it seems that climatic conditions (weather, temperature and humidity) and growing immunity are more likely to reduce the wave of infection.

Our immune system

For thousands of years, the human body has been exposed daily to moisture and droplets containing infectious microorganisms (viruses, bacteria and fungi).

The penetration of these microorganisms is prevented by an advanced defence mechanism – the immune system. A strong immune system relies on normal daily exposure to these microbial influences. Overly hygienic measures have a detrimental effect on our immunity. **Only people with a weak or faulty immune system should be protected by extensive hygiene or social distancing**.

Influenza will re-emerge in the autumn (in combination with covid-19) and a possible decrease in natural resilience may lead to further casualties.

Our immune system consists of two parts: a congenital, non-specific immune system and an adaptive immune system.

The non-specific immune system forms a first barrier: skin, saliva, gastric juice, intestinal mucus, vibratory hair cells, commensal flora, … and prevents the attachment of micro-organisms to tissue.

If they do attach, macrophages can cause the microorganisms to be encapsulated and destroyed.

The adaptive immune system consists of mucosal immunity (IgA antibodies, mainly produced by cells in the intestines and lung epithelium), cellular immunity (T-cell activation), which can be generated in contact with foreign substances or microorganisms, and humoral immunity (IgM and IgG antibodies produced by the B cells).

Recent research shows that both systems are highly entangled.

It appears that most people already have a congenital or general immunity to e.g. influenza and other viruses. This is confirmed by the findings on the cruise ship Diamond Princess, which was quarantined because of a few passengers who died of Covid-19. Most of the passengers were elderly and were in an ideal situation of transmission on the ship. However, 75% did not appear to be infected. So even in this high-risk group, the majority are resistant to the virus.

A study in the journal Cell shows that most people neutralise the coronavirus by mucosal (IgA) and cellular immunity (T-cells), while experiencing few or no symptoms.

Researchers found up to 60% SARS-Cov-2 reactivity with CD4+T cells in a non-infected population, suggesting cross-reactivity with other cold (corona) viruses.

Most people therefore already have a congenital or cross-immunity because they were already in contact with variants of the same virus.

The antibody formation (IgM and IgG) by B-cells only occupies a relatively small part of our immune system. This may explain why, with an antibody percentage of 5-10%, there may be a group immunity anyway. The efficacy of vaccines is assessed precisely on the basis of whether or not we have these antibodies. This is a misrepresentation.

Most people who test positive (PCR) have no complaints. Their immune system is strong enough. Strengthening natural immunity is a much more logical approach. Prevention is an important, insufficiently highlighted pillar: healthy, full-fledged nutrition, exercise in fresh air, without a mask, stress reduction and nourishing emotional and social contacts.

Consequences of social isolation on physical and mental health

Social isolation and economic damage led to an increase in depression, anxiety, suicides, intra-family violence and child abuse.

Studies have shown that the more social and emotional commitments people have, the more resistant they are to viruses. It is much more likely that isolation and quarantine have fatal consequences.

The isolation measures have also led to physical inactivity in many older people due to their being forced to stay indoors. However, sufficient exercise has a positive effect on cognitive functioning, reducing depressive complaints and anxiety and improving physical health, energy levels, well-being and, in general, quality of life.

Fear, persistent stress and loneliness induced by social distancing have a proven negative influence on psychological and general health.

A highly contagious virus with millions of deaths without any treatment?

Mortality turned out to be many times lower than expected and close to that of a normal seasonal flu (0.2%).

The number of registered corona deaths therefore still seems to be overestimated.

There is a difference between death by corona and death with corona. Humans are often carriers of multiple viruses and potentially pathogenic bacteria at the same time. Taking into account the fact that most people who developed serious symptoms suffered from additional pathology, one cannot simply conclude that the corona-infection was the cause of death. This was mostly not taken into account in the statistics.

The most vulnerable groups can be clearly identified. The vast majority of deceased patients were 80 years of age or older. The majority (70%) of the deceased, younger than 70 years, had an underlying disorder, such as cardiovascular suffering, diabetes mellitus, chronic lung disease or obesity. The vast majority of infected persons (>98%) did not or hardly became ill or recovered spontaneously.

Meanwhile, there is an affordable, safe and efficient therapy available for those who do show severe symptoms of disease in the form of HCQ (hydroxychloroquine), zinc and AZT (azithromycin). Rapidly applied this therapy leads to recovery and often prevents hospitalisation. Hardly anyone has to die now.

This effective therapy has been confirmed by the clinical experience of colleagues in the field with impressive results. This contrasts sharply with the theoretical criticism (insufficient substantiation by double-blind studies) which in some countries (e.g. the Netherlands) has even led to a ban on this therapy. A meta-analysis in The Lancet, which could not demonstrate an effect of HCQ, was withdrawn. The primary data sources used proved to be unreliable and 2 out of 3 authors were in conflict of interest. However, most of the guidelines based on this study remained unchanged …

We have serious questions about this state of affairs.

In the US, a group of doctors in the field, who see patients on a daily basis, united in "America's Frontline Doctors" and gave a press conference which has been watched millions of times.

French Prof Didier Raoult of the Institut d'Infectiologie de Marseille (IHU) also presented this promising combination therapy as early as April. Dutch GP Rob Elens, who cured many patients in his practice with HCQ and zinc, called on colleagues in a petition for freedom of therapy.

The definitive evidence comes from the epidemiological follow-up in Switzerland: mortality rates compared with and without this therapy.

From the distressing media images of ARDS (acute respiratory distress syndrome) where people were suffocating and given artificial respiration in agony, we now know that this was caused by an exaggerated immune response with intravascular coagulation in the pulmonary blood vessels. The administration of blood thinners and dexamethasone and the avoidance of artificial ventilation, which was found to cause additional damage to lung tissue, means that this dreaded complication, too, is virtually not fatal anymore.

It is therefore not a killer virus, but a well-treatable condition.

Propagation

Spreading occurs by drip infection (only for patients who cough or sneeze) and aerosols in closed, unventilated rooms. Contamination is therefore not possible in the open air. Contact tracing and epidemiological studies show that healthy people (or positively tested asymptomatic carriers) are virtually unable to transmit the virus. Healthy people therefore do not put each other at risk.

Transfer via objects (e.g. money, shopping or shopping trolleys) has not been scientifically proven.

All this seriously calls into question the whole policy of social distancing and compulsory mouth masks for healthy people – there is no scientific basis for this.

Masks

Oral masks belong in contexts where contacts with proven at-risk groups or people with upper respiratory complaints take place, and in a medical context/ hospital-retirement home setting. They reduce the risk of droplet infection by sneezing or coughing. Oral masks in healthy individuals are ineffective against the spread of viral infections.

Wearing a mask is not without side effects. Oxygen deficiency (headache, nausea, fatigue, loss of concentration) occurs fairly quickly, an effect similar to altitude sickness. Every day we now see patients complaining of headaches, sinus problems, respiratory problems and hyperventilation due to wearing masks. In addition, the accumulated CO2 leads to a toxic acidification of the organism which affects our immunity. Some experts even warn of an increased transmission of the virus in case of inappropriate use of the mask.

Our Labour Code (Codex 6) refers to a CO2 content (ventilation in workplaces) of 900 ppm, maximum 1200 ppm in special circumstances. After wearing a mask for one minute, this toxic limit is considerably exceeded to values that are three to four times higher than these maximum values. Anyone who wears a mask is therefore in an extreme poorly ventilated room.

Inappropriate use of masks without a comprehensive medical cardio-pulmonary test file is therefore not recommended by recognised safety specialists for workers.

Hospitals have a sterile environment in their operating rooms where staff wear masks and there is precise regulation of humidity / temperature with appropriately monitored oxygen flow to compensate for this, thus meeting strict safety standards.

A second corona wave?

A second wave is now being discussed in Belgium, with a further tightening of the measures as a result. However, closer examination of Sciensano's figures (latest report of 3 September 2020) shows that, although there has been an increase in the number of infections since mid-July, there was no increase in hospital admissions or deaths at that time. It is therefore not a second wave of corona, but a so-called "case chemistry" due to an increased number of tests.

The number of hospital admissions or deaths showed a shortlasting minimal increase in recent weeks, but in interpreting it, we must take into account the recent heatwave. In addition, the vast majority of the victims are still in the population group >75 years.

This indicates that the proportion of the measures taken in relation to the working population and young people is disproportionate to the intended objectives.

The vast majority of the positively tested "infected" persons are in the age group of the active population, which does not develop any or merely limited symptoms, due to a well-functioning immune system.

So nothing has changed – the peak is over.

Strengthening a prevention policy

The corona measures form a striking contrast to the minimal policy pursued by the government until now, when it comes to well-founded measures with proven health benefits such as the sugar tax, the ban on (e-)cigarettes and making healthy food, exercise and social support networks financially attractive and widely accessible. It is a missed opportunity for a better prevention policy that could have brought about a change in mentality in all sections of the population with clear results in terms of public health. At present, only 3% of the health care budget goes to prevention.

The Hippocratic Oath

As a doctor, we took the Hippocratic Oath:

> "I will above all care for my patients, promote their health and alleviate their suffering".
>
> "I will inform my patients correctly."
>
> "Even under pressure, I will not use my medical knowledge for practices that are against humanity."

The current measures force us to act against this oath.

Other health professionals have a similar code.

The 'primum non nocere', which every doctor and health professional assumes, is also undermined by the current measures and by the prospect of the possible introduction of a generalised vaccine, which is not subject to extensive prior testing.

Vaccine

Survey studies on influenza vaccinations show that in 10 years we have only succeeded three times in developing a vaccine with an efficiency rate of more than 50%. Vaccinating our elderly appears to be inefficient. Over 75 years of age, the efficacy is almost non-existent.

Due to the continuous natural mutation of viruses, as we also see every year in the case of the influenza virus, a vaccine is at most a temporary solution, which requires new vaccines each time afterwards. An untested vaccine, which is implemented by emergency procedure and for which the manufacturers have already obtained legal immunity from possible harm, raises serious questions. We do not wish to use our patients as guinea pigs.

On a global scale, 700 000 cases of damage or death are expected as a result of the vaccine.

If 95% of people experience Covid-19 virtually symptom-free, the risk of exposure to an untested vaccine is irresponsible.

The role of the media and the official communication plan

Over the past few months, newspaper, radio and TV makers seemed to stand almost uncritically behind the panel of experts and the government, there, where it is precisely the press that should be critical and prevent one-sided governmental communication. This has led to a public communication in our news media, that was more like propaganda than objective reporting.

In our opinion, it is the task of journalism to bring news as objectively and neutrally as possible, aimed at finding the truth and critically controlling power, with dissenting experts also being given a forum in which to express themselves.

This view is supported by the journalistic codes of ethics.

The official story that a lockdown was necessary, that this was the only possible solution, and that everyone stood behind this lockdown, made it difficult for people with a different view, as well as experts, to express a different opinion.

Alternative opinions were ignored or ridiculed. We have not seen open debates in the media, where different views could be expressed.

We were also surprised by the many videos and articles by many scientific experts and authorities, which were and are still being removed from social media. We feel that this does not fit in with a free, democratic constitutional state, all the more so as it leads to tunnel vision. This policy also has a paralysing effect and feeds fear and concern in society. In this context, we reject the intention of censorship of dissidents in the European Union!

The way in which Covid-19 has been portrayed by politicians and the media has not done the situation any good either. War terms were popular and warlike language was not lacking. There has often been mention of a 'war' with an 'invisible enemy' who has to be 'defeated'. The use in the media of phrases such as 'care heroes in the front line' and 'corona victims' has further fuelled fear, as has the idea that we are globally dealing with a 'killer virus'.

The relentless bombardment with figures, that were unleashed on the population day after day, hour after hour, without interpreting those figures, without comparing them to flu deaths in other years, without comparing them to deaths from other causes, has induced a real psychosis of fear in the population. This is not information, this is manipulation.

We deplore the role of the WHO in this, which has called for the infodemic (i.e. all divergent opinions from the official discourse, including by experts with different views) to be silenced by an unprecedented media censorship.

We urgently call on the media to take their responsibilities here!

We demand an open debate in which all experts are heard.

Emergency law versus Human Rights

The general principle of good governance calls for the proportionality of government decisions to be weighed up in the light of the Higher Legal Standards: any interference by government must comply with the fundamental rights as protected in the European Convention on Human Rights (ECHR). Interference by public authorities is only permitted in crisis situations. In other words, discretionary decisions must be proportionate to an absolute necessity.

The measures currently taken concern interference in the exercise of, among other things, the right to respect of private and family life, freedom of thought, conscience and religion, freedom of expression and freedom of assembly and association, the right to education, etc., and must therefore comply with fundamental rights as protected by the European Convention on Human Rights (ECHR).

For example, in accordance with Article 8(2) of the ECHR, interference with the right to private and family life is permissible only if the measures are necessary in the interests of national security, public safety, the economic well-being of the country, the protection of public order and the prevention of criminal offences, the protection of health or the protection of the rights and freedoms of others, the regulatory text on which the interference is based must be sufficiently clear, foreseeable and proportionate to the objectives pursued.

The predicted pandemic of millions of deaths seemed to respond to these crisis conditions, leading to the establishment of an emergency government. Now that the objective facts show something completely different, the condition of inability to act otherwise (no time to evaluate thoroughly if there is an emergency) is no longer in place. Covid-19 is not a cold virus, but a well treatable condition with a mortality rate comparable to the seasonal flu. In other words, there is no longer an insurmountable obstacle to public health.

There is no state of emergency.

Immense damage caused by the current policies

An open discussion on corona measures means that, in addition to the years of life gained by corona patients, we must also take into account other factors affecting the health of the entire population. These include damage in the psychosocial domain (increase in depression, anxiety, suicides, intra-family violence and child abuse) and economic damage.

If we take this collateral damage into account, the current policy is out of all proportion, the proverbial use of a sledgehammer to crack a nut.

We find it shocking that the government is invoking health as a reason for the emergency law.

As doctors and health professionals, in the face of a virus which, in terms of its harmfulness, mortality and transmissibility, approaches the seasonal influenza, we can only reject these extremely disproportionate measures.

- We therefore demand an immediate end to all measures.
- We are questioning the legitimacy of the current advisory experts, who meet behind closed doors.
- Following on from ACU 2020 46 https://acu2020.org/nederlandse-versie/ we call for an in-depth examination of the role of the WHO and the possible influence of conflicts of interest in this organisation. It was also at the heart of the fight against the "infodemic", i.e. the systematic censorship of all dissenting opinions in the media. This is unacceptable for a democratic state governed by the rule of law.

Distribution of this letter

We would like to make a public appeal to our professional associations and fellow carers to give their opinion on the current measures.

We draw attention to and call for an open discussion in which carers can and dare to speak out.

With this open letter, we send out the signal that progress on the same footing does more harm than good, and call on politicians to inform themselves independently and critically about the available evidence – including that from experts with different views, as long as it is based on sound science – when rolling out a policy, with the aim of promoting optimum health.

With concern, hope and in a personal capacity.

September 20, 2020

The Sturgis Bike Rally, Sensationalist Reporting, and Broken Disease Models

ETHAN YANG
Contributor

More than 460,000 individuals flocked to Sturgis, South Dakota, for the 10-day Sturgis Motorcycle Rally in August participating in an event where there was a general disregard for mask-wearing and social distancing protocols.

Governor Kristi Noem welcomed and celebrated the event, while continuing to defend the state's no-lockdown policies.

Recently and not surprisingly, the media has been throwing around an astounding assertion, that this was a "superspreader event" and that a study shows that it has been linked to over 266,000 COVID-19 cases.

Headlines such as this Mother Jones article read: "Sturgis Motorcycle Rally Is Now Linked to More Than 250,000 Coronavirus Cases."

Yahoo News published an article titled: "Sturgis motorcycle rally was a 'superspreader event.'"

A more moderate title from US News reads "Report: Sturgis Motorcycle Rally May Have Caused Over 250,000 Coronavirus Cases."

Everywhere you look you find some sort of sensational headline touting the findings of the report. This report was written by researchers who at

> "San Diego State University's Center for Health Economics & Policy Studies sought to quantify the rally's Covid impact in South Dakota and nationwide by analyzing the (anonymous) cell-phone data of attendees. They then compared case trends in counties with high, moderate and low numbers of attendees."

The study, although it was likely conducted with good intentions, according to Yahoo News

> It is not clear if the study was subject to peer review.

Furthermore, the study was conducted by a team of economists, not epidemiologists (not that they have been correct about Covid-19 either) which should also raise a few eyebrows.

Fact-Checking

According to a report published by Jennifer Dowd, deputy director of the Leverhulme Centre for Demographic Science at the University of Oxford, this 250,000 case number is likely false. Dowd is also part of a group called Dear Pandemic, which spends much of its time clarifying and explaining information regarding Covid-19.

At best the 250,000 estimate is the absolute worst-case scenario but the real number based on contact tracing is likely in the hundreds. It is worth noting that our contact tracing capabilities are limited and the science behind the practice itself has its problems. Dowd writes

> Modeling infection transmission dynamics is *hard*, as we have seen by the less than stellar performance of many predictive COVID-19 models thus far.

AIER has written extensively on the failures of modeling to predict real-world outcomes and how predictions created by oversimplistic computer models just don't stand up to reality. You can find a collection of our reports on the matter here.

Such simplistic and misleading models produced by researchers at respectable institutions are frequently used by narrative peddlers of all types from politicians to the media. Phil Magness gives a recent example of a thoroughly discredited report leveraged by President Trump for such a purpose when he writes

> Citing the now-infamous March 16th ICL report by Imperial's Neil Ferguson, the American president now regularly claims vindication for his own support of the lockdowns on account of the difference between its 2 million-plus projected death toll and the actual count of just over 100,000 as of this writing.

Jennifer Dowd says the following on the methodology used to achieve the 266,000 figure touted by the Sturgis report.

> "The Sturgis study essentially tries to re-create a randomized experiment by comparing the COVID-19 trends in counties that rallygoers traveled from with counties that apparently don't have as many motorcycle enthusiasts. The authors estimate the source of inflow into Sturgis during the rally based on the "home" location of nonresident cellphone pings. They use a "difference-in-difference" approach, calculating whether the change in case trends for a county that sent many people to Sturgis was larger compared with a county that sent none. They looked at how cumulative case numbers changed between June 6 and Sept. 2.
>
> While this approach may sound sensible, it relies on strong assumptions that rarely hold in the real world."

Dowd continues to take issue with the methodology when she writes

> "Since attendees hardly had time to attend the rally, get infected, and then bike home and infect others, the fact that rates in large sending counties are higher than those for non-sending counties strongly suggests that these differences in trends were in the works anyway due to local transmission dynamics, and not a direct result of the rally."

The governor of South Dakota, Kristi Noem, long a target for her anti-lockdown stance puts it more bluntly when she says

> "Well, that's actually not factual whatsoever," Noem said of the study.
>
> "What they did is, they took a snapshot in time, and they did a lot of speculation, did some back-of-the-napkin math, made up some numbers and published them."

Whether you prefer the blunt response from governor Noem or the elaborate detail provided by Dr. Dowd as well as AIER's scholars, the message is the same as it has been for countless other epidemiological models. Trusting the technology and methods employed to predict something as complex as the spread of infectious disease, especially those that we still do not fully understand is futile as well as a dangerous endeavor.

The Daily Beast quotes Dr. Jeffrey Klausner who finds the study to be "plausible" but they also write

> Klausner did take issue with the study's estimate that the additional cases generated public health costs of $12.2 billion. He termed the number "absurd," observing that it was generated by what the study terms that "the statistical cost of COVID-19 case of $46,000."

Although we should still continue to monitor the situation and take scientific studies such as the report about the Sturgis rally seriously, the results cannot be seen as truly reliable at this time if at all. The fact that the media has been so quick to sensationalize the study is extremely concerning and not productive.

A Note On Sensational Science

Although it would be great to end the article here, sadly this case is just one of many questionable and likely politicized scientific studies regarding Covid-19. In particular, the media and even parts of the scientific community have literally politicized what types of gatherings spread Covid-19 and which do not.

We hear over and over again that anti-lockdown protests spread COVID-19, which on its face seems reasonable because there are large numbers of people grouping in one place.

A headline from The Guardian reads **"US lockdown protests may have spread virus widely, cellphone data suggests."**

However, the public health community and the media seem to believe that for some reason Black Lives Matter protests don't do so as well. A headline from Health Line reads **"Why the Black Lives Matter Protests Didn't Contribute to the COVID-19 Surge."**

Although that article may try to rationalize its headline, some public health experts are more forthcoming with their willingness to politicize their findings as the *New York Times* reports that a

> "Letter signed by more than 1,300 epidemiologists and health workers urged Americans to adopt a "consciously anti-racist" stance and framed the difference between the anti-lockdown demonstrators and the protesters in moral, ideological and racial terms."

This is concerning for a variety of reasons, the main one being the politicization of science. It is not unlikely that the Sturgis Motorcycle Rally would fall into the category of mass gatherings that are deemed to be politically unfavorable and therefore contribute to Covid-19. Such practices should be left in the totalitarian regimes that they came from.

Dowd offers some commentary on this issue when she writes

> "The authors of this study have used the same study design to estimate the effects of other mass gatherings including the BLM protests and Trump's June Tulsa, Oklahoma rally. Each paper has given some part of the political spectrum something they might want to hear but has done very little to illuminate the actual risks of COVID-19 transmission at these events".

Final Thoughts

At the moment we should view the headlines touting six figure transmission numbers as extremely misleading. It is possible, although probably unlikely, that the numbers do turn out to be correct but the evidence seems to say otherwise. Just look at the previous predictions regarding the spread and lethality of Covid-19 and other diseases. They have been wrong time and time again. Perhaps one day we will have widespread reliable and trustworthy epidemiological modeling practices, but today is not that day.

However, this issue is illustrative of a larger and more concerning practice, the politicization of public health. Biker rallies and Trump events are super-spreaders but countrywide racial justice protests aren't. If you thought the debate about climate change was irritating, wait till you see where this takes us.

Dr. Dowd sums this up more eloquently when she writes

> "Exaggerated headlines and cherry-picking of results for "I told you so" media moments can dangerously undermine the long-term integrity of the science—something we can little afford right now."

I would like to be one of the first to say that I will gladly accept the findings of the Sturgis study if an appropriate amount of evidence and scrutiny can confirm it. However, at this time it has been questioned if not debunked by leading specialists in the field. Furthermore, it shares eerie conformity to the politicized and sensational reporting on Covid-19 that the country would do best without.

By reevaluating the methodology used to report on the Sturgis rally, Black Lives Matter protests, anti-lockdown protests, Trump rallies, and so on, we can reach some more productive conclusions. There are certain things that are so significant and the tradeoffs favorable enough that they are worth braving a pandemic, such as Woodstock.

Or maybe we should take a step back, take a deep breath, and reevaluate the way we go about all of this.

September 11, 2020

Federal Court Holds “Stay-at-Home” Orders and Mandatory Business Closures Unconstitutional

STACEY RUDIN
Contributor

For six months, Americans in 43 states have lived under unprecedented executive orders restricting freedoms as basic as whether they can work, leave their homes, and expose their faces in public. These mandates are not duly enacted laws — they are orders issued by one of the three branches of government. They constitute a system of one-person rule — something none of us expected could ever happen in the United States — and no one, apart from the 43 newfound state dictators, is sure when it will expire.

Today, after six months of this, a Pennsylvania Federal Court in *Butler County v. Wolf* reviewed the indefinite “emergency” restrictions imposed by the executive branch of Pennsylvania government, declaring limitations on gathering size, “stay-at-home orders,” and mandatory business closures unconstitutional. Refusing to accept the alleged need for a “new normal,” the Court stated that an “independent judiciary [is needed] to serve as a check on the exercise of emergency government power.”

About time. The Judicial Branch is coming to save us.

The Judicial Branch exists to check Executive authority even in times of emergency.

Abraham Lincoln once said, “Our safety, our liberty, depends upon preserving the Constitution of the United States as our fathers made it inviolate. The people of the United States are the rightful masters of both Congress and the courts, not to overthrow the Constitution, but to overthrow the men who pervert the Constitution.” In 2020, sad to say, there are numerous governors across this nation who have perverted the Constitution — New Jersey’s Phil Murphy even declared its interpretation “above his pay grade” — with unprecedented orders restricting Americans’ rights to peaceably assemble, practice their religions, earn a living, travel freely, engage in commerce, and even manage their own health and exposure to risk. While global pandemics pose challenges for governors — particularly when the population is panicked by a hysterical mass media — entire populations cannot be indefinitely subjected to tyranny and deprived of fundamental rights and liberties. As the Court said today:

> “There is no question that our founders abhorred the concept of one-person rule. They decried government by fiat. Absent a robust system of checks and balances, the guarantees of liberty set forth in the Constitution are just ink on parchment.”

We cannot allow our freedom to become “ink on parchment.” Many of our governors seek to do just that — they won’t even designate an endpoint to their “emergency” powers. When does the “emergency” end? This should be easy to say — X number of deaths per million, X number of deaths over X number of weeks — yet they will not say it. They want us to live under the constant threat of house arrest and livelihood deprivation, even though all we ever agreed to was a two-week effort to “flatten the curve.” We never agreed to an indefinite or permanent “new normal,” or to do whatever our wise governor dreams up and declares necessary to "eliminate infections."

> "In times of crisis, even a vigilant public may let down its guard over its constitutional liberties only to find that liberties, once relinquished, are hard to recoup and that restrictions — while expedient in the face of an emergency situation — may persist long after immediate danger has passed."

Thank you, Judge Stickman, for recognizing our predicament, and for taking the first step towards restoring our freedom today by reminding those with authoritarian leanings that "governors cannot be given carte blanche to disregard the Constitution for as long as the medical problem persists." The response to an emergency cannot undermine our system of constitutional liberties, or the system of checks and balances protecting those liberties. Liberty before "governor-guaranteed safety" — this is the American way, famously stated by Benjamin Franklin: "Those who would give up essential liberty, to purchase a little temporary safety, deserve neither liberty nor safety."

"Stay-at-home orders" are so draconian as to be presumptively unconstitutional.

Substantive due process is "a recognition that the government may not infringe upon certain freedoms enjoyed by the people as a component of a system of ordered liberty." Plaintiffs in *Butler County v. Wolf* argued that the governor's "stay-at-home order" violated substantive due process in restricting intrastate travel and freedom of movement in a manner that exceeded legitimate government need and authority. Incredibly, Governor Wolf responded that his stay-at-home orders are *"not actually orders at all, but merely recommendations,"* and that they are constitutional because they do not "shock the conscience." I'm willing to bet that Pennsylvania citizens would beg to differ.

In analyzing the constitutionality of "lockdowns," the Court first traced the origin of the concept to its source — Wuhan, China — and recognized that population-wide lockdowns are "unprecedented in American law." Even during the Spanish Flu, the deadliest pandemic in history by far, "nothing remotely approximating lockdowns were imposed." Although the United States has faced many epidemics and pandemics, "there have never previously been lockdowns of entire populations — much less for lengthy and indefinite periods of time." Quarantines are legally recognized, but refer to the isolation of sick people and those known to have been directly exposed to sick people. They are statutorily limited to the duration of the incubation period of the disease — a period which Governor Wolf's "lockdown" plainly exceeded.

Not only have lockdowns never been imposed in American history, but they are not even mentioned in recent pandemic management guidance offered by the Centers for Disease Control and Prevention ("CDC"). In its 2017 guidelines for managing pandemics, the CDC recommends numerous protective measures such as hand washing, limited-duration school closures, and cancellations of mass gatherings, but nothing "even approximating the imposition of statewide (or even community-wide) stay at home orders or the closure of all ['non-essential'] businesses." Even for pandemics of "Very High Severity," the CDC recommends only *voluntary* isolation of sick persons and their household members. "This is a far, far cry from a statewide lockdown such as the one imposed by [Governor Wolf's] stay-at-home order."

The Court speculates that United States lockdowns were imposed due to a "domino effect" instigated by China, a nation "unconstrained by concern for civil liberties and constitutional norms." In the United States, by contrast, the default concept is liberty of movement. Our government has never before dreamt of implementing mandatory house arrest, no matter the threat — it has always used far less restrictive, voluntary means to manage pandemics, similar to those used by Sweden during COVID19. (Notably, Sweden has lower per-capita mortality for weeks 1-33 of 2020 than it did for weeks 1-33 of 2015 — a far better mortality outcome than heavily locked-down U.S. States such as NJ, NY, and MI).

Ultimately, the Court concludes that lockdowns are so draconian that they are nearly "presumptively unconstitutional":

> "The stay-at-home components of Defendant's orders were and are unconstitutional. Broad population-wide lockdowns are such a dramatic inversion of the concept of liberty in a free society as to be nearly presumptively unconstitutional unless the government can truly demonstrate that they burden no more liberty than is reasonably necessary to achieve an important government end. The draconian nature of lockdown may render this a high bar, indeed."

This bears repeating: the burden of proof that "lockdown" is absolutely crucial to achieve a scientifically-substantiated goal rests with the government. The burden does not rest with the people to *disprove* the necessity of lockdown. Liberty is the default!

Mandatory business closures violate the Fourteenth Amendment's guarantee that every citizen may support himself in an occupation of his choosing.

Mandatory business closures, like "stay-at-home" orders, are utterly unprecedented in American law. There is not even any historical jurisprudence for the Court to consider in its analysis of the issue — a rare event, indeed.

> "Never before has the government exercised such vast and immediate power over every business, business owner, and employee. Never before has the government taken a direct action which shuttered so many businesses and sidelined so many employees and rendered their ability to operate, and to work, solely dependent on government discretion."

While playing with people's lives and livelihoods, Governor Wolf and his task force never even bothered to put a definition in writing of what constitutes a "life-sustaining" business. Rather, the entire concept remained in flux, subject to executive whim. The Court held that this fast and loose system — still in place six months after the effort to "flatten the curve" was supposed to end — violates the Fourteenth Amendment, which guarantees every citizen the right to support himself by pursuing a chosen occupation.

> "A total shutdown of business with no end-date and with the specter of additional, future shutdowns can cause critical damage to a business's ability to survive, to an employee's ability to support him/herself, and adds a government-induced cloud of uncertainty to the usual unpredictability of nature and life."

It is truly incredible that Americans who worked their entire lives to build up businesses were instantly forced to lock their doors, go home, and deplete their emergency funds while they awaited the day their monarch should declare that "the world is safe for boutique shopping/plumbing work/haircuts again." The impact of this shutdown on businesses was immediate and severe— it left the *Butler County v. Wolf* plaintiffs and many others "financially devastated" within weeks. Hundreds of thousands of dollars were lost, entire emergency funds were depleted, and perhaps worst of all, each business owner now lives under the cloud of the next indefinite "shutdown" edict. The Court found this system to be "so arbitrary in creation, scope, and administration as to fail constitutional scrutiny." It is a blatant violation of basic human rights for an executive's policy team to arbitrarily "apply their common sense" to people's lives.

> "Defendants were exercising raw governmental authority in a way that could (and did) critically wound and destroy the livelihoods of so many. The people of [Pennsylvania] at least deserved an objective plan, the ability to determine with certainty how the critical classifications were to be made, and a mechanism to challenge an alleged misclassification. The arbitrary design, implementation, and administration of the business shutdowns deprived the Business Plaintiffs and their fellow citizens of all three."

The Court found particularly offensive the fact that some businesses were forced to close although they sold the ***same products and services*** as larger businesses that were allowed to remain open. One Plaintiff, a small business appliance and furniture store, was forced to close, while his corporate competitors at Lowe's, Wal-Mart, and Home Depot were allowed to remain open. This nonsensical, obviously unjust mandate flies in the face of the stated goal of "managing contagion": "It is paradoxical that in an effort to keep people apart, Defendants' business closure orders permitted to remain in business the largest retailers with the highest occupancy limits."

Paradoxical, indeed. The government, in issuing these orders, was "playing God," determining who could work and who could not, who would profit and who would deplete reserves, who would receive a paycheck and who would join the unemployment line. An economy is not "a machine that can be shut down and restarted at will by government. It is an organic system made up of free people each pursuing their dreams." This is not nothing. This is everything. The deprivation of the right to work, with no recourse — while others are permitted to work — is a crime against humanity. It is unconstitutional in the United States of America.

> "Even in an emergency, the authority of government is not unfettered. The liberties protected by the Constitution are not fair-weather freedoms — in place when times are good but able to be cast aside in times of trouble. There is no question that this country has faced, and will face, emergencies of every sort. But the solution to a national crisis can never be permitted to supersede the commitment to individual liberty that stands as the foundation of the American experiment. **The Constitution cannot accept the concept of a 'new normal' where the basic liberties of the people can be subordinated to open-ended emergency mitigation measures.** Rather, the Constitution sets certain lines that may not be crossed, even in an emergency. Actions taken by Defendants crossed those lines. It is the duty of the Court to declare those actions unconstitutional."

Thank heaven for the judicial branch — for checks and balances. The Founding Fathers knew what they were doing. John Adams: "power should never be trusted without a check." James Madison: "you must first enable the government to control the governed; and in the next place oblige it to control itself." It's been six months coming, but this brilliant machine is finally grinding back to life. Orders like Judge Stickman's today remind the American people that they are not, actually, legally governed by fifty individual dictators, each empowered to declare at whim unlimited "emergencies" restricting basic, unalienable rights. No, we are not that. We are a government by the people, for the people, and of the people. We must — we *will* — work together, using the courts, to ensure that our elected officials never again forget this fact.

September 14, 2020

The Covid-19 Catastrophe

ANTONY DAVIES & JAMES R. HARRIGAN
Contributors

It has been five months since the American people were told they would be under house arrest for three weeks to "flatten the curve." Under the guise of protecting us from Covid-19, America's politicians completed one of the greatest nonviolent power grabs in US history, pushing the lockdowns well beyond the initial three-week prediction, thereby taking control of 330 million lives.

To justify this, they shifted the goal posts from flattening the curve, to halting transmission of the coronavirus entirely. Some even talked about maintaining lockdowns, at least in part, until a vaccine is developed. That could take years.

Quelle surprise.

How did it come to pass that a nation of 330 million was effectively imprisoned, with virtually every sector of the economy shut down either in part or in total? The answer to this question is as clear as it was wrong: In the early days of Covid-19, politicians and experts lined up to tell us that, if we did nothing, up to 2.2 million Americans would die over the balance of 2020.

As of late August, there have been fewer than 170,000 Covid-19 deaths in the United States. If the 2.2 million projection was accurate, then the US lockdown saved in the neighborhood of 2 million lives. But at what cost?

In early March, the Congressional Budget Office predicted that the economic output of the United States economy over the period 2020 through 2025 would total $120 trillion. Just four months later and because of the Covid lockdown, the CBO reduced its projection by almost $10 trillion. That $10 trillion difference is income Americans would have earned had the lockdown not happened, but now won't.

Economists outside the CBO have estimated this loss at almost $14 trillion. For perspective, the median US household earns $63,000. A $10 trillion loss is equivalent to wiping out the incomes of 30 million US households each year for more than five years.

Our desire to keep people safe, no matter the cost, has already resulted in 10 million Americans being unemployed. By the time things have returned to normal, the total price tag, just in terms of lost incomes and adjusted for inflation, will have exceeded the costs of all the wars the US has ever fought, from the American Revolution to Afghanistan – combined.

And the costs are staggering. As of August, estimates from Chambers of Commerce indicate that around one-third of the 240,000 small businesses in New York City have permanently closed. If that ratio holds for small businesses elsewhere, we could see around 10 million small businesses close permanently across the country. Major retail bankruptcies in the US have been every bit as disconcerting.

All in, the effort to save two million lives from Covid-19 will end up costing us somewhere in the neighborhood of $7 million per life saved. People generally assume the lockdown was worth this massive cost, but there are a couple of things to consider before drawing that conclusion. First, for the same cost, could we have saved even more lives than we did by doing other things? Second, how plausible was the prediction of two million dead in the first place?

If saving lives simply, rather than saving lives from Covid-19 were our goal, we could have likely saved more than two million lives and at a lower cost. How so? For every $14,000 spent on smoke and heat detectors in homes, a life is saved. For every $260,000 spent on widening shoulders on rural roads, a life is saved. For every $5 million spent putting seat belts on school buses, a life is saved.

Each year, 650,000 Americans die from heart disease, 600,000 die from cancer, 430,000 die from lung disease, stroke, and Alzheimer's. To fight these diseases Congress allocated $6 billion for cancer research to the National Cancer Institute and another $39 billion to the National Institutes of Health in 2018.

The lockdown will cost us more than three hundred times this amount. For a three-hundred fold increase to NCI and NIH budgets, we might well have eradicated heart disease, cancer, lung disease, and Alzheimer's. Over just a couple of years, that would have saved far more than two million lives.

The lesson here is a simple one: There is no policy that just simply "saves lives." The best we can do is to make responsible tradeoffs. Did the lockdowns save lives? Some people claim they did – at a cost of $7 million per life saved if the initial estimates were correct – while others fail to establish any connection between lockdowns and lives saved.

Regardless, there are all manner of other tradeoffs here. The lockdowns didn't just cost millions of people's livelihoods, they also cost people's lives. Preliminary evidence points to a rise in suicides. Nationwide, calls to suicide hotlines are up almost 50 percent since before the lockdown. People are less inclined to keep medical appointments, and as a result life-saving diagnoses are not being made, and treatments are not being administered. Drug overdoses are up, and there is evidence that instances of domestic violence are on the rise also.

But what if the lockdown actually didn't save 2 million lives? There is strong, if not irrefutable, evidence that the initial projections of Covid-19 deaths were wildly overstated.

We can refer to a natural experiment in Sweden for some clarity. Sweden's government did not lock down the country's economy, though it recommended that citizens practice social distancing and it banned gatherings of more than 50 people. Swedish epidemiologists took the Imperial College of London (ICL) model – the same model that predicted 2.2 million Covid-19 deaths for the United States – and applied it to Sweden. The model predicted that by July 1 Sweden would have suffered 96,000 deaths if it had done nothing, and 81,600 deaths with the policies that it did employ. In fact, by July 1, Sweden had suffered only 5,500 deaths. The ICL model overestimated Sweden's Covid-19 deaths by a factor of nearly fifteen.

If the ICL model overestimated US Covid-19 deaths merely by a factor of ten, the number of Americans who would have died had we not locked down the country, but instead practiced social distancing and banned gatherings of more than 50 people, would have been around 220,000.

To date, the CDC reports around 170,000 covid deaths in the United States. In other words, adjusting – even conservatively – for the ICL model's demonstrated error, it appears that the $14 trillion lockdown perhaps saved about 50,000 US lives. If that's the case, the cost of saving lives via the lockdown was not $7 million each. The cost was over a quarter of a billion dollars each.

Finally, there is mounting evidence that even if targeted closures had been necessary, a general lockdown wasn't. Eighty percent of Covid-19 deaths in the US are among those 65 and older. Even if ICL's flawed model had been correct, and we had been facing the possibility of 2.2 million deaths, only 400,000 of those would have been among working-age Americans. That's less than two-tenths of one percent of working-age Americans. Social distancing and mandatory masks might have reduced that further. We could have quarantined the elderly, saved nearly all the lives that even the most dire predictions anticipated, and let the economy continue on as usual.

But we didn't.

Of course, in March, we knew a lot less than we do now. In the face of 2.2 million likely deaths, many claimed that locking down the economy was the right thing to do. Over the subsequent weeks, as data emerged that the threat was far less deadly and far more focused than it had at first appeared, politicians could have released the lockdown.

But they didn't.

They didn't because politicians invariably feel the need to "do something." Despite volumes of evidence from disparate fields like economics, social work, ecology, and medicine, it never seems to occur to politicians that sometimes doing less, or even doing nothing, is by far the better approach. Why should it occur to them? When politicians act and their actions do more harm than good, they always say the same thing: "Imagine how bad it would have been had we not acted."

But this time, we have evidence. We can compare what happened where politicians reacted with a heavy hand to what happened where they reacted with a light touch. And the evidence we have so far points to the same conclusion: Our politicians destroyed our economy unnecessarily.

This won't stop our politicians from congratulating themselves, of course. Nothing ever does. When the next crisis comes along they will land on the same sorts of heavy-handed solutions they did this time. The only thing that will chasten them is the anger of the American people. Politicians did far more harm to Americans than Covid-19 did, and that's what the American people need to remember next time our politicians start down the same pointless road.

September 3, 2020

Emancipation From Lockdown in Florida

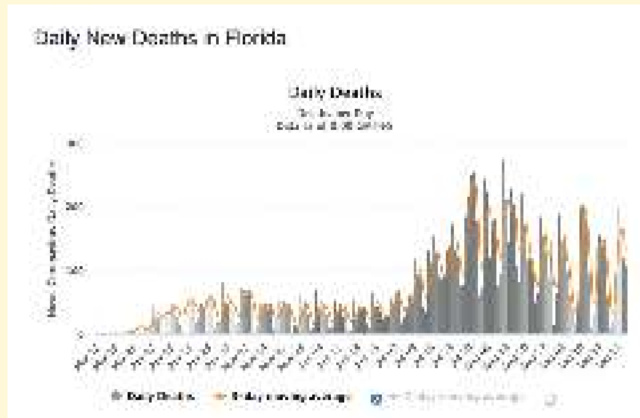
JEFFREY A. TUCKER
Editorial Director

Governor Ron DeSantis has proven it: it is actually possible for a politician to wise up and do the right thing. In a sweeping order announced September 25, the governor has opened up the entire economy. He has even limited the ability of local governments to impose more restrictions and collect fines for mask violations.

Inevitably, the announcement was decried by the lockdowners, even though, as the governor pointed out:

- Covid+ hospitalizations have declined by 77% since the July peak.
- Covid+ ICU hospitalizations have declined 72% since the July peak.
- ED visits for Covid-like illness have declined by nearly 80% since the July peak.
- Daily hospital admissions for Covid have declined by 81% since the July peak.
- The percentage of positive diagnostic test results for new cases was reported at 4.32%.
- 24% of hospital beds are empty; so are 23% of ICU beds.

Most impressively, the governor did this despite a trend in deaths that does not look particularly great. For this he is being blasted but it misses the point entirely. His actions were particularly brave, bold, and wise precisely because he didn't wait for some magic turning point in the data to permit Floridians to exercise their rights and freedoms.



DeSantis came to the realization – as everyone should – that these freedom-crushing measures were not actually addressing the medical problem. The best hope for prevailing in a viral pandemic is the normal functioning of society so that the disease can be treated therapeutically rather than coercively.

That statement strikes me as incredibly obvious. But for politicians who imposed lockdowns, it's a hard realization. They fear that opening up will just make them look stupid for having locked down in the first place. Many politicians around the country are keeping restrictions in place – despite no shred of evidence that they are saving lives – simply to save face. It's become an exercise in ego management at this point.

The frustration in the governor's voice was apparent in his press conference announcing the dramatic change. He spoke about how it was supposed to be two weeks to flatten the curve. Then it became 30 days. He didn't specifically apologize for going along with all the gibberish back in the day but it did cast some serious doubt on whether any of this had ever been necessary.

He was later interviewed on the torrent of criticism. You can see that he has mastered the medical facts here, very much under the influence of some serious people who are calling for an immediate opening and a much wiser policy.

And here is the text of the executive order:

https://www.aier.org/article/emancipation-from-lockdown-in-florida/

Very crucially, what made the difference here were three (at least) important academics: Michael Levitt of Stanford, Martin Kulldorff of Harvard, and Jay Bhattacharya of Stanford. They along with Sunetra Gupta (and Scott Atlas) have been intellectual leaders against the lockdown mania. The governor held an event in which these epidemiologists testified about the virus and the cruelty of lockdowns.

Keep in mind that these intellectuals could easily have sat on the sidelines. They have tenure. They have prestige. They are comfortable. But watching the tremendous confusion sewn by bad policy, disease panic, and confused experts such as Anthony Fauci caused them to go public with their own expertise. Their efforts broke the opinion monopoly and caused some much-needed rethinking.

In other words, what they did required moral courage. And they have all paid a high price for doing so. In this highly politicized environment they have been accused (like Scott Atlas) of doing the bidding of the Trump administration, which is utterly ridiculous. Most serious scientists are apolitical or lean left. And this speaks to the true tragedy of our times: we imposed a political solution on a medical problem and ended up creating a tremendous mess. Now trying to unravel that fake solution and pursue rational approaches is itself bound up in a political thicket.

In any case, today is a day for celebration. Under the influence of some courageous and brilliant intellectuals with a conscience, Florida has joined South Dakota in the land of the living. Governor DeSantis has shown that it can be done, and that not all is lost.

September 27, 2020

New Jersey's Transaction Tax Grab

PETER C. EARLE
Research Fellow

New Jersey is presently facing a multi-billion dollar budget shortfall. And with tax receipts falling far short of the spending aspirations of state lawmakers, Trenton is hurtling toward incorporating a slate of new taxes in the 2021 budget, including one on financial market transactions. It's an idea which has been around for some time, surfacing most recently in 2019 among candidates vying for the Democratic Party Presidential nomination.

In this case, the specific targets are the New Jersey-based data centers of New York City securities exchanges and other financial markets: massive server farms through which hundreds of billions of dollars worth of transactions and market data travel each day. The working proposal is that all firms executing at least 10,000 trades electronically per year – 400 per day, a threshold that ensnares even the smallest of firms – would be subject to a ¼ of one cent ($0.0025) per transaction tax. It's a small number, but one that could add up to as much as $10 billion per year.

History rhymes

As politicians are so fond of saying, let's be clear: New Jersey's budget problems are the outcome of two factors, both of which are squarely the fault of the state's government. The first is decades of excessive spending; so much that even having some of the highest taxes in the United States are insufficient for financing it. The second are the incredibly reckless, catastrophic policies imposed in the wake of the global outbreak of the SARS-CoV-2 virus.

Whether explained as a means of harnessing an allegedly lawless, out-of-control Wall Street, a way to reduce inequality, or simply a manifestation of the adage that "If it moves, tax it; if it keeps moving regulate it," the likelihood that the new tax will appear soon is high. Although such a levy would ostensibly be used to address New Jersey's fiscal gap, it's equally likely that the tax would go toward social justice pet projects.

It's certainly easier to go after "Wall Street" than, say, public sector unions. The very term "Wall Street" is

> [a]bsurd … and duplici[tous.] … To summarize the vast panoply of activities conducted by many millions of individuals — employed by tens of thousands of broker-dealers, hedge funds, investment banks, mutual funds, venture capital and private equity firms, management consulting groups, and other businesses ranging in size from individual proprietorships to globally active firms — is as puerile a feat of political demagoguery as any. Only politicians, who flit opportunistically between meticulous nuance and dull monochromatics as it serves them, would find cause to use such a term.

This is the low-hanging fruit; envy-driven policies always find support.

Corollaries

Needless to say, a tax on financial market transactions will be quickly passed on to clients and customers, as will their periodic increases. And those will particularly impact the costs of administering nearly $30 trillion in retirement funds, the management of which is mostly transacted through securities exchanges in New York, and thus sure to be affected by the proposed New Jersey tax.

Another side effect of a transaction gouge is that the activity known as block trading may see a resurgence. Over the last few decades, the number of market centers – places where trades are executed, including exchanges, crossing networks, etc. – have increased. A byproduct of that process, called fragmentation, is that the average size of an execution has decreased markedly. Thus, where several decades back the average trade size was several thousand shares, it now numbers in the hundreds of shares. In an effort to keep the number of transactions (and thus the transaction tax impact) to a minimum, some firms and funds may opt to trade only in large single-transaction sized orders. That would be good for block trading firms, but would add additional transaction costs for other market participants: decreased liquidity, reduced opportunities for price discovery, and higher market impact.

Why stop there?

To the extent that the theory behind this tax is that securities trading is inherently unproductive, or that finance leads to an untenable concentration of wealth, there are many other sources of lucre to focus on: Hollywood and professional sports come immediately to mind. A tax on stock, commodity, and derivatives trades could be accompanied by a per word/per page tax on television, play, and film scripts, or perhaps a per minute tax on film lengths.

Pro sports could be roped in as well, with a tax on event tickets or – because they're highly paid (perhaps dangerously so!) – athletes themselves. Baseball teams or individual players could be taxed on a basis of total swings per game. Football players could be taxed for each rushing yard, quarterbacks for each pass or handoff, and so on – for all sports.

And yes: these are facetious suggestions, but no less ridiculous than taxing financial firms on each transaction they execute.

Don't you believe it

No one should take New Jersey governor Phil Murphy's claim that the proposed tax on transactions tax is "not a forever thing" seriously in any way. Political economy is nothing if not a history of taxes which, promised as temporary, expanded and endured to perpetuity.

The Revenue Act of 1932 – like the proposed financial transaction tax – was designed to make up for steeply falling Federal tax receipts. It, too, contained ostensibly negligible taxes which were touted as temporary: the Federal Gasoline Excise Tax, for example. It was originally promulgated as a paltry one cent per gallon tax on gasoline that would be in effect from the passage of the bill until May 10, 1934, less than two years later. But a provision of the act allowed states to continue the tax and in many states (including, of particular note, New Jersey) it is in effect to this day: now standing at 18.4 cents per gallon to the Federal government, with a varying state tax on top of it: $0.41/gallon in New Jersey for a total tax of of $0.59/gallon, and $0.60/gallon on top of the Federal gasoline tax for a total of almost $0.80/gallon in California.

Additionally under the 1932 Act are the Federal Firearms Tax, the Federal Sporting Goods Tax, and the Federal Tires Tax, all of which were slated to disappear in 1936, but remain in effect today. Even the Federal Telephone Excise Tax, which was reduced by small degrees in both 1990 and 2007, remains in force in some forms.

In the wake of the so-called Great Recession, some 25 "temporary" taxes were imposed at the state level; today, three are still active; three were replaced by other, new taxes; and ten more were converted to permanent taxes. The remainder ended as planned, but could be reinstated at any time. Betting that an allegedly temporary financial transactions tax will become as permanent as the income tax – another government levy the impermanence of which was assured – is as close to a lock as exists today.

Elected racketeers and extortionists

The entire exercise is infused with the vacillation between passive-aggressive and bullying behaviors that is characteristic of legislators. While Murphy attempted to frame the threat that firms would leave the state as somehow inappropriate given the day the memo was leaked ("I'm not sure I would have put that out there at 9 o'clock in the morning on 9/11[.]"), Assemblyman John McKeon was more direct, threatening financial market firms: "They can run but they can't hide." (In light of his major campaign contributors, the posturing makes perfect sense.)

On Saturday, September 26th, the targeted financial markets and firms will conduct tests to ensure their business continuity in the event that the proposed tax is approved: they will relocate, quite possibly overnight, to another state. Governor Murphy, meanwhile, has expressed his hope that those businesses will be "prepared to give a little bit of blood [and] help us all get through" the consequences of policy choices made in Trenton "for the next couple of years."

There's no reason for optimism. The "little bit of blood" that was taken from consumers in the form of the Federal Gasoline Excise Tax in 1932 – and supposed to expire two years later – has, over an uninterrupted course of nearly ninety years, expanded and extracted over $1 trillion from consumers' pockets.

The views of political figures regarding the nature of financial markets – whether they are essentially a purposeless casino to be bilked when and as needed, or an engine of economic calculation for pricing aggregates of capital goods – are a solid litmus test for the degree and depth of their overall understanding of economics. It is unsurprising that public officials in the state of New Jersey – a state with horrible finances owing to spendthrift decades and now draconian COVID policies – fail here as well.

September 17, 2020

South Dakota: America's Sweden

AMELIA JANASKIE

Research Intern

Most people know South Dakota for the distinguished faces carved onto the side of the Black Hills mountain. Mount Rushmore reminds us of four American leaders who instilled values of freedom and hope in this country.

These values are under attack in our tumultuous coronavirus days. Lockdowns have assaulted core values that we believed were sacrosanct: property rights, in the right to run a business; freedom of association and movement, in the right to travel, gather, work, consume, have fun, and so on. In short, the right to pursue happiness.

Under the leadership of South Dakota Governor Kristi Noem, however, the Great Plains state has effected a fortress of liberty and hope protected from the grasps of overbearing politicians. And interestingly enough, South Dakota policies echo many of the same values and approaches as Sweden, and both have uncoincidentally experienced positive outcomes.

Recently, Governor Noem has been subjected to media lashings over an incredulous report regarding the Sturgis Motorcycle Rally in South Dakota, alleging that it is connected to 266,000 Covid cases. Despite pushback, Noem continues to protect the individual freedoms of South Dakotans against the speculative study, calling it "fiction" owing to faulty assumptions, data, and questionable academic modeling approaches.

Noem has rejected the familiar draconian Covid-19 mandates seen in places like California and the UK in favor of a mostly hands-off approach.

In a similar sense, Sweden's state epidemiologist, Anders Tegnell, supported a relaxed Covid response with the country never going into lockdown despite strong pressure to do so from the European Union. While the Swedish Constitution bars politicians from intervening, expert agencies instead take charge of providing the public with noninvasive recommendations.

The coronavirus response in South Dakota and Sweden have been consistently noninterventionist in nature, leaving individual trust and common sense to direct citizens' choices.

At the start of the pandemic, Governor Noem requested some initial restrictions, such as closing schools on March 16 while still allowing in-person check-ins for small groups. Noem also previously encouraged remote working and social distancing and recommended businesses to limit indoor capacity to 10 people when social distancing was not feasible (as recommended by the CDC). In so doing, the Governor was deferring to the prevailing policy ethos. It must have made her uncomfortable given her own commitment to freedom as a first principle.

She withdrew the initial recommendations in April in order to "[put] the power in the hands of the people, where it belongs" in prioritization of liberty.

Early on, South Dakota introduced a compulsory stay-at-home plan for those aged 65+ in two counties with high case numbers, which was rescinded May 11. Still, she never mandated stay-at-home or shelter-in-place orders, masks, or imposed bans on church gatherings, daycares, business openings, or travel.

Date	US	SD
12/31/2019	China reports coronavirus to WHO.	
1/6/2020	CDC issues level I travel notice for Wuhan, China.	
1/27/2020	CDC issues level III travel health notice to avoid nonessential travel to China.	SD launches COVID-19 website.
1/29/2020	The formation of the White House Task Force is announced.	
1/31/2020	Trump Administration declares a public health emergency, announcing Chinese travel restrictions, suspended entry into US for foreign nationals who could spread coronavirus. Dept of Homeland Security directs all flights from China to 7 US airports.	
2/2/2020	The CDC expands entry screening to 8 US airports.	
2/4/2020	Trump gives State of the Union Address.	
2/27/2020		News release on SD preparations for COVID-19.
2/28/2020		Governor Noem makes first statement about COVID-19.
2/29/2020	FDA allows labs to begin coronavirus testing. Trump Administration announces level 4 travel advisory for Italy and South Korea. Bars travel to Iran and entry of foreign citizens who visited Iran in the past 2 weeks.	
3/5/2020		Noem issues first press release.
3/10/2020		Noem announces state has five cases and one death.
3/11/2020	Trump announces travel restrictions on foreigners who visited Europe in last 14 days.	
3/13/2020	Trump declares national emergency to access $42 billion of funds.	Noem declares state of emergency.
3/16/2020	Trump holds tele-conference with governors, announces first potention vaccine has entered trial phase 1, announced “15 days to slow the spread” guidance.	Schools are closed in SD.
3/18/2020	Trump closes US-Canada border to nonessential travel.	
3/19/2020	Trump announces drug hydroxychloroquine and State Department issues a global health level 4 advisory, telling all Americans to avoid all international travel.	
3/20/2020	US restricts nonessential traffic across Mexico border.	
3/22/2020		Noem says she does not have the authority to close restaurants and bars.
3/23/2020	Trump invokes executive order to prohibit hoarding medical supplies.	Noem issues executive order that are all recommendations.
3/27/2020	Trump signs CARES Act into law.	
3/28/2020	CDC issues new guidance for residents of NY, NJ, CT to avoid nonessential domestic travel for 14 days.	
3/29/2020	Trump announces CDC guidelines will be extended through April 30.	
4/3/2020	White House and CDC recommend Americans wear face coverings in public.	

4/6/2020		Noem orders vulnerable residents of two counties to stay home.
4/14/2020	Trump halts funding to WHO	
4/16/2020	Trump announces federal guidelines to reopen the US, putting responsibility on the governors.	
4/20/2020	Dept of Homeland Security extends travel restrictions with Canada and Mexico for another 30 days. President Trump said that he is temporarily suspending immigration to the United States.	
4/27/2020	President Trump announces a new federal coronavirus testing "blueprint" to aid governors in ramping up capacity as a handful of states begin lifting stay-at-home restrictions.	
4/28/2020		Noem releases "back to normal" plan.
5/11/2020		Noem lifts order for vulnerable population in the 2 counties.
5/12/2020	Fauci and Trump Admin officials testify at Senate hearing about coronavirus response. Fauci warns of consequences if governors reopen their states.	
5/14/2020	CDC releases guidance for schools, businesses to use as states reopen.	

Sweden, like South Dakota, made suggestions for precautionary measures, such as working from home and social distancing when necessary. Sweden banned gatherings of more than 50 people, temporarily closed secondary education and universities, and prohibited visitors from nursing homes. Otherwise, trust was placed on individuals to make prudent decisions in slowing the spread of the virus.

Tegnell explains how trust and transparency have played a role in Sweden's response:

> "Having sort of a conversation with the public, putting a lot of trust in the public and giving a little responsibility to the individuals, which is exactly what our communicable disease laws are telling us to do. And by following the pattern. Doing this, we could keep the number of cases down, and we could keep our health services working."

Similarly, South Dakotans relied on trust and open information; Noem states:

> "Now my approach to this virus was to provide South Dakotans with all the information that I could and then trust them to exercise their freedom to make the best decision for themselves and for their families."

Noem avoided imposing aggressive restrictions, deferring to citizens to use common sense: practicing good hygiene and social distancing when necessary. She is keeping schools open throughout the fall based on the need to support young people's educational and social needs and the low risk associated with their contracting Covid. A shocking 30% of all SD children never logged online to participate in remote learning in the spring of 2020. This statistic, coupled with the questionable effectiveness of online learning, makes a return to the classroom all the more urgent.

Noem also believes that masks do not need to be required for children, but is permitting local jurisdictions to make their own decisions in that regard. She is concerned that masks will create more issues for children:

> "They're constantly touching [the mask], taking it off, dropping it on the floor. Those all increase rates of infection, and it is certainly not an environment that is going to help them stay safe."

On a similar note, Sweden has not enforced public mask use due to the lack of evidence supporting its effectiveness and other issues presented by widespread mask wearing. Both Tegnell and Noem believe that a side effect of widespread, mandatory masking is obscuring epidemiological problems: fostering the idea that there are easy solutions, which in turn foments further issues.

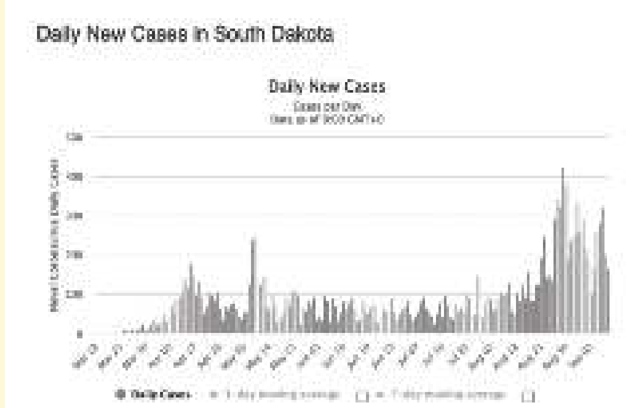
Tegnell reasons:

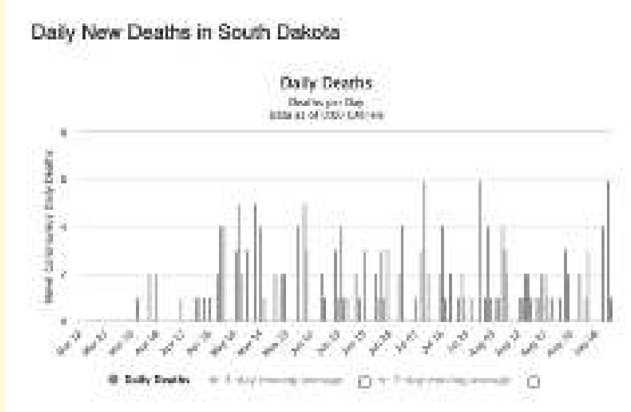
> "We are worried (and we get at least tales from other countries) that people put on masks and then they believe they can go around in society being close to each other, even going around in society being sick. And that, in our view, would definitely produce higher spread than we have right now."

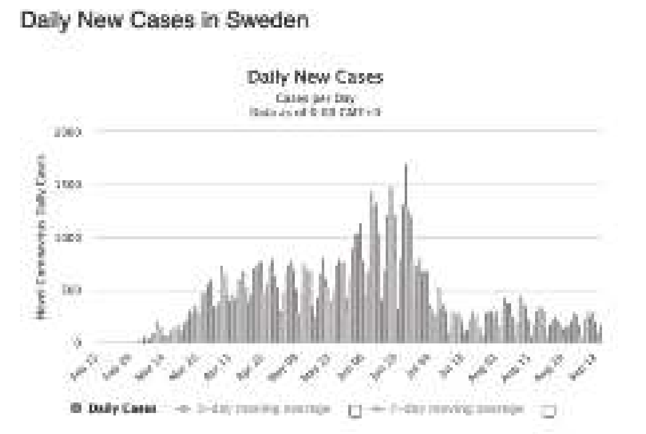
Governor Noem echoes that sentiment:

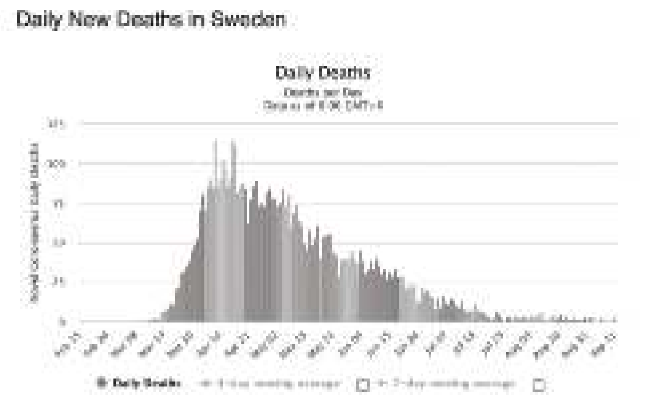
> "People should have the freedom to wear masks if it makes them feel safe, but the science on masks is very mixed."

Despite their generally laissez-faire responses to the novel coronavirus pandemic, South Dakota and Sweden have observed low infection and death rates relative to their neighboring states and countries, respectively. Although there has been an upward tick in the number of cases, deaths still remain low, and both economies are performing well. Stockholm is additionally alleged to be one of the first places in the world to have achieved herd immunity.









South Dakota and Sweden have realized economic benefits by defending individual liberty.

As more economic and financial data emerge, the economic triumphs of both South Dakota and Sweden are becoming evident. While we cannot draw definitive conclusions at this point, even now it is fairly clear that states that imposed stringent mandates are comparatively facing greater economic hardships than those which did not.

Gross Domestic Product (GDP)

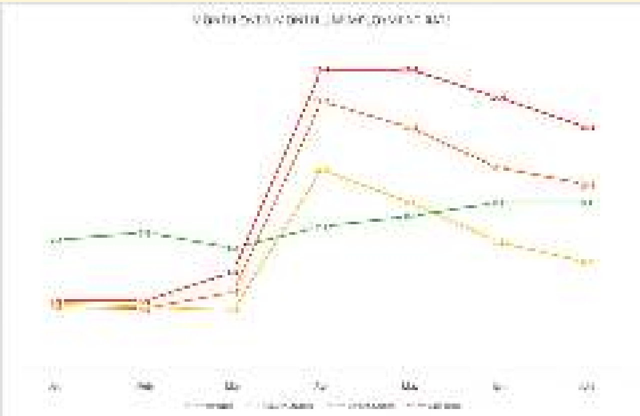
In its first quarter, the Bureau of Economic Analysis found that South Dakota's GDP shrunk by the second smallest amount compared to other states, by only 2.2%. This percentage is lower than the US first-quarter GDP drop of 5% and the second quarter, which fell deeper by an estimated 32.9%. Sweden, even after announcing there would be no full lockdown, experienced a Q1 GDP increase of 0.1%.

Sweden's GDP growth for the year ended 2020 has been projected to be between -5.3% to -7.8% depending on the source. Yet, these forecasts are less concerning than those for other countries with stricter Covid restrictions. The US GDP is projected to shrink by about 7.3 to 8.5% and the UK by a disheartening 11 to 14%. Between April and June, Sweden's economy contracted by 8.6%, which is still below the European Union's 11.6%, Spain's 18.5%, and France's 13.8%.

Employment

South Dakota's labor market has also rebounded and its unemployment rate has consistently remained below the national average. Job openings are up by 4.7% since SD's pre-pandemic peak in job openings on March 19. According to the Minneapolis Fed, South Dakota also had the fewest low-income job losses of any state in its region.

South Dakota's unemployment rate reached its height in April at 10.9% but has lowered since to 6% in July. Although Sweden's unemployment rate appears to be on an upward trajectory with its highest point being just above 9%, the Nordic country and Great Plains state do not come close to the US unemployment rate peak of 14.7% or California's at 16.4%, both having much higher stringencies than Sweden and South Dakota.



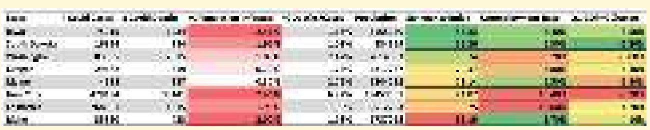
Tourism

While other states are experiencing significant declines in tourism, South Dakota faced the third lowest decline in domestic bookings behind Montana and Wyoming. Governor Noem acknowledged South Dakota's achievement, commenting that city life is not perfect, inviting people from around the world to visit South Dakota.

Despite South Dakota's low population density, South Dakotans have mitigated the Covid-19 spread and seen positive economic outcomes. States with stricter pandemic restrictions, on the other hand, are experiencing slower (if any) economic recoveries.

The table below compares eight states with varying stringency indexes and aims to show the different metrics that may be correlated with state stringency. The stringency index demonstrates states' levels of severity in response to Covid-19 on a scale of 0 to 100 with 100 being the most severe.

The indexes below represent each state at its highest stringency point.



Unlike South Dakota, states including Washington, Oregon, Maine, New York, California, and Idaho chose to implement many Covid restriction policies including statewide stay-at-home orders and mandatory indoor masking, yet nevertheless have experienced higher case and death counts per capita. Although it would be fair to say that South Dakota has low figures because of its low population density, other states with low population densities – Oregon, Maine, and Idaho for example – are experiencing worse economic outcomes.

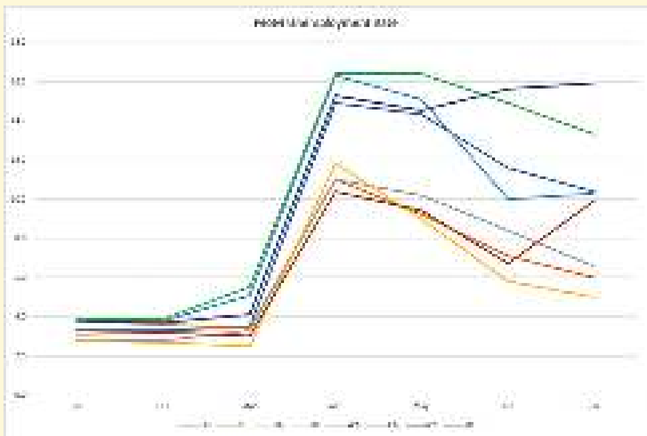
Oregon and Idaho have seen almost twice the amount of Covid-19 cases, more than twice the amount of deaths, and higher death rates compared to South Dakota. Oregon's Q1 GDP decreased by 4.4% and Idaho's by 4.1% (compared to South Dakota's 2.2% decrease).

Agriculture is the top industry for Oregon and South Dakota. South Dakota's agricultural industry saw a 0.67% increase in Q1, whereas Oregon's decreased by 0.13% and Idaho's by -0.57%. The stock prices of Oregon's three top companies—Intel, Nike, and Columbia Sportswear—have plummeted as well.

Although Maine has maintained a low infection rate, the state's economy is suffering with a Q1 2020 GDP decline of -6.30% and a slightly higher unemployment rate of 6.50% (compared to South Dakota's 6.30%).

Month-over-month unemployment rates differ between states as well. Oregon's unemployment peaked in April at 14.9%, which is higher than both the United States' peak of 14.7% in April 2020 and South Dakota's of 10.9%. While Idaho is an outlier in maintaining a generally low unemployment rate, more stringent states are experiencing greater rates of unemployment.

Iowa, which was also never locked down, shows an unemployment rate that is low; close to South Dakota's. California, at the higher end of the stringency index (75) with indefinite lockdowns imposed on an economy the size of France's, suffered an unemployment rate topping 16.4%.



The table above illustrates another relevant point. Although only 0.7% of Oregon's population has been sick with coronavirus, the damage to GDP and high unemployment may over time outweigh their relative Covid-19 mitigation. South Dakota and Iowa, with slightly higher infection rates, are seeing more robust economic outcomes and fewer social effects.

According to the Bureau of Economic Analysis (BEA), the accommodation and food services and the arts, entertainment, and recreation industries all suffered greatly in Q1 2020. The table below also suggests a link between higher stringency policies and consequent decreases in industry GDPs.

Q1 GDP % Changes Among Different Industries

State	Stringency Index	Accommodation and food services	Arts, entertainment, and recreation
Iowa	58.33	-0.31	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Washington	[illegible]	[illegible]	[illegible]
Oregon	70.37	-1.1	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
New York	[illegible]	[illegible]	[illegible]
California	75	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

Encouraging the gathering and dissemination of local information, in order to facilitate personal risk assessments – all the while encouraging the truly vulnerable to protect themselves – is producing better economic and social outcomes: in South Dakota as compared to other US states, and in Sweden among nations.

Public officials at the local, state, and national levels frequently fail to realize that policies require making tradeoffs: not least of which when instituting disease mitigation measures. This has been profoundly illustrated during the course of the current SARS-CoV-2 pandemic. The perceived lockdowns have incurred tremendous economic and social costs which, it is increasingly clear, are outweighing and will over time continue to outweigh their purported benefits. Among those difficult to see and long-term costs: widespread, substandard educational outcomes; parents and extended families sacrificing work and consumption to care for children; long-term unemployment and underemployment; the irrevocable destruction of capital and know-how; rising divorce rates; child and spousal abuse; addiction (alcohol and drug abuse), and increases in the rate of suicide.

South Dakotans and Swedes, nevertheless, have understood – even if not completely, but better than nearly anywhere else – that the costs of stringent coronavirus policies are immense compared to the benefits. All states but seven issued stay-at-home orders in some capacity, and the US is bearing the costs associated with them. The BEA currently estimates that US Q2 2020 GDP fell by a staggering 32.9%. Now more than ever, Americans need to follow and cite the examples set by both South Dakota at home and Sweden abroad: examples steeped in our founding traditions of liberty, trust, and common sense.

September 17, 2020

Should K-12 classrooms teach from the 1619 Project?

PHILLIP W. MAGNESS

Senior Research Fellow

The *New York Times*'s 1619 Project is coming under renewed scrutiny as the latest flashpoint in the heated cultural battles over education policy. For the past year the *Times*, through a partnership with the Pulitzer Center, has aggressively pushed state and local school boards to adopt its controversial readings about slavery and American history as part of their K-12 school curricula. All the while, the "newspaper of record" has adamantly refused to address the factual errors that plague several of the 1619 Project's feature essays, and render it unsuitable for classroom instruction. In a blusterous string of tweets, President Trump recently answered the newspaper's campaign by threatening to suspend federal funding for public schools that adopt the curriculum.

Although the bickering between the *Times* and Trump has more to do with political posturing than substantive policy outcomes, it nonetheless raises an important question about the newspaper's aims with its classroom adoption campaign. Is the 1619 Project a substantive re-envisioning of American history, built upon rigorous scholarly analysis of the past? Or is it simply editorial journalism, intended to advance the *Times*'s political positions in the present day?

Unfortunately, 1619 Project creator Nikole Hannah-Jones has cluttered the discussion by purposefully invoking both claims as a matter of convenience. She originally marketed the product as "a history that you can easily use to discuss with your children" and a re-envisioning of educational content around slavery to ensure "we do not have to reteach this history in the future because we have taught it to our children right in the first place." When facing scrutiny over specific deficiencies in its historical claims however, Hannah-Jones makes a hasty retreat for the cover provided by its journalism origins.

The product is something of a Schroedinger's 1619 Project: it's simultaneously a contribution to historical scholarship when academic branding helps to lend credibility to its classroom adoption, and yet also just opinion journalism when its historical claims are subjected to scrutiny and found wanting.

The distinction matters greatly, as advocacy journalism is held to much lower standards of accuracy than scholarship, and intentionally blends factual content with normative propositions aimed at espousing a favored political stance. To use an analogy, it's the difference between teaching an introductory economics class from Paul Krugman's bestselling undergraduate textbook, *Economics*, and teaching the same class by assigning a selectively curated list of Krugman's weekly political columns for the *New York Times*.

At this point it is probably safe to conclude that the 1619 Project fits squarely in the realm of advocacy journalism. Hannah-Jones has been candid about this aim when it suits her, including a recent admission that the project seeks to build support for the enactment of a slavery reparations program in the present day. Although some of the 1619 Project's less-controversial essays reflect popular distillations of their authors' academic work, these shorter vignettes have not attracted the level of criticism surrounding the project's feature essays over their explicitly political messages. Indeed, the overwhelming focus of critical scrutiny centers upon just two contributions to the 1619 Project: the lead essay by Hannah-Jones herself, particularly concerning its problematic claims about the American Revolution, and an error-riddled, retraction-worthy essay by sociologist Matthew Desmond on the economics of slavery.

As scrutiny mounted over the contributions of Hannah-Jones and Desmond, ultimately rendering several of their claims untenable, the *Times* itself doubled down into a position of outright incorrigibility. After 6 months of intense criticism and a surprise revelation that the paper ignored its own fact checker, *Times* magazine editor Jake Silverstein published a tepid single-line backtrack of its historically unsupported characterization of slavery as a primary impetus for the American Revolution. To date, the paper has not published a single word acknowledging the many problems with Desmond's essay, including his direct misrepresentation of recent empirical findings on the causes of the cotton economy's growth before the Civil War.

Nonetheless, Hannah-Jones has adopted another tactic to insulate these two essays from scrutiny. When pressed on their specific shortcomings, the *Times* reporter now retreats to the academic resumes of a handful of its Ivy League contributors to lend the entire product scholarly legitimacy. "Had you actually read the 1619 Project, which you clearly haven't, you'd know historians with PhDs from Princeton and Harvard wrote for the project," she recently tweeted. It's a claim that she's repeated dozens of times over.

Hannah-Jones's invoking of scholarly prestige amounts to a deeply misleading characterization of the 1619 Project's content.

Two Ivy League historians, Harvard's Khalil Gibran Muhammad and Princeton's Kevin M. Kruse, did in fact write feature essays for the 1619 Project. But neither Muhammad nor Kruse's contributions pertained to claims or the historical period at the center of the 1619 Project controversies. Muhammad and Kruse are both specialists in 20th century topics such as the Civil Rights movement and the history of race relations. Their two essays for the *Times* reflected this expertise, and attracted little controversy.

Yet neither Muhammad nor Kruse's resumes are sufficient to provide cover to the 1619 Project's contested material, including the crucial period between 1775 and 1865 where slavery was the central focus of its narrative. These bookends encompass the years between the start of the American Revolution and the end of the Civil War – arguably the most important period in American history for understanding the political development, entrenchment, and eventual destruction of the slave system.

Instead of using scholars who focus on this crucial period to inform the 1619 Project's narrative on slavery, Hannah-Jones assigned it to either journalists such as herself and fellow *New York Times* writer Jamelle Bouie, or to non-specialists such as Desmond, who had no prior academic expertise on the subject of 19th century slavery let alone its complex economic dimensions.

A breakdown of the 1619 Project's twelve main feature contributions reveals the full severity of this problem.

Title	Scope	Author(s)	Author's Profession
America Wasn't a Democracy Until Black Americans Made It One	Slavery in 17th-19th centuries, American Revolution	Nikole Hannah-Jones	Journalist – New York Times
American Capitalism Is Brutal. You Can Trace That to the Plantation	Economics of slavery in 19th century	Matthew Desmond	Sociologist, 20th Century Race Relations – Princeton
A New Literary Timeline of African-American History	Literature	Various – 16 different writers	English and Poetry professors, film directors, fiction writers

How False Beliefs in Physical Racial Difference Still Live in Medicine Today	History of race in medicine	Linda Villarosa	Journalist – Essence Magazine
What the Reactionary Politics of 2019 Owe to the Politics of Slavery	Slavery in the early United States, 21st century politics	Jamelle Bouie	Journalist – New York Times
Why Is Everyone Always Stealing Black Music?	History of music	Wesley Morris	Journalist – New York Times
How Segregation Caused Your Traffic Jam	History of urban/ suburban development	Kevin Kruse	Historian, 20th Century Race Relations – Princeton
Why Doesn't America Have Universal Healthcare? One word: Race	Health care policy	Jeneen Interlandi	Journalist – New York Times
Why American Prisons Owe Their Cruelty to Slavery	Prison reform policy	Bryan Stevenson	Attorney
The Barbaric History of Sugar in America	History of sugar production	Khalil Gibran Muhammad	Historian, 20th Century Race Relations – Harvard
How America's Vast Racial Wealth Gap Grew: By Plunder	Racial wealth gap in the US from post-Civil War to present day	Trymaine Lee	Journalist – MSNBC
Their Ancestors Were Enslaved by Law. Now They're Lawyers	Photo essay	Djeneba Aduayom	Photographer (with text and layout provided by New York Times staff)

Of the twelve main features, six were written by journalists including four in-house writers from the *Times*. One is a photographic essay, another is an assortment of literary contributions written by English and Poetry professors, and a third is a legal analysis of prison reform policy – all ostensibly worthwhile contributions, but not the subject of focus for the ensuing controversy over the 1619 Project. The two historians' contributions, as noted, come from 20th century specialists. Indeed, the only 19th century historian the 1619 Project used, Tiya Miles, did not contribute a feature article but rather a series of short vignettes about slavery's role in migration and agriculture. These mini-essays were noncontroversial, and did not advance Hannah-Jones's narrative about the American Revolution or Desmond's faulty economic claims.

To the extent that historians informed the project's discussion of the crucial period between 1775 and 1865, the *Times* has remained entirely non-transparent. Hannah-Jones has declined to specify which experts she consulted for her essay, and the only public acknowledgement of any outside review to date has come from Leslie Harris, the historian the *Times* recruited to fact-check her arguments about slavery's role in the American Revolution – and then promptly ignored when Harris advised against publishing the claim. Desmond's essay sources its interpretation to seven academic historians who are quoted in the article. Yet all seven are affiliated with the "New History of Capitalism" (NHC) movement – an insular and ideological school of slavery scholars that emerged in the last decade, and that has fared poorly under scrutiny of its own arguments about slavery's economic dimensions. Desmond's essay is, at best, a sloppy cribbing of NHC arguments that most other economists and non-NHC historians of slavery already found wanting and rejected.

Although the project's creator and defenders will likely continue to maintain that it is based on sound historical scholarship, this claim is at best only true for its less-controversial treatments of the 20th century and more recent topics in race relations. Insofar as the history of slavery is concerned though, the *New York Times* dropped the ball and delegated this content to either its own journalistic ranks or to non-specialists like Desmond. The errors of fact and interpretation that ensued were entirely avoidable, and even to this day could be corrected if the Times would make a conscientious effort to engage with and respond to criticisms.

Instead, the newspaper has opted to stick by Hannah-Jones's political purposes at the expense of its historical accuracy – an editorial decision that unfortunately casts a shadow over the credibility of the entire project, when it might have easily been confined to only two or three of its essays.

Ironically, it is the *Times* itself that has given fodder to its political critics on the right. They did so through a year of dismissive derision against more responsible scrutiny from across the political spectrum, and by attempting to pass off an exercise in highly politicized editorial journalism as a substantive and classroom-ready contribution to the history and historiography of slavery – but only when it was convenient to invoke such claims. We need not indulge the bombastic posturing of Trump, or unlikely legislative efforts to strip funding from schools, to conclude that the 1619 Project is still ill-suited for K-12 education. That is a judgement we may make on its scholarly shortcomings alone.

September 12, 2020

Debt or Taxes

COLIN LLOYD
Contributor

Back in January the first annual work programme of the new European Commission was published. The programme had a significant focus on taxation initiatives relating to climate change and digital transition, but the longer-term ambition to harmonise tax rates across the EU27 remains a distant goal.

The EU's Finance Ministers established the Code of Conduct Group (Business Taxation) in March 1998. Under the code, the criteria for identifying potentially harmful measures included: –

- An effective level of taxation which is significantly lower than the general level of taxation in the country concerned
- Tax benefits reserved for non-residents
- Tax incentives for activities which are isolated from the domestic economy and therefore have no impact on the national tax base
- Granting of tax advantages even in the absence of any real economic activity
- The basis of profit determination for companies in a multinational group departs from internationally accepted rules, in particular those approved by the OECD
- Lack of transparency

The OECD took up the cause of tax harmonisation more than two decades ago, establishing a Forum on Harmful Tax Practices in 1998. The current work of the Forum focuses on three key areas: –

- The assessment of preferential tax regimes to identify features of such regimes that can facilitate base erosion and profit shifting, and therefore have the potential to unfairly impact the tax base of other jurisdictions
- The peer review and monitoring of the Action 5 transparency framework through the compulsory spontaneous exchange of relevant information on taxpayer-specific rulings which, in the absence of such information exchange, could give rise to BEPS concerns
- The review of substantial activities requirements in no or only nominal tax jurisdictions to ensure a level playing field

Despite their best efforts, little progress has been made towards tax harmonisation. The ECIPE Occasional Paper – Unintended and Undesired Consequences: The Impact of OECD Pillar I and II Proposals – published in April, gives an excellent overview of the current state of affairs. They note that governments, globally, have been lowering statutory and effective corporate tax rates for nearly four decades, through a mixture of special tax incentives, the introduction of special economic zones and incentives for research and development.

This competitive race to the bottom is at odds with the OECD Pillar I and Pillar II aims to curb international corporate tax competition: –

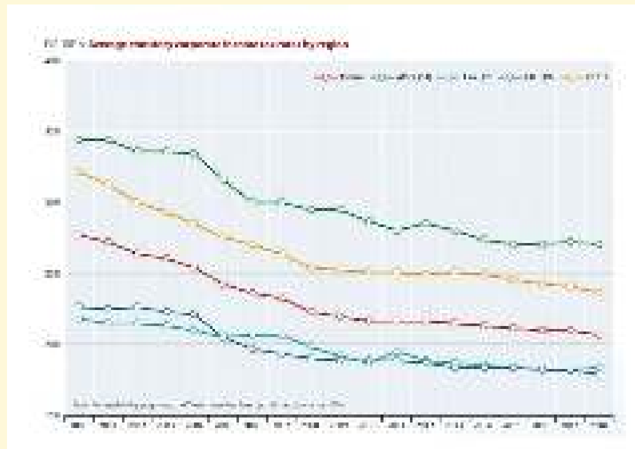
Pillar I *aims to design new rules for the (re) allocation of taxing rights between jurisdictions. It considers several new mechanisms for profit allocation and new nexus rules. Pillar I proposals are framed as a policy remedy to corporate income that is currently not taxed in the countries where it is generated. Recent proposals indicate that the new rules under Pillar I go beyond digital companies, i.e. they will affect more companies in more industries.*

__Pillar II__ (also referred to as the "Global Anti-Base Erosion" or "GloBE" or "Minimum Tax" proposal) aims to design a new set of rules for a minimum taxation of corporate income. It is framed as an attempt to address "ongoing risks" from corporate structures that allow multinational enterprises to shift profits to jurisdictions where they are subject to no or low taxation. Rules resulting from Pillar II would provide (high-tax) jurisdictions with a right to "tax back" where (low-tax) jurisdictions have not exercised their primary taxing rights or the payment is otherwise subject to low levels of effective taxation.

The OECD reforms are designed to reduce 'corporate tax avoidance' and 'unfairness in taxation.' The OECD estimates that harmonisation will increase tax revenues by up to $100bln, which will be evenly distributed across 137 countries. Despite the potential windfall, most governments have largely ignored requests for the release of information about their individual impact assessments. One reason why more open economies have failed to cooperate is because the proposed reforms would shift tax sovereignty and economic activity away from smaller economies towards larger, higher tax, countries. The implementation of the OECD proposals would lead to a fiscal transfer away from governments that embrace freer trade. Foreign direct investment (FDI) for smaller economies would fall; meanwhile, larger, less open countries would maintain their trade barriers. Businesses would be forced to relocate to larger economies, and consumers would suffer.

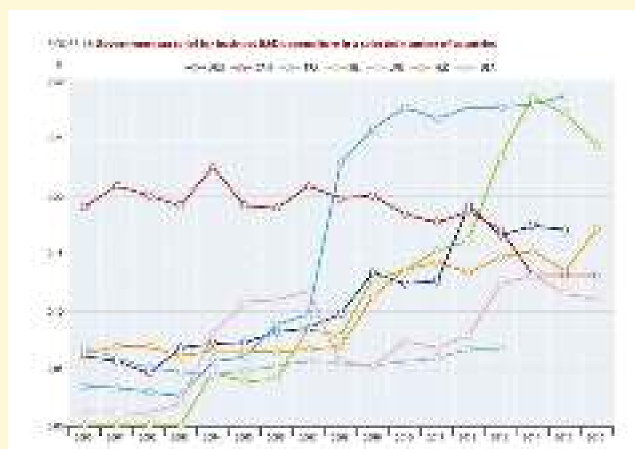
The OECD claims that their proposals will improve the global allocation of capital, but the lack of tax competition will almost certainly have the opposite effect, stifling innovation in the process. ECIPE goes on to propose the somewhat radical idea that policymakers abolish corporate taxes altogether, taxing individual income from labour, capital and consumption instead.

Personally, I am in favour of tax harmonisation via competition. A city or state should have the power to set tax rates in order to attract businesses and individuals. Despite attempts to harmonise higher, globalisation, even during the last two decades, has seen corporate tax rates trend lower: –



Source: OECD

Even in countries where headline corporate taxes may have remained high, there have been incentives such as R&D allowances: –



Source: OECD

The trend towards lower taxation has risen, even as the absolute amount of government spending has increased. The chart below shows the evolution of government spending to GDP since 1960: –

Source: Our World in Data, IMF

Trend Acceleration

The Covid-19 pandemic has led to the acceleration of many economic and social trends. Technology stocks have risen, remote working has become a permanent affair for millions, global supply chains have shortened; the list of *trends accelerated* grows longer by the day. The competition for taxpayers is no exception.

The table below tracks the change in corporate tax rates of the 25 largest economies over the past decade: –

Change in Corporate Tax Rates top 25 countries by GDP

GDP Rank	Country	2010	2020	% Change
1	United States	40	27	-13
2	China	25	25	0
3	Japan	41	31	-10
4	Germany	29	30	1
5	India	34	30	-4
6	United Kingdom	28	19	-9
7	France	33	28	-5
8	Italy	31	24	-7
9	Brazil	34	34	0
10	Canada	31	27	-5
11	Russia	20	20	0
12	South Korea	24	25	1
13	Spain	30	25	-5
14	Australia	30	30	0
15	Mexico	NA	[illegible]	
16	Indonesia	25	25	0
17	Netherlands	26	25	-1
18	Saudi Arabia	20	20	0
19	Turkey	20	22	2
20	Switzerland	19	15	-4
21	Taiwan	17	20	3
22	Poland	19	19	0
23	Thailand	30	20	-10
24	Sweden	26	21	-5
25	Belgium	34	25	-5

Source: KPMG, Trading Economics

Around the globe there are 37 countries with corporate tax rates of 15% or less – ten of which levy no corporate tax at all. Within Europe, countries such as Portugal have enticed the wealthy with 'Golden Visas,' although this has reignited their property bubble and may soon be curtailed. Now Italy has joined the contest, offering up to 90% relief on worldwide earnings for individuals who relocate to some of the less affluent regions of the country. France is considering Eur 20bln of tax cuts to encourage corporations to establish production in their country. Andorra, Cyprus, Malta and Monaco continue to offer very favourable terms, together with more or less unfettered EU access. As remote working has become the norm, thousands of small businesses are beginning to take flight. Competition among tax domiciles seems certain to increase.

By contrast to corporate tax, personal tax rates have not seen so much change over the last ten years: –

Change in Personal Tax Rates top 25 countries by GDP

GDP Rank	Country	2010	2020	% Change
1	United States	35	37	2
2	China	45	45	0
3	Japan	50	55.95	5.95
4	Germany	45	45	0
5	India	30	42.74	12.74
6	United Kingdom	50	45	-5
7	France	41	45	4
8	Italy	43	43	0
9	Brazil	27.5	27.5	0
10	Canada	29	33	4
11	Russia	13	13	0
12	South Korea	35	42	7
13	Spain	43	45	2

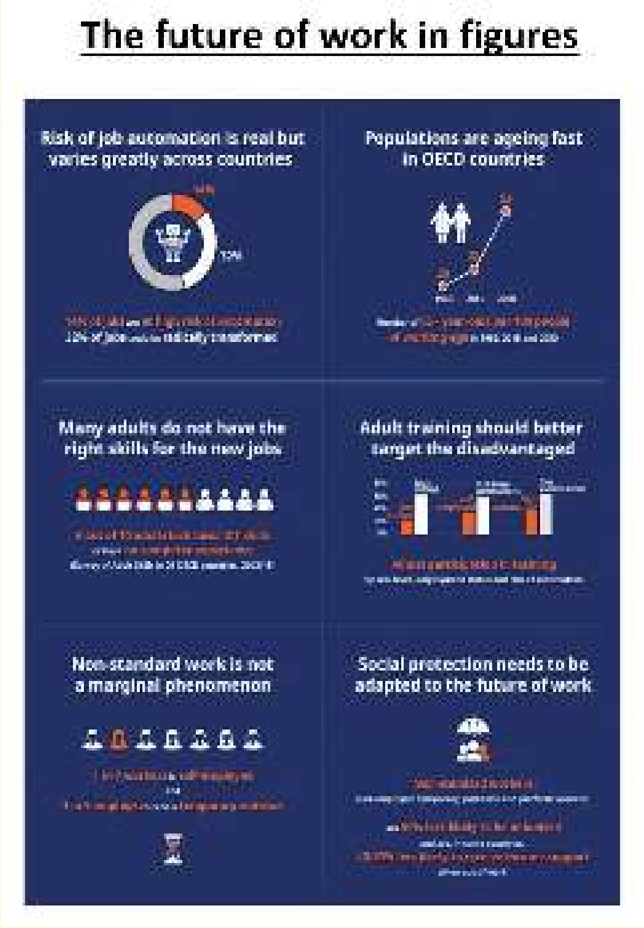
14	Australia	45	45	0
15	Mexico	30	35	5
16	Indonesia	30	30	0
17	Netherlands	52	49.5	-2.5
18	Saudi Arabia	0	0	0
19	Turkey	35	40	5
20	Switzerland	40	40	0
21	Taiwan	40	40	0
22	Poland	32	32	0
23	Thailand	37	35	-2
24	Sweden	56.56	32.28	-24.28
25	Belgium	50	50	0

Source: KPMG, Trading Economics

This lack of reduction in individual tax rates between countries is partly a function of immigration policy. Corporate domiciles can be switched with relative ease; a change of personal domicile is more challenging.

Within many countries, taxation varies from region to region. In the US, for example, tax rates change from state to state, but the long reach of the US tax authorities means the state where your primary residence is located may tax your income no matter from where in the world it is derived. Meanwhile, any state where you earn revenue also has the right to tax you on that income. Caveat emptor.

Notwithstanding the potential double-dipping of the tax authorities, the trend toward self-employment among skilled workers seems destined to accelerate. Along with that transformation, an increasing number of individuals will move their corporate entities to the most tax-efficient domicile. Technological progress and greater global integration have been a boon for workers with the right skills in expanding industry sectors. The expected slowdown in the global economy makes job prospects over the next two years look dim, but the pace and depth of the digital transformation is likely to be startling. We may see high rates of unemployment and skill shortages simultaneously. This infographic from the OECD Employment Outlook 2019 outlines some of the major thematic shifts in the nature of work globally: –



Source: OECD

If governments cannot rely on corporate taxes, they have three options: reduce expenditure, increase personal taxation or issue more debt. With the future of work looking increasingly uncertain and the entrepreneurial classes heading for the most efficient tax domicile, debt is the obvious and least painful solution, especially with long-term interest rates at or near the lowest level in history.

During the past month, Bank of England Governor Andrew Bailey has indicated that negative interest rates are firmly in their toolbox. Federal Reserve Chairman Jerome Powell, announced a more flexible approach to their 2% inflation target; whilst the ECB has let it be known that it is due to review its bond-buying programme at its next meeting. Albeit, the more hawkish members of the board are muttering about the legality of continued accommodation. All these moves (more or less) lend support to the view that interest rates will remain low, quantitative and qualitative easing will expand and any uptick in inflation will be not just tolerated but practically welcomed.

The total outstanding stock of negative-yielding government bonds hit an all-time high in the summer of 2019, but, as the chart below reveals, we are getting close to the peak once more: –

Source: Bloomberg

Among the top 25 countries by GDP, Switzerland has the lowest borrowing costs. Ten-year maturity Confederation bonds yield -0.50% whilst 50-year bonds yield -0.38%. Germany comes next at -0.50% for 10-year and -0.06% for 30-year paper. Of the large Eurozone economies, Italy pays the most; its 10-year bonds yield 0.85%, whilst it has to pay 2.01% to borrow for 50 years.

Outside of the Eurozone, Japan can borrow for 40 years at 0.60%, the UK for 50 years at 0.61%. Borrowing costs for the US (1.43% for 30 years) and China (3.11% for 10 years) look relatively expensive by comparison, but, with a second wave of Covid-19 sweeping across Europe, fears are that the rest of the world will follow. Near-term expectations of a strong global economic rebound, together with any inflationary pressure that might conceivably ignite, remain slim.

At the present juncture, developed country government bond yields are more likely to fall than rise. Fiscal spending will be financed by deferred taxation, the repayment of today’s (and probably tomorrow’s) obligations will be bequeathed to our children and grandchildren. Digital taxes, taxation on wealth and financial transaction fees may creep higher at the margins, along with higher taxes on higher earners, but debt is the least painful solution to the fiscal needs of the present.

September 30, 2020

Average Inflation Targeting and Expectations

WILLIAM J. LUTHER

Director, Sound Money Project

In late August, the Federal Reserve revised its Longer-Run Goals and Monetary Policy Strategy. It had previously committed to targeting two percent inflation, which it described as a symmetric target. In fact, the Fed seemed to treat that target more as a ceiling than a symmetric target, as it rarely allowed inflation to exceed two percent. And, as a consequence of continually missing its target, market participants came to expect that the Fed's actual target was something less than two percent.

Now, the Fed says, it will aim to achieve an *average* inflation rate of two percent. That means that, "following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time."

What is Average Inflation Targeting?

A central bank engaged in average inflation targeting (AIT) conducts monetary policy to ensure that inflation averages its target rate (e.g., two percent) over some period of time (e.g., a decade). The central bank does not aim for two percent inflation each period, as it would under a traditional period-by-period inflation targeting (IT) regime. Instead, it adjusts its next-period target each period to account for past mistakes. If it previously undershot its target, it will have to aim at an inflation rate greater than its average target until the average inflation rate returns to its target. If it previously overshot its target, it will have to aim at an inflation rate less than its average target until the average inflation rate returns to its target.

In the absence of errors, AIT and IT are equivalent. Each period, the central bank aims for and hits its stated target. The two regimes only differ if the central bank occasionally (or persistently) misses its target. George Selgin provides an eloquent explanation:

> …suppose that the economy experiences a series of unexpected shocks that put downward pressure on prices. These could be either negative demand (velocity) shocks or positive supply shocks. Suppose as well that those shocks aren't matched by corresponding shocks of the opposite sort. The Fed, in other words, faces a "run" of negative price level surprises. In that case, although it continues to set its rates at levels calculated to keep the forward-looking inflation rate at its 2 percent target, the ex-post or "backward-looking" inflation rate will be persistently below that target; and the longer that run continues, the larger will be the gap between actual and intended inflation.

Hence, the Fed's new AIT regime seems intended to remedy the problem of ex-post inflation persistently falling below two percent, as was the case under its prior IT regime.

IT, AIT, and Long Run Inflation Expectations

A good monetary rule will, among other things, anchor long run expectations. Borrowers and lenders must estimate inflation when financing long term projects. Employers and employees must estimate inflation when agreeing to long-term labor contracts. When inflation is higher than expected, borrowers and employers gain at the expense of lenders and employees because borrowers and employers get to make payments with dollars that are worth less than was expected when the contracts were executed. When inflation is lower than expected, lenders and employees gain at the expense of borrowers and employers because lenders and employees receive dollars that are worth more than was expected when the contracts were executed.

The possibility of transfers due to unfulfilled inflation expectations make long-term contracting risky—and that risk will discourage some long-term contracting. The greater the possibility—and the greater the size of the possible transfers—the bigger the risk. And, the bigger the risk, the more likely it is that long-term contracting is discouraged. Since, in the absence of such risks, long-term contracting would be preferred for many ventures, the possibility of transfers makes us less productive than we otherwise would be.

An IT regime does not anchor expectations very well. Consider the range of possible outcomes if a central bank targeting two percent inflation might miss its target by +/- 0.5 percentage points each period. After ten years, the price level will be somewhere between 16 and 28 percent higher than it was when the contract was signed. After thirty years, the price level will be between 56 and 109 percent higher than it was when the contract was signed. That's a big range of potential outcomes, and a big risk for those considering a long-term contract.

By requiring the next-period target to be adjusted each period to account for past mistakes, an AIT regime has the potential to reduce that range. In ten years, the price level is much more likely to be 22 percent higher than it was when the contract was signed, as expected. In thirty years, it is more likely to be 81 percent higher, as expected.

IT, AIT, and Short Run Inflation Expectations

While a credible AIT regime provides a better anchor for long-run expectations, it might provide a worse anchor for short-run expectations if not clearly articulated. Under a credible IT regime, forming expectations over the next period is relatively easy because the central bank is aiming at the same rate each period. Under a credible AIT regime, one is potentially left guessing what the next-period target is.

The Fed's AIT regime has the potential to destabilize short-run expectations because it has not been very clear about its makeup strategy—that is, how it will adjust its target after missing its target. Stephen Williamson explains the issue succinctly in a short tweet thread response to Tony Yates, unrolled here:

> The key to a makeup strategy is that you should know at each point in time what the inflation target (or whatever target) is for the immediate future. With average inflation targeting, you need to know what you're trying to make up, which requires knowing how far in the past you go to determine what average past inflation was. Basically it's a moving average (could be weighted) with a specified horizon. Then you have to specify how fast you're going to make up for missing on the high or low side in the past. That could be a specification for a future horizon over which you expect to make up the difference. So, all that will give you a time varying target for the next month's or next quarter's inflation. It's complicated to explain, which is a good reason not to do it. So either you do it, and bear the costs of explaining it. Or you don't do it, and stick to what you have. The Fed did neither, which is bad.

Whether the Fed will take steps to clarify its makeup strategy remains to be seen. But, as Williamson notes in another tweet, it is apparent "from reading the financial media that people are struggling to understand what the Fed's new policy statement means." That's not good.

If credible and clearly articulated, an average inflation targeting regime would provide a better anchor for inflation expectations than a period-by-period inflation targeting regime. Alas, the Fed's new policy strategy has not been clearly articulated, leaving short-run inflation expectations unanchored. And, considering that the Fed consistently undershot two percent inflation under its previous inflation targeting regime, one might reasonably question how credible its commitment to this new policy strategy is, as well.

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Disease Panic vs. Medical Reality

JENIN YOUNES
Contributor

What if the world vastly overestimated the seriousness of the coronavirus and effectuated countermeasures that wrought far more damage than the disease itself? That is the central question that Karina Reiss and Sucharit Bhakdi, a biochemist and microbiologist, respectively, set out to answer in *Corona: False Alarm? Facts and Figures.*

Needless to say, they do so affirmatively.

From a lay perspective, I admit to having long been skeptical of most countries' responses to the virus, believing that the consequences of locking down societies for months or even years on end would far outweigh the benefits, if not at present, certainly in the long run. But I accepted the common wisdom that the virus, while no more dangerous than the flu to those under 50, presents a significant risk to those over 60 years old.

The authors argue, however, that SARS-CoV-2 is akin to a run-of-the-mill respiratory virus, as most of its victims are already so ill that it is "almost always the last straw that breaks the camel's back" (30). This is a controversial thesis, even amongst experts who are critical of extreme policies implemented in response to the virus. Nevertheless, the authors make a persuasive case.

Published by Chelsea Green, a company that "promote[s] the politics and practice of sustainable living," *Corona* was first released in Germany over the summer, and the English version will become available in early October. The most compelling and original parts are the first several chapters, in which the authors explain how flaws in diagnostics and criteria for attributing deaths to the virus led to a distorted picture of the disease's dangerousness.

In violation of "all international medical guidelines" "every deceased person who had tested positive for the virus entered the official records as a coronavirus victim" (16). When deaths are counted properly, Reiss and Bhakdi argue, it becomes evident that only those with serious underlying conditions are at risk of dying, and those "without severe pre-existing illness need fear the virus no more than young people" (emphasis added). Stated otherwise, the virus simply does not present a significant risk, beyond those we take in everyday life, to healthy, older people, much less young healthy people (16-25, 30-35).

Various problems with the accuracy of PCR testing and methods of data collection also are addressed, and lead to the conclusion that "no reliable data existed regarding the true number of infections at any stage of the epidemic in [Germany]" (22). Other countries face similar problems. The authors quote Professor Walter Ricciardi, an advisor to the Italian Ministry of Health, for example, who stated that the virus had not actually been the true cause of 88% of Italian deaths attributed to it (25). Altogether, the authors make a powerful case that SARS-CoV-2 is in the realm of seasonal influenza, with an infection fatality rate of 0.27 % (17-29). That certainly calls into question the drastic measures implemented around the world to combat the virus.

The authors acknowledge that certain areas experienced higher death rates, specifically parts of the United Kingdom, Italy, Spain, and of course, New York City. Special circumstances, they posit, account for the elevated death counts. Those include avoidance of hospitals for fear of catching the virus by those suffering from heart attacks and strokes (United Kingdom), an elderly population, poor air quality, and other vaccinations that, in combination with coronavirus infections, could cause adverse reactions (Italy), and undocumented immigrants fearing detection and so refusing to go to the hospital (New York City) (34-39). These contributing factors indicate that severe outcomes could be drastically reduced by addressing some of these other problems, and do not warrant assigning SARS-CoV-2 a special status as a "killer virus."

Reiss and Bhakdi then thoroughly explore the adverse effects of misguided attempts to control the coronavirus. While they discuss negative health consequences of mask-wearing (55), their focus is on lockdowns and forced social distancing. Such policies have caused economic catastrophes, skyrocketing drug use and suicides, increasing deaths from stroke and heart attack due to hospital avoidance, and myriad quality of life issues from isolation among the elderly to deprivation of education to encroachments upon human dignity that conflict with the tenets of liberal democracies (73-91).

I agree with Reiss and Bhakdi that those pressing for lockdowns and other restrictions, often members of the educated elite, vastly underestimate the hardship such measures inflict upon those less fortunate (83-85).

Not only do they cause substantial harm, but suppressive measures are ineffective (49-54, 60-61, 91-98). The authors pay particular attention to Sweden, which never adopted widespread mask usage and did not lock down. Instead, only gatherings of over 50 people were prohibited and citizens were relied upon to behave responsibly.

Reiss and Bhakdi correctly observe that the "press relentlessly emphasized that Sweden would pay a high price for its liberal path," while noting that in reality, "Sweden without lockdown is not significantly different when compared to countries with lockdown" (93-94). Indeed, Sweden now has fewer deaths per million than the United States, fewer infections per capita than its Nordic neighbors, and its 7-day coronavirus-related death average is zero.

The authors discuss T-Cell cross immunity, a crucial topic and one that warrants far more discussion in the media. Recent studies have established that previous exposure to other coronaviruses, for instance the common cold or SARS-CoV-1, protects against infection from SARS-CoV-2. Thus, large portions of the population – the precise percentage varies across geographical locations – have some level of immunity to SARS-CoV-2, which explains why the virus tends to die out after infecting no more than around twenty percent of people in a municipality, regardless of restrictions (104-07).

While the authors do not mention this, other scientists, for instance theoretical epidemiologist Sunetra Gupta and structural biologist Michael Levitt, believe that means the virus has burned through the susceptible population in any location that has had a first wave, and there will not be a second. This has profound implications for places like New York City, which has remained partially shut down for many months past its peak, causing serious economic problems and educational deficits, as residents remain petrified that a second wave is imminent. Perhaps if the populace was acquainted with this theory, some of the terror would dissipate and a return to normal would be possible.

Reiss and Bhakdi also blame the now-discredited Imperial Model designed by Professor Neil Ferguson for the unwarranted alarm. Ferguson projected that two million people in the United States and half a million people in the United Kingdom would die, absent extreme restrictions (47). As the authors point out, Ferguson is famous for nothing if not his wildly exaggerated past predictions (47).

The authors suggest that the media, politicians, pharmaceutical companies, and large corporations, driven by financial motives in some cases and sheer incompetence in others, fueled the public panic that began with photos from Wuhan and Northern Italy and was exacerbated by Ferguson's model (117-130). While *Corona* is written for a German audience, from an American's perspective, it is hard to escape the fact that politics played a significant role in the events that have transpired. As early as January or February, opinions about the virus's seriousness divided rapidly along political lines. Once President Trump publicly doubted the severity, and suggested that following Italy and China into lockdown would create an economic horror show, the Democrats' position was a *fait accompli.*

Likewise, the media's dereliction of duty is beyond evident. As Reiss and Bhakdi observe, broadcasters and the press became "servile mouthpieces of the government" and never "critically questioned" the "disturbing images and frightening numbers" (50, 117-18). Incidentally, a letter recently published by 200 Belgian scientists similarly criticized the media: "[t]he relentless bombardment of numbers, unleashed on the population day after day, hour after hour, without indicating those numbers, without comparing them to flu deaths in other years, without comparing them with deaths from other causes, has induced a true psychosis of fear in the population. This is not information, but manipulation."

As an avid consumer of the *New York Times*, the *New Yorker*, and NPR, I can attest to the media having operated no differently in the United States. Apart from a few pieces in early March that questioned the wisdom of the course we had set upon, there was no serious discussion and no debate, at least in the left-leaning media, and anyone who dissented from the prevailing view was and continues to be dismissed as stupid or selfish. Early on, and without any nuanced analysis, Sweden was deemed a failure. The public has been beset by such terror, driven by anecdotes often presented without context, that it has become virtually impossible to dispel these many misconceptions using facts, figures, and logic.

For that reason, Reiss and Bhakdi embark upon an uphill battle by attempting to pierce the veil of fear that has enshrouded the world. If it can be done, however, this accessible book will play a key role. I urge the reader to approach *Corona* with an open mind, and when in doubt, to check the citations. Because, at the risk of sounding dramatic, our civilization depends on it. If we, as a species, can be so easily manipulated into ceding our liberty, dignity, and very lives to irrational fear, I shudder to see what the future holds.

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