

## The Cost of Lockdowns

Last March, when the government was considering whether to lockdown the economy, we argued that the longer we stayed locked down the more permanent the damage we would do to the underlying economy.

It is now clear that the cost of the lockdowns is immense. We aren't just talking about the \$5 trillion in government borrowing from future generations, but the clear damage done to small businesses and supply chains.

The US economy cannot be switched off and on like a light bulb. Every day, countless decisions are made in order to get the simplest of things on store shelves. One of our favorite economic essays is “*I, Pencil*” by Leonard Read in which he writes, “not a single person on the face of this earth knows how to make me (the pencil).”

Think about it. We all know the simple components of a pencil (wood, graphite, paint, . . . etc), but it's a complex chain of people and events that put it together. Loggers need equipment, food, and clothing. So do all the other suppliers. Each part of the process depends on those before, and if just one part is thrown out of whack, making a pencil gets harder.

Locking down the economy threw complicated supply chains into chaos, and restarting them is not as easy as many seem to think. Markets are robust, and sturdy, but government decisions (made by bureaucrats who, at most, can handle a dozen pieces of information) destroy the information flow necessary for smooth functioning.

Add into this mix that government locked down the supply-side of the economy, while simultaneously providing rocket fuel (through printing and borrowing money) to the demand-side. A massive spike in consumer spending by people who weren't producing is a recipe for unbalanced markets.

It's like causing a car accident and saying that morphine is the cure. Once the morphine wears off, the injuries remain, and

the pain resurfaces. Here, inflation is one clear result.

We have seen ports in Los Angeles and New York thrown into chaos as ships wait weeks to be unloaded. And the cost to ship those containers has soared by nearly 500%. Dollar Tree, which sells items (many imported) for a dollar, now says they can't do it anymore and will sell more items for above a dollar.

Oil, gasoline, and natural gas prices are rising. Europe, which also locked down, is heading into the winter with a shortage of fuel. Government attempts to alter a well-established industry by forcing it to create more green energy are failing. Government can't possibly manage such a complicated system.

The United States Postal Service is slowing down deliveries to save money as financial losses go ever higher. Automobile manufacturers cannot get semiconductors and are seeing production levels, in the face of strong demand, fall behind.

All of this was predictable. A market economy only works when information (through the price system) is allowed to flow freely. Turning it off, or trying to manage it to fit some politician's utopian vision of the future, creates chaos.

In the economy, there is the “seen,” and the “unseen.” The seen is the fact that you can't buy toilet paper, or food prices are going up. The unseen is the market system; what Adam Smith called the “invisible hand.” The market provides because people work together as a team, even though they don't know each other. They do it to earn a paycheck or make a profit.

To call this system “greedy” misunderstands the role of profit, and how resources are allocated by the marketplace. Free markets require unimpeded information. Locking down the economy and attempting to manage it from Washington, DC is guaranteed to create more problems.

One of those is inflation. It isn't transitory, it's a natural outcome of decisions that have been made in the past year. Lockdowns will cause more problems than COVID itself.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-4 / 9:00 am	Factory Orders – Sep	+1.0%	<b>+0.5%</b>		+0.7%
10-5 / 7:30 am	Int'l Trade Balance – Aug	-\$70.7 Bil	<b>-\$71.3 Bil</b>		-\$70.1 Bil
9:00 am	ISM Non Mfg Index – Sep	59.9	<b>60.5</b>		61.7
10-7 / 7:30 am	Initial Claims – Oct 2	350K	<b>340K</b>		362K
2:00 pm	Consumer Credit– Aug	\$17.3 Bil	<b>\$20.0 Bil</b>		\$17.0 Bil
10-8 / 7:30 am	Non-Farm Payrolls – Sep	488K	<b>575K</b>		235K
7:30 am	Private Payrolls – Sep	450K	<b>545K</b>		243K
7:30 am	Manufacturing Payrolls – Sep	25K	<b>25K</b>		37K
7:30 am	Unemployment Rate – Sep	5.1%	<b>5.1%</b>		5.2%
7:30 am	Average Hourly Earnings – Sep	+0.4%	<b>+0.4%</b>		+0.6%
7:30 am	Average Weekly Hours – Sep	34.7	<b>34.7</b>		34.7