

THE ECONOMIC FOLLY OF LOCKDOWNS

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“The cost of lockdowns in Canada is at least 10 times higher than the benefit in terms of population health and well-being ... at least if you account for numerous variables such as economic recession, social isolation and impacts on life expectancy, education and the full gamut of health-care priorities. If you look at the issue worldwide, lockdowns will cause at least five times and, more likely, as much as 50 times more harm than benefit.”¹

When this virus eventually passes and when all the hysteria and political bias is set aside, we will look back on this experiment of lockdowns as one of the greatest economic and social blunders in history. At this point, we have enough data to demonstrate that lockdowns do not stop the spread of the virus, but lockdowns do destroy the economy and further indebt governments. As you might recall, lockdown restrictions were originally imposed for two weeks in order to “flatten the curve”. We were told that without this flattening of the curve our hospitals would be overwhelmed and our medical resources exhausted! Almost ten months have passed and here we are back in another crushing lockdown. Are we still trying to save our sacrosanct socialized medical system? What happens when the lockdowns that are imposed to save our medical system actually do greater damage to the underlying economy and its participants? What happens when the cure is far more expensive than the sickness? Do our politicians, medical professionals and citizens understand the devastating economics of lockdowns? Do they realize that one of the greatest casualties of the lockdowns will be the medical system they are trying to rescue?

ONTARIO “OWE”

Let’s begin with the fiscal realities of Ontario. In a nutshell, the province of Ontario is a financial basket case. Few residents of Ontario understand how poorly their province has been economically managed over the past 30 years nor do they understand the precarious financial position of the province. Back in 1990 when I started my career in the investment business, Ontario’s total debt was approximately \$38 billion. This pegged Ontario’s debt-to-GDP ratio at 13.4%. This is an important ratio to monitor because it measures the province’s total debt divided by the total size of the provincial economy. For a sub-sovereign state (a government below the national government) a debt-to-GDP ratio of 10-20% is quite reasonable, assuming the debt was used to fund long-term capital projects and not social programs. Using debt to increase the capital base of the province and enhance its productivity is financially prudent and makes the province a more attractive place for businesses to invest. Unfortunately, this is not the

¹ Staples, D. (2020, October 11). Lockdowns will cause 10 times more harm to human health than COVID-19 itself, says infectious disease expert. <https://edmontonjournal.com/opinion/columnists/david-staples-lockdowns-will-cause-10-times-more-harm-to-human-health-than-covid-19-itself-says-infectious-disease-expert>

case with Ontario. Even a cursory look at the finances of Ontario will expose the gross mismanagement of the province stretching back at least three decades. Once one of the wealthiest and most productive regions in the world, Ontario is bordering on financial ruin.

If we fast forward to 2021, the total Ontario debt is projected to reach \$375 billion and could easily top \$400 billion by 2022/2023.² While you let those numbers sink in, here is some important context. Over the last thirty-one years, Ontario has grown its debt at an annual compound rate of almost 8% per year! This growth rate is more than 2.3 times the annual growth in GDP per year during the same period of time. This means that over the past thirty-one years, Ontario's debt-to-GDP ratio has increased from 13.4% to just under 50%! To give you some context on this number, consider the following: there is no other government in the world (operating below a national government) that has a higher level of debt as a percentage of their GDP than Ontario!

Ontario's response to COVID-19 has intensified Ontario's perilous debt situation. Prior to the pandemic, Ontario's debt-to-GDP ratio was hovering around 39.7%. In less than a year, the debt-to-GDP ratio jumped to a record 47%, and is projected to reach 50% within 18-24 months. The increase in debt relative to the size of the economy has been staggering. Unfortunately, this is not forecast to stabilize very soon. The recent jump in debt has been made far worse by the lockdowns, which have contracted the size of the provincial economy by over 6%. This year's budget deficit is estimated to be the largest in the history of the province at \$38.5 billion, given the massive spending on the part of the government.³ Without this spending, given the lockdowns, a large portion of the private sector, particularly small businesses, would have been wiped out. Regardless, the prospect for many small businesses will still be bankruptcy in the years ahead.

In total, the Ford government is planning on saddling the province with an additional \$99.8 billion worth of deficit spending over the next three years alone on the back of a provincial GDP of only \$800 billion. In fact, the government is estimating that the deficit in 2023 will be as high as \$28.1 billion!⁴ Remember it was only a year ago that the Ford government was still talking about balancing the budget! The deficits we now experiencing are shocking, immoral, unsustainable and will devastate the Ontario economy in the years ahead. The accumulated debt will ensure lower standards of living for the majority of Ontario residents. In only 15 years, the net debt per capita has more than doubled to \$30,275.⁵ For a family of four, the government of Ontario has borrowed

² Ontario Government (2020). Ontario's Action Plan: 2020 Ontario Budget. Retrieved from <https://budget.ontario.ca/2020/pdf/2020-ontario-budget-en.pdf>

³ Ibid.

⁴ Eisen, B. & Hill, T (2020). Ontario's finances- back to the 90's? The Fraser Institute. Retrieved from <https://www.fraserinstitute.org/blogs/ontarios-finances-back-to-the-90s>

⁵ Eisen, B. (2020). Ontario braces for largest budget deficits in provincial history. The Fraser Institute. Retrieved <https://www.fraserinstitute.org/blogs/ontario-braces-for-largest-budget-deficits-in-provincial-historyfrom>

more than \$120,000 on your behalf. Citizens need to understand that Ontario's ability to borrow more money in the capital markets at the current low interest rates is coming to an end and every 1% increase in interest costs will add another \$4 billion to our interest bill. Ontario is approaching an economic and fiscal crisis. Without help from Ottawa or the Bank of Canada, the province will hit the proverbial debt wall. Budgets (including the healthcare budget) will have to be slashed, taxes will have to be increased and the potential for a downward economic spiral is highly probable. When Premier Ford gives his almost daily theatrical performances to the media and tells Ontarians that he has our backs and that he will take care of us... **do not believe him.** Ontario is near financial collapse. Any funds the Ford government "gives us" to compensate for the destruction of wealth due to the folly of lockdowns has to be "taken from us" in the first place. Premier Ford has no money that he has not taken from taxpayers or borrowed on our behalf! We need to stop listening to these politicians.

Let's step back for a moment and consider a couple of other important pieces of information. The two largest components of spending for the Ontario government (2019/2020 budget year) are healthcare and education, which account for 40% and 25% of the government budget respectively.⁶ These two major segments add up to approximately 65% of the Ontario budget. If we include the debt service component (interest on the debt) at 8%, and growing quickly, you add up to 73% of the budget.⁷ With our provincial debt approaching \$400 billion and our healthcare expenditures representing 40% of provincial spending, we can easily attribute approximately \$160 billion of debt to our healthcare system.⁸ I realize that these are simply "back of the envelope" numbers but they give us a quick measure of how deep the hole we have dug ourselves into when it comes to our "free" healthcare system.

Consider the primary rationale that our government gives for the lockdowns. We must save our sacrosanct medical system from being overrun. But does this make sense in light of the financial position of our province? The dirty little secret was that we could not afford the medical system in Ontario prior to COVID-19. Our healthcare system was already in a state of crisis. Even Premier Ford referred to our healthcare system as "hallway health". But how could our medical system be so under capacity, so poorly managed and have some of the largest queues in the world when our province has spent hundreds of billions of dollars over the years on the medical system? Ontario is sitting on the world's largest sub-sovereign debt and what do we have to show for it? Where has all the money gone?

Given what we now know about this virus, how can governments justify lockdowns we cannot afford? With a fatality rate of less than half of one percent and closer to 0.2% -

⁶ Ontario Government (2020). Public Accounts 2019-2020: Consolidated financial statements. Retrieved from <https://www.ontario.ca/page/public-accounts-2019-20-consolidated-financial-statements>

⁷ Ibid.

⁸ Ibid.

0.3%, why are we locking down?⁹ For children and young people, this coronavirus is much less dangerous than the common flu.¹⁰ What is clear is that this disease is much riskier than the common flu for those over 70 years of age with several comorbidities. Yet even within this age group, 96% of people recover.¹¹ As of January 14, 2021, 5,289 Ontarians had died with COVID-19.¹² Only 225 people or 4% of all deaths were under the age of 60 and 69%, or 3,649 deaths, were of people over 80 years of age.¹³ Why are we not quarantining the sick and vulnerable and allowing everyone else to get back to normal to create the wealth necessary to keep Ontario viable?

Unfortunately, the media and government have whipped a portion of the population into a state of hysteria, focusing on absolute numbers of COVID-19 cases and deaths while ignoring important context. They have presented a false dichotomy between lives and livelihood, spreading fear and anxiety, while ignoring the costs of measures taken in terms of the economic and societal costs. Fear and modelling inaccuracies have replaced well-thought-out, rational and well-balanced risk assessment approaches that have been offered by many doctors outside the government and have been used in the past. It is not wise to have academic epidemiologists and infectious disease specialists making broad public policy decisions impacting the economy. By and large, they are as out of touch with everyday Canadians as with any other elite group. They sit in their labs and ivory tower offices and have no difficulty working from home and avoiding routine exposures that the average person faces. They have not lost their jobs or seen their businesses destroyed. It's easy for them to order a lockdown when their job or business is not on the line.

THE CRUSHING OF SMALL BUSINESSES

The area of the economy hit the hardest are small businesses and in particular those that the government deems non-essential. But all businesses are essential - especially to their owners, their employees and those who do business with the firms. The whole notion of essential versus non-essential in a market-based economy where the consumer decides who is essential and who is not is a false dichotomy. While the government seems to have no problem arbitrarily deeming some businesses as non-essential, that is not their attitude towards these businesses when it comes to taxing and regulating them! A better question might be why are all government jobs deemed essential? How many employees working for our various levels of governments were fired, let go or laid

⁹ Ioannidis JPA. Infection fatality rate of COVID-19 inferred from seroprevalence data. Bull World Health Organ. 2020 Oct 14. Retrieved from: https://www.who.int/bulletin/online_first/BLT.20.265892.pdf

¹⁰ Piroth *et al.* Comparison of the Characteristics, Morbidity, and Mortality and COVID-19 and Seasonal Influenza: A nationwide, population-based Retrospective Cohort Study. Lancet Respiratory Medicine (December 17, 2020).

¹¹ Ontario Ministry of Health (2020). COVID-19 (Coronavirus) in Ontario. Retrieved from <https://covid-19.ontario.ca/index.html>

¹² Ibid.

¹³ Ibid.

off during 2020/2021 due to the lockdowns? How can a protected and coddled public sector objectively make decisions on the winners and losers in the private sector? This is sheer madness and it is brutally unfair to millions of small business owners and entrepreneurs who have poured their lives and risk capital into their businesses. How humiliating to have their businesses shut down and even driven into bankruptcy by an overreaching government that forages off the very private sector it is locking down.

Small businesses (1-99 employees) make up 98% of all employer businesses in the country and employ 70% of Canadians working in the private sector.¹⁴ These businesses have a significant impact on the overall Canadian economy. From mid-September to late-October, Statistics Canada conducted the *Canadian Survey on Business Conditions* to better understand the ongoing effects of the pandemic on businesses. Based on the results of the survey, the majority of businesses in Canada were impacted, however smaller businesses reported being more negatively affected. Small businesses were more likely to experience a decrease in revenue and have less financial liquidity. They also experienced more difficulty accessing debt and were more likely to consider bankruptcy in the current economic environment. While government programs have helped keep many small businesses afloat, many others will not survive the lockdowns and will be forced out of business. The long-term economic impact of this will be felt for many years to come. At this point it is impossible to put a price tag on the amount of wealth destruction amongst small business owners. What makes this particularly difficult to stomach is that while many small businesses are being crushed, due to lockdowns, large corporations and governments are increasing their wealth and power over the economy.

Consider the following stats that illustrate the lopsided economic impact on the smallest companies. Close to one-quarter of businesses (23.7%) with 1 to 4 employees and one-fifth of businesses (18.5%) with 5 to 19 employees reported revenues in August that were down 40% or more year-over-year due to the lockdowns.¹⁵ When looking at slightly larger businesses, 16.8% of businesses with 20 to 99 employees and 14.5% of businesses with 100 or more employees reported similar losses in revenue of at least 40%!¹⁶ Very few small businesses were not and are not being negatively impacted by the lockdowns.

If small businesses are the engine of growth, and employ the majority of people in the private sector, how can the government treat them with such contempt? How do we bounce back from the devastating economic contraction we have imposed on our economy if small businesses are not strong, vibrant, well capitalized and growing? Here's a question for the Ford government: if small businesses continue to be devastated by government lockdowns in order to protect Ontario's socialized medical system, who will pay for the bloated and unsustainable medical system in the future if

¹⁴ Innovation, Science, Economic Development Canada, *Key Small Business Statistics*, January 2019

¹⁵ Statistics Canada, *Impact of COVID-19 on Small Businesses in Canada*, March 2020

¹⁶ Ibid.

many of our small businesses have gone bankrupt? The Ford government, which does not have the money to pay for their current spending, is now making matters much worse by destroying a vital part of their future tax base, small and medium-sized businesses. All these businesses are essential! If our healthcare system was underfunded and lacked capacity before COVID-19, you haven't seen anything yet. With the Ontario government completely cash strapped, over-indebted, bloated, inefficient and facing a weakened economic base of businesses, you should expect our healthcare to go from "hallway health" to "parking lot health". If the Ford government really wanted to save our healthcare system, they would be doing everything possible to open up our economy and allow all our businesses to get back to work. Without massive economic growth that is fueled by small businesses, the future of Ontario, including its healthcare system, is extremely bleak.

THE PLUNDERING OF CANADA

Let's turn our attention to the fiscal realities of our federal government. In the fall 2020 financial update, the federal government forecasted that the budget deficit for 2020 would be \$381.6 billion.¹⁷ The estimated cost of Canada's Covid-19 economic response would account for \$324.9B of that deficit!¹⁸ Let's put the total deficit number into some perspective. If you took the federal government deficit starting in 2008, which includes the great financial crisis of 2008 and 2009, and then added up all the deficits for the next 12 years, you wouldn't even get close to deficit forecast for this year! In fact, the forecasted deficit for 2020 is 35.2% greater (in real terms) than the cumulative deficit of the past 12 years (\$282.3B in 2020 dollars). Another way to contextualize the outrageous size of this year's deficit is that the forecasted 2020 deficit is estimated to be over 9.5X greater than the 2019 deficit of \$39.4B!¹⁹

To make matters worse, beginning in 2021, Canada has committed to spend an extra \$100B per year over a 3-year period to help in the country's recovery.²⁰ This extra annual spending represents 4% of Canada's GDP per year. According to Finance Minister Chrystia Freeland, this will be the "largest economic relief package for our country since the Second World War".²¹ Unfortunately, COVID-19 has provided the federal

¹⁷Department of Finance Canada. (2020). Fall Economic Statement 2020. Retrieved from <https://www.budget.gc.ca/fes-eea/2020/report-rapport/chap4-en.html#43-Canadian-Economic-Outlook>

¹⁸Government of Canada. (2020). Canada's COVID-19 Economic Response Plan- Overview. Retrieved from <https://www.canada.ca/en/department-finance/economic-response-plan/fiscal-summary.html>

¹⁹ Eisen, B. & Fuss, J. (2020). Making sense of Canada's \$381.6 billion federal budget deficit. The Fraser Institute. Retrieved from <https://www.fraserinstitute.org/blogs/making-sense-of-canadas-381-billion-federal-budget-deficit>

²⁰ Department of Finance Canada. (2020). Government of Canada releases supporting Canadians and fighting COVID-19: Fall Economic Statement 2020. Retrieved from <https://www.canada.ca/en/department-finance/news/2020/11/government-of-canada-releases-supporting-canadians-and-fighting-covid-19-fall-economic-statement-2020.html>

²¹ BBC News. (2020). Canada unveils largest economic relief package since WW2. Retrieved from <https://www.bbc.com/news/world-us-canada-55139229>

government with what it perceives as a license to continue spending money we do not have on ill-conceived and ideologically driven projects.

The cost of the COVID-19 spending at the Federal level is mind-numbing. At the beginning of 2020, our federal debt-to-GDP ratio was 31% and today it is approaching 51%. Please stop for a moment and consider what you just read. Our debt, as a percentage of our total economy, has increased by almost 65% (the percentage change in debt over GDP) in less than one year. No other country in the world has increased their level of debt by this amount in a span of 10 months. This is an outrageous abuse of power and a ransacking of our country's finances.

At the time of writing this article, Statistics Canada reported that the total gross debt of Canada's three levels of government is now larger than the entire economy. This is the first time in Canada's history that our debt-to-GDP has exceeded 100%.

Let us not forget the words of John Adams, "there are two ways to conquer and enslave a nation. One is by the sword. The other is by debt."

LICENSE TO PRINT

How can we possibly afford to pay for all this spending? Enter the Bank of Canada. Ever since COVID-19 hit, the Bank of Canada's balance sheet has been exploding. When we refer to the Bank's balance sheet, we are referring to the money supply. In late February, the money supply as measured by the Bank of Canada's balance sheet was \$118 billion. Eight weeks later, it was \$440 billion and by end of the year the Bank's assets had grown to \$550 billion. In less than ten months the Bank of Canada had printed \$432 billion in new money, a 366% increase in the money supply! This level of growth in the money supply is astounding and without precedent. Historians point out that this level of increase far exceeds the amount of money printed during the 2008/2009 financial crisis, the 1970s period of inflation, or World War II. Currently the Bank of Canada is printing new dollars to the tune of \$5 billion per week and over \$20 billion per month to help finance government spending.

Interestingly enough, the Bank of Canada does not like to use the expression money printing and instead calls it "quantitative easing". But beware of euphemisms! While quantitative easing sounds harmless, it is not. In years past, we used to use the term seigniorage, but even that term is no longer used today. Seigniorage refers to the profit made by the government when the value of the money it issues is greater than its cost of producing the money. In the days of "sound money", this meant that the gold or silver content of the coins was quite close to the face value of the coins. Today, things are much different. Our coins are made of worthless metals and our paper bills are backed or collateralized by nothing beyond the promises of our morally failing government. The creation of money today has gone digital and the cost of creating new

money is virtually zero! Our central bankers have created the ultimate high margin business! A journal entry here and a journal entry there and *poof*, you have created money. Unfortunately, wealth is not created so easily!

Debasement of one's currency to pay for government spending is simply government sanctioned theft. Governments that overspend and live beyond their means will often turn to their central banks to have them print the money needed to support their excess spending. When we consider the enormous spending of our own federal government coupled with the profligacy of our provinces, it's not a surprise to see the Bank of Canada step in and make up for the shortfalls through the expansion of the money supply. Why should our various governments sell debt in the capital markets in order to cover their burgeoning deficits when our central bank will finance them by simply printing money? Of course, printing money is no free lunch: a permanently higher money supply will eventually lead to inflation, which is an implicit tax on savers and no less painful than paying for the spending at the outset. For our government, in the short-term, it helps to obscure their profligacy, but it will eventually come back to hurt all of us. This debt binge funded by a massive devaluation of our money will come to a screeching halt.

If the prophet Isaiah or the other Old Testament prophets were speaking into our own day and addressing the issues in our own economy, they could literally repeat many of the same words they pronounced to the nations in their day. Isaiah in 750 B.C came before the nation of Judah and condemned them for their immorality which included economic immorality, demonstrated by the watering down (printing money or as we say **quantitative easing**) of their money; "Your silver has become dross, your wine mixed with water." (Isaiah 1:22)

MOVING FORWARD

Our government's response to COVID-19 has been and continues to be devastating to our economy. Locking down large portions of our economy is a form of financial suicide not to mention all the other negative social impacts that we have not discussed in this article. Economically, there is only one viable solution. We must immediately end the lockdowns, open up our economy, quarantine the vulnerable, vaccinate those who are at high risk and get people back to work. The economic lesson is clear. The public sector, which is dependent on the private sector, can never replace the lost wealth production from the private sector, due to lockdowns. No amount of debt and money printing can substitute for the wealth creation of private enterprise. In fact, the escalation of debt has severely weakened the long-term productivity of our economy and will end up hurting the most vulnerable and those we are trying to help. The ultimate paradox is that by locking down our economy to save our medical system, we have actually put our whole economy including our medical system at much greater peril!