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WHEN THEORY MEETS
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When Theory Meets Reality -Article by Mark Lazar

The theory of Communism may be summed up in one sentence; abolish all private property. Karl Marx

Item	YTD Change
Dow Jones Ind Avg	<u>11.16%</u>
S&P 500 Index	<u>20.15%</u>
EAFE Foreign Index	<u>3.55%</u>
Emerging Market Index	<u>-6.11</u>
Barclays Agg Bond Index	<u>2.44%</u>
2021 GDP Growth Forecast	<u>6.7%</u>
Unemployment Rate	<u>4.6%</u>

**Market index data as of 11/30/2021*

In 1848 German philosophers Karl Marx and Friedrich Engels published *The Communist Manifesto*, a short treatise concerning the nature of society and politics. Marx supposed the world was made of up two classes; those who owned businesses, private property, and employed labor—the [bourgeoisie](#). And those who sell their labor for wages—the [proletariat](#). In fairness, 19th century England, where Marx spent most of his adult life, was primarily a two-class system, made up of either landed gentry; wealthy land holders who gained their status through family lineages, or the underclass, consisting of poorly educated, unskilled laborers who were relegated to low-paying, menial jobs, with little opportunity to improve their standard of living. However, the [Industrial Revolution](#) led to the rise of a middle class, and produced college-educated professionals like doctors, engineers, lawyers, and other white-collar workers who weren't yet wealthy, but perceived a distinction between themselves and the lower classes.

While he didn't introduce the concept of the [Labor Theory of Value](#), Marx had his own version of it, which postulated that all value comes from labor, and that any profit derived from private enterprise must come from the pocket of said labor. But Marx seemed to miss what every first-year economic student knows, which is a functional and efficient economic model requires four [factors of production](#), or ingredients, if you will: land, labor, capital, and entrepreneurship, and each provides value to the consumer.

Think of any successful business and try to imagine it being so without one of these four resources. Which of the four is most important, you might ask? I believe that question would be akin to asking which component is the most important for a car to function: the engine, transmission, battery, or fuel? Obviously, they're all necessary for a car to be a useful form of transportation.

Another question you might ask is why then are there nations which seem to have all four factors, such as Venezuela and Argentina, yet their economic status is far below countries such as the U.S., Canada, or Australia? There is one more critical requirement for a nation's economy to grow and prosper: a government that maintains law and order in addition to protecting property rights. In other words, [rule of law](#). While Marxist theory makes for interesting classroom discourse, its fatal flaw is it simply doesn't work in the real world. Labor is a necessary input for any functional economy, but is labor more valuable to society than ideas/intellectual capital or entrepreneurial spirit? More valuable than land, or financial capital? And if there wasn't a [profit motive](#), what would be the incentive for innovators, entrepreneurs and those with capital to take risk on some new business or idea?

To prevent "evil capitalists" (think Bill Gates, Jeff Bezos, Michael Dell, Steve Jobs, Sam Walton, Elon Musk, and the like) from pilfering the pockets of labor, Marx envisioned a benevolent government seizing the means of production, whence all wealth would then be equally distributed, thus achieving his goal of equity, or equality of outcome. Marx wrongly believed wealth is a zero-sum game. It ain't. Yes, the aforementioned captains of industry made billions of dollars in profits, but is the country/world worse off because of them or better? How many millions of highly paid employees work for these companies? How many customers freely trade dollars for their products, not because they are forced or coerced to, but because they create value? How many vendors get paid? How capital projects were built because of these companies? How many billions in tax dollars were collected by the government? And how many trillions of dollars of profit have shareholders enjoyed, including private, state, and federal pension plans, 401K plans, and various retirement accounts? In Marx's utopia, there would be no Amazon, no Apple, no Windows-based computers, and no Starbucks. Instead, Uncle Sam would be running everything, meaning you'd have the same innovation, service, and efficiency you get from the IRS, Social Security Administration, and the DMV.

Unlike a state-run economy, a capitalist or [market economy](#), is based on [voluntary exchange](#); where buyers and sellers come together and exchange money for goods or services, and in doing so both parties increase their respective [utility](#). The beauty of capitalism is that a profit motive serves the public good far more efficiently than any government program. Unlike the private sector, which must create value or

perish, government agencies aren't subject to any such requirements. Darwinian *survival of the fittest* consequences do not apply to the state, which is why a profit motive is the purest and best motive. The quest for greater riches compels merchants to compete for your dollars through ongoing innovation, improved quality, greater service, and lower prices. The [invisible hand](#) serves the common good far more efficiently and effectively than any government agency.

Marx's [command economy](#) makes perfect sense—in theory; let's have really smart (experts), altruistic people in the capital city figure out everything and, with Solomon-like wisdom, run our country for us. But how would they know what we want, how much to produce, and how much we're willing to spend? How would they know we wanted a Windows-based computer, an iPhone, a Tesla, Facebook, or Amazon? And how many/much should be supplied, and at what price point? A market system knows the answer to those questions, as it's both a [price mechanism](#) as well as a [feedback system](#).

In stark contrast to a neat, orderly, centrally planned economy, a decentralized free market system is messy, confusing, and unpredictable. But one thing is for certain; it's the only known method for raising society's standard of living, both for the rich and poor alike (albeit not equally). Whereas other social economic systems simply redistribute existing wealth and, in the process, decrease the incentive for wealth creation (e.g., innovation, entrepreneurship, risk-taking, hard work, sacrifice, etc.), a capitalist system does the very opposite ... which might explain why the US, that represents [4.2%](#) of the world's population, has [41%](#) of the world's wealth.

It's been said that a college professor is one who when observing something working in practice will ask, yes, but does it work in theory?

Mark Lazar, MBA

Senior Vice President—Investments

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Wasatch Team Updates



Mark

Mark & Savina

Stan

Stan with his family in AZ for a long weekend and a serious game of king of the mountain in the pool!



Rees

Rees & Lisa at Cascade Springs

John

John and friends on field at last home Utah Football game. Go Utes!



Kendall

Kendall and Colt at aquarium Pre-Thanksgiving crazy!



Nicola

Nicola with her grandbabies for Thanksgiving!



Matt

Matt hitting the slopes in Alta with our first snowfall!



Jon

Jon and his family enjoying the fall colors!



Mark Lazar, CFP®, MBA, Vice President - Investments | 385-275-3609

Stan Goodell, CFP®, Vice President - Investments | 385-275-3792

Rees Petersen CFA®, Vice President - Investments | 385-275-3607

John Bergerson, CFA®, MBA, Investment Portfolio Associate | 385-275-3608

Matt Brunner, Financial Advisor | 385-275-3795

Jon Metcalfe, MBA, Senior Client Service Associate | 385-275-3793

Kendall Jackson, Client Service Associate | 385-275-3799

Nicola Palomo, Registered Client Service Associate | 503-944-5382

2750 E Cottonwood Parkway, Suite 520, Cottonwood Heights, UT 84121

1389 Center Drive, Suite 200, Park City, UT 84098

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