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**“Any other collateral besides your heart
of gold and million-dollar smile?”**

JULY 2021

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DOING GOOD VERSUS
FEELING GOOD**

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Doing Good Versus Feeling Good -Article by Mark Lazar

It is a paradoxical truth that tax rates are too high and tax revenues are too low, and the soundest way to raise the revenues in the long run is to cut the rates—Cutting taxes now is not to incur a budget deficit, but to achieve the more prosperous, expanding economy which can bring a budget surplus.

John F. Kennedy

After posting the second best first half return for the [S&P 500](#) in the past two decades, domestic markets started the third quarter in similar fashion as all major indices finished higher coming out of the chute. In addition to posting solid gains the first week of the new quarter, July 2 marked the sixth consecutive session of fresh new highs on the S&P 500, closing above 4300 for the first time ever.

Item	YTD Change
Dow Jones Ind Avg	13.16%
S&P 500 Index	15.01%
Emerging Market Index	6.46%
Barclays Agg Bond Index	-1.88%
10-Year Inflation Forecast	2.33%
2021 GDP Growth Forecast	5.7%
Unemployment Rate	5.9%

**Market index data as of 5/31/2021*

According to the White House, the new infrastructure bill will create millions of “well paying” jobs. The initial plan includes funding for multiple areas of infrastructure spending including expanding high-speed internet availability, repairs to roads and bridges, upgrades to the power grid, electric vehicle charging stations, and other clean energy projects. Sounds great!

Before going further, let’s do a quick economic refresher. The [law of supply and demand](#) explains the relationship between the supply of a good (or service), and consumer demand; as the price increases, demand falls. And as the supply rises, the price falls. For example, if the price of beef increases \$2/pound, consumers will buy less steak. This concept can be illustrated graphically via [supply](#) and [demand curves](#). And if the price of steak rises, consumers will buy more chicken and pork, as they are less expensive protein substitutes.

There are two opposing schools of thought in regard to how to grow the economy. The famous twentieth century economist, John Maynard Keynes, is considered the father of [demand-side economics](#). Keynes’ theories suggest the use of government spending and [monetary stimulus](#) (weak dollar policy) leads to increased demand, and boosts economic activity. In other words, when the economy contracts, in addition to [dovish monetary policy](#), Uncle Sam should step in with public works programs, expanding government payrolls, etc.

Conversely, [supply side](#) economists argue that a business-friendly environment leads to increased [capital investment](#), greater employment, increased productivity, increased aggregate supply/decreased costs, and increased tax revenue (faster nickels versus slower dimes). Supply siders focus on fostering a free market environment by reducing the tax burden for individuals and corporations, reducing regulatory hurdles, free trade, and a stable dollar monetary policy.

Which is better/more efficient, you might ask? To illustrate, let’s look at government COVID economic stimulus policies; in 2020, public health response/shutdowns resulted in a [3.5%](#) drop in [GDP](#) in the US compared to a [6.27%](#) decline in the European Union. At first glance, the US policy response was more effective. But to determine policy efficacy we need to compare and contrast the cost of (Keynesian, demand-side) fiscal stimulus. US COVID stimulus (relative to GDP) was [26.46%](#), whereas the [EU](#) allocated [11.14%](#). The US spent 15.32% more but only experienced a 2.77% economic benefit. Where did the other 12.55% go? If demand side economics is effective, shouldn’t we enjoy at least a one-for-one increase in GDP for every dollar spent? And what about the mythical [multiplier effect](#)? If true, [output](#) and [aggregate demand](#) should have increased by a factor greater than one.

Where did governments get the money for fiscal stimulus? Historically they tax or borrow (deficit spend) the funds. More recently, they now [print](#) it. US national debt soared to [~\\$28 trillion](#) by the end of 2020; a \$5 trillion, or 21% [YOY](#) increase. Not surprisingly, the US dollar fell [7.5%](#) last year. According to the [CBO](#), debt service (interest) on Treasury securities will be [\\$534 billion](#) this year, and doubles to \$1.1T in ten years. If you want to know one of the primary reasons [sovereign debt](#) yields are near record lows, every developed country would default on its debt in a handful of years if interest rates were to return to historic averages.

Unlike pro-growth economic policies, which ultimately shift the long run aggregate supply curve to the right (by boosting capital investment, innovation, risk-taking, entrepreneurship, and hard work), and increase real wealth, demand-side economics merely confiscates money from the private sector and spends/redistributes in a manner the state believes is best. But there is no *state*; only individuals (on both sides of the political aisle) who generally support economic policies based on ideological or party beliefs as opposed to merit. Good policies are neither Republican nor Democrat. The same holds true for bad policies.

In the same manner that an individual, over the course of a year, might use a new credit card to eat out every night, buy new clothes, and take some fabulous vacations, demand-side policies oftentimes provide a short-term economic boost. But eventually the debt will need to be repaid, and the person merely enjoyed a better quality of life today, only to have a reduced standard of living in the future. For those who might argue that governments are different, it's worth noting that there's never been a single time in recorded history where a government has spent its way to prosperity. Ever. Wealth creation only occurs in the private sector. As government increases in size and scope, the private sector is reduced, and so too is economic growth and the ability to increase wealth.

While no one can argue the need for repairing roads, bridges, and water systems—which should be regularly and systematically maintained from day-one, as opposed to allowing them to fall into a state of disrepair—to propose a government spending plan will *create jobs* is a fallacy. If true, then wouldn't it make sense to double government spending to create twice as many *good paying jobs*? The truth is government spending [crowds out](#) the private sector, competing for financial capital, intellectual capital, and labor ([factors of production](#)), which is why companies like Apple, Microsoft, Amazon, Google, and Tesla come from free market societies rather than socialist or Marxist regimes. Government spending programs always sound and feel good, but history is abundantly clear that the benefits never equal the cost.

Mark Lazar, MBA

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Wasatch Team Updates

Wasatch Capital Management is growing again! This was another big month with Matt Brunner, Jon Metcalfe, and Nicola Palomo joining us. We are excited to have everyone on board! You'll be receiving an official announcement letter next month detailing everyone.

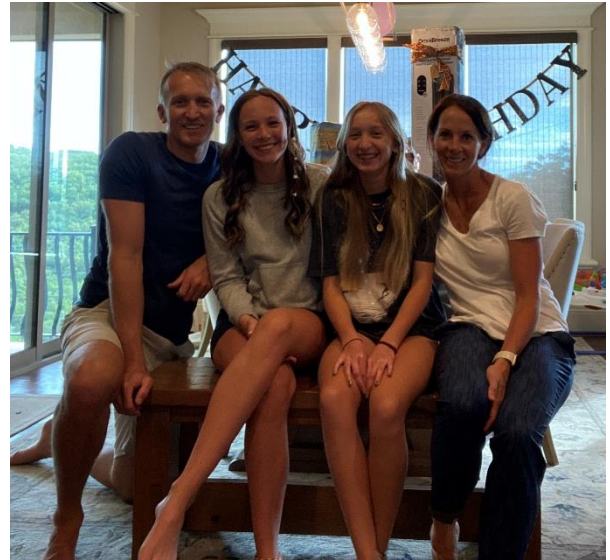


Mark

Mark trying out his hatchet throwing skills recently

Stan

Stan celebrating his daughter's 16th birthday. Stay off the sidewalks in Bountiful!



Rees

Rees, Lisa & Rachel enjoying a Deer Valley weekend

John

John and Shawn with some friends recently at an art gallery



Kendall

Kendall and Colt in Hawaii recently

Nicola

Nicola celebrating granddaughter's birthday last month



Matt

Matt in Sun Valley with his fiancé Samantha where they will be getting married next August



Jon

Jon (on right) with his brother cooking family dinner in Island Park, ID



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