

Current Comments

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August 2023

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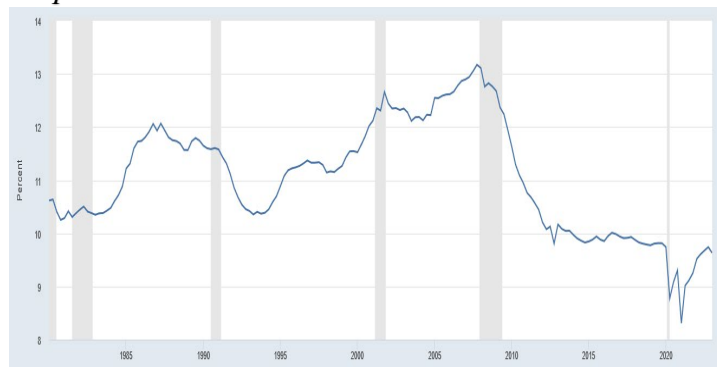
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John Maynard Keynes wrote and published his *General Theory of Employment, Interest and Money* in 1936. In this country, it was first sincerely applied in John F. Kennedy’s administration, when Gardner Ackley was chair of the Council of Economic Advisors. Its implementation by JFK resulted in a diverse boost to the economy, including the middle class, and the unemployment rate declining to new lows as the economy expanded.

There had been several economics papers published by then that look at the determinants of capital investment. Would business greater incentives or tax benefits induce businesses to build a new factory if overall capacity utilization in the economy was less than 80%? Generally, it appeared that they would not. If there was not enough demand for current production, why invest in more output capacity? JFK’s fiscal expansion and stimulus resulted in greater broader final demand for output.

Former president Donald Trump’s tax reform was generally stimulative, with much of the benefits going to upper income and wealth brackets. After an initial burst, taxpayers tended to use additional benefits to buy back stock. The Tax Cuts and Jobs Act (TCJA) embodied several pathways for many taxpayers, especially higher income ones, to lower their effective tax rate.

*Household Debt Service Payments as a Percent of Disposable Personal Income*



Source: Board of Governors of the Federal Reserve System through FRED

Most of federal income taxes are paid by the top 50% of taxpayers. The bottom 20% of income distribution pays a relatively minor portion of federal tax revenues. Their income adjusted for inflation, has shown little growth over the past fifteen years.

Mr. Biden’s programs seemed headed towards the creation of a more robust and broader expansion. It is doing this through investment in the public sector, such as

infrastructure improvements, as well as “industrial policy” incentives to the private sector. A good, appropriate infrastructure generally enables the private sector to operate more smoothly and quite possibly more profitably.

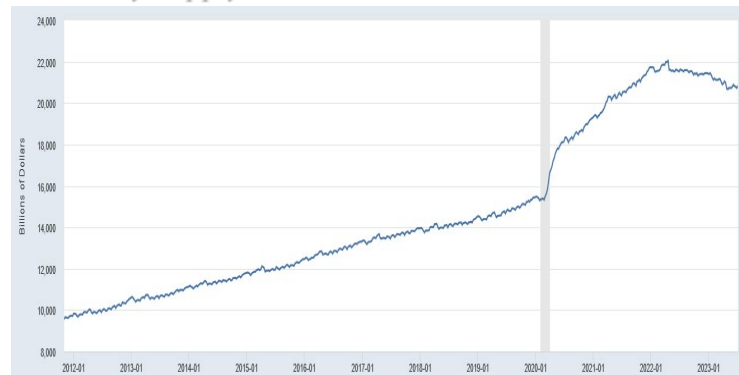
There is some thought that this may benefit the South more than other regions of the country. Recent behavior of U.S. equity markets is congruent with this view.

**Monetary Policy**

Interest rates have continued to increase. Fed members have continued to declare their intention to bring down the rate of inflation as they increase. Many years ago, when

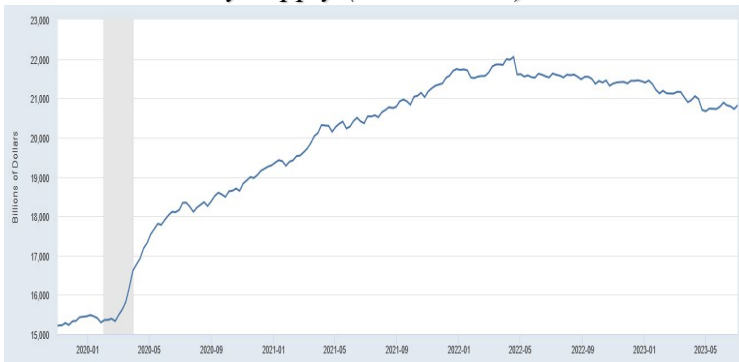
he was still living, Milton Friedman declared that inflation “is always and everywhere a monetary phenomenon”. His work also led him to conclude the increase in the money supply act, on the real economy with a long and variable lag, perhaps six months to two years.

***M2 Money Supply in the Last 12 Years***



Source: Board of Governors of the Federal Reserve System through FRED

***Recent M2 Money Supply (Last 4 Years)***



Source: Board of Governors of the Federal Reserve System through FRED

The M2 measure increased 42% in a two year period after the emergence of COVID in about February 2020. Thus, controlling the amount of money in circulation is probably the more powerful tool controlling inflation. A negative growth rate will likely have a future contractionary effect on the economy, operating with a lag.

### **Pride in Los Angeles County**

I know some of our readers reside in states other than California. Last month, up the road there was a Pride Festival. It was like a low-key carnival, under the oak trees. There were booths by Los Angeles County Library, a native plant nursery, a mental health group, etc. And, there was a drag queen performance on a stage. The kids in the audience saw it. From what I could tell, after it was over, nobody got hurt and nobody got shot. Some of the audience drifted over to the Mexican food stand and purchased tacos. Until next year.

### **The Economy**

While there were many indications of an imminent recession, the U.S. continues to experience a relatively low unemployment rate. While last year Fox News declared that “the recession has begun,” economic conditions have continued to be resilient. Several indications are suggesting a recession might be likely, but our economy may have enough momentum and resilience to avoid it. After a 42% increase in the quantity of money in circulation, inflation increased. A war in Ukraine exacerbated some prior increase. The rate of inflation is now decreasing and appears likely to continue to decrease. The most recent annual CPI change was 3%.

The housing sector has the potential to provide continued contribution to economic growth. Many of the millennials appear behind other generations (such as the Boomers) in acquiring homes. Geographic shifts in population will provide demand for new homes in certain areas. While future projected domestic population growth is weak, immigration will increase it, along with future housing demand.

Recent housing appreciation provides collateral for future home equity loans, which can support future consumer spending. Housing has a good future.

Furthermore, some of the recent federal legislation provides support for infrastructure and greater domestic technology sector growth.

### **Russian War and Ukraine**

We mentioned the Amazon Prime Video program “Second World War Diary – The War Day By Day” and the observation that while WWII started out sort of limited geographically in German and Poland, it spread to much of the globe in the next three years. Some might date the start of WWII to Hitler’s takeover of Sudetenland and Czechoslovakia. I continue to see increasing potential for expansion of this war under various scenarios. We wonder what Neville Chamberlain would say.

We never studied Russian nor Ukrainian history in high school. Timothy Snyder, a Yale professor, gave a series of lectures in October 2022, which are posted on YouTube. I am finding them to be excellent, and we recommend them to our readers. (Timothy Snyder, “History of Ukraine”, youtube.com, about 20 lectures).

Thank you for your continued confidence.

*Gary N. Clark, CFA*

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