



ANALYTICS INVESTMENT ADVISORS, LLC

A Tale of Two Consequences

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“It is the institution of private property that has given man that limited amount of free-and-equalness that Marx hoped to render infinite by abolishing the institution, and the evolution of private capitalism with its free market that is the precondition for the evolution of all our democratic freedoms.”¹

“Socialism, the sloughing off personal responsibility, corrodes our humanity.”²

“One of the cruelest aspects of socialism is that it delegates compassion to the state.”³

Introduction

This commentary offers “economic yardstick comparisons” of the Obama and Trump presidential administrations to evaluate the potential present and future effects of the Biden administration’s governing philosophy as presently observed and envisioned, i.e., emphasizing redistribution of income rather than growth, and raising taxes to finance a socialist agenda.

What?

- Two sets of data are analyzed to conclude that President Trump’s tenure was more favorable from an economic and humanistic perspective than President Obama’s.
- The first is a study (in its twentieth year) completed by the Technocratic Institute of Public Policy (TTIP) to measure seven indices for President Bush, Obama, and Trump, namely, *Direction of the Country, Economic Optimism, Presidential Leadership, Standing in the World, Quality of Life, Moral and Ethics, and National Outlook*,⁴
- The second comparative consortium uses data from the U.S. Bureau of Economic Analysis to test certain hypotheses regarding *Labor Productivity, Hourly Compensation, and Unemployment* as they relate to last four years of the Obama administration and Mr. Trump’s four years in office.⁵

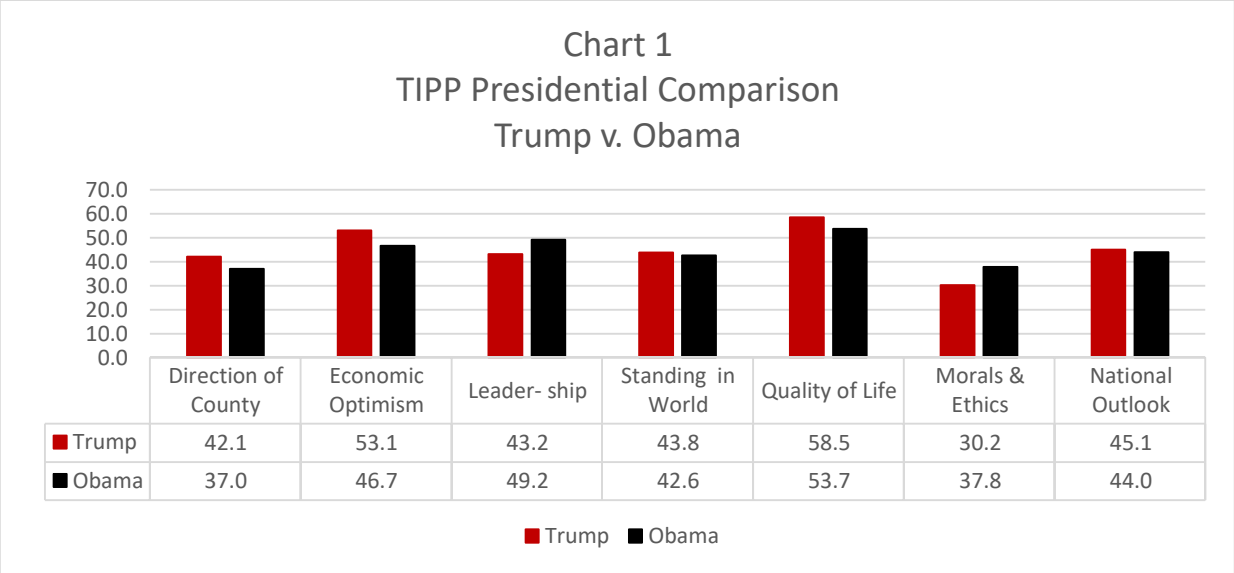
¹ Max Eastman, “Socialism Doesn’t Jibe with Human Nature”, *Reader’s Digest*, July 1941, p.39. A former strong advocate of socialism.

² Garry Kasparov, former world chess champion and Soviet citizen, *Washington Examiner*, March 30, 2021.

³ Stapleton, Julia, “T.E. Utlely and the Renewal of Conservatism in post-war Britain” *Journal of Political Ideologies*, 2014, cited in *Washington Examiner*, March 30, 2021.

⁴ “Twenty Years and Three Presidents, a Comparison Using TIPP Indexes”, *TIPP Insights*, February 22, 2021.

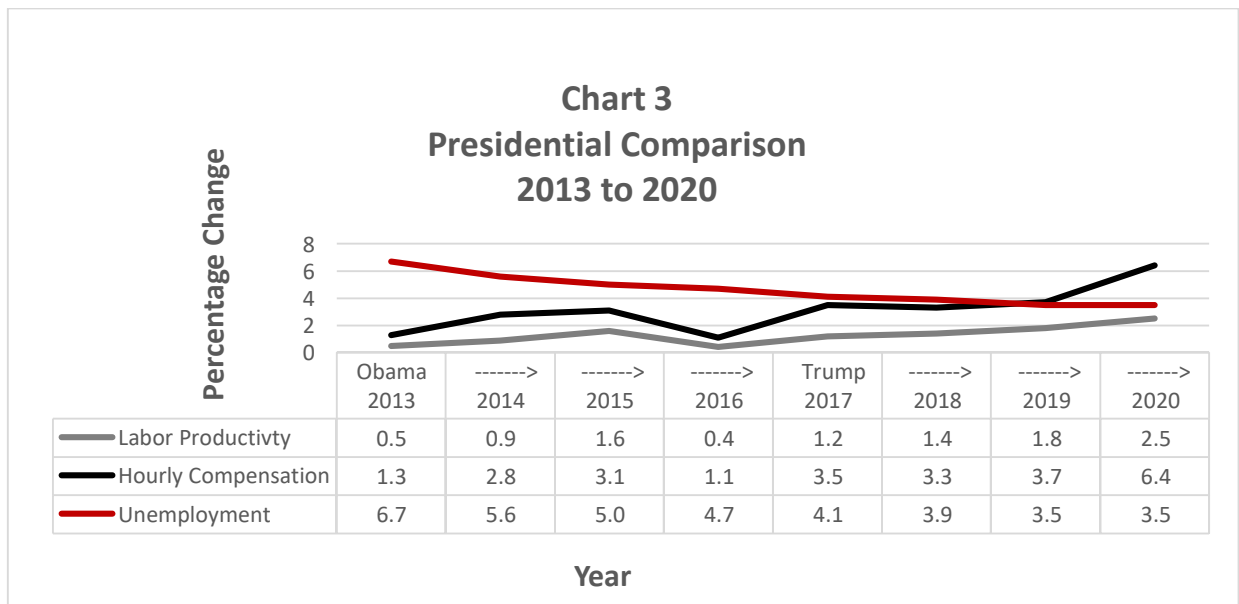
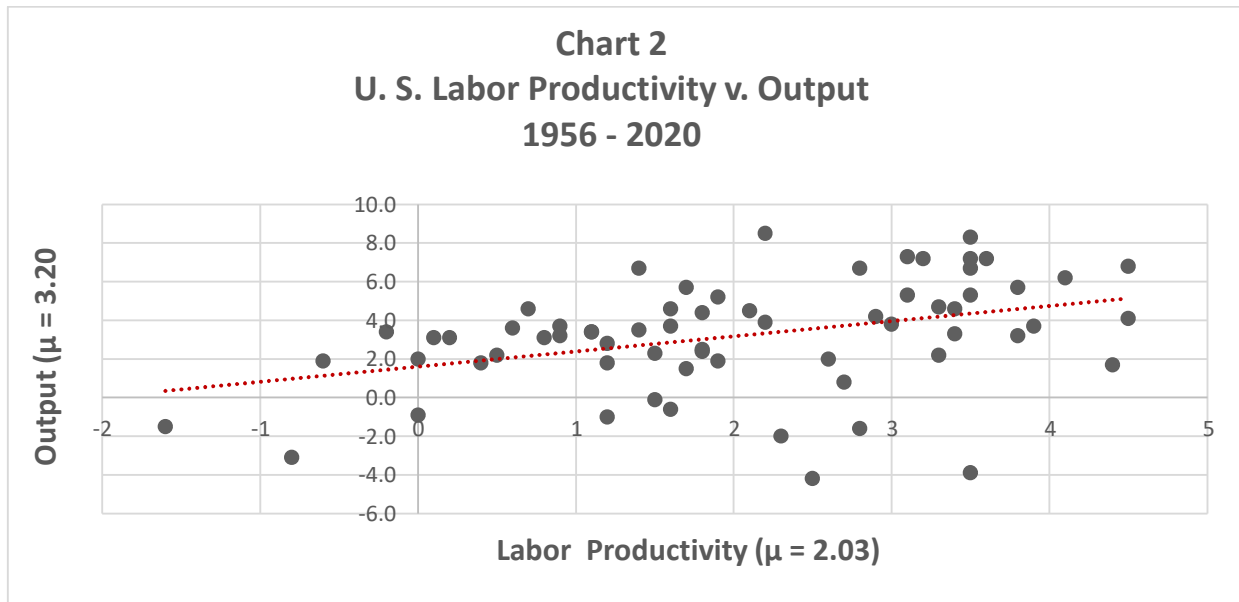
⁵ U. S. Bureau of Economic Analysis, Non-Farm Business Sector, March 4, 2021.



Why?

- *Direction of the Country* - The question posed for this index is: “In general, how satisfied are you with the direction of the country?” The results were: Trump 42.1 and Obama 37.
- *Economic Optimism* - This indicator is published monthly by Investor’s Business Daily and thus perhaps the most familiar of the TIPP compilations. The question posed was, “In the next six months do you think the economic conditions in the country will be better, worse or about the same”? Greater than 50 signaled optimism, and below 50 pessimism. The 20-year average is 50 (49.9). Trump scored 53.1, while Obama recorded 46.7.
- *Presidential Leadership* - In this category Obama rating was 49.2 v. 43.2 for Mr. Trump. Interestingly Trump had the lowest variability (standard deviation) indicating relatively stable monthly readings symbolic of his loyal voter base.
- *Standing in the World* - This metric is unique in the sense that it measures Americans’ opinion of the U.S. president as a world leader. The 20-year average is 45.4; Trump 43.8 and Obama 42.6.
- *Quality of Life* - This index is the most apolitical of the TIPP indices which asks respondents to opine whether over the next six months the quality of life will be better, worse or about the same. Trump registered 58.5 v. 53.7 for Obama.
- *Morals & Ethics* - This measure is the most pessimistic of the seven TIPP indices as evidenced by the outcome, Obama 37.8 and Trump 30.2... The highest rating was 57.0 for Bush in the aftermath of 9/11.
- *National Outlook* - This statistic is an average of the other six indices and ranges from 0 to 100, the 20-year average for which is 46.2. During their respective terms Trump scored 45.1, and Obama 44.0.
- *Labor Productivity* - Labor Productivity is output per hour and is measured by change per hour over time. Growth in Labor productivity enables workers to produce more goods and services for a given number of hours worked and has the potential to increase the standard of living in the form of greater consumption.

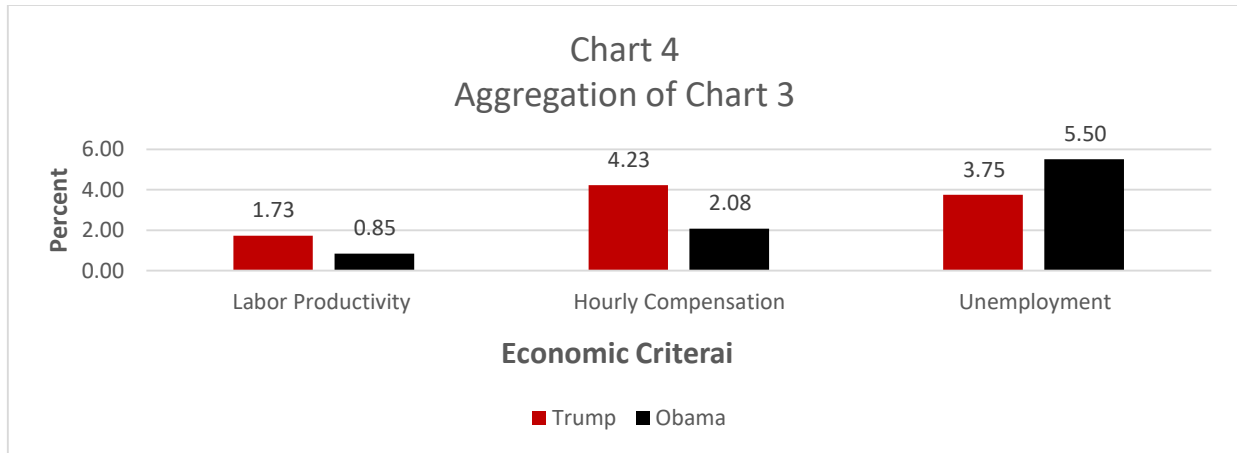
- The Bureau of Labor Statistics measure of labor productivity is a principal economic indicator used to understand and analyze current, historical, and potentially future changes in the economy.⁶
- A linear regression model comparing these two variables on an annual basis between 1956 and 2020 (Chart 2) indicates that: 1) that for every 1.0% increase in productivity, there has been on average a corresponding 1.30% increase in GDP between 1946 and 2020.^{7 8}



⁶ Beyond the Numbers, “What Can Labor Productivity Tell Us About the U.S. Economy”, May 2014, Vol. 3, No.12

⁷ Output = 1.302 x Labor Productivity, N=74, R²=.551, r=.742, t-Value=9.458

⁸ U.S. Bureau of Economic Analysis, Nonfarm Business Sector, March 4, 2021.



- Chart 3 & 4 illustrate more favorable trends and performance for Trump than Obama for *Labor Productivity* (increasing, .85% v 1.73%), *Hourly Compensation* (increasing, 2.08% v 4.23%) and *Unemployment*, (declining, 5.50% v 3.75%) for two contiguous 4-year periods.

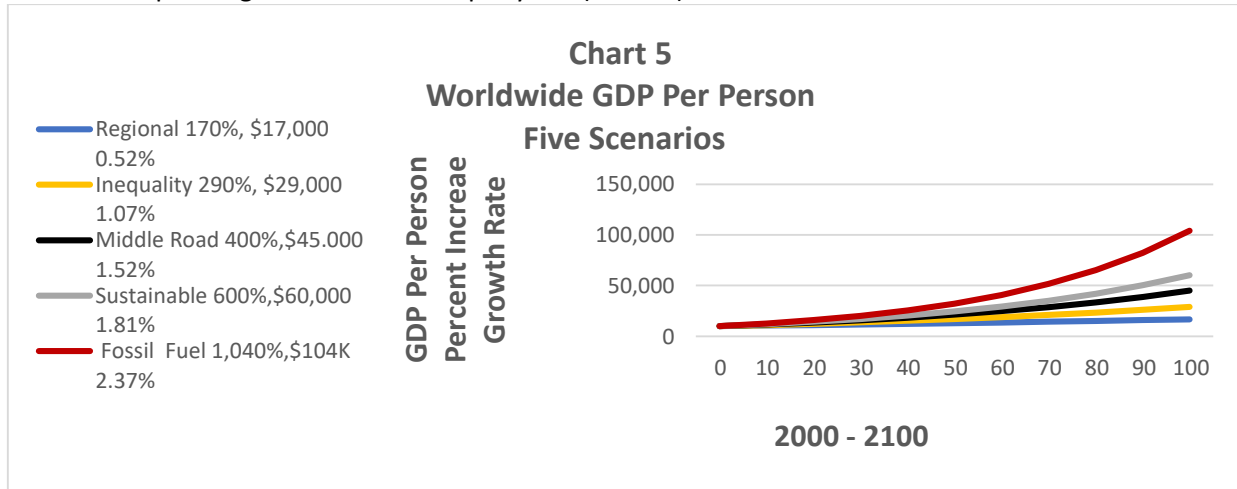
What?

- Global warming is real and needs serious attention, but climate change includes more than just *temperature*, such as, drought, floods, storms, crop reduction, heat related deaths, and rising sea, and levels, for which this summary measure is intended.
- Similarly, human welfare can include the intensity of starvation, societal deaths, access to education, economic opportunities, happiness, and general well-being. And, while *Gross Domestic Product* (GDP) does not encapsulate all aspects of human welfare, it is a good proxy for less death and poverty, better economic opportunities, access to infrastructure, increased well-being, and creature comforts.
- Carbon dioxide gas leads to global heating because it let the sun's heat permeate the earth, but prevents some of the earth's warmth from escaping. The amount of carbon dioxide in the atmosphere has increased by 40% since 1750. Consequently, the expectation is that annual emission will continue to rise because the developing world is getting richer and will continue doing so.
- The global approach to cutting carbon dioxide has mostly failed for three decades. However, a study conducted by researchers working for the United Nations recently examined five plausible scenarios for the future, called *Shared Socioeconomic Pathways*, or SSPs. This was published in 2017⁹ and relied on complex models which took into consideration factors such as geopolitics, trade, migration patterns, education, and health.
- All the of the SSPs show a world in which people are getting wealthier over the next century, an assumption based on recent history; for example, the last two hundred years average Global GDP per person, expanded from \$1,100 to \$17,500 today.

⁹ Lomborg, Bjorn, *False Alarm - How Climate Panic Costs Us Trillions, Hurts the Poor, and Fails to Fix the Planet*, Basic Books, New York, p126.

Why?

- *Regional Rivalry* is the least efficacious solution where nationalism is prevalent with little interest in a shared response to global warming. Governments are focused on domestic challenges and national security instead of working together and investing in education and technology. As a result, economic development is sluggish and income inequalities exist or worsen over time. Under this scenario, GDP per person will increase 170% to \$17,000 with an annualized compound growth rate of .5% per year. (Chart 5)



- *Inequality* is the second worst outcome where the world is divided between rich and well-educated countries on one side, and impoverished and poorly educated, labor intensive and low technology on the other. While the rich countries can make large investments in health, education, and environment, poor countries are not able to. increasing the disparity in economic equality. The economic outcome for this pathway is a 290% increase in GDP to \$29,000, and an annual growth rate of 1.07%.
- *Middle-of-the-Road* alternative reflects current social, economic, and technological trends today where many problems remain, many solutions are underfunded, and development and income growth are unequal. There is slow progress in health, education, and technology without major break throughs. Development and income growth proceed erratically with some countries falling behind. This cohort is projected to realize 400% increase in GDP per person to \$45,000 with an annual growth rate of 1.52%.
- *Sustainable Development* is an eco-scenario in which there is more global harmony and cooperation. The world focuses on ensuring that economic growth creates a smaller imprint on the planet. Accordingly, total man-made greenhouse gas emissions and temperatures are the lowest of all five scenarios. Governments worldwide make big investments in education, health, rapid technology development, along with requiring utilization of fewer resources and less energy, all of which is projected to produce a yearly increase per year of 1.81% to yield 600% increase in personal GDP to \$60,000.
- *Fossil Fuel Development* is a growth pathway through strong competitive markets and policies that foster innovation and build human capital through heavy investment in health and education, adaptation, and controlling local environmental issues. The world focus is on rapid technological development, exploitation of abundant fossil resources to support energy-intensive lifestyles, which will result in the highest rate of greenhouse emission and temperature increase by 2100, but also a tenfold, 1,040%, average compounded 2.37% rate of return, and \$104,000 GDP per person.

Conclusions

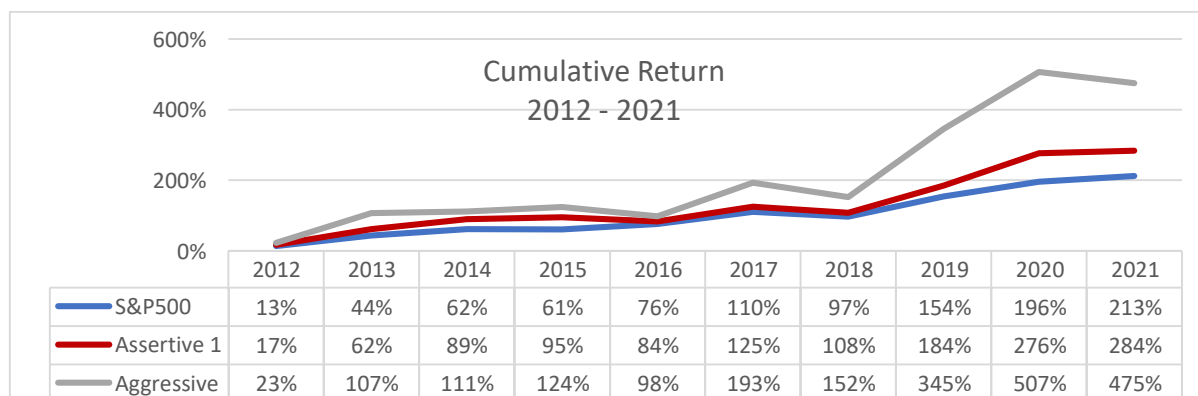
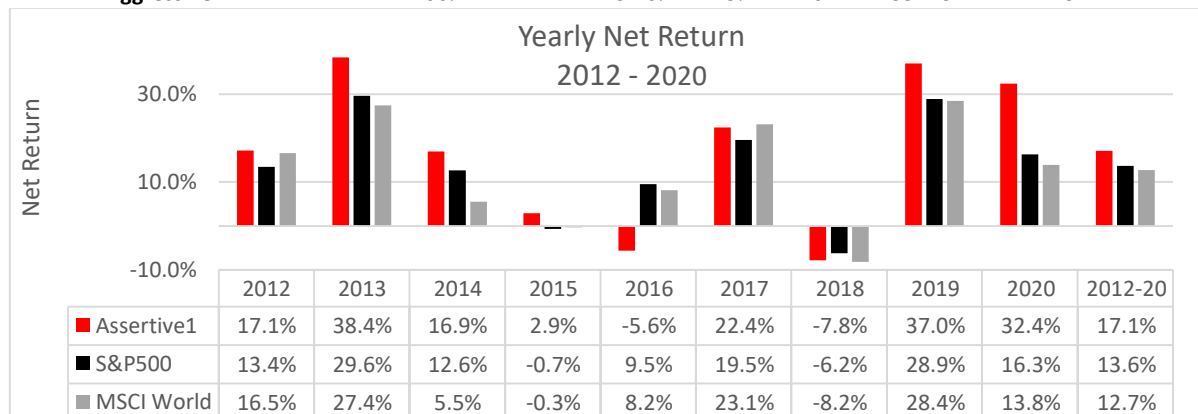
- It would appear the United States economy is going “from the best of economic times to the worst of economic times”. As Larry Summer’s opined, “...the U.S. is suffering from the least responsible macroeconomic policy in four decades.”¹⁰
- The \$1.9 trillion American Rescue Plan Act is not seriously about economics with 90% of the funding being allocated to functions other than the pandemic.
- The performance of the economy has to do with demand and supply, and it is the latter that is lagging, not purchasing power to stimulate demand. Accordingly, the plethora of tax initiatives being pursued by the Biden administration will reduce productivity, aggregate supply, employment, and consumption causing a reversion of the slower growth between 2012 and 2016 (1.71%, Chart 4), as well as a reduction in tax revenues, the ostensible objective of the proposed tax increases.¹¹
- A critical element of the Trump economic presidency was his aspiration to reward success by lowering taxes on individuals and corporations, thus creating incentives for small businesses and large corporations to become more profitable. This goal was hugely successful resulting in a historic 3.5% rate of unemployment, while increasing wages in essentially all gender and ethnic cohorts, and a 2.50 GDP growth in the third year of his presidency. The favorable fiscal policy also created a sustainable surge in supply which was deflationary and a main factor for historic low interest rates.
- Abandoning energy independence, open borders, and critical international trade agreements all add additional elements of uncertainty to the economic outlook, not to mention a head long rush down no-growth climate change SSPs (Chart 5: *Regional, Inequality, Middle Road*, and to a lesser degree, *Sustainable*). This divergence away from economic growth will leave humanity worse off with more poor people, more inequality, less opportunity, and millions of more premature deaths.
- Choosing the *Fossil Fuel* option implies an annual global increase in GDP of 2.37% (Chart 5), less than the U.S. 3.2% average between 1954 to 2021 (Chart 2) , but 30% greater than the *Sustainable* pathway. (Chart 5).
- U.S. employers added 916,000 jobs in March, almost double February’s 468,000 gain, indicating that a sustained recovery from the pandemic is underway.
- However, even with last month’s robust job increase, the economy remains 8 million jobs short of the U.S total prior to the beginning of the pandemic a little over a year ago.
- And while the economic recovery is expected to strengthen with the potential of replacing all jobs lost during the pandemic by the end of the year, imbalance between supply and demand will likely remain, with inflation setting the stage for the fiscal-monetary collision Mr. Summers is predicting. (footnote 10).
- Nevertheless, investors should maintain an ideologically comfortable investment attitude and allocation flexibility in anticipation of dealing with potential uncertainty ahead.

¹⁰ Former Secretary of the Treasury under President Clinton and top official in the past two Democratic administrations has emerged as one of the leading critiques of the Biden administration’s monetary (money) and fiscal (taxes) policies, contends that “... the U.S. is facing a pretty dramatic fiscal-monetary collision”. (Andrew Davis, *Yahoo Finance*, March 21, 2021).

¹¹ Data from the Kennedy, Reagan, and Trump presidencies indisputably demonstrate that reducing taxes increase revenues, with the opposite also being the case. (See Laffer Curve)

Performance Summary¹²

	2012-20 Avg.	YTD ¹³ 03/31/2021						
S&P500 (\$SPX)	13.60%	5.77%						
Barclay US TR¹⁴	3.43%	-2.15%						
			AUM	Beta	R²	SD	Sharpe	Ratio
Moderate	14.87%	1.22%	20%	1.10	93	21.12	1.19	
Assertive 1	17.07%	2.01%	37%	1.26	85	23.82	1.12	
Assertive 2	22.81%	7.33%	18%	1.55	98	28.71	.90	
Aggressive	27.06%	-5.26%	25%	1.76	88	34.74	1.25	



¹² **Cautious:** Investors seeking better than nominal returns, but with low risk and emphasis on wealth preservation. **Moderate:** Prudent investors desiring portfolios designed to accomplish medium long-term return. Calculated risk is acceptable to achieve good returns. **Assertive 1 & 2:** Investors with sufficient income to invest mostly in capital growth. Higher volatility and more aggressive investments are acceptable to accumulate wealth in the long run. **Aggressive:** Investors intending to compromise portfolio balance in pursuit of higher long-term returns. Security of capital is secondary to potential wealth accumulation.

¹³ Net Average Return, Portfolio Center, Schwab Portfolio Technologies. Fees are negotiable and range between .5% to 1.0% per year for assets under management. Risk Statistics, Morningstar Advisor Workstation; most recent 3 years, computed quarterly.

Beta Expected change in portfolio return per 1% change in market index return.

R² Percent of variation in regression equation explained by the independent variable (S&P500).

SD Standard deviation of the dependent variable (Net Return).

Sharpe Reward-to-Variability Ratio, i.e., portfolio return above risk free rate of return divided by standard deviation (RVAR).

¹⁴ XIUSA000MC.