



6/15/2021

As a part of our decision-making processes, we are constantly reading and reviewing what experts in our field are saying and thinking. Below is a brief article that you might find interesting:

There's Nothing Normal About This Recovery

Brian S. Wesbury, Chief Economist with First Trust

We keep hearing people make comparisons between this recovery and those of the past as if it's apples-to-apples. For example, comparing job growth today to job growth after the 2008-2009 Panic. All in an effort to make the case that government spending creates economic growth.

But there is nothing normal about the current economy. The things our government leaders have done in the past year are unprecedented. As a result, using normal economic words and phrases to explain things makes no sense – these things have never happened before. Normal economic downturns are called "recessions." Growth phases are called "recoveries." And the combination of these ups and downs a "business cycle."

This has not been a normal business cycle. The contraction in the economy last year was not a normal recession, and the return of growth in the past year has not been a normal recovery. Comparing to the economic recoveries after the Panic of 2008, or Volcker's tight money of the early 1980s, makes little sense. In fact, trying to compare the current rebound to historical events minimizes the pain that COVID-related and government-mandated economic shutdowns have caused.

At the same time, giving credit to government spending for creating the current "recovery" is simply not true. Yes, when government borrows money from the Fed (which the Fed creates out of thin air) – or borrows money from future taxpayers – and gives that money directly to people, spending goes up. But that is not a real (or sustainable) recovery. To use the Fed's favorite term, it's transitory.

Countries across the globe shut down major parts of their economies and kept people from working. This caused major economic disruptions with supply chains, and put businesses and services that weren't labeled "essential" under undue stress. Not to mention the displacement of tens of millions of workers.

Governments tried to cover up the (often self-inflicted) pain with money printing and borrowing. It's like giving morphine to someone injured in a car accident. It masks the pain but doesn't mend the injuries.

The divergence of economic data shows this clearly. The US is still 7.6 million jobs short of where it was in February 2020. Yet, retail sales, which fell 20% during the year-ended April 2020, rose 51.2% since then, more than fully recovering! In the past 24 months, total retail sales are up 10% per year, on average, versus a 3.6% growth rate from 2014-2019. The only way this is possible is having the government borrow, print, and distribute money for people to spend today.

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It's true that reopening the economy from COVID shutdowns is providing a boost to economic activity. But this is just part of the story. We can't start up the economy like a car engine. Supply chains are damaged. Many small businesses have been crushed.

As a result, trying to compare today's economy to history is futile. Never before in history has the US government been so profligate in spending money it doesn't have. And any growth in spending this has caused is certainly not "proof" that government stimulus creates wealth. It creates spending, yes, but it does not heal.

In 1914, Henry Ford decided to pay his workers \$5 a day to prevent turnover, but also so his employees could afford to buy the cars they were making. Here we are in 2021, and the government is paying people not to work, so they can buy things they didn't produce. No wonder there are shortages. But, more importantly, it's the difference between supply-side and demand-side economics. Supply-side economics says that supply (Ford's production plus all the other production in the economy) creates its own demand (the wages and incomes to buy that production).

All of this brings us back to where we are today. It's true that spending is up. It's true that the economy is expanding. Part of this is because the economy is opening up, and part of it is because the government is borrowing money from future production to spend today.

Without fully opening up, there can be no comparisons to previous recoveries. And using the past year to argue that government spending works misunderstands where real wealth comes from.

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