

# Regans' Notes

## Government Spending

To paraphrase Milton Friedman: There are four ways in which you can spend money.

1. You can spend your own money on yourself.
2. You can spend your own money on someone else.
3. You can spend someone else's money on yourself.
4. Finally, you can spend someone else's money on somebody else.

Spending your own money (whether on yourself or on someone else) means you will care about it.

But, when you spend someone else's money, especially on somebody else, you don't care as much about the amount you spend or what you get for it.

**This explains the recent US deficits that are unprecedented in peacetime and the resulting federal debt.**

Let's use these axioms in solving the need for the significant increased demand for energy from electric vehicles and new data centers for artificial intelligence computing

### Spending their own money on themselves:

1. Google and Amazon inked what are likely multiple-billion-dollar deals with power companies to build small scale, modular nuclear reactors.
2. Microsoft has agreed to pay for the revival of the shuttered Three Mile Island nuclear power plant in Pennsylvania. *Source: First Trust Advisors LP*



### Spending someone else's money on somebody else:

In the past 20 years, governments around the world have spent or have incentivized companies to spend \$18.8 trillion dollars on green energy and just 1.4% of that was on nuclear. *Source: First Trust Advisors LP*

Last year alone, the world total was \$3.5 trillion, with less than 1% going toward nuclear with over 40% of this spending based on what the movement calls "sustainable debt issuance," which includes government subsidized loans. *Source: First Trust Advisors LP*

What's so amazing about this is that the Green New Deal Movement shunned nuclear power. Also, California, Michigan, and Germany have all closed nuclear plants in a single-minded mission to only use solar and wind. We assume they believe using natural things, like sunlight and wind is better than using man-made things, like nuclear energy. Otherwise, these decisions make no sense.

For billions of years, fusion has powered our sun and the stars. Harnessing fusion here on Earth could provide limitless, clean, on-demand power to drive prosperity around the world. This might be the future, but in the meantime, power from nuclear fission appears a strong possibility.

## Post-Pandemic Boom Rolls On

There are plenty of imperfect things about the U.S. economy, but they should not obscure a central fact about 2024. The economy has barreled forward with robust expansion, despite it all.

GDP rose at a 2.8% annualized rate in the July-September quarter

*Source: Bureau of Economic Analysis.*

Consumer spending explains much of the most recent quarter's robust activity. Personal consumption expenditures increased at a 3.7% annualized rate, up from 2.8% in the second quarter.

*Source: Axios Macro*

Payroll processor ADP reported that employers added 233,000 jobs in October, up from a revised 159,000 in September. That was the strongest job creation reported in 15 months.

*Source: Axios Macro*

GDP also got a boost from exports and federal defense spending. Business spending on equipment rose 11%.

*Source: Axios Macro*

We think better-than-expected earnings growth, on the back of an economy that is continuing to expand, is likely to drive earnings higher over the next year.

David Kostin, Goldman Sachs Research's chief U.S. equity strategist, recently said "The idea that the economy is growing suggests that if fair value is around the current level, then the forward trajectory of the index is going to be driven by earnings as opposed to a valuation expansion."

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## Why Are Some Countries Rich and Others Poor?

That question is one of the most important in economics. A person's living standards are mostly determined not by talent or hard work, but by when and where they were born.

Historically, models of a country's economic growth focused on the accumulation of factors of production, labor, capital and, more recently, technology or ideas. The greater the capital stock per worker and the more productive its use, then the richer a country would be.

Yet that still left a gap. Why did some countries manage to accumulate more of these factors than others? This year's winners of the Nobel Prize in economics argue that the answer depends on the quality of government.

In 2001, three men—Daron Acemoglu and Simon Johnson, both of the Massachusetts Institute of Technology, and James Robinson of the University of Chicago—published a paper that developed their explanation for differences between governments.

- “Inclusive” (those which shared prosperity) and
- “Extractive” (those where a small group took from the rest).

Inclusive governments encourage investment in human and physical capital. Extractive ones discourage it.

What ultimately makes a nation rich is not what can be dug up from the ground or grown in its fields, but from the ties that bind its citizens. What really matters is the ability of its population to innovate, exchange goods and services, and live peacefully with other.

The key to the success of richer countries depends on the rule of law -- courts deciding cases fairly, police enforcing the laws and civil servants acting in the public interest rather than for the purpose of funneling resources to themselves or the elites. A sound economic policy backdrop created by competent finance ministries and central banks is also essential.

## It's Not Just About the Election

It would not be an election season without the usual debate over whether the U.S. stock market has done better under Democratic or Republican leadership. Since 1990, there hasn't been a statistically significant difference in stock returns between Democratic and Republican administration. *Source: Pro Shares 10/30/24 Market Commentary*  
If you're eager to hit the trade button the moment elections results are known, you may want to reconsider. The U. S. economy is strong and the outlook is positive, in our opinion.

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