

John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday February 19, 2020

It is disturbing that a Socialist, namely Bernie Sanders, can be so popular among voters. He is part of a lurch to the left by some Democrats. One of the false claims by Sanders and his followers is that Cuba has become a worker's paradise under Socialism. Michigan Professor Mark Perry, writing for Carpe Diem, has this to say on that claim: "Some millennials from Turning Point USA traveled to Cuba to investigate the true realities of what a generation of full socialism has done to the once-thriving Cuban population. Sixty years ago, communists seized power in Cuba and all private businesses and industries were nationalized and the Cuban people have lived under socialism ever since. Did the theft and redistribution of all wealth and property lead to prosperity and justice for the Cuban people? Many American leftists and Democratic politicians would have you believe just that. But the reality is much darker, depressing and horrifying and is a reality of poverty, misery, oppression, authoritarianism, shortages, and the heart-breaking suppression of the human spirit. Watch the video below to see what happened when four millennials traveled to Cuba recently to investigate socialism, and came away horrified that Sen. Sanders and Rep. Ocasio-Cortez are promoting such a horrific dumpster fire of economic failure in the US, and thankful for America's capitalism, free markets, and free enterprise system."

Here is a link to watch the video. If it doesn't work then go to Mark Perry's Carpe Diem site and scroll down to the Cuba section.

<https://www.youtube.com/watch?v=YQD3HtaeKh8>

Here is a link to Mark Perry's Carpe Diem site: <https://www.aei.org/blog/carpe-diem/>:

By way of follow up, Mark Perry compared U.S. states to whole foreign country economies. Here is his conclusion: "Adjusted for the size of the workforce, there might not be any country in the world that produces as much output per worker as the US, thanks to the world-class productivity of the American workforce. The map above and the statistics summarized here help remind us of the enormity of the economic powerhouse we live and work in. So, let's not lose sight of how ridiculously large and powerful the US economy is, and how much wealth, output and prosperity is being created every day in the largest economic engine there has ever been in human history. This comparison is also a reminder that it was largely free markets, free trade, and capitalism that propelled the US from a minor British colony in the 1700s into a global economic superpower and the world's largest economy, with individual US states producing the equivalent economic output of entire countries."

There is another dismal aspect to the Socialist proposals, namely the cost. The media have largely ignored the tax hikes that are being offered to raise more federal government revenue. The following is an editorial from the January 27 issue of *The Wall Street Journal*: "The brawl in President Obama's second term over raising the top income-tax rate to 39.6% from 35% was centuries ago in political time. One way to tell is that even moderate Democratic 2020 presidential candidates have quietly proposed to raise the tax rate on labor by double digits and it's received almost no attention. Unlike single-payer health care and wealth taxes, this tax increase could command majority support in a Democratic Congress on day one."

The idea is to increase the Social Security payroll tax, the 12.4% levy that falls directly on labor and is not eligible for deductions. Currently the tax applies to income up to \$137,700, split between employer and employee. Bernie Sanders, Elizabeth Warren and Amy Klobuchar want to impose it on all income above \$250,000. Joe Biden wants it to fall on income above \$400,000. Pete Buttigieg says he wants “additional Social Security taxes” on income above \$250,000.

Meanwhile, Representative John Larson’s Social Security 2100 Act, cosponsored by 208 House Democrats, would apply the tax to income above \$400,000 to finance an expansion of the entitlement. The bill would also gradually raise the payroll tax rate on all workers to 14.8% from 12.4%. As entitlement watcher Charles Blahous notes, that’s a 19% increase in the payroll tax burden. That’s significant for less-skilled workers who don’t earn enough or have too many dependents to pay income tax.

Raising rates on high earners may be less politically toxic but it’s terrible economics. Experts can debate how much the top rate affects the incentive to work for, say, a dentist or an engineer, and whether a two, three or five percentage-point tax-rate increase has an effect on the wider economy. But there’s little doubt a new 12.4% tax would depress incentive and reduce America’s competitive advantage for high-skilled workers and make the tax structure more typical of European countries.

Ms. Warren and Mr. Sanders want to raise taxes the most, but more striking is how much more even the supposedly moderate Democrats want to take from the private economy. They mask this revenue grab behind rhetoric about the wealthy. But now and again the mask slips, as with the proposals to raise the payroll tax on all workers.

The campaign tax debate has so far been muted amid the Democratic and media focus on health care and Donald Trump's character. But as a Democratic nominee emerges, the party's lunge to the left on taxes will receive more attention—or at least from us.

Republicans will say that incomes are finally growing faster for low-skilled and younger workers than for their bosses, and that Democratic tax increases would put that economic and social progress at risk. Democrats are handing Mr. Trump a powerful line of political attack that may resonate with voters who are otherwise looking for an alternative.”

Payroll taxes are a major source of income for the federal government. The huge number of new jobs created in the last three years and the very low unemployment rate are one of if not the only reason federal tax collections have been rising, up 6% in the first three months of this fiscal year. The issue, when it comes to the federal government's fiscal challenge, is that spending is rising faster than tax receipts. Raising taxes on workers to finance even more spending may offend many voters.

The bottom line is that there is a lot at stake in the coming general election. You may not like Donald Trump, you may wish he would tone down or stop the nasty Tweets and you may blame him for the tariffs that slowed the rate of U.S. economic growth, but we don't get to choose who runs for election in November. We can only vote based on the alternatives offered by the political process. Raising payroll taxes and moving the U.S. towards Socialism are undesirable and extremely risky proposals. The Democrats may well lose the coming election, leaving Donald Trump in the White House for a second term.

The stock market has lately been more focused on the Corona Virus than the election. The virus has clearly slowed the Chinese economy and will likely trim the global economy. The hit to the U.S. economy is likely to be quite small. Stocks have weathered the corona virus thanks to strong quarterly earnings. Earnings were expected to decline, but instead they are up versus a year ago. Stocks remain our best investment choice.

I will have the next market review and update one week from today on Wednesday February 26, 2020.

All the best,

John Dessauer

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