John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday April 1, 2020

The covid-19 crisis is exposing the medical fantasies of the left and the terrible results from Washington's long-standing anti-business policies. Wonder why the United States is so dependent on China for so many needed medicines? It wasn't always that way. There was a time when Puerto Rico was regarded as the pharmaceutical capital of the world. In 1976 a U.S. Federal Tax Reform act made an already lenient tax policy in Puerto Rico virtually non-existent. As a result of the 1976 tax reform, U.S. pharmaceutical companies also enjoyed a tax holiday on Puerto Rican corporate income and property taxes. In addition, an aquifer on Puerto Rico's north shore provides a clean, efficient source of water, a necessity for producing pharmaceutical products. Over the following years the Puerto Rican pharmaceutical industry grew and prospered, eventually accounting for 32% of the island's GDP. Bert Finn, an economic advisor to then Governor Romero, said that the pharmaceutical companies are "a positive force." He later added, "Workers in these firms are a few notches above the others. They are paid better wages, have better conditions." Finn favored even greater tax incentives for U.S. based multinationals.

The IRS did not agree with Finn and began looking at the tax filings from the Puerto Rican pharmaceutical companies with a jaundiced eye, claiming they were abusing the system by inflating profits from Puerto Rican operations at the expense of other taxable operations. Fortunately, the Reagan Administration reined in the IRS, and Puerto Rico continued to prosper.

By the 1990s the Puerto Rican tax break faced growing opposition from anti-business politicians in Washington. They argued that the tax break was a form of corporate welfare. In 1996 President Bill Clinton signed a law that would phase out the tax break over ten years. By 2006 the pharmaceutical companies left Puerto Rico and went you know where: China. That is why we now find ourselves in a very unpleasant position while covid-19 ravages our economy. The tax change also ravaged the Puerto Rican economy. By 2017 the territory was $70 billion in debt, had high and rising unemployment and a 45% poverty rate. What a terrible price has been paid by so many for a political attack against corporate welfare.

Worse, we have seen the political left's anti-business attitude in the covid-19 stimulus legislation. Will they never learn that good, profitable businesses are the source of employment? After all, the number one source of federal government tax revenue is the payroll tax.

Today, I am sure everyone, left and right, wishes our needed medicines were still coming from Puerto Rico.

When it comes to the preposterous ideas such as Medicare for all, covid-19 and the current desperate situation in New York puts to rest the idea that government can do better than private enterprise when it comes to health insurance.

New York's Governor Andrew Cuomo is desperate for more hospital beds to treat a surge of coronavirus patients. The shortage of hospital beds is due to years of Medicaid mismanagement by New York's Governor and his administration.

Over the last two decades twenty hospitals have closed in New York City alone, most located in low-income communities. Statewide, the number of hospital beds per-capita has fallen by 13% since 2010. New York hospitals have been closing due to financial duress amid increasing demand by low-income patients.

"Blame New York's miserly Medicaid program, which reimburses providers far below the cost of care. Physicians are on average compensated at 56% of what Medicare pays—the fourth lowest in the country, after Rhode Island, New Jersey and California—and Medicare also pays below cost. Hospitals typically make up for paltry government payments by charging privately insured patients more, but hospitals that treat mostly Medicaid and Medicare patients don't have that option." (The editorial Board of *The Wall Street Journal*, 3/26/2020)

Many doctors in New York can't afford to accept Medicaid patients. Here in Florida that applies to Medicare patients as well. Doctors say Medicare doesn't even pay the rent, never mind malpractice insurance and staff. The result is that low income patients flood hospital emergency rooms adding to the financial stress.

"Recall how Democrats claimed that expanding Medicaid under the Affordable Care Act to individuals up to 133% of the poverty line would reduce emergency-room visits. This hasn't happened. Emergency room visits per-capita in New York have ticked up 3% since the ACA expansion took effect in 2014 and 7% since 2010.

This (the coronavirus relief bill) will help for now, but it won't relieve the long-term strain in hospitals that have been chronically underfunded by New York and amid the coronavirus are now gasping for air." (Editorial Board of *The Wall Street Journal* 3/26/2020)

There are at least two lessons from New York's failures. One is that quality health care is expensive. Underfunding Medicaid and Medicare makes the situation worse, especially for low-income patients. Second is that when the demand side is mismanaged the supply side suffers. New York also has a shortage of health care workers. Why go the expense and endurance required to become a doctor, nurse or health care worker if you can't make a living afterward? An underfunded Medicare for all would be a catastrophe for the U.S. health care system.

Bank of America keeps track of money flows in and out of mutual funds on a weekly basis. For the week ended 3/27 the B-of-A data show that investors rushed out of bonds at a record pace. A record of $234.6 billion went out of bonds and into cash. B-of-A also reported that its Bull & Bear Indicator reached 0, a level it described as "maximum bearish" and potentially implying a substantial rebound in credit and stock markets if the stimulus plans of the Federal Reserve and U.S. government succeed.

James Bullard, President of the St. Louis Federal Reserve Bank, thinks the stimulus will work. He said the roughly $2 trillion emergency aid package is "scaled about right" to match the economic hit that could throw as many as 46 million people out of work.

He added that the timing "depends on the virus" with the late summer and fall possibly allowing a transition back to a full U.S. economic reopening, and the end of the year and early 2021 offering the chance of a "boom" as people and companies make up for delayed spending. Let's hope the virus behaves and Bullard's hopes are fulfilled.

I will have the next market review and update one week from today on Wednesday April 8, 2020.

All the best,

John Dessauer