John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday April 14, 2021

The U.S. economy is booming. That is thanks to vaccines and the consequent easing of pandemic conditions. The Biden administration wants to take credit for the strong recovery and also wants to keep spending trillions of borrowed dollars. With regard to President Biden's plans, the editors of *The Wall Street Journal* had this to say, "The longer he can pretend we're still in crisis, the less chance voters will catch on that this recovery has nothing to do with Bidenomics and was inevitable once the pandemic eased."

The data keep confirming the strong recovery. For example, the unemployment rate has ticked down to 6%. And the Institute for Supply Management or ISM index hit 63.7 in March and that is an all time high and points to continuing rapid growth. The developing problem is that many businesses say they can't find enough workers or supplies to meet their order books.

Where we go from here is the obvious next question. And there is a sharp divide about what comes next. Jamie Dimon, CEO of JPMorgan, America's biggest bank, is an optimist. In his annual letter to shareholders, he said the economy is headed for a "Goldilocks Moment."

The Tax Foundation has a different view. In a recently published analysis of the Congressional Budget Office data they concluded, "Economic damage from Biden tax hikes to outweigh benefits from $2.2 trillion in new spending."

In his letter to shareholders last year Jamie Dimon was definitely not optimistic. Back then he warned of a coming deep recession. And he was right - we had a sudden and severe economic contraction as the Covid virus shut down much of the U.S. economy. With the economy now firing on all cylinders he may be right again.

“Strong consumer savings, expanded vaccine distribution and the Biden administration’s $2.3 trillion infrastructure plan could lead to an economic Goldilocks Moment---fast, sustained growth alongside inflation and interest rates that drift slowly upward.”

The most significant word in his letter is “Moment.” He did not say we are headed for a long period of strong growth with low inflation and interest rates. His definition of a moment is from now into 2023.

The Biden spending plan is an eight-year long plan to make massive investments in the nation’s roads and bridges, as well as transit systems, schools, and hospitals. It would be funded by raising the corporate tax rate to 28% from 21%----rolling back part of former President Trump’s 2017 tax cuts—and by increasing the global minimum tax on U.S. corporations to 21% from 13%.

In remarks during the White House jobs report Biden said, “Raising taxes will not slow the economy at all.”

The Tax Foundation respectfully disagrees and points to real experience with past tax and spending plans. “Since $1 in government investment delivers only half of the returns of $1 in private investment, the economy would be better off if the $2 trillion in taxes that President Biden wants to finance his package were left in the hands of the private sector.

There are three ways of offsetting the cost of federal spending: increased borrowing, raising taxes, or reducing other spending in the budget. The only option that does not lead to negative economic consequences is reducing spending in other areas. The Biden administration has chosen the most economically harmful method of financing infrastructure spending.

Federal investment financed by debt or taxes could do more harm than good because federal borrowing and taxes crowd out private investment."

The Tax Foundation study does not say how long it might take for the negative economic consequences to develop. It is possible, even likely, that the current economic boom will eventually be exhausted and that later in 2023 the economy will slow under the heavy new tax and debt burden.

Kevin Matras, executive vice president at Zack's Investment Management says he expects the corporate tax hike plan to soon be followed by another tax hike plan, this time on individuals.

He concludes, "For now, however, the market is focused on the robust economic rebound. And as more of the country and economy opens up, the better."

Time has a way of flying by. Before you know it, we will be flooded with political news as we approach the midterm elections. The Biden administration is seeing its approval ratings in handling the southern border fall sharply. Ratings on the economy are basically neutral - after all Biden won by a very slim margin. And Democrats' majority in the House of Representatives is the slimmest in a long time. The Senate is 50-50. Raising taxes is never popular. Raising corporate taxes sounds better to the average worker. But when the fallout happens attitudes change. Corporations, after all, are financial vehicles. Those taxes are paid by customers and workers. They can result in higher prices, fewer jobs, and lower wages.

As the editors of *The Wall Street Journal* say, "Ample global and historical evidence suggests progressive tax policies are economic losers, which makes them electoral losers too."

One political observer said, "Biden's planned tax hikes could be devastating for Democrats in 2022."

They could shift the balance of power in Washington without having to be "devastating."

There is another reason why raising U.S. corporate taxes is a bad idea. The U.S. economy is not an economic island. Our businesses compete with businesses in countries around the world. There is a long-term global trend to reduce headline corporate tax rates. The Tax Foundation says that the average statutory corporate tax rate among 177 countries has fallen from 46.5% in 1980 to 26% in 2020. Some jurisdictions have even lower corporate tax rates. Ireland's is 12.5% and Hong Kong's is 16.5%.

The 2017 Trump tax reform did more than cut the headline rate. It also reformed our tax code to broaden the base and make U.S. corporate taxes more in line with global standards. President Biden has been quick to undo "Trump policies." It is time he started paying closer attention to the consequences of what he is doing.

For now, the economy is booming and that will continue as vaccines roll out and lockdowns disappear. Our best investment strategy continues to be holding our stock positions.

I will have the next market review and update one week from today on Wednesday April 21, 2021.

All the best,