John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday June 9, 2021

Rich nations with high corporate tax rates like Biden's idea of a global minimum corporate tax rate. However, the G7 are like a club within the 139 member OECD. The G7 can try to influence an outcome but cannot dictate policy to the OECD members. The bad news for the Biden plan is that the G7 are talking about a tax rate of 15%, far below Biden's 21% proposal. And even a 15% rate may not make it because smaller countries including Ireland say they will not vote for anything more than 12.5%.

The discussion proves that low corporate tax rates benefit an economy while high corporate tax rates do not. Rich nations such as the G7 and the United States don't like the competition from low tax rate countries such as Ireland. I think getting even a 12.5% minimum corporate tax rate will be difficult because of the differences in accounting, tax deductions and business practices from one OECD member to another. A corporate deduction in France may or may not be a deduction in Germany. So when it comes to the Biden competition-crushing idea, the devil is in the details.

Speaking of details, the Biden $6 trillion budget is a shocker. It's not the amount of money being proposed - that was expected. The shocker is the long-term economic outlook that is provided in the budget. The White House predicts economic growth of 5.2% this year, falling to 4.3% in 2022 and then collapsing to 2.2% in 2023 and then an average of 1.9% for the following eight years. This outlook is shocking for a couple of reasons.

"One is that the White House is essentially conceding that all of its unprecedented monetary and fiscal stimulus is really living for today with little regard for the future. It implicitly concedes that the growth it spurs now will have to be paid back later in the form of higher taxes or tighter monetary policy, which might reduce growth.

The White House economic analysis boils down to an assertion that slow growth is inevitable. The belief is that the U.S. economy can't grow faster than 1.9% over the long term because the U.S. population is aging, and demographics is destiny. Productivity growth is fated to slow down, and tax and regulatory policy don't matter.

For the government, a 1.9% economy means a growing disconnect between the rising costs of the Biden entitlement state and a reduced ability to finance it. There's no way an economy growing that slowly can afford both a robust defense budget and the Biden social welfare policies.

To put it bluntly, this is a budget that is anticipating America's economic and political decline. The question is whether the American people will settle for it." (*The Wall Street Journal*, June 2, 2021)

The country is sharply divided. This budget and its dismal outlook are fuel for the Biden critics. It is a mystery to me why politicians settle on policies that suppress growth. Politicians in Japan did just that and the economy suffered decades of anemic growth. Some European politicians likewise adopted growth-crushing policies and their economies suffered. We know the U.S. economy can do much better than 1.9% growth. The Trump 2017 tax reform was followed by a surge in growth. Unfortunately, that was crushed by the COVID-19 virus and the pandemic that followed.

There is hope that there will be a change in Washington. Joe Biden may be satisfied to be a one-term President, but Kamala Harris is ambitious, and you can be sure she is looking forward to running in 2024. If, as the budget predicts, growth collapses in 2023 that would be a serious issue for Kamala Harris leading up to elections in 2024.

For now, the economy is behaving as predicted in the budget. Growth this year could exceed the 5.2% forecast. Private-sector payrolls surged last month. The economy added 978,000 new private sector jobs in May. Economists expected 650,000 new jobs.

Businesses of all sizes reported strong job growth. The biggest gain came in services where 850,00 new jobs were added. The balance of 128,000 jobs came in the goods producing sector of the economy.

On the flip side, as you would expect, first time claims for unemployment fell to a pandemic low of 385,000.

The boom in the services sector is looking very strong. Last Thursday the Institute for Supply Management (ISM) reported that the index of services activity rose to 64 in May from 62.7 in April, registering the highest level in its 24-year history. Anything over 50 indicates expansion. By the end of May, the share of U.S. adults who have been fully vaccinated rose to 51%, from 39% in April.

This month more adults will get vaccinated, including children between the ages of 12 and 15.

A record high boom in services at 51% fully vaccinated, indicates that the services boom is going to gather momentum as millions more are vaccinated.

As Justin Lahart, writing for *The Wall Street Journal* recently wrote: “All parties end, but this one is just getting started.”

For this year and next the fundamentals look solid. Stocks will continue to benefit from strong growth and low interest rates. After that? American voters will make their choices and we will look closely at the results.

I enjoy reading professor Mark Perry's blog on Carpe Diem. He recently took a look at the dollar's performance from 1913 to 2021. He chose 1913 as the starting point because that was the year our Federal Reserve was created and given control over the nation's money supply. The result is shocking. The U.S. Consumer Price Index has increased by a factor of 27.25 times, which has caused the dollar to lose 96.3% of its value/purchasing power. One dollar in 1913 is now worth 3.67 cents. If nothing else this shows clearly that capital gains should be adjusted for inflation. Ignoring long-term inflation when collecting capital gains taxes is a form of confiscation.

I will have the next market review and update one week from today on June 16, 2021.

All the best,

John Dessauer