John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday July 21, 2021

Former Federal Reserve chair, now Secretary of the Treasury, Janet Yellen is a big disappointment. She is supporting OECD's global corporate-tax reform. Editors of the *Wall Street Journal* say this global tax deal is bad for the U.S. and Congress should look at the anti-competitive details before signing on. There are two main features of the tax: one is a new tax targeting American Tech companies; the second is a minimum global corporate-tax rate of 15%.

European countries, especially France and Germany, have long dreamed of being able to tax the big, successful American companies because European economic policies have discouraged the risk taking and investment that is key to developing big, successful technology-based businesses.

"The Yellen ploy at the OECD threatens a core constitutional power. The Biden Administration is planning the biggest overhaul to American taxation in decades, and you'd think members of Congress might have something to say about it. But no, for the most part a strange silence has greeted Treasury Secretary Janet Yellen's bid to rope the United States into a revamp of global tax rules that by design robs Congress of its sovereignty over tax matters.

A bedrock principle since the country's beginning has been that the power to tax must rest with the representatives elected by the people who pay the tax. As the New York Sun reminds us, this is a fundamental affront to American constitutional governance." (The *Wall Street Journal,* 7/16)

China gets that message. Beijing says China will sign on to the global tax deal, but also has resisted any language in the deal that would limit its scope to set tax policy as it sees fit. And the deal leaves wide open the possibility that China could sign on to a deal that wouldn't require Beijing to follow any of its terms.

You would think Janet Yellen would also be taking that path to make sure our Congress can set tax policy for American companies. I say she is a big disappointment for that reason, and because she is ignoring provisions that would hurt American companies' ability to be competitive on global markets.

The OECD has set 2023 as the date to finalize the agreement and have it take effect. But implementing this once-in-a-century overhaul of global taxation requires renegotiating scores of existing tax treaties and enacting enabling legislation in all 139 countries, a daunting task that could take a decade. And nine of the OECD members, including Ireland and Hungary, have not signed the initial agreement and openly resist the tax rates and anti-competitive provisions.

Hopefully, the global tax reform will meet stiff resistance and ultimately fail because it is too complicated and too difficult to implement.

The global tax reform is not the only Biden Administration plan under severe criticism. Former Reagan economist Art Laffer says the Biden policies are preventing the economy from hitting post-pandemic comeback trail.

Laffer points to Biden's cancelling the Keystone XL pipeline which was expected to employ 11,000 Americans this year. He adds that being energy independent is the right policy. "We are waging a war against hydrocarbons here in the U.S., which is going to hurt the economy."

Biden wants the U.S. to cut oil production, but he worries about the political implications of rising gas prices. His answer…..beg OPEC to pump more. How does he get away with such foolish policies?

On the dollars spent to extend special unemployment benefits Laffer says that wasn't needed.

He calls the Biden tax proposals "anti-production, against the ability of the U.S. to come back to where we were." He concludes: "It's a very frightening situation."

Senate Minority Leader Mitch McConnell also finds the Biden proposals frightening. He says: "Today's inflation will look like 'small potatoes' if Democrats jam through more massive spending."

McConnell is talking about the Budget reconciliation bill, which requires a simple majority and cannot be filibustered. Democrats are working to add massive spending provisions to the budget reconciliation bill.

Inflation did spike in June - the CPI (Consumer Price Index) was up 5.4% from a year ago. That is the highest 12-month inflation rate since August 2008. However, compared with 2 years ago the CPI was up a more modest 3% in June. But the economy is booming. The first quarter's annual growth rate was 6.4%. Economists surveyed by the *Wall Street Journal* in July expect the Commerce Department to report second quarter growth at a 9.1% annual rate. Senator McConnell has a good point: with growth currently so strong the last thing the economy needs is more federal government spending. It would be far better to let the recovery continue.

In a report released ten days ago the Federal Reserve reiterated its view that inflation has risen because of bottlenecks, hiring difficulties and other "largely transitory factors" related to the economy's rebound from the pandemic. Over the next two years most Fed officials believe inflation will decline to around 2%. If there is a burst of inflation, that would force the Fed to change policies and tighten monetary policy. A surge in federal government spending followed by high inflation would likely lead to another recession. Senator McConnell may be expressing a partisan political view, but his warning, never-the-less, has merit.

Investors remain focused on current events such as the booming economy. Talk of possible future inflation has largely been ignored. We are well into second quarter earnings season and results so far have been excellent. Strong earnings growth supports stocks. It is said that stocks like to climb a wall of worry. As Laffer and McConnell point out, there is plenty to worry about. Stocks remain our best choice.

I will have the next market review and update one week from today on July 28, 2021.

All the best,

John Dessauer