John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday October 13, 2021

Investors were initially shocked at the disappointing number of new jobs created in September. Economists expected 500,000 new jobs. The Labor Department's report said that there were only 194,000 new jobs created last month. While the report really is disappointing the details suggest that better times are on the way.

First, the report included upward revisions to previous months. There were 169,000 more new jobs created in July and August that previously reported. Second, state and local government education jobs went down by 166,000. That should not be a surprise because so many schools are still closed because of the pandemic. Third, the stay at home $300 monthly unemployment bonus did not expire until September 6. It takes time to get off the couch and get back to work.

Employers are crying for workers, but they can't find them even when they pay more. That is an indicator that inflation may be discouraging some from returning to work. Yes, wages are rising nicely. Average hourly earnings are up 4.6% from a year ago. But wage growth after inflation has been declining for many lower-income workers who spend more of their incomes on food and energy. The Fed's popular inflation measure excludes food and energy. So, looking at worker income through that lens can be misleading.

Overall, it is beginning to look as if the economy is slowing down. The Atlanta Federal Reserve just downgraded its GDP estimate for the third quarter to 1.3% from 6.1% in late July.

"The White House and Fed have deployed the Keynesian policy mix of government spending and easy monetary policy to boost demand. Meanwhile, they've squeezed the supply side with incentives not to work, restrictive mandates, and the promise of more regulation and higher taxes. The result is 5% inflation and supply-chain disruptions that CEOs say will stretch well into 2022 and maybe beyond. Now Democrats want to add another $5 trillion in spending and taxes that will do more of the same. Workers and the economy will be far better off if this legislation dies." (*The Wall Street Journal*, October 9)

Recently I visited our local Audi dealer for some routine maintenance on my car. While there I talked with the sales manager. He said they had only 5 cars for sale. A year ago, at this time they had 200 cars for sale. And he added that senior management thinks the supply-side issues will not be resolved until the third quarter of next year.

Clearly the pandemic has not completely let go yet.

The Biden Administration wants to raise taxes on American companies. But with total taxes - federal, state and local - among the highest in the world, they are worried that American companies will move operations to lower tax countries like Ireland. In 2003 Ireland cut corporate taxes to 12.5%. The result has been an inflow of businesses and investment that created better paying jobs and boosted Irish GDP growth. Of course, countries that lost businesses and jobs didn't like the tax competition. Led by the Biden Administration, there has been an effort to stop the competition by forcing countries like Ireland to raise taxes. Two weeks ago, the high-tax lobby declared victory when officials from 136 countries settled on new rules for taxing global corporations. The agreement includes a minimum 15% corporate tax, which is supposed to limit tax-policy competition among governments. But Ireland agreed only after that was amended so Ireland could keep its 12.5% tax on companies with revenue less than the OECD threshold of 750 million euros a year. Of course, that applies to all 136 countries. The bottom line is that the drive to establish a global minimum corporate tax has failed. In addition, the low tax countries worked hard so that the new agreement would not take effect for years. Experts say they succeeded and that it could be ten years or more before the agreement takes full effect.

"Ms. Yellen and progressives hope the OECD global-tax gambit will provide political cover to impose much steeper taxes in the U.S. Now Capital Hill is on notice: There is a limit to how much other governments will hobble their companies with higher taxes. Democrats want to raise taxes in the U.S. now, while foreign tax increases are years away.

The global tax project is bad policy that will reduce tax competition that has helped countries like Ireland attract more investment and grow faster. It serves the interests of the political class, not working people. But Congress shouldn't compound the damage by making U.S. taxes even more burdensome than Ms. Yellen's misguided global tax does." (*The Wall Street Journal, Oct. 9)*

Speaking of taxes, the *Economist* (a British magazine) recently published an editorial about how the U.S. can pay for the Biden spending package.

“The federal government has some scope to raise more money from high earners. But the idea that the main problem with the existing system is that tax rates are too flat is wrong.

Inefficiency is a bigger problem in America than the failure of rates to be sufficiently progressive. Myriad deductions allow the very rich to disguise labor income as lightly taxed capital income. And unwillingness to levy a VAT, which is a tax on consumption, means America relies on taxes that deter work and investment. America is one of only three rich countries to collect more than 70% of its tax revenue from labour income and corporate profits.

America’s economy would survive these proposals. But its creaky and cumbersome tax code should not be asked to support the size of government that many Democrats want in the long term, which includes, say, government funded universal health care. Republicans know this is implausible. They typically oppose VAT because they see it as too convenient a source of funds. Democrats dislike the tax because it is mildly regressive. But there is a reason VATs underpin European-style welfare states; there is no desirable alternative.” (The *Economist*, Oct.2-8)

VAT stands for Value Added Tax, it is a national sales tax. In the case of the United States, it would be a federal sales tax in addition to the current state sales taxes. VAT taxes encourage politicians to adopt policies that support and favor economic growth. When incomes rise, so does spending. Revenue from a VAT will grow along with the economy. In my view the best outcome is for the massive expansion of our government to fail. If it passes, then a VAT would be the way to pay for it without seriously damaging the underlying economy.

I will have the next market review and update for you one week from today on Wednesday October 20, 2021

All the best,

John Dessauer