John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday November 24, 2021

Steven Rattner is the Chairman and Chief Executive Officer of Willett Advisors LLC, the investment arm for former New York Mayor Michael R. Bloomberg's personal and philanthropic assets. In addition, he serves as the Economic Analyst on MSNBC's Morning Joe and is a contributing writer to The New York Times Op Ed page. During the Obama years he served as the lead economic advisor to the President on the auto industry.

With inflation ramping up Rattner says: "I warned Democrats about inflation, I wonder how Biden got it so wrong."

The U.S. Consumer Price Index is the highest it's been in 30 years, with prices up 6.2% from a year ago. Rattner asks: "How could an administration loaded with savvy political and economic hands have gotten this critical issue so wrong?"

"The original sin was the $1.9 trillion American Rescue Plan, passed in March. The bill---almost completely unfunded---sought to counter the effects of the Covid pandemic by focusing on demand-side stimulus rather than on investment. That has contributed materially to today's inflation levels.

They can't say they weren't warned—notably by Larry Summers, a former Treasury secretary and my former boss in the Obama administration, and less notably by many others, including me. We worried that shoveling an unprecedented amount of spending into an economy already on the road to recovery would mean too much money chasing too few goods."

Biden's national economic director, Brian Deese, recently argued that the $1.75 trillion social spending and climate package would help get people back to work and in turn "reduce price pressures."

Rattner countered by referring to it as "a package that front-loads spending while tax revenues arrive only over a decade." He cited research from the Committee for a Responsible Federal Budget, estimating that the plan would likely add $800 billion or more to the deficit over the next five years, "exacerbating inflationary pressures."

Rattner told the White House to start adopting "fiscal discipline," and suggested the inflation rate will continue to harm Democrats at the polls in upcoming elections.

The United States is not alone. Inflation is rising in other countries as well. The cause is the same, overspending to stimulate demand. Among the 38 countries that are members of the OECD, a club of rich countries, inflation rose to an uncomfortable 4.6% year on year in September. Soaring energy and food prices are only part of the story: even if you strip those out, the figure was 3.2%, the highest in almost two decades.

For the last several months central banks, including our Federal Reserve, have said that the current rise in inflation is "transitory," caused by supply-side issues that will soon be resolved. But bond market investors are beginning to worry that central banks are too slow in reacting to inflation. Brazil has responded to those concerns by announcing a 1.5% hike in interest rates. Christine Lagarde, the boss of the European Central Bank has a different take on inflation. She recently said that it is “very unlikely” that Europe will raise interest rates next year.

The basic challenge for central bankers is that, while the economic data is currently strong, there remain serious issues on the supply-side. The currently strong economic environment could change. Should they keep the monetary stimulus going and risk high inflation, or get serious about fighting inflation with reduced stimulus and higher interest rates? For now, the U.S. Federal Reserve is slowing down their monthly bond buying, a move called tapering.

As for rising bond market yields, that is not a major issue because while yields on five-year bonds have inched up, yields on longer term bonds remain at record lows. And the velocity of money in the U.S. remains stuck at the bottom. In my view the Federal Reserve is right to keep focused on potential weakness in the economy and keep interest low while gradually winding down the quantitative easing. My concern lines up with Steven Rattner and the consequences of the Biden $1.75 trillion spending proposal. There is no doubt the Democrats, like most politicians, do their best to suppress the real costs of their spending plans. Independent score keepers say the real cost of the Biden plan will be at least $4.6 trillion.

The editors of *The Wall Street Journal* have this to say about Biden’s plan: “Keep in mind that the CBO this summer projected that the annual deficit will already exceed $1 trillion on average through 2030, causing U.S. debt to swell by $12.8 trillion--and that’s before the infrastructure bull or this house bill. When spending all kicks in, the rich are all taxed out, the middle class will be hit with a huge tax increase. This is the most dishonest spending bill in American history."

President Biden says he will increase the number of IRS auditors and collect billion of taxes from wealthy cheaters. Based on my decades of working with wealthy Americans, I find that to be ridiculous. The wealthy in Italy regularly cheat on their taxes. But cheating on taxes in Italy is a civil offense not a criminal one. The United States has the most onerous tax system among any of the rich developed countries. Wealthy Americans are very careful and seek professional help when preparing their tax returns. They do not want to risk going to prison. And the wealthy can afford to pay their taxes.

To the extent there are Americans who cheat on taxes my guess is that they would be found among middle- and lower-income taxpayers, who find tax returns exceedingly difficult to prepare and who find their taxes to be a real burden.

If the Democrats really want to ramp up spending, they should face the fact that the only way to pay for that is by imposing a European style Value Added Federal tax. All the gimmicky taxes being talked about would likely fall short of revenue expectations and could damage average Americans' retirement plans. Take the taxing billionaires on unrealized capital gains - that could be a $40 billion annual tax for Elon Musk. He would have to sell stock to raise the cash for taxes. That would no doubt send the Tesla stock price tumbling down, significantly reducing the tax and damaging Americans who own Tesla shares. The same would be the case for Amazon and all other billionaire holdings.

For now, the fear of 2022 elections is holding some Democrats in check. Let's hope that continues to be the case and that the destructive tax ideas fade away.

I will have the next market review and update for you one week from today on Wednesday December 1, 2021

All the best,

John Dessauer

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