Issue 60   April 2021

Stimulus On Steroids

In case you lost track, our federal government is on a fiscal stimulus binge. No sooner was the ink dry on a 900-billion-dollar spending plan, than Washington unveiled a 1.9 trillion dollar "covid relief bill". Most tellingly, less than 10 percent of the latter plan directly targeted pandemic treatment, and all the spending from these two bills will be paid for by borrowing.

And why not? The global bond market seems willing to fund government spending ad infinitum. If not, the Federal Reserve is always ready to lend a hand, to the tune of one trillion dollars per year in government bond purchases. It was not long ago that our central bank steered clear of the long-term Treasury market, just as it was not long ago that a trillion dollars was considered real money. Times have changed.

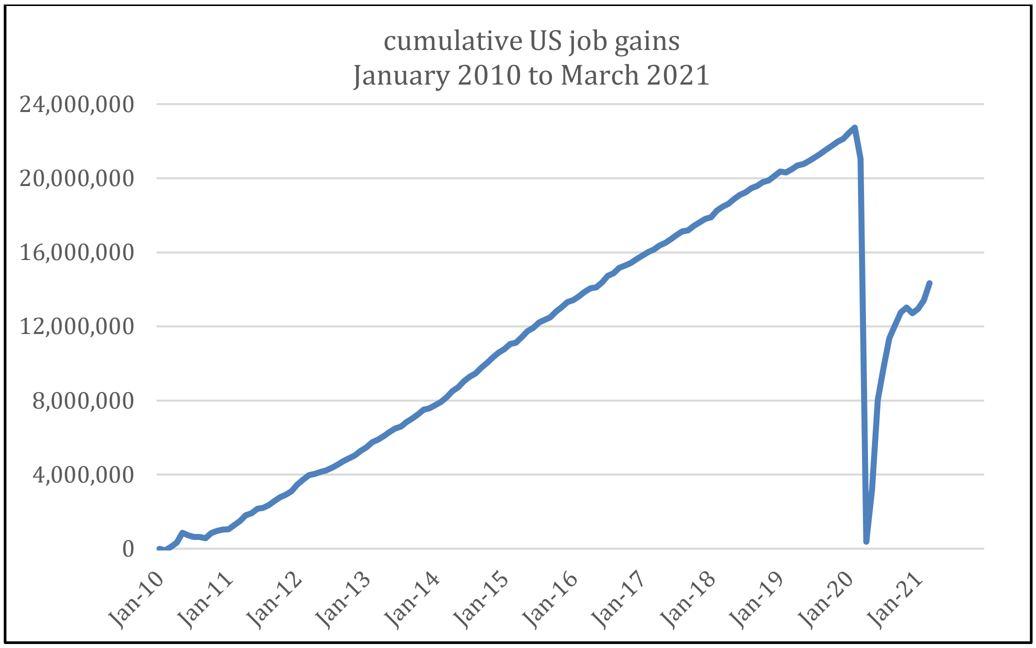
For whatever may ail our economy, 2.8 trillion dollars in additional spending should do the trick, but there's more. The Biden Administration is now proposing as part of its "Build Back Better" idea, a comprehensive infrastructure plan. This one targets another 2.3 trillion dollars in spending over an eight-to-ten-year time frame. Once again, much of the spending will go toward non-infrastructure programs, as detailed below. In a twist from the prior two bills, this time some of the money will be raised via higher taxes on corporate America and the wealthy, two easy targets if ever they existed.

Here's a list of "infrastructure" spending priorities:
Transportation: 620 billion dollars
Home and Community-based care for disabled and elderly: 400 billion dollars
Manufacturing, including semi-conductors: 300 billion dollars
Buildings: 286 billion dollars
Job creation and innovation, including climate technology: 280 billion dollars
Utilities, including power grid upgrades: 266 billion dollars
Electric vehicles: 174 billion dollars
Education: 137 billion dollars

While few would argue that our nation's infrastructure needs an upgrade, clearly this is a case of piling on. More pointedly, in the face of a pandemic, it is an opening of the old playbook under "never let a crisis go to waste."

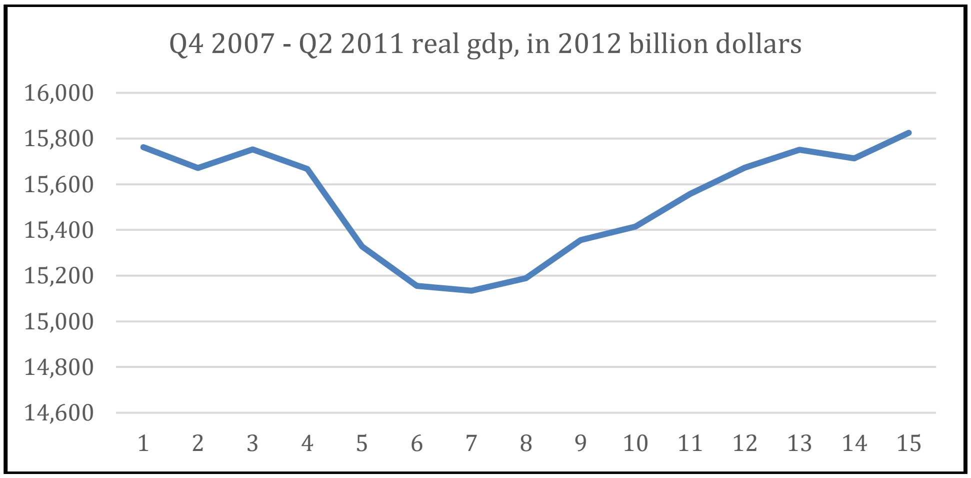
Aside from a desire to permanently impose more government in our lives, there is simply no need for such extensive government spending. After all, the stimulus is already working.

The US economy lost 22 million jobs last spring, erasing a decade of employment gains. To date, 14 million of those jobs have been re-gained, while another three million or so Americans have left the workforce altogether. This recovery has dropped the unemployment rate from 15 percent last April, to six percent today. All this while many service industries -- bars, restaurants, hotels, theaters, arenas, airlines, cruise ships -- continue to operate at reduced capacity. And remember, employment is a lagging indicator in a post-recession expansion. Our economy is running hot, red hot, with this year's likely growth in excess of six percent to be the strongest since 1984.



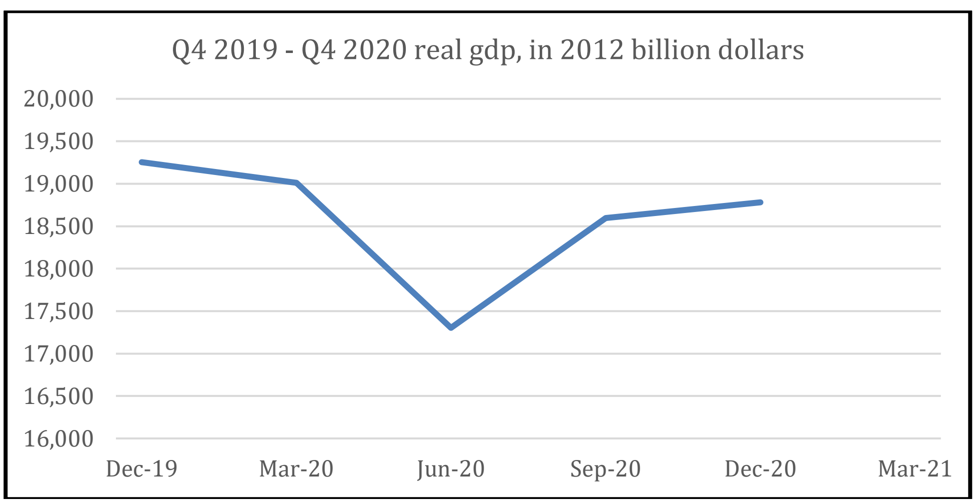
A Tale of Two Recoveries

In response to the Global Financial Crisis of 2008, our government put forth a stimulus plan that, compared to today's response, was small in size and misdirected(remember "shovel ready", Solyndra, General Motors and Chrysler bankruptcies?). Our federal response also imposed a slew of new regulations, the cost and uncertainty of Obamacare, and came in the midst of a banking crisis. Understandably our economy took years to recover... 3 1/2 years to be precise. In the post -World War II era, this was among the slowest recoveries from any recession we have seen.



This time is different. The 2020 recession was brought on by an external force -- a pandemic as opposed to a financial crisis -- while the fiscal stimulus has been much greater (by fivefold or more), our banking system is healthy, and the burden of tighter regulations had already been lifted.

By the middle of this year, our economy should match its late-2019 level, taking only 1 1/2 years to reach its prior peak.



Losing Ground, Change the Rules

The Biden Administration has a new twist on corporate taxes and global competition... taxes should rise, and competition should fall.   Treasury Secretary Janet Yellen recently called for as much, framed as a minimum global corporate tax rate.

According to Ms Yellen, "It is important to work with other countries to end the pressures of tax competition and corporate tax base erosion... to make sure the global economy thrives based on a more level playing field in the taxation of multinational corporations”. Ms. Yellen also warned of a "race to the bottom" on taxation -- meaning while some nations may offer cheaper labor, others an educated workforce, others better infrastructure, rule of law, or natural resources -- no nation should be able to compete on the basis of a lower tax rate. That’s a curious formulation coming from a nation that has traditionally imposed among the highest corporate tax rates in the developed world and is proposing a tax hike from 21 percent to 28 percent. Curious, as in self-serving.

Here’s a more nuanced take on the matter. Our leaders in Washington vastly over-estimate the value of a company being based in the US. Yes, we are the world’s economic superpower, have a long tradition of capitalism and rule of law, and have well-developed infrastructure and domestic markets. Guess what... so does much of the developed world. Meanwhile, emerging markets offer their own advantages, among them less regulation and low-cost labor. This is what globalization is all about. The price of our self-aggrandizement is an uncompetitive corporate tax system.

So long as there are corporate taxes there will be arguments about what is fair, competitive, and how to avoid a "race to the bottom". Alas there is a simple solution: set the rate at zero. Corporate taxes only support about 10 percent of federal receipts, a figure that could be easily recovered by raising other taxes. Economists already debate whether corporations truly "pay" taxes, or merely pass them along in an inefficient and, yes, unfair, manner. Clever ploys such as domicile-shifting and inversions will be relegated to the scrapheap of corporate history. And if none of this works, well, deficit spending is all the rage anyway; there is not the slightest pretense of fiscal discipline anywhere near our nation's capital. Just label it “stimulus” and let our economy run hot.

Where’s The Risk?

According to Ruchir Sharma, Morgan Stanley Investment Management’s chief global strategist: "There is increasing evidence, from the Bank for International Settlements, the OECD and Wall Street that four straight decades of growing government intervention in the economy have led to slowing productivity growth -- shrinking the overall pie -- and rising wealth inequality. This research does not question the use of stimulus during a crisis; the problems flow from the cumulative impact of constant stimulus. That suggests strongly that the growing scale of each new infusion matters as well. Average voters are justifiably befuddled by the claim that governments can borrow without limit or any consequences."

Easy money, record stimulus, booming economy, no consequences. Befuddled is right.

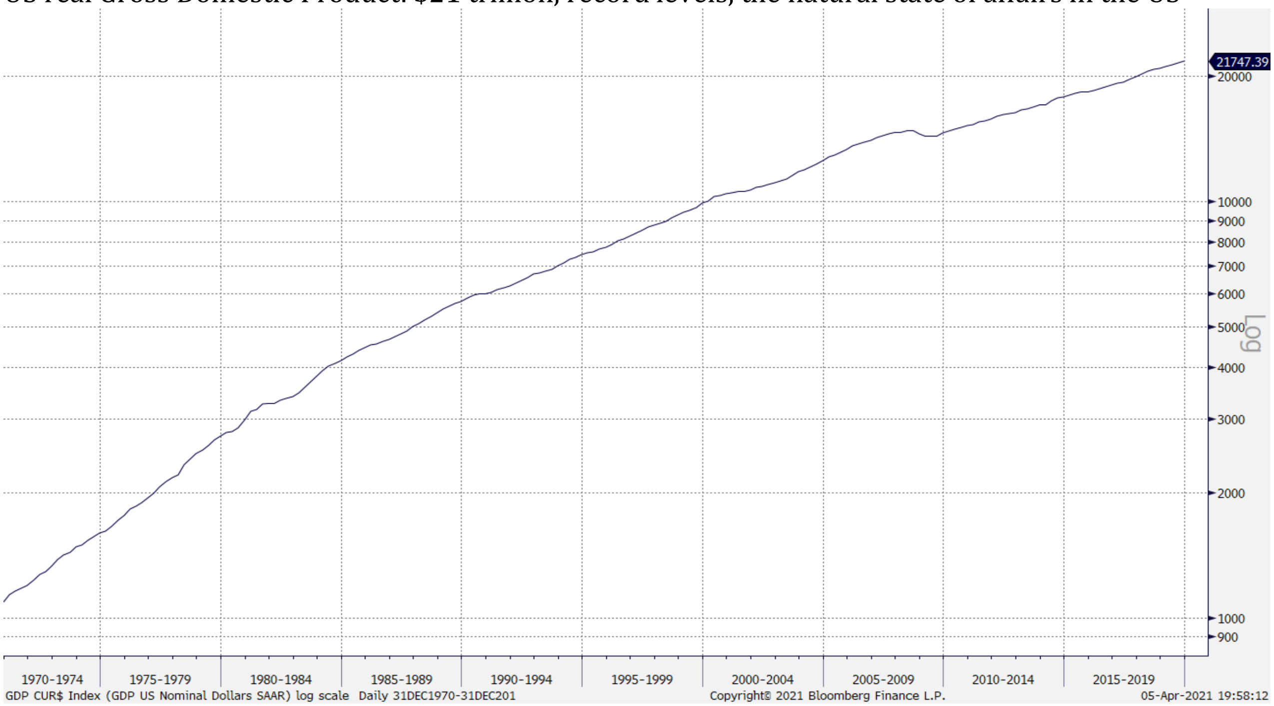
11 Weeks After

With 11 weeks having passed since a new Administration took office, enough time has lapsed for a superficial assessment of the most ludicrous claim of our prior President: that until the covid-19 pandemic, he -- the great and powerful -- had built the strongest economy in our nation's history.

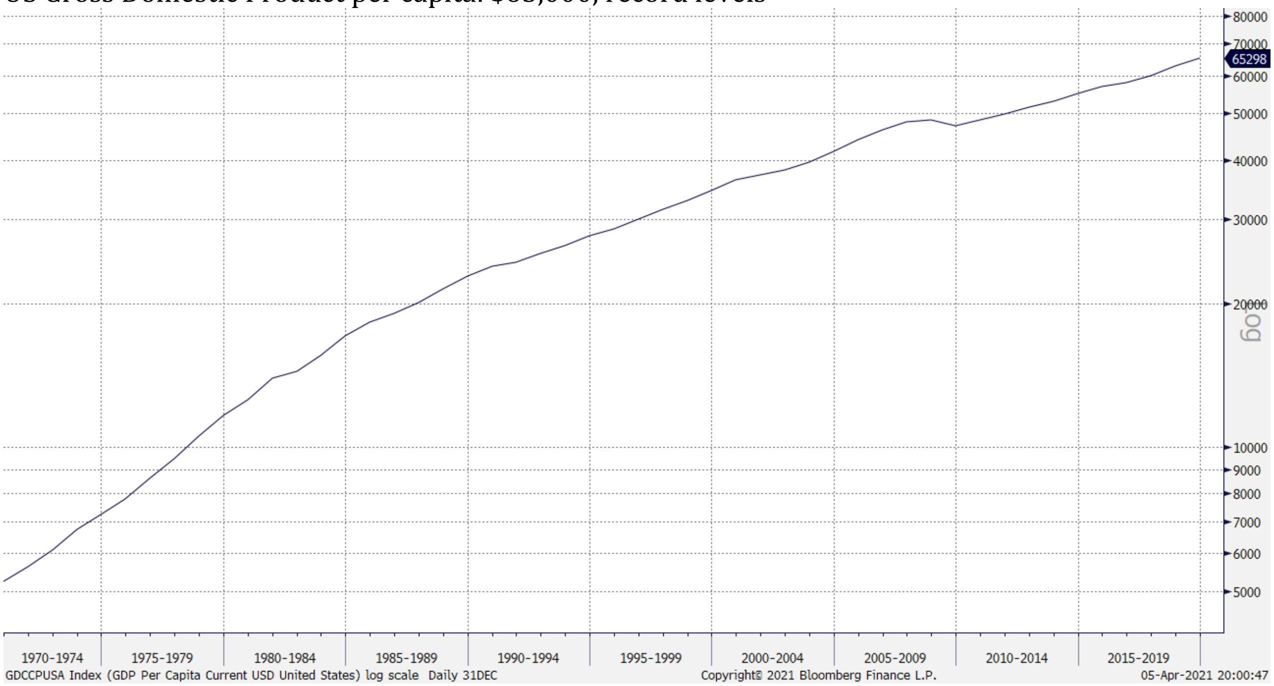
Here are the most pertinent measures to fact-check that claim.

As of Dec 2019...

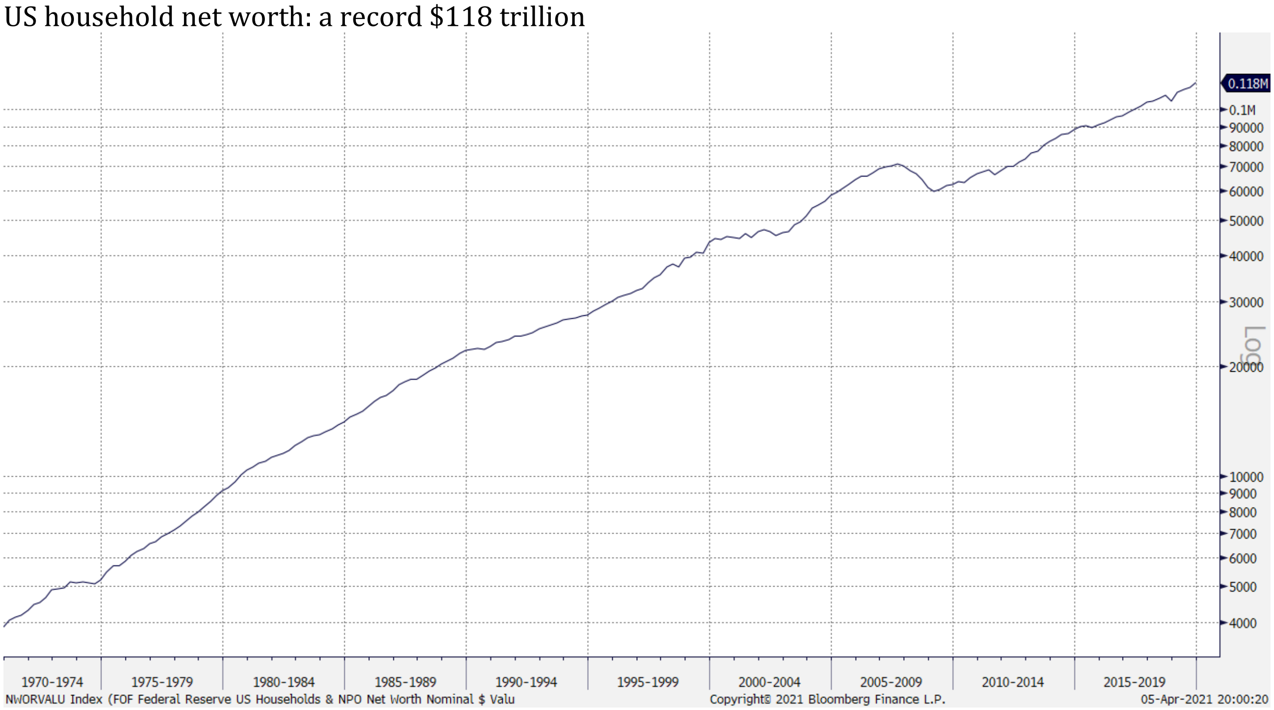
US real Gross Domestic Product: $21 trillion, record levels, the natural state of affairs in the US



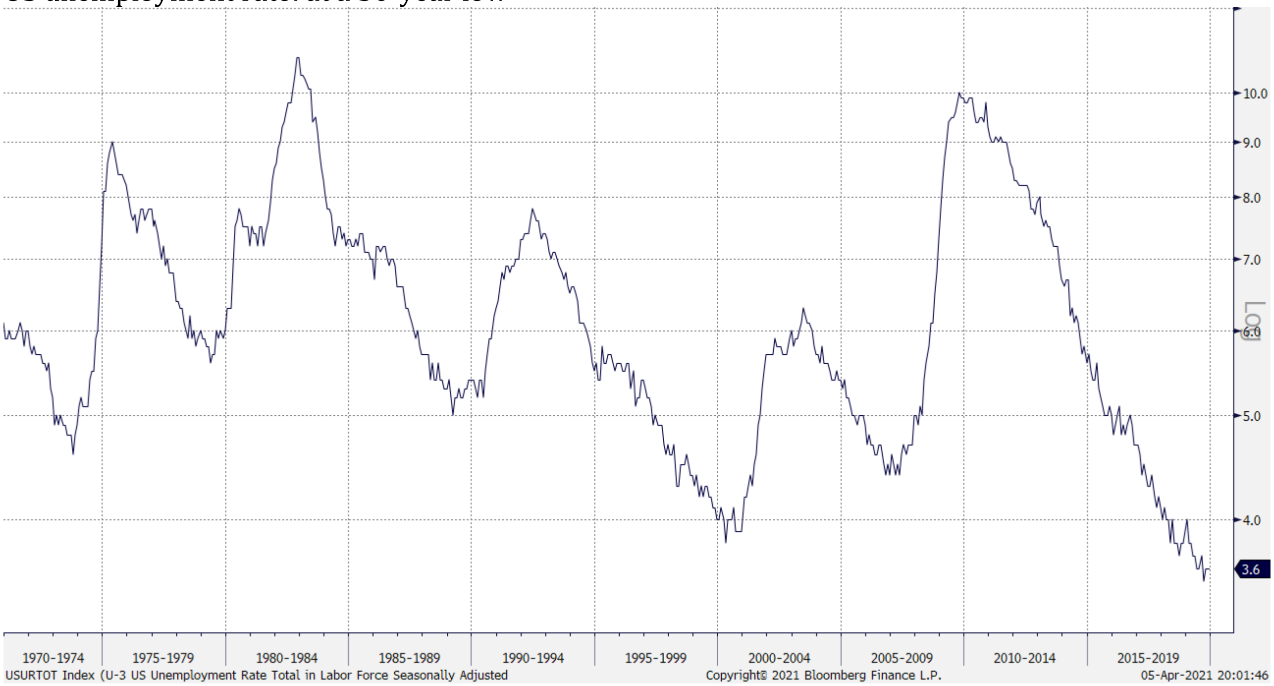
US Gross Domestic Product per capita: $65,000, record levels



US household net worth: a record $118 trillion

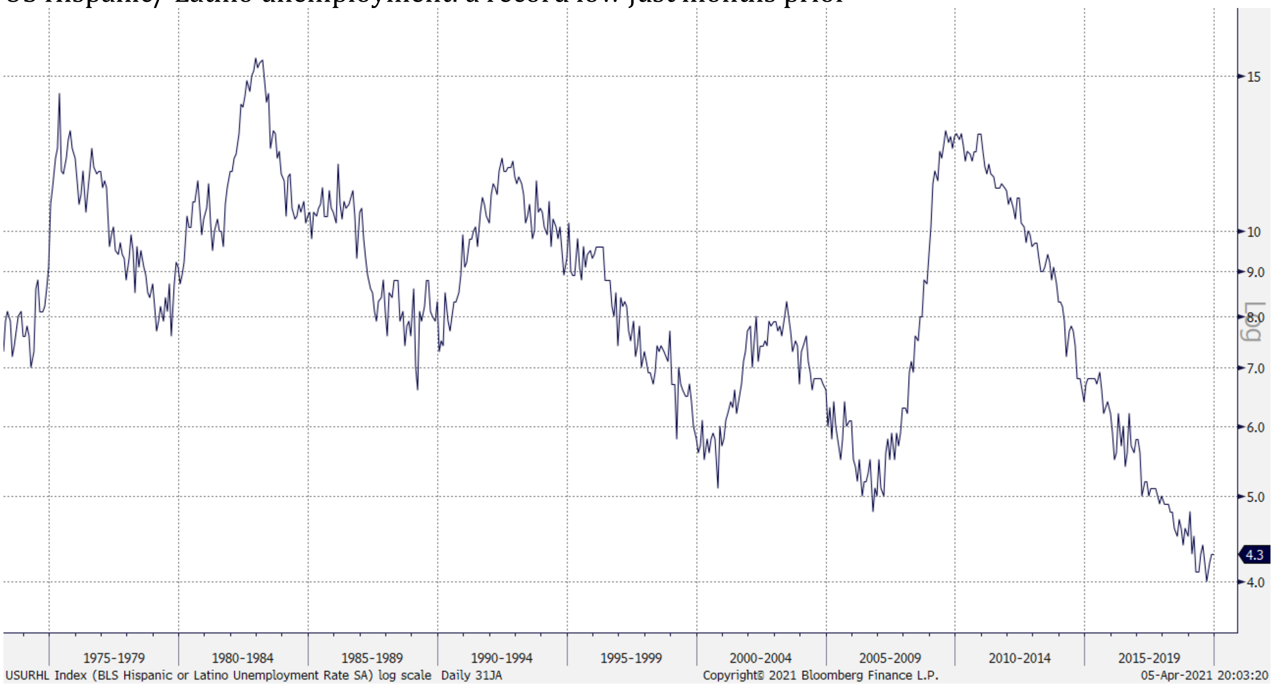


US unemployment rate: at a 50-year low



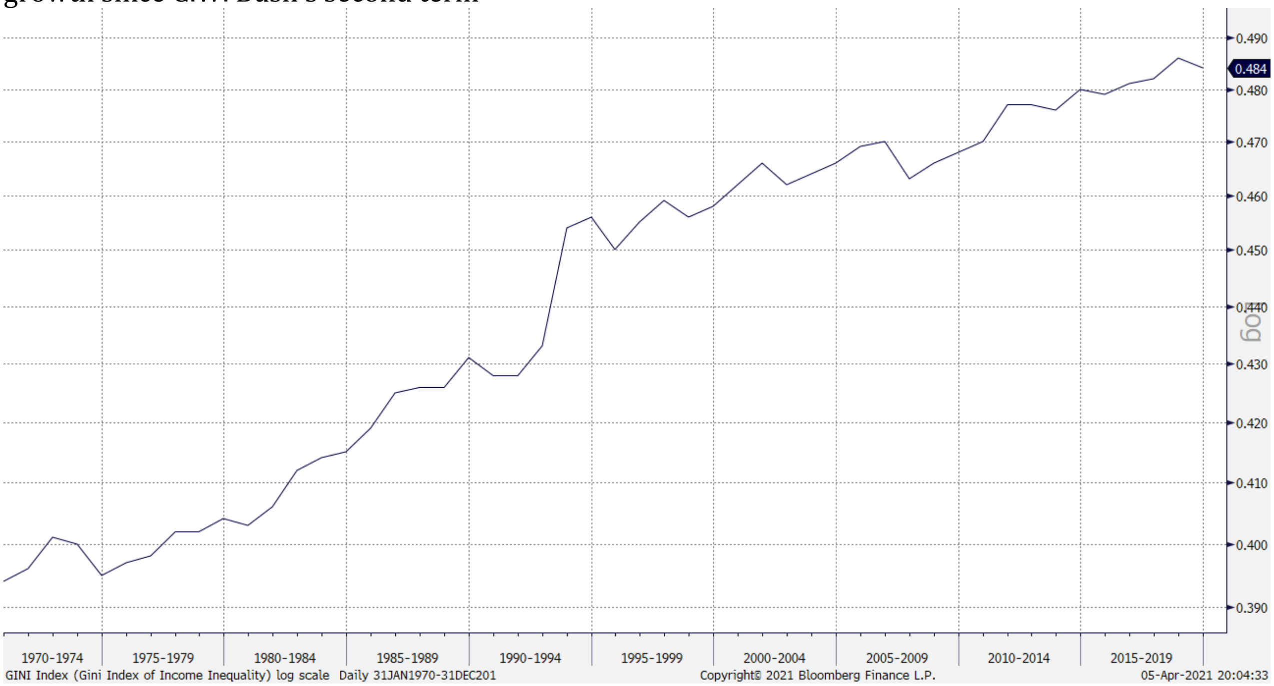
US Black unemployment: a record low just months prior

US Hispanic/ Latino unemployment: a record low just months prior



US household real median income: a record $69,000, after 16 years of no growth

GINI index of US income inequality: higher, but among lowest growth rates on record, the lowest growth since G.W. Bush's second term

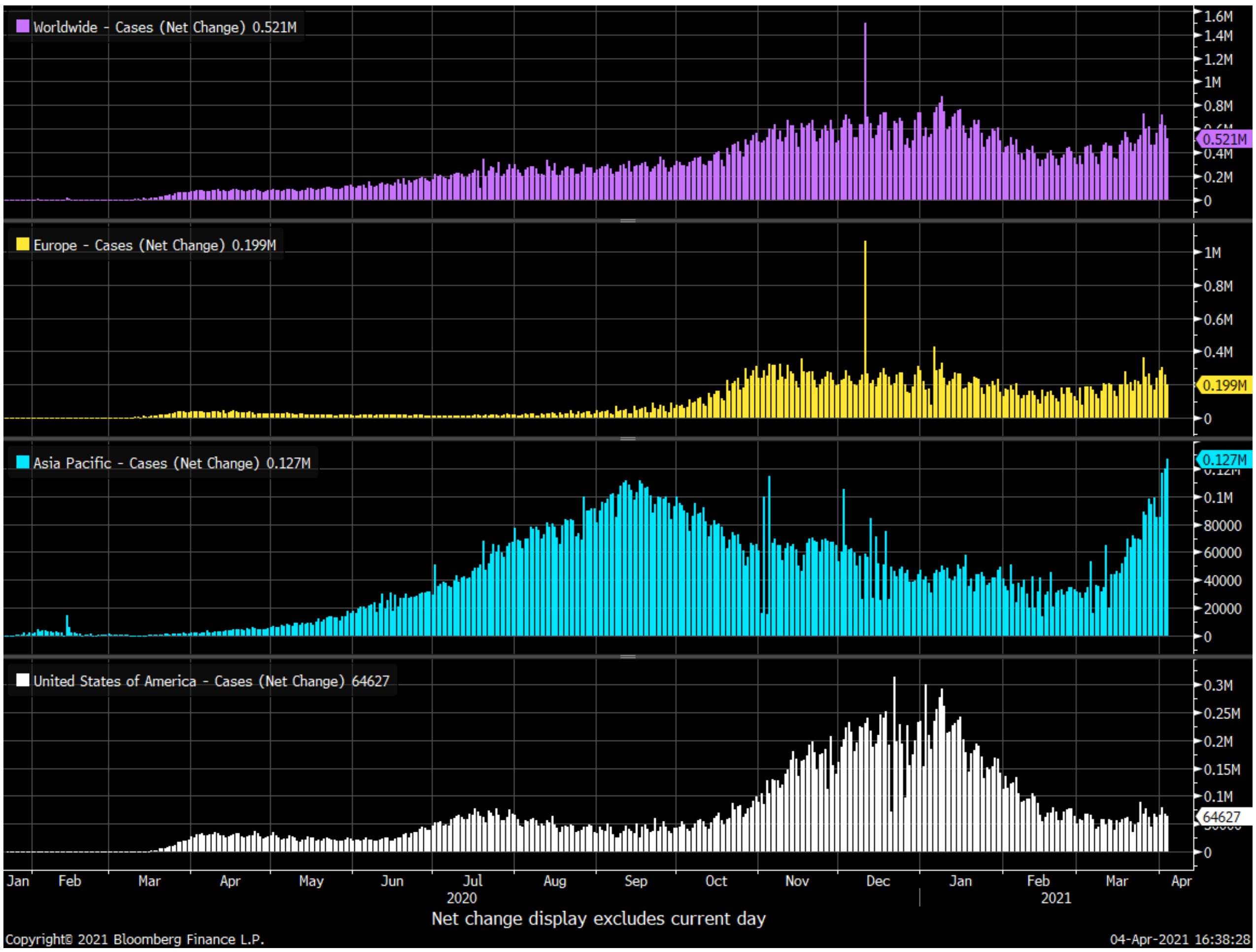


The strongest economy in our nation’s history?
Did someone say "ludicrous"?
It has been said “it ain’t bragging if it is true”. Perhaps in this case, it was a fair amount of both.

Covid-19 in 2021

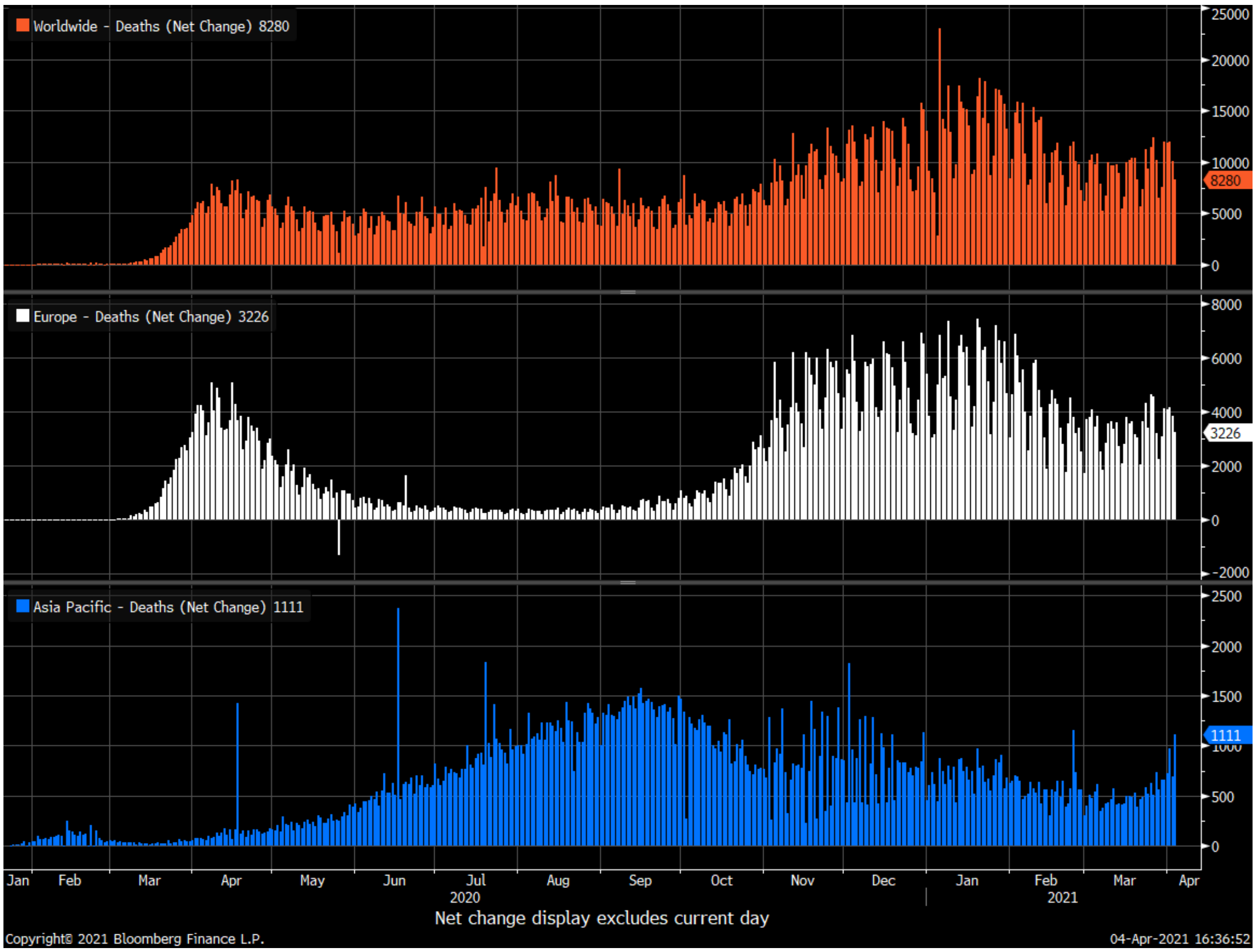
For all the advances in vaccine distribution and re-opening economies, the world still suffers from a covid-19 pandemic. Global new caseloads are stubbornly high, at a half-million per day. Europe has made little progress and is once again enacting lockdowns. Asia Pacific is moving in the wrong direction. In the US, while substantial progress has been made, cases have leveled off and even begun to creep higher.

Daily cases: worldwide, Europe, Asia Pacific, US



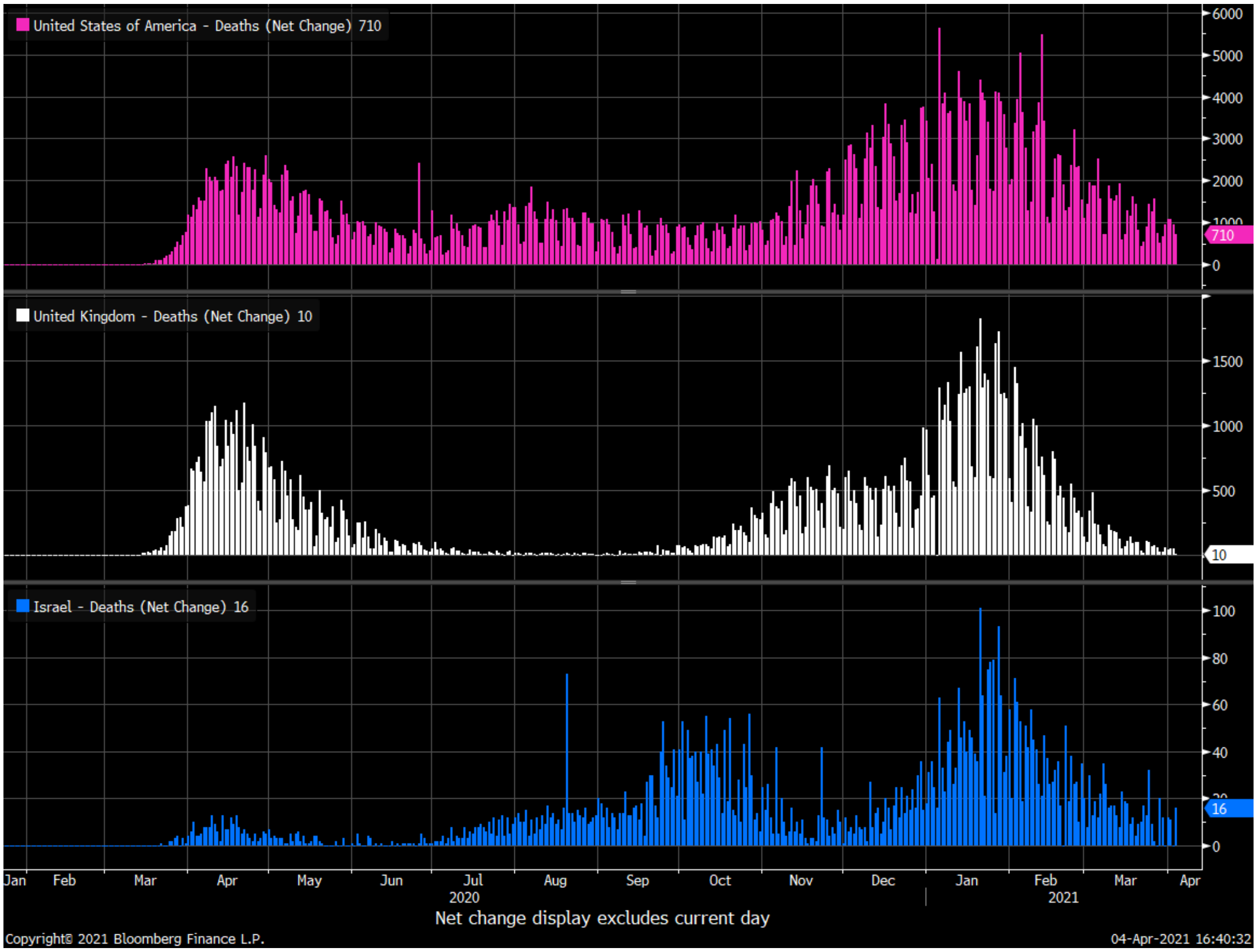
The death toll continues to mount. As of early April, total global fatalities from covid-19 are approaching 2.9 million people. In the US, the number is nearing 570,000, making the virus our third leading cause of death in the past year. Europe is losing 3,000 people per day; that's one death every 30 seconds. The numbers in Asia Pacific are lower, but again stubbornly resisting the expected progress at this stage.

Daily deaths: worldwide, Europe, Asia Pacific



There are encouraging signs nonetheless. Those nations most aggressive in vaccinating their populations -- Israel, the UK, and the US, in that order -- are seeing significant improvement in fatalities. This is consistent with the early test results from various vaccines; they work best at preventing death, then severe illness, then infections.

Daily deaths: US, UK, Israel



There is a popular narrative coming out of Washington that the US was woefully slow in purchasing and distributing vaccines; that the new Administration was basically "starting from scratch", despite the fact we were delivering one million doses per day before inauguration day. The narrative, quite simply, is bunk. We have administered more than 165 million doses, and over 40 percent of our adult population has received at least one vaccine dose. This did not arise from a standing start on January 20. Our nation continues to make real progress, even if 700 deaths per day are far too many. It would be nice if we just dealt with the problem at hand -- a deadly virus -- and left the political posturing for another time, place and issue altogether.

Tidbits...

World Bank cuts "potential growth" global economic forecast for the next decade to under two percent, warns of a possible "lost decade" in wake of long-lasting pandemic effects.
International Monetary Fund raises global growth forecast for 2021 to six percent.
Federal Reserve boosts 2021 US growth forecast to 6.5 percent, fastest rate since 1983.

Mixed messaging?

China, with 2.3 percent growth, is only major economy to expand in 2020; China is now expected to exceed US economy in 2028.

Global survey shows people have more trust in businesses than government, media and other organizations.

Who can blame them?

Railroads Canadian Pacific and Kansas City Southern reach merger agreement, to create first rail network linking US, Canada and Mexico.

Fiat Chrysler Automobiles merges with PSA Group, owner of Peugeot, re-names itself Stellantis, joining the pantheon of businesses with horrible names.

General Motors targets phase-out of gasoline and diesel power vehicles by year 2035, going all-in on electric vehicle technology.

No turning back on this road.

Single-family home prices rise ten percent in 2020, fastest pace in seven years..
Homeowners pocket an additional 1.5 trillion dollars of home equity in 2020 as home prices reach record levels.

German banks pass on negative interest rates to bank customers, charging to hold people's money.

Adding insult to injury: Texans over-pay for electricity by three billion dollars in immediate aftermath of weather-induced deadly black-outs.

International Energy Agency says global gasoline demand has peaked, forever.

Report claims top one percent of US earners fail to report 21 percent of income.

Where is the IRS?

Liberal economist Larry Summers says current US fiscal and monetary policy is least responsible in over 40 years.

Survey shows half of Americans, including individual investors, think our stock market is rigged.

Then get on the winning side.

Source:
Axios.com
Bloomberg
The Wall Street Journal