



Timing Is Everything (8/8/22)

The Biden Administration believes they've turned things around. Taking out Zawahiri is clearly a major victory. The Administration deserves credit for not only its success but for its deliberate and patient actions that totally minimized the collateral damage. The timing here couldn't have come at a better time politically as the Administration had a desperate need for something to go right. I don't believe they timed it for that reason since the opportunity rarely presents itself. You have to take it when it is offered.

However, they are reveling in two other very recent events, both of which could turn out more negative than the Democrats believe. The first is the apparent reversal by Senator Joe Manchin in supporting the Climate, Tax, Spending, and Deficit Reduction bill. While Manchin walks away with some goodies, the proposed bill will do nothing over the next 6-12 months to lower gasoline prices, inflation or the deficit.

Yet it will have an **immediate negative effect on business**. The 15% minimum tax on booked income which impacts at least 150 U.S. companies, primarily manufacturers, will have an immediate negative impact on the willingness for business to make capital investments and hire new workers.

If the economy isn't yet in recession, it is experiencing a major slowdown in growth and high inflation. At the same time, we are starting to see businesses reluctant to add new hires and are laying off existing workers. The Fed has a tough enough job trying to rein in inflation, they shouldn't have to swim upstream fighting **new government spending**. Business fixed investment has already been weak; productivity is an important component in GDP growth and comes from capital investment. It gives the worker more tools to be



productive with, produce more per hour, and earn more as a result. The minimum tax will have a chilling negative effect in this area. Whatever positives this bill might offer, those benefits will not be seen for several years. There was no need to rush it through (except it was probably the last chance the Democrats might have to get something like this done through reconciliation). The timing couldn't be worse.

The second event is the Speaker's visit to Taiwan. I won't get into the specifics if it was a good or bad idea. Each of us has strong views on it. But I'd like to give it a little different spin that no one as of yet has mentioned as far as I know. It is admittedly a stretch, but I strongly believe there is a connection to what I will mention.

The White House has been promoting the importance of reducing Russian oil revenue, and they have been courting China to go along. They have aggressively been promoting an idea of **capping the price of Russian oil**. There has been some support in Europe, but for this proposal by Treasury to have any chance (I hope it doesn't) it must have the cooperation of China. China has been steadily increasing its oil imports from Russia along with India. For the proposal to work. China and India would have to go along.

Pelosi's visit to Taiwan greatly reduces the chances of this happening. I have opposed the cap idea from its inception and I am not unhappy that her visit reduces the chances for this academic, untested, risky proposal passing.

Yes, timing is everything, and I'm guessing that this is one the Administration hasn't considered.