THE DANA VIEWPOINT

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LESS IS MORE

Congress is always looking for ways to increase taxes so that the government can generate more revenue. They still haven't caught on that economic history shows that when you reduce taxes you actually increase economic activity. How can that be? Well, if you lower taxes, individuals invest and take risks to create new businesses or add to existing businesses, thereby adding new jobs for people, who then can pay taxes and buy goods that increase earnings and tax revenue from other businesses. Banks recognize a growing economy and are eager to lend money to people wanting to start their own business (80% of new businesses are created by small businesses according to the Small Business Administration) and so it goes, investments are leveraged at all levels creating wealth and more tax revenues. FDR raised the maximum tax rate to 90% in the 1930s in an effort to raise more revenue for government to aid the economy. It didn't work as unemployment hovered around 20% at the end of the decade. John Kennedy was the first president to lower taxes, bringing FDRs 90% maximum tax rate down into the 70% range. That stimulated new business and new jobs and led to a boom in what was then considered hi-tech (color TVs, hand held calculators, etc.). Ronald Reagan then further reduced maximum taxes to the high 30s and that set off an economic boom that lasted twenty-five years (1982-2007). George Bush also lowered the maximum tax rate slightly in the early part of this century to stop a recession and keep the economy going. The current recession/slow growth is teaching many people to cut back on extravagant items and live a simpler life. They are finding that less can be more. Now if we can only get the federal government to stop their petty bickering and get on to discussing ways to get the economy moving at a faster rate. Calvin Coolidge once said, "The business of America is business." Very simply put. Coolidge was a minimalist when it came to speaking, but he knew a thing or two about free enterprise. Many states are awakening to simple economic truths – create a friendly environment for business, keep taxes reasonable and cut spending because debt does matter. The future of America depends on the individual and the states. Hopefully, this realization will "trickle up" to the federal government.

Breakup the Fed. The Federal Reserve was created in 1913. It was set up as an independent agency whose goal was to make sure there was enough money in the system to keep the economy humming, and to make sure inflation remained under control. Prior to the founding of the Fed, Wall Street relied on J. P. Morgan (the person) to keep potential financial panics under control. At the first sign of financial problems, JP would go down to the floor of the New York Stock Exchange and go from post to post buying common

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stocks. Just the thought of JP buying stocks was enough to deflect a large scale panic. The Fed failed its first big test in the early 1930s. As the stock market was collapsing and the economy in disarray, the Fed pulled money from the system, trying to stem speculation in the stock market at a time when the economy needed money to pull out of the coming depression. FDR tried to get control of the Fed in the 1930s so he would have control over the money supply. The Democrats controlled Congress at that time and fortunately they recognized that control would be too much power for a President and they blocked his attempts. However, in recent decades the Fed has become more political and has been influenced by the administration to exercise actions that the President desires. The result is a Fed initiating policies that it was never designed to do, particularly with respect to interest rates and money supply. The Fed is virtually holding the stock and bond markets hostage. Janet Yellen was just selected by the President to be the first Chairwoman of the Federal Reserve. At this point, we would expect current Fed policy – low interest rates and QE forever – to be maintained. The market will like this and as soon as we get over the debt crisis the stock market should continue its upward trend.

It's October, so the ghosts and goblins must be coming. It is dress up and party time for adults without children and family time for those with small children. It is a happy holiday with decorating the house and picking out costumes for the kids. Then one parent stays home passing out candy for the kids while the other parent walks the kids through the neighborhood admiring the variety and creativity of the costumes. It is another story on Wall Street. So many Octobers have seen market crashes. However, those market crashes have usually set up a market bottom leading to a year-end rally. With the turmoil over the debt ceiling and other distractions, we could be setting up for another October bottom.

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Random Thought for October 2013: "My reading of history convinces me that most bad government results from too much government."

Thomas Jefferson

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