John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday April 6, 2022

The Biden budget calls for a staggering $5.79 trillion in spending in fiscal 2023. That is 31% more than the pre-pandemic 2019 budget. And, of course, the Biden Administration wants to increase taxes. What they don't want you to know is that tax revenue is booming. There is no need for a tax increase. In the first five months of fiscal 2022, through February, federal receipts climbed 26% from a year earlier. That's an increase of $371 billion, to $1.8 trillion in five months.

Our local newspaper carried an article the other day about booming U.S. corporate profits. The article followed the Democrats claim that greedy big business is to blame for the rise in inflation. What the article did not say is that corporate taxes are also booming, up 31% in five months, to $117 billion. Individual tax income rose 38% in five months to $975 billion.

These fiscal 2022 increases follow enormous increases in fiscal 2021, which ended last September 30. The Congressional Budget Office (CBO) summary for that year shows federal receipts at a record $4.05 trillion, an 18% increase over fiscal 2020 and the largest annual increase in fifty years.

The CB0 estimates that the growing flood of taxpayer dollars will continue this year to $4.53 trillion. In fiscal 2019 the total federal government spending was $4.4 trillion. You would think that the Biden team would be able to keep spending under control and balance the budget. There was a big increase in spending to counter the

downward pull of the pandemic. However, the economy is recovering nicely, and that spending support is no longer needed. Instead of balancing the budget, the President wants to increase taxes by $2.5 trillion over the next ten years. This introduces a serious risk. The modern-era average for federal tax collections as percent of the economy is 17.3%. This year, given the current trends, that is heading for 19%. The President likes taking money from the private sector and giving it to politicians to spend. The problem is that the federal government is dependent on a strong private sector to produce the tax revenue. If government becomes too greedy the private sector will not have enough money to keep growing. The economy requires significant investment to keep growing.

With inflation at a 40-year high and a central bank raising interest rates, the last thing the economy needs is a massive tax increase. Which makes me wonder. Are the Democrats really ready to commit political suicide? The President's job approval rating is a dismal 41%. History says that come November the Democrats are at risk of losing control of the Congress. In the Obama midterms his job approval rating was better than Biden's but below 50%. In that midterm election the Democrats lost a record 63 seats in the House. You would think the Democrats remember that defeat and would be doing everything they could to keep taxes and inflation as low as possible. Instead, they go in the opposite direction.

There is no doubt that the Biden Administration's energy policies ignited inflation. President Biden cancelled the XL Pipeline, and the oil price immediately went up. Further regulations slowed oil and natural gas production. Biden policies reduced the supply of energy but did nothing about demand. The basic economic principle of supply

and demand still works. It was ignored by the Biden Administration. As a result, American consumers are suffering the consequences of the Biden energy policy.

The obvious solution is to reverse course, approve the XL Pipeline and get rid of the regulations that are restricting energy production. But Biden still refuses to reverse course and bring the price of energy down.

A week or so ago the Biden Administration finally agreed to help Europe replace Russia as its main supplier of natural gas.

"The bad news is that President Biden is still telling U.S. gas producers he wants to put them out of business. It sounds crazy, but listen to Mr. Biden's remarks Friday. "We're going to have to make sure the families in Europe can get through this winter and the next," he said in announcing the deal to provide 15 billion cubic meters of gas this year, though not all from the U.S.

But he added "at the same time, this crisis also presents an opportunity. That will drive the investments we need to double-down on our clean energy goals and accelerate progress toward our net-zero emissions future."

The White House underlined the contradictions by saying the U.S. "will maintain its regulatory environment."

This is magical thinking. Liquefying gas requires long-term investment and reliable power. Facilities can't run on intermittent renewables, and companies won't

invest billions of dollars if they think regulators will kill them once a crisis passes" (*The Wall Street Journal*, 3/28)

I look at this green effort in the U.S. and wonder what it is really all about. Cutting U.S. emissions to zero would not solve the climate change situation. China and India are far bigger users of fossil fuels, including coal, than the U.S. It makes no sense to me to impoverish Americans while the big emission countries continue polluting the atmosphere. Get other countries to sign on to the green agenda. Until that happens, go slowly and carefully on policies that will hurt American energy producers while shifting the profits to foreign companies.

What sticks in my mind is Elizabeth Warren's move to shut off pipelines that supply natural gas to residents of Massachusetts. She didn't provide an alternative for Massachusetts residents to heat their homes. The result is that Massachusetts residents are paying a higher price for natural gas because it comes by Russian freighters to Boston Harbor. How does that make any sense?

Investors are aware that the risk of a recession is growing. Hopefully, the Biden big tax increase won't survive the runup to the midterm elections. And inflation will cool off as the economy slows down. Consumer spending was up only 0.2% in February. That was expected as consumers deal with rising costs and an economy that is close to a full recovery.

I will have the next market review and update for you one week from today on Wednesday April 13, 2022

All the best,

John Dessauer