John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday April 15, 2020

Marilynn and I are home and will be for the next several months. Our planned trip to Scotland in June has been cancelled. Fortunately, Naples Florida is a good place to be. April is one of the nicest months, with lots of sunshine and warm temperatures.

Of course, we are following the still dismal news on covid-19 and the economy. I am appalled at the news coming out of big cities, especially New York. Media pundits are reporting that the death rate among low income New Yorkers is much higher than for the more fortunate. But the media are very slow to point out the underlying cause of the added misery. Medical care is expensive. What were Governor Cuomo and his administration thinking when they decided to fund New York's Medicaid at 56% of Medicare? Medicare pays below cost. Doctors and hospitals can't survive financially on Medicare. At 56% of an already too low payment structure, the hospitals that served the low-income communities had to scale back, some closed, leaving the lower income communities wanting. And New York has one of the highest State income tax rates in the country. So raising taxes to properly fund Medicaid was not an option. New York is just one example of government mismanaging medical care.

Politicians on the left have for decades pointed to the shortcomings, claiming that the U.S. health care system is inferior to its more socialized counterparts. New York is now an example showing how wrong the socialists are. Here is another glaring example: France has long been admired by the left for its socialized health care.

In France, every citizen is enrolled in a national health insurance program and can supplement coverage with private insurance. For a while it worked: in 2000 the World

Health Organization declared the French system provided the “best overall health care” in the world. The French government pays 75% of health care costs. The problem for the left is that, before the covid-19 attack, the French system was on the brink of collapse.

“But nearly “free” health care creates unlimited demand, and the problem has become acute in recent years. French emergency services treated 21 million people in 2016, up from 10 million 20 years earlier. Meantime, public institutions, which make up about two-thirds of hospital capacity in France, cut some 9 billion euros in spending over the past 15 years.

France can’t tax its way out of the problem. Tax revenue was 46% of GDP in 2018, the highest among OECD countries…..and the country’s high tax burden has restrained the economic growth needed to fund the health spending.” (*The Wall Street Journal, 3/24*)

Last November, before the onset of covid-19, 70 French public health leaders wrote the following: “This system is collapsing and we are no longer able to carry out our jobs in good conditions and to provide quality and safe care. Access to diagnostic, medical and surgical care at public hospitals is now extremely difficult, and those in charge of treatment and care are demoralized.”

In January, 1,200 French medical professionals threatened to resign from their administrative duties over declining conditions.

And now the distressed French system is being overwhelmed by covid-19.

The editors of *The Wall Street Journal* concluded the editorial with these words: “The American health-care system is far from perfect, and the U.S. will struggle alongside Europe with serious illness from the coronavirus. But the French experience is a reminder that giving government more control isn't the answer to America's health-care challenges."

Hopefully, come November, American voters will not be persuaded by the siren song of socialized health care.

Goldman Sachs has reviewed their outlook for the post covid-19 economy and still expects a V shaped recovery. Goldman's analysts think the 1981-1982 recession is a good model for the post covid-19 job losses and subsequent recovery.

In early 1980 inflation rose, at one point to almost 10%. Then Fed Chair, the late Paul Volcker ratcheted interest rates straight up, to a high of almost 18%. The economy reeled. Job losses multiplied. However, once inflation was beaten down, the economy came roaring back. Between 1983 and 1984, non-farm payroll growth averaged 362,000 a month, the fastest early-cycle recovery since World War II.

Goldman says the current shutdown of the labor market is similar to the Volcker recession in the sense that both were "man-made." And the same types of industries affected today were also affected in the Volcker shock, namely manufacturing and retail.

Goldman analysts say that the "silver lining" of the current surge in temporary layoffs is exactly that---the job loss is temporary. Short-term layoffs were an important ingredient in the subsequent V-shaped recovery in the 1980s. Many of the then record-high 2.5 million temporarily separated workers were rehired once financial conditions eased.

The number of temporary layoffs is already much greater than back in the 1980s. But the economy was much stronger with very low unemployment before covid-19 struck. Goldman Sachs makes a good point with the 1980s comparison.

Federal Reserve chair Jerome Powell agrees. Last week he said the economy can snap back once the coronavirus pandemic eases and Americans get back to work.

“We entered this turbulent period on a strong economic footing and that should help support the recovery. There is every reason to believe that the economic rebound, when it comes, can be robust,” said Powell in a webcast speech to the Brookings Institute last week.

The Fed can’t stop the economy from slowing sharply to avoid the spread of the virus. But the Fed Chair vows to act aggressively until the central bank is confident the economy is solidly on the road to recovery.

Mainstream media seem very slow to report on progress on several levels to find new treatments for the virus and current testing of vaccines. Medical researchers are working overtime to develop both effective treatment for those already infected and a vaccine for all the others. They will succeed and an economic recovery will follow.

I will have the next market review and update one week from today on Wednesday April 22, 2020.

All the best,

John Dessauer