**John Dessauer Investments, Inc.**

**John Dessauer's market review and update as of Wednesday May 3, 2023**

The Biden Administration has ramped up spending and the federal government deficits. Our national debt is now at an all-time record high. That isn't necessarily an economy breaker. At the end of World War 2 we also had a record high national debt because of all the military spending to defeat the Germans and Japanese. When the war ended many economists expected a deep recession as military spending dried up. They were totally wrong. Not only was there no recession, the U.S. entered a 25 year economic boom. Consumer demand for housing, cars and other goods more than replaced the military spending. The lesson from history is that we need strong economic growth to deal with the huge national debt. Instead, the Biden Administration has suppressed growth. In the first quarter of this year the economy grew at a mere 1.1%. We need growth at 3% or better to shrink the national debt as a percent of the economy.

Former chairman of the Senate Banking Committee Phil Gramm and former ranking member of the Senate Banking committee Pat Toomey recently wrote an editorial for the Wall Street Journal expressing their views of the economic damage being done by Biden's policies. Here are excerpts from that editorial:

"In the short term, President Biden's regulatory tsunami will fuel inflation and make a recession more likely. In the long term, it could smother America's productivity, wages and living standards. If the U.S. puts on a European-style rules straitjacket, American economic exceptionalism will perish.

Who will challenge this reimposition of failed Progressive-era policies? Many scoff at talk of Mr. Biden as a transformational president. But if business can't find an effective national voice to speak out in opposition, if a divided Congress can't adopt appropriation riders to limit Mr. Biden's regulatory excesses, and if the courts don't provide regulatory salvation, the president's regulatory agenda virtually assures that in a single term he will drastically transform the economy and life in America."

The good news from the first quarter is that the economy did not slide into recession. Consumers saved the day. But there is troubling data in the details. Gross private domestic investment fell 12.5% in the quarter, driven by declines in business equipment (down 7.3%) and residential housing (down 4.2%).

"One quarter's GDP data rarely say anything definitive, but this quarter's report brings into focus the policy battle to come. Absent supply-side tax and regulatory relief from elected politicians, pressure will mount on Federal Reserve Chairman Jerome Powell to surrender to inflation and cut interest rates.

What a mistake that would be. Inflation poses the biggest threat to consumer demand, which has been keeping the U.S. out of recession. The country awaits a new voice making the case for a politics of economic growth, rather than income redistribution." (The Wall Street Journal 4/29)

I find it puzzling that Biden has not learned from his eight years with Obama. During that time the U.S. wealth gap widened. Obama steadfastly pursed income redistribution in an effort to do the opposite, shrink the wealth gap. Researchers at the Federal Reserve Bank of St. Louis studied the situation and found out why the rich got richer when income was redistributed. The answer is that the poor spent the new money on goods and services. That increased the sales and profits at the businesses that provided the goods and services. The owners of those businesses saw their wealth increase while the poor enjoyed their new possessions, but did not get any richer.

In sharp contrast but totally ignored by Democrats and the media is that during Trump's one term the wealth gap narrowed. His policies aimed at increasing opportunity for the lower income earners worked better than income redistribution. In any case Biden and his administration seem determined to follow past failed policies.

The post World War 2 economic boom ended in the 1970s when OPEC dominated the oil market and drove up U.S. inflation. Inflation was what turned a boom into a deep recession. And inflation still is economic enemy number one. President Biden and his administration must know that. Why then do they persist in pursuing policies that support inflation?

"The media are wondering why the public continues to be sour about the U.S. economy despite the Biden Administration's attempt to explain how great it is. The answer lies in a startling comment by House Speaker Kevin McCarthy on Monday is his speech at the New York Stock Exchange.

"Americans have received a pay cut for 24 consecutive months-----the longest streak in American history---as inflation has persisted. In fact, since President Biden took office, families have lost the equivalent of $7,400 worth of income"

If true, this means that Americans haven't had a raise since Mr. Biden took office. We've been wondering about that ourselves, as we monitor the monthly inflation statistics and their impact on real earnings. And, sure enough, the Biden Presidency has been dreadful for incomes after inflation, which is one proxy for the overall American standard of living." (The Wall Street Journal 4/18)

Investors saw the 1.1% first quarter growth as a sign that the Fed's interest rate hikes are working. The Dow Jones Industrial Average has stabilized at 34,000, trading a little above and a little below. Now we need to see inflation really come down. When that happens stocks will go higher.

I will have the next market review and update for you one week from today on Wednesday, May 10, 2023.

All the best,

John Dessauer