

John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday August 31, 2022

Inflation at 9% is causing real suffering for small businesses and low-income families. Their situation is going to get worse, much worse. Yes, we all suffer from 9% inflation, but the financial pain is not evenly distributed. With wages rising at about a 5% rate, workers are seeing their buying power decline sharply as prices for everything from gasoline to food rise at a 9% rate. The Biden administration is following a climate change model much like Great Britain's, namely a sharp attack on carbon emissions. Great Britain has been at it a bit longer than we have, so we can see the consequences by looking at Great Britain. The average household energy bill has soared in Great Britain. It was up 54% last year and up another 80% recently. The average annual cost for energy is now the equivalent of \$4,208 a year. That is more than 10% of the average household annual income. The editors of *The Wall Street Journal* describe this as bankrupting Great Britain. First households are beaten with general inflation pushing up prices for essential goods and now are hit with the additional burden of soaring energy costs.

Can this happen in the United States? The editors of *The Wall Street Journal* say that we are on the same road, heading for the same consequences.

Investors did not like Fed Chair Powell's talk about being more aggressive in bringing inflation down. The Dow Jones Industrial Average was down 1,000 points or more than 2% last Friday. But the faster the Fed gets inflation under control, the better for the stock market.

The best way to beat inflation is for fiscal and monetary policy to work together. That is what happened in the 1980s. President Reagan cut federal spending to slow the demand side of the economy. At the same time, he cut interest rates and regulation to encourage the supply side of the economy. That is basic economics - cut demand and encourage supply to bring down inflation. President Biden is doing the exact opposite - increasing federal spending which will encourage demand as he is raising taxes which will hurt the supply side. History says these policies will make inflation worse.

Worse is the fact that federal tax receipts are soaring. As the editors of *The Wall Street Journal* say: “The budget message is that Congress should be fat and happy, and it doesn’t need a tax increase, but you’re getting one anyway.”

Tax receipts through July, the first 10 months of the fiscal year, rose 24%, or \$789 billion from a year ago. Tax receipts in the 10 months exceeded \$4.1 trillion under current tax laws and before the new tax increase. Everyone is paying more as inflation pushes taxpayers into higher tax brackets. Individual tax payments rose 33% to \$2.26 trillion. Payroll taxes rose 14% and corporate income taxes rose 12%.

The editors of *The Wall Street Journal* are clearly correct. In fact, an increase in tax rates could be counter-productive and reduce tax receipts if the economy slows and taxable incomes overall decline.

With the history of inflation so clear why is the Biden administration going in the wrong direction? The answer seems to be politics. The President’s approval ratings are

down. The Republicans look set to take control of the House and perhaps the Senate as well. Ramping up spending is a classic buy more votes strategy. Will it work this time?

To be sure the beneficiaries of the spending will be grateful. But that isn't necessarily the case for all who will benefit. Take the case of student loan cancelations. There are critics among the students with loans. The question is who will pay those debts. The White House hasn't answered that question, because the answer is obvious. The tax payers will pay those debts. Why should they be burdened with debts they didn't incur and did not benefit from?

In a few months we shall see how voters feel about the current state of federal government policies. Meanwhile investors are rightly worried about the conflict between the Federal Reserve and the federal government. It is looking as if the Federal Reserve will not only have to tackle the current inflation pressures but also the coming inflation pressures from Biden's tax and spend policies.

No wonder the Dow fell 1,000 points after Fed Chair Powell pointed out that the Fed will have to be more aggressive to bring inflation down. When a president gets the policy mix right the benefits last a long time. President Reagan's policies worked and ushered in a quarter century of economic boom, with low inflation. What will happen when the policy mix is wrong? Logic says it will take a long time to get back to real growth with low inflation. But this time there are coming mid-term elections that could change everything.

I expect investors to remain cautious until the results of the coming elections are known. Our best strategy remains holding our stock positions. Trading in this time of great uncertainty is not a sensible strategy.

I am still in Greenland with good internet. But we are on our way west to northern Canada. I expect the internet to be on and off, so I can't be sure that I can send next week's market update at the usual time. I will try, but please understand if the timing is off.

I will try to have the next market review and update for you one week from today on Wednesday September 7, 2022

All the best,

John Dessauer

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