



The Daily Dish

The Daily Dish 3.5.13

MARCH 5, 2013

[Fox Business](#) highlights a troubling connection between student loans and mortgages. “Student loans are packaged almost exactly like mortgages (before the crash), and sold to investors.” And “according to a report by the Federal Reserve Bank of New York, 31% of people paying back student loans were at least 90 days late at the end of the fourth quarter, up from 24% in the fourth quarter of 2008. That’s astonishing and it wouldn’t be possible except for the fact that investors are desperate for higher rates of return in this market and student loans are giving them that.”

There is no denying a domino effect in the economy. [CNBC](#) reports that “the staggering amount of outstanding student debt — nearly \$1 trillion owed — is beginning to impede the U.S. economy as a whole, a new report from the New York Federal Reserve suggests, chief by robbing the housing market of its richest crop of new buyers: young college graduates.” Why? Because they are already saddled with large debt and “young borrowers are no longer qualifying for other kinds of loans — particularly home loans.”

No argument here that “the best fix for everyone one would be a faster growing economy, which would provide jobs and higher incomes to those who have borrowed.” First steps: get serious about the debt, generate confidence in the private sector, and reconsider the clearly flawed federal takeover of student loans.

Doug’s Daily Economic Outlook

During the course of the recovery, there has been growth in a key source of income for seniors and cash-strapped pension funds. It has been a financial mechanism for investment, at a time when credit markets have only slowly thawed from the financial crisis and great recession. And it is vivid proof of the recovery of the U.S. manufacturing sector to international competitiveness, a goal shared widely across the political spectrum.

Why, then, does the *New York Times* and others continue to [denigrate](#) the profitability of U.S. companies?

Let us acknowledge that it would be better if improvised profits took place simultaneously with a solid labor market and stronger wage and compensation growth. But the negative reaction to profits *per se* is puzzling. Profits are not evidence of a failure of the system.

Profits are not the slush funds of large, nefarious organizations. Profits are the cash that owners of firms receive through dividend payments and stock appreciation — those owners being seniors (the largest recipient of dividends), pension funds in government and business, and the mutual funds of millions of Americans. Higher profits are good news for them, and for workers more broadly. Profits are source of investment in the technologies, skills, and equipment that make workers more productive, increase sales, and generate higher payrolls.

The recent profitability of U.S. companies is a bright spot in a weak recovery. Let's hope the rest of the economy catches up.

What We're Reading

Budget crisis eases as Republicans seek to avoid shutdown — Tension over the fiscal crisis eased on Monday as President Barack Obama called more opposition lawmakers to find a way to stop \$85 billion in damaging budget cuts and congressional Republicans announced a plan to prevent a government shutdown. Eager to resolve fiscal fights overshadowing his second term, the Democratic president called Maine Republican Senator Susan Collins and Oklahoma Republican Senator Tom Coburn after speaking to other Republican senators over the weekend. ([Reuters](#))

House Releases Continuing Resolution That Keeps Sequester Cuts in Place — House

appropriators are proposing a final fiscal 2013 spending package that would effectively cap federal operating expenses at \$982 billion, while giving military and veterans programs new flexibility to cushion the effects of the sequester's automatic cuts. The House is expected to vote Thursday on the measure (HR 933) unveiled Monday, which combines Defense and Military Construction-VA bills with a stopgap continuing resolution covering most of the rest of the federal agencies. ([Roll Call](#))

Texans Rebut Governor on Expansion of Medicaid — Hundreds of activists and uninsured Texans plan to rally at the steps of the Capitol here Tuesday, increasing the pressure on Gov. Rick Perry and other Republican leaders to switch their stance on expanding Medicaid, a major provision of President Obama's health care overhaul. Mr. Perry has told federal officials that Texas has no intention of expanding Medicaid, the government health insurance program for low-income and sick people, saying he would not take part in socializing health care and admitting millions of Texans into an unsustainable program at the cost of billions to taxpayers. ([NY Times](#))

Obamacare requires employers to offer insurance. What if it's too expensive? — Millions of lower-income workers may gain access to employer-sponsored health insurance under the Affordable Care Act — but they may decide not to purchase that coverage. Most of the lowest-income workers currently offered health benefits elect not to enroll, according to a new study from the ADP Research Institute. While the Affordable Care Act does require large employers to offer coverage, this study raises the possibility that Americans may still decide to forgo the option. ([WaPo](#))

Fannie, Freddie to Create Joint Firm — The regulator overseeing Fannie Mae and Freddie Mac announced Monday one of the most concrete efforts to date for building a new infrastructure that could ultimately replace the government-controlled mortgage companies. Edward DeMarco, acting director of the Federal Housing Finance Agency, said the agency would begin forming a company that would consolidate some of the "back-office" functions currently replicated individually by each firm. ([WSJ](#))

Fed's Powell says existing rules could end too-big-to-fail — U.S. financial regulators need time to demonstrate that their plans for ending too-big-to-fail will work, although tougher

measures could be needed down the road, Federal Reserve Governor Jerome Powell said on Monday. In the wake of the bank bailouts of the 2007-2009 U.S. financial crisis, regulators have been working on tough new rules to shore up banks' safety, such as requiring them to meet higher capital standards, and on plans for how to wind down failed banks that are deemed to large to go through bankruptcy. ([Reuters](#))

Also From the Forum

The Week in Regulation: February 25 to March 1 — The Affordable Care Act (ACA) added give regulations to the Federal Register this week. Combined, the five final rules include \$100 million in costs and more than 300,000 paperwork burden hours; none of the rules quantified benefits. For the week, regulators published \$255 million in costs and added 288,000 hours of paperwork. ([Breakdown here](#))