The Daily Dish

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In a poll that shouldn't be a surprise at this point, a majority of Americans are in favor of Keystone XL. The White House is continuing its veto threat of the energy project despite positive endorsements from the public and State Department reports showing the pipeline will be better for the environment than alternatives.

Senate Republicans are beginning to roll out working groups to simplify the tax system. Senate Finance Chairman Orrin Hatch hopes the groups will "…lay the groundwork for a bipartisan tax overhaul that will provide bigger paychecks, better jobs, and more opportunity for all Americans." AAF's Douglas Holtz-Eakin recently touched upon simplifying the code and other principles for tax reform.

Eakinomics: The State of Economic Growth

The U.S. economy grew at a 2.7 percent pace for the year from the 3rd quarter of 2013 to the 3rd quarter of 2014, which itself featured a sharp rise at a 5.0 percent pace. It was natural to expect that growth would slow somewhat in the final quarter as the 3rd quarter data were buoyed by a sharp (if somewhat inexplicable) 16 percent rise in federal defense spending and a seemingly unsustainable growth in exports. On the latter front, however, the sharp collapse in oil prices lowered the U.S. import bill in the 4th quarter, mitigating the likely dropoff.

The other news, however, was not as encouraging. After solid reports in October and November, the December data were decidedly weaker. The Institute for Supply Management (ISM) indices for both manufacturing and non-manufacturing both slid — to 55.5 from 58.7 in manufacturing and to 56.2 from 59.3 in non-manufacturing. But the most striking falloff was in retail sales. Despite a rise in consumer confidence in December, total retail sales fell 0.9 percent. Since gasoline prices fell along with the global price of crude, one might think this is just cheap gasoline. Not quite, as total retail sales excluding auto and gas decreased 0.3 percent. (The trend toward weakness continued into 2015, as the influential Philadelphia Fed survey index fell to 6.3 in January from 24.3 in December.)

Stepping back, two major issues present themselves. First, the household sector will face difficulty in shifting north of 2.7 percent unless wage and income growth accelerate. That remains the missing piece in the labor market recovery, and the economy as a whole cannot grow more rapidly unless household sector spending does.

More importantly, the Congressional Budget Office (CBO) estimates that the long-term potential growth rate of the economy is 2.3 percent. Taken at face value, that means the current growth rate is *above* the long-term trend. Put differently, we are in a "boom" part of the cycle even though nobody feels that way. Raising the long-term trend growth rate is the main imperative for economic policy today.

From the Forum

AAF Solutions: Reform Principles for FSOC Designation Process (Cont'd) by Satya Thallam, AAF Director of Financial Services Policy