The Daily Dish

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Gin and tonics this summer could be just a little less expensive if Rep. Todd Young's legislation can make it to the president's desk. According to The Hill, the bill would reduce the current excise tax of "$13.50 per proof gallon to $2.70 per proof gallon on the first 10,000 gallons of productions for all distillers and then $9 per proof gallon after that." The bill would benefit craft distilleries more than the larger operations.

U.S. consumer confidence continues to slide after reaching a year high in January. The weekly Gallup poll is down two points this week, registering a -9. Only 23 percent said that the economy was excellent or good while 29 percent said it was poor. Over half believe that the economy is getting worse.

Quick Read: How a tractor company has found itself in the middle of the tech copyright debate.

Eakinomics: Take a Chill Pill

Markets tanked yesterday, ostensibly over fears that the remarks of Chairwoman Janet Yellen put a rate increase back on the table. It is always a dangerous game to read the minds of millions of investors to conclude "the" cause of equity market fluctuations. But the chatter reinforced endless rehashing of the Fed's 2015 policy over the past several months. Enough! When all is said and done:

1. The Fed will raise the federal funds rate in 2015 and monetary policy will still remain loose.

2. A rate increase will not crush the economic recovery.

3. A move to normalize interest rates will help to clarify the real strengths and weaknesses of the U.S. economy.

Janet Yellen and other Fed officials have described the rate increase as data dependent; the data as relatively strong — the first quarter slump being due to temporary factors; and argued that one should expect a rate increase in 2015 if their outlook is confirmed. That is about as close to "we promise" as the Fed can get. Moreover, suppose that the Fed gets the federal funds rate to 0.75 percent by December 31, 2015. With inflation running at 1.5 percent, that still implies negative real (inflation-adjusted) interest rates. That is extraordinarily loose monetary policy — by normal standards. It only looks threatening compared to the Fed's recent past and the quantitative easing taking place in Japan and Europe.

A move from super-loose to really-quite-loose monetary policy will not damage the economic recovery. Just as the Fed consistently over-estimated the growth impacts of its extraordinary measures, market fear-mongerers now over-estimate the impact on the recovery. The reality is that any really big move in the pace of economic growth is now much more dependent on raising the trend rate of growth — the cyclical recovery is about done. Monetary policy has little influence on the trend; the bullseye is on this Administration (or, more likely, the next) to undertake the entitlement reforms, tax reforms, regulatory reforms, education reforms, and immigration reforms, that will control the debt, restore risk-taking and innovation, re-start productivity growth, and raise the long-term growth potential of the economy.

Starting to raise rates would, however, serve a useful purpose. As noted above, the Fed is relatively tight compared to Europe and Asia. The quantitative easing regimes have pumped liquidity into their economies, which has pursued the more attractive investment climate in the U.S., and fueled rises in the dollar, equity markets, and some housing markets. This raises the questions: how much of the financial improvement is real and built on fundamentals and how much depends on loose monetary policy (here and elsewhere). Raising rates would begin the process of normalizing, which would also normalize the mix of bonds and other assets in portfolios. It would help to sort out how much growth the household sector (with its weak confidence) can support given the likely continued weaker export performance and anemic capital spending by businesses.

The fuss over the timing of a rate move is overrated. The more important issue is to get the normalization started.

From the Forum

John Deere Copyright Issues by Will Rinehart, AAF Director of Innovation and Technology Policy

State of the Economic Recovery: 5 Economic Indicators to Watch by Gordon Gray, AAF Director of Fiscal Policy; and Ben Gitis, AAF Director of Labor Market Policy