The Daily Dish

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With very few substantive proposals on the table at the White House or in Congress, yesterday CEOs at Business Roundtable floated a new proposal to tame our future of ever-increasing debt driven by unsustainable entitlement spending. *The Financial Times* reports that “it highlights the deep concern in corporate America about the finances of the so-called ‘entitlement’ programs as the country ages and baby-boomers retire.” Co-author of the plan, Gary Loveman, chief executive of Ceasars Entertainment, said “the view of my fellow CEOs was that if we’re going to fight this battle, recognizing that these battles are very difficult to fight, better to fight them for a meaningful change that is consistent with demographic reality rather than for a modest increase and then to have to fight it again.”

Fight it again we most certainly will. Washington has been consumed by budget battles for years, stumbling from one “solution” to the next — a problem the Dish has explained will persist until meaningful reforms are actually in place — not budgetary gimmicks that actually do nothing to reduce spending, close the deficit, and pay off the debt.

Something that could help in this effort would be a return to regular order — including a budget from the Senate. *The Hill* reports that “the Senate has not passed a budget resolution since 2009, and Murray last year suggested that a budget may not get done again this year.” But “in a letter made public Wednesday,” some members of the Senate Budget Committee “lay out a detailed hearing and markup schedule to meet the legal deadline for producing a budget.”

On Our Radar: 8:30 AM Weekly Jobless Claims from Dept. of Labor and Housing Starts from Census; 9:45 AM Bloomberg Consumer Comfort Index; 10 AM Philadelphia Fed Survey.

Doug’s Daily Economic Outlook

What happens if the sequester is allowed to go into effect? The public is now aware that the sequester is across the board cuts to fiscal 2013 spending. And it is also broadly aware that it means $50 billion less each in non-defense and defense spending. And it probably has heard tales of shuttered federal office doors, agency downsizing, and massive job loss. But what *actually* would happen?

The federal budget is an enormous (federal spending exceeds one-fifth the size of the economy) and complex undertaking. So when the sequester order comes to cut, for example, Department of Labor spending by 10 percent it does not mean that the Secretary of Labor gets to simply pick the best place to save. No, instead each of the Bureau of Labor Statistics, the Women's Bureau, the Wage and Hour Division and every other office in the agency gets cut.

But it is more complicated than that. The sequester will actually be implemented at the program or activity level — something that the Office of Management and Budget will ultimately get to define. So when the budget cleaver comes, it must affect the spending accounts in each such activity equally by 10 percent. Some will be largely people — that means furloughs (unpaid leaves) — would be inevitable. Some might be largely procurement, which shifts the burden to government contractors.

The bottom line is that the sequester will be as complicated as the budget (take a look here) and its impact on the activities of government will be difficult to predict. But inevitably, its mechanical nature means that it will be a lot worse than using the budget process to make the same reductions.

What We're Reading

Economy expanded in recent weeks – Beige Book — Economic activity across the United States expanded at either a moderate or modest pace in recent weeks with consumer spending picking up, the Federal Reserve said on Wednesday, suggesting little change in terms of the recovery's strength. The U.S. central bank pained a cautiously positive picture of an economy gathering steam across its 12 districts, although businesses an consumers were wary due to uncertainty over fiscal policy and conditions on the other side of the Atlantic. (Reuters)

As manufacturing bounces back from recession, unions are left behind — U.S. manufacturers have added a half-million new workers since the end of 2009, making the sector one of the few bright spots in an otherwise weak recovery. And yet there were 4 percent fewer union factory workers in 2012 than there were in 2010, according to federal survey data. On balance, all of the job gains in manufacturing have been non-union. (WaPo)

A Health Scare for Small Businesses — Even though the rule doesn't go into effect until early 2014, a business could be subject to the so-called employer mandate if, during 2013, it averages 50 or more full-time equivalent employees, according to recently released regulations from the Treasury Department and the Internal Revenue

Service. (WSJ)

Fed Reports Point to Subdued Economic Growth — The U.S. economy expanded in recent weeks as consumers stepped up spending but weak hiring is restraining growth, the Federal Reserve said Wednesday. The Fed's Beige Book, a summary of economic conditions across the central bank's 12 regional districts, said the economy grew across all regions at a "modest" or "moderate" pace since November. That is largely in line with how the economy has performed for much of the past two years. (WSJ)

Mortgage Rules Aid Homeowners — U.S. banks will have to do more to help struggling mortgage borrowers keep their homes under final rules to be released Thursday by a U.S. regulator. Mortgage-loan servicers, which collect borrowers' loan payments, will have to evaluate troubled borrowers for all loan-assistance options permitted by mortgage investors such as Fannie Mae and Freddie Mac, as well as private investors, according to the rules from the Consumer Financial Protection Bureau, which take effect in a year. (WSJ)

Fire Fears Spur FAA to Ground Dreamliner — The Federal Aviation Administration Wednesday ordered a halt to flights of Boeing Co.'s 787 Dreamliner, an unprecedented rebuke to the plane maker after two major battery malfunctions on its flagship jets. It is the first time in four decades that U.S. regulators have taken such dramatic action to effectively ground a major airliner. The FAA called for Boeing and its airline customers "to develop a correct action
plan." (WSJ)

After an Eight-Month Ride, Home Builder Confidence Stalls — Despite big earnings gains from the big public builders, overall confidence among the nation's home builders took a pause in January. An industry index measuring sentiment was unchanged after eight consecutive monthly gains. The index was heading toward the line between positive and negative sentiment, but appears to have stalled. (CNBC)

Also From the Forum

Piling On: The Year in Regulation – The administration added $236 billion in new regulations in 2012, capping off four years of $518 billion in new regulatory costs. Our research found that small businesses, as a percentage of market capitalization, reported higher regulatory costs than their larger competitors. (Breakdown here)

How Much Deficit Reduction? – Debt reduction is a clear imperative. But how much? The right answer appears to be in the vicinity of $4 to 5 trillion. (Brief analysis here)