The Daily Dish

Good morning —

The Fed kicks off their two-day policy meeting today and the AP reports that it is "expected this week to announce a new bond-buying plan to support the U.S. economy." Importantly, however, "Chairman Ben Bernanke warned last month that if the economy feel off a 'broad fiscal cliff,' the Fed probably couldn't offset the shock." Bernanke coined the phrase "fiscal cliff" in February of this year and the CBO first warned in May that going over the cliff would lead to a recession.

Despite some moderately positive headlines about progress in Washington, "fears of the cliff have led some U.S. companies to delay expanding, investing and hiring. Manufacturing has reached its weakest point since July 2009. Consumers have cut back on spending. Unemployment has dipped in recent months but remains a still-high 7.7 percent."

The *Wall Street Journal* notes that "worries about consumer outlook are elevated," making the clear case that "modest job growth and less take-home pay won't support substantial increases in consumer spending." Finally, the *Washington Post* adds that "many investors are taking preemptive action to get out of harm's way. Americans are moving to sell investment homes, off-load stocks, expand charitable donations and establish tax-sheltering gifts before the end of the year."

Fiscal Cliff Fact of the Day — Going over the fiscal cliff will trigger sequestration, leading to an 8.2 percent cut in federal spending for Education for the Disadvantage and an 8.2 percent cut in federal spending for Special Education. (Page 5 of E-Book)

On our radar: 8:30 AM: October U.S. International Trade in Goods & Services from Census.

Doug's Daily Economic Outlook

Health care issues are everywhere. Talk of progress on the fiscal cliff should remind everyone that the fundamental of any deal is a trade: Republicans accede to higher revenues in exchange for Democrats accepting fundamental reforms of entitlement programs — where the key are the large health spending programs: Medicare, Medicaid, and the new Affordable Care Act. That, as it turns out, is where the money is. According to the president's budget current-law spending on Medicare will total $7.1 trillion over the next ten years, spending on Medicaid will total $4.4 trillion, and "other mandatory" (which includes the ACA) spending will total $6.9 trillion.

Unfortunately, the president has been missing in action of proposals to reform health care spending. Indeed, the notion that the Administration is willing to entertain a total of only $400 billion in cuts over the next ten years is laughable. Does anyone think that cutting under 3.5 percent of Medicare and Medicaid — and even less of the total — will solve our debt problems? Even worse, to the extent that there have been proposals floated, they are either additional taxes in disguise ("rebates" in the Medicare prescription drug programs that are just checks from Phrma to the Treasury) or cuts to reimbursements that lead providers to stop seeing seniors. Taxes and rationing are not a spending strategy.

To my eye, at least, it is not yet time to have champagne and caviar for breakfast. The celebration awaits a moment of real presidential leadership to match the compromises that Speaker Boehner has put on the table.

What We're Reading

Obama-GOP Cliff Talks Take Positive Turn — Budget Negotiations between the White House and Republican House Speaker John Boehner have progressed steadily in recent days, people close to the process said, breathing life into talks that appeared to have stalled. Both sides still face sizable differences before any agreement might be reached by the end of the year, and talks could well falter again over such controversial issues as taxes and Medicare before any deal is reached. (WSJ)

U.S. "fiscal cliff" talks picking up pace — Neither side gave any public signs that they were ready to give ground. And a House Republican leadership aide said, "There is no deal or anything like it," on resolving fiscal cliff issues. On Capitol Hill, however, there were indications that preparations were under way for quick legislative consideration of a deal if one is reached soon. (Reuters)

*Stock Market Is A Wild Card In Fiscal Cliff Talks** — Congress and the White House can significantly soften the initial impact of the "fiscal cliff" even if they fail to reach a compromise by Dec. 31. One thing they cannot control, however, is the financial markets' reaction, which possibly could be a panicky sell-off that triggers economic reversals worldwide. The stock market's unpredictability is perhaps the biggest wild card in the political showdown over the fiscal cliff. (AP)

*Related AAF analysis here.

Obama Approves Health Insurance Marketplaces in 6 States — The Obama administration gave conditional approval on Monday to health insurance marketplaces being set up by six states led by Democratic governors eager to carry out President Obama's health care overhaul. The six are Colorado, Connecticut, Maryland, Massachusetts, Oregon and Washington. At the same time, the administration rejected plans from other states that want to carry out a partial expansion of Medicaid, to cover fewer people the the president and Congress originally intended. (NY Times)

Health Providers Watch Cliff Talks — Deficit- reduction negotiations have revived a long-standing question: How much can the government cut what it pays Medicare and Medicaid providers without affecting beneficiaries? The White House has suggested making $400 billion in cuts over 10 years…almost all of those alternative cuts would likely come in the form of reductions in payments to hospitals and drug companies…Republicans have countered that they want more. They have proposed a target of at least $600 billion in trims to health-care programs, and they indicated they would require sweeping changes such as raising the Medicare eligibility age to be included in any deal. (WSJ)

White House Seeking New Regulator for Fannie, Freddie — The White House has begun preparations to nominate a new di
rector to lead the agency that oversees Fannie Mae and Freddie Mac as soon as early next year, according to people familiar with the discussions. This would pave the way for President Barack Obama to fill what has become one of the most important economic policy positions in Washington. (WSJ)

Also From the Forum

The Week in Regulation: December 3 – 7 — For the first time in months, regulators added billions in new regulatory costs ($3.4 billion), thanks in part to four Affordable Care Act regulations. In addition, agencies published more than 13.8 million paperwork burden hours. (Breakdown here)