Torchbearer Policy Update

By Caryl Auslander • Mar 13, 2023

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Welcome back! We hope you enjoyed your weekend. Thank you for allowing us to be your trusted source for news at the local, state, and federal levels.

Local, state, and federal highlights in this week's memo include:

- **Biden's New Budget Trap**
- **Economy Adds 311K Jobs in February, Unemployment Rises to 3.6 Percent**
- **Chambers to Travel to Japan, South Korea**
- **Search to Fill IURC Vacancy Begins**
- **Huge Stakes in Coming Economic Data**
- **Gigi Sohn Withdraws FCC Nomination**
- **Biden Wants Rich to Pay "Fair Share"**
- **Share the Torchbearer Newsletter with Your Network!**
- **Important Dates**

Let’s dive in.

Biden's New Budget Trap

President Biden got his FY2024 budget out of the way.

- Now he can turn to a more urgent task: Goading Republicans into offering their own proposals — and trying to define them before they do, *Axios' Hans Nichols writes*.

Why it matters: By calling for the rich to pay higher taxes to shore up Medicare, Biden is trying to force a fight on deficit spending and entitlement programs on his own populist terms.

- The bigger battle is over the looming debt ceiling showdown.

- Biden upped the ante today by hinting that he won’t even meet with House Speaker Kevin McCarthy before he puts forward his own budget.

- “I want to make it clear: I’m ready to meet with the speaker anytime — tomorrow, if he has his budget," Biden said in Philadelphia.

The other side: McCarthy responded that the House planned to release a budget, but that it would be delayed — offering an explanation but not a timeline.

- "We were going to do the budget in April," McCarthy told reporters. "But unfortunately, the president is so late with his budget, it delays our budget."

Driving the news: In a campaign-style speech on budget day, Biden made it clear he was looking for confrontation — not negotiation.

- He even raised the specter of Trump’s return, calling him “the former president, and maybe future president.”
- "Bless me, Father," he added, making the sign of the cross and drawing laughter from the union crowd.

Between the lines: Biden’s $6.8 trillion spending blueprint, which relies on $1.8 trillion in deficit spending in its first year, had a little something for everyone in his own party.

- It didn’t have many olive branches to the other side.

By the numbers: In the strategic press previews leading up to the budget’s release, officials emphasized Biden’s $3 trillion in deficit reduction over 10 years.

- Biden still plans to spend more than $10 trillion that he wants to raise in taxes over the next decade.
- The defining features of his budget on the revenue side are higher taxes on corporations and the wealthiest Americans — for a total of $4.5 trillion over 10 years — including a new 25% tax on billionaires.
- On the spending front, he proposed more for domestic discretionary spending — where progressives focus most of their energy — than he did for the Pentagon.

What we're watching: Amid all Biden's bold talk on shoring up entitlement programs, there were more muted estimates on the economy.

- Biden's team assumes GDP will grow only 0.4% this year, with the jobless rate rising to 4.3% and 4.6% in 2024. (It was 3.4% in January.)
- Those jobless forecasts are rosier than projections from the Congressional Budget Office's version last month, *Axios' Neil Irwin notes. (Axios)*

Economy Adds 311K Jobs in February, Unemployment Rises to 3.6 Percent

What's new: The U.S. economy added 311,000 jobs in February and the unemployment rate rose to 3.6 percent, according to data released Friday by the Labor Department.

Why it matters: Economists had been expecting around 225,000 jobs to be added in February and for the unemployment rate to remain at 3.4 percent. Despite the strong headline jobs gain, the report showed signs the labor market may finally be buckling under the pressure of eight consecutive interest rate hikes by the Federal Reserve.

By the numbers; Average hourly earnings — a measure of wages — rose 0.2 percent in February to land at a 4.6-percent annual increase, falling below expectations.

That means wage pressures on inflation could be easing. Prices were up 6.4 percent annually in the consumer price index (CPI) and 5.4 percent annually according to the personal consumption expenditures (PCE) price index in January.

The higher payroll numbers along with the lower level of overall employment is likely a mixed bag in the eyes of Fed officials, who've struck a more aggressive tone in recent weeks after the latest PCE report saw inflation tick back up.

Yes, but: The report comes on the heels of a surprisingly strong January jobs report in which 517,000 jobs were added to the economy. The January numbers were revised down but only slightly to 504,000.

Analysts are saying the slowdown in wage growth could be the most significant data point for the Fed, since higher labor costs are traditionally associated with higher prices.

What they're saying: "Wage growth [is softening], easing fears of reaccelerating inflation," ZipRecruiter chief economist Julia Pollak wrote in an analysis on Friday. "Wage growth was lower than expected, slowing to 3.6 percent from 4.4 percent on a 3-month annualized basis."

Inflation has outpaced wage growth significantly over the course of the pandemic, eating into paychecks and resulting in negative real wage growth even though paychecks have been rising nominally.

The report also showed that the civilian labor force increased by 419,000 people, or about a quarter of a percent. The labor force participation rate also increased slightly to 62.5 percent in February from 62.4 percent in January.

“Labor supply cools off wage growth pressures and increases the output which reduces inflationary pressures. Every time you revise up your estimate of labor supply, as most should be doing, think of it as reducing the need for rate hikes,” wrote Adam Ozimek, chief economist Economic Innovation Group think tank, in a Friday tweet.

Friday’s jobs number means the ratio of job seekers to open jobs dropped down to 1.8 from 1.9, another sign that inflation pressure from the job market could be easing. A broader measure of unemployment that counts people who are out of work but not currently seeking it puts that ratio even lower.

The bottom line: “The ratio of job openings to unemployed workers ticked downwards to 1.8. While a 50 basis point rate increase is still on the table, the Fed may be content to take it slow, given some signs of slackening labor market conditions,” ZipRecruiter’s Pollak added. (The Hill)

Chambers to Travel to Japan, South Korea

Breaking: Indiana Secretary of Commerce Brad Chambers will lead a delegation next week on an economic development trip to Asia, where he will promote Indiana's growing battery, electric vehicle, and semiconductor industries.

Dig deeper: The Indiana Economic Development Corp. said Wednesday he will meet with government officials and business leaders in Japan and take part in a battery industry conference in South Korea.

Chambers will be joined by Dave Roberts, CEO of the Applied Research Institute, and Ben Wrightsman, CEO of the Battery Innovation Center.

There's more: The group also expects to meet with business prospects and leaders of Japanese businesses with Indiana operations in Tokyo and Nagoya to discuss opportunities to accelerate the future of mobility in Indiana.

The delegation will then travel to Seoul and participate in the InterBattery Conference, an industry exhibition showcasing various new products and technologies related to the battery industry.

What they're saying: "Indiana is pursuing strategic growth in critical sectors that will be central to tomorrow's economy," said Chambers. "As one of eight states invited to participate in Korea's top battery summit, Indiana innovation will be taking center stage, bolstering our growing battery and electric vehicle supply chain for years to come."

The bottom line: The IEDC says more than 300 Japanese-owned and 12 South Korea-owned companies do business in Indiana. (Inside Indiana Business)

Search to Fill IURC Vacancy Begins

Breaking: Indiana Utility Regulatory Commissioner Stefanie Krevda is stepping down from her post, Gov. Eric Holcomb’s office announced

Friday. Krevda, who was first appointed to the IURC in 2018 by Holcomb, will remain until the end of April.

Holcomb's office said Krevda notified the governor that she wished to spend more time with her young family in her decision to step down.

Go deeper: Krevda was reappointed to the position by Holcomb in 2022. As one of five commissioners, Krevda makes decisions regarding proposed utility rate hikes.

Next steps: The Indiana Regulatory Commission Nominating Committee will meet to evaluate potential replacements after her departure. Its list of candidates will be forwarded to the governor, who will decide who will fill the vacated post. (Inside Indiana Business)

Huge Stakes in Coming Economic Data

For economic wonks and other data-watchers, every release of jobs, inflation and other indicators is important. But this upcoming round of data is *extremely* consequential.

- That's the headline so far from Powell's testimony on Capitol Hill, where he is appearing before the Senate Banking Committee this morning.

What they're saying: In his opening statement — which tops out just above 1,000 words — one sentence stuck out: "If the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes."

- It suggests the Fed is on a knife's edge and may abandon a shift to more gradual monetary tightening that had been in the works for months.
- After Powell's comments, expectations that the Fed would hike by a half-point later hit 60%, as of 11:50am ET, according to a tracker maintained by the CME. Yesterday, that was 31%.
- Powell also acknowledged that recent data has come in "stronger than expected," which implies the ultimate level of rates "is likely to be higher than previously anticipated." Translation: The Fed will probably raise rates higher than the 5.1% implied by its last official forecasts in December.

Why it matters: Fed officials spent months guiding markets toward a new phase of monetary policy, suggesting they would move in smaller steps to take stock of how tightening is ripplingthrough the economy.

- That plan may be out the window if — emphasis on *if* — January's hot data repeats in February.

The big picture: The huge question facing policymakers is whether that reacceleration was a blip (a result of unseasonably warm weather, perhaps) or a sign the economy is developing in a manner that runs counter to the Fed's goals.

- They will lean on incoming data between now and the start of their policy meeting March 21-22 for signs of whether inflation continued to reemerge last month.

- That starts tomorrow, with the job openings and turnover report (more on that below), then February's jobs report out Friday and next Tuesday's consumer price index.
- Other notable data points before the policy meeting include retail sales and the producer price index, both out next Wednesday, and next Friday's industrial production.

The bottom line: If those reports confirm the signal sent from January data, dreams of a soft landing and painless disinflation will become more distant. (Axios)

Gigi Sohn Withdraws FCC Nomination

Gigi Sohn, President Biden's pick for a tie-breaking seat on the Federal Communications Commission has withdrawn her nomination, Axios has confirmed.

Why it matters: Sohn's withdrawal, the result of a concerted effort to rally sentiment against her, is a blow to a deadlocked FCC, which is hamstrung on policy without another Democrat, per Axios' Ashley Gold.

The big picture: Sohn's withdrawal comes after Axios' Hans Nichols reported that her nomination appeared stalled in committee and was endangered.

- With her withdrawal, the FCC remains deadlocked with two Republican and two Democratic commissioners, making it difficult for the Biden administration to implement key parts of his domestic policy agenda.
- The FCC seat has been vacant for more than two years.
- The Washington Post first reported the withdrawal.

State of play: Sohn faced an uphill battle during the nomination as opponents seized on outspoken tweets, her involvement with a company hated by the broadcast industry and the opportunity to keep the FCC at 2-2.

What they're saying: "When I accepted [President Biden's] nomination over sixteen months ago, I could not have imagined that legions of cable and media industry lobbyists, their bought-and-paid-for surrogates, and dark money political groups with bottomless pockets would distort my over 30-year history as a consumer advocate into an absurd caricature of blatant lies," Sohn said in a statement to Axios.

- "The unrelenting, dishonest and cruel attacks on my character and my career as an advocate for the public interest have taken an enormous toll on me and my family," the statement continued.
- Sohn said it is a "sad day" for the U.S. and democracy when "dominant industries," helped along by "unlimited dark money," get to choose regulators. "With the help of their friends in the Senate, the powerful cable and media companies have done just that," Sohn said. (Axios)

Biden Wants Rich to Pay "Fair Share"

President Biden's message to the wealthiest Americans is clear: "You have to begin to pay your fair share," Shalanda Young, the director of the Office of Management and Budget, told reporters. "We are happy to have that debate."

- **The big picture:** Biden released a $6.8 trillion budget proposal for fiscal year 2024 today.

Why it matters: His plan, which has little chance of being enacted by Congress, amounts to the clearest distillation of his political priorities as he prepares to mount a re-election campaign by running against congressional Republicans, *Axios' Hans Nichols writes*.

🧮 **By the numbers:** Biden is proposing $885 billion in defense spending to help fund the war against Russia in Ukraine and bolster the Pentagon's procurement budget.

- **For domestic programs,** a traditional top priority for Democrats, he's asking for even more, proposing some $1 trillion for so-called nondefense discretionary spending.

Zoom out: Biden has sought to frame his budget as a serious effort to rein in deficits, claiming that he will reduce overall deficit spending by $3 trillion over the next decade.

Here's how he plans to do it:

- **He's pursuing a new** billionaire tax, forcing them to pay at least 25% of all of their income, including appreciated assets, in taxes.
- **He wants to quadruple** the tax on corporate stock buybacks and raise the overall corporate rate from 21% to 28%.
- **For Americans with** unearned income above $400,000, the Medicare tax rate would jump from 3.8% to 5%, which Biden says will extend the program's solvency by 25 years.
- **He wants to increase** the top tax rate to 39.6% from 37%, reversing a Trump-era tax bill. (Axios)

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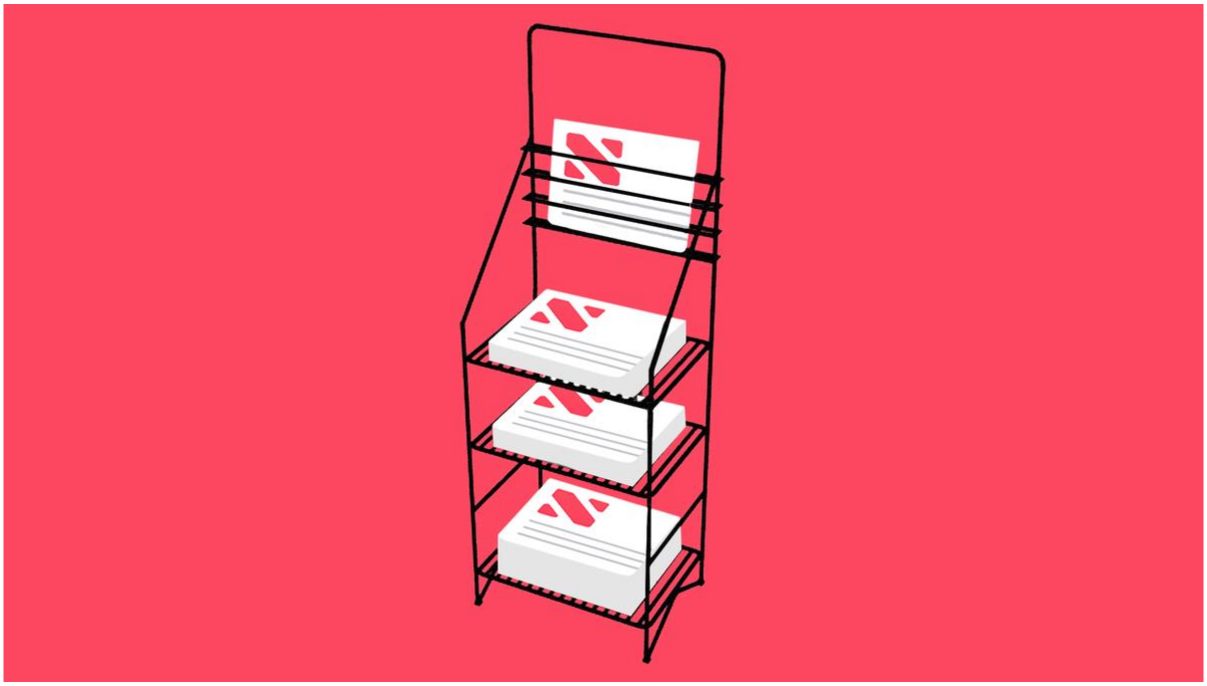

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Important Dates:

Monday, February 27th - Senate 2nd Reading Deadline

Monday, February 27th - House 3rd Reading Deadline

Tuesday, February 28th - Senate 3rd Reading Deadline

Tuesday, April 11th - House Committee Report Deadline

Thursday, April 13th - Senate Committee Report Deadline

Thursday, April 13th - House 2nd Reading Deadline

Monday, April 17th - Senate 2nd Reading Deadline

Monday, April 17th - House 3rd Reading Deadline

Tuesday, April 18th - Senate 3rd Reading Deadline

Thursday, April 27th - Anticipated Sine Die

Senate Session Calendar

House Session Calendar