

Getting Serious About the Deficit

Imagine a company that dominates its field. It's been #1 in its industry as long as anyone can remember. But, lately, it's fallen on hard times. Revenue has dropped dramatically. The only thing keeping it afloat is record borrowing based on its stellar credit rating, earned many years ago. Meanwhile, independent analysts have shown that workers at this company earn higher than average wages. Moreover, the workers have skills that are not easily transferrable.

If this were an airline or an automaker, the solution would be a no-brainer: it would be time for a big pay cut. If the company didn't cut pay, or increased it, creditors and investors would question the seriousness of management.

But this is exactly what President Obama did in his most recent budget – request a wage increase of 2% for civilian federal workers in 2010. It's no wonder that some are questioning the financial stability of the USA. So why don't we do something serious. How about an outright pay cut of 10% for all civilian federal workers?

Total compensation per federal worker – cash earnings plus fringe benefits – already averages twice that of the private sector. So cutting cash earnings by 10% across-the-board seems not only reasonable, but justified. Truth be

told, it would not save a great deal of money, at least not up front. The payroll (wages and salaries) for civilian federal workers is about \$150 billion per year, so a 10% cut would only net \$15 billion in outlay savings.

Nonetheless, a one-time pay cut of 10% permanently shifts future wages onto a lower path. With today's interest rates, the present value of all future outlay savings would total roughly \$750 billion.

This is a drop in the bucket when compared to the total of all of the federal government's unfunded liabilities, which have reached nearly \$70 trillion. But the message is just as important as the amount.

Lenders around the world are rethinking sovereign credit risk. Lately, Greece has been the focal point, but talk of a US debt downgrade has also occurred. We doubt the US's debt rating will be downgraded, but just hearing the discussion is making Alexander Hamilton (the first Secretary of the Treasury) turn over in his grave.

For the President's budget to propose federal worker pay hikes, with unemployment at 9.7%, after many private-sector workers have had to suffer pay cuts, the signal being sent is clear: The US is not yet serious about the deficit.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-1 / 7:30 am	Personal Income - Jan	+0.4%	+0.5%	+0.1%	+0.4%
7:30 am	Personal Spending - Jan	+0.4%	+0.5%	+0.5%	+0.2%
9:00 am	ISM Index - Feb	57.9	58.3	56.5	58.4
9:00 am	Construction Spending - Jan	-0.6%	0.0%	-0.6%	-1.2%
3-2 / sometime	Domestic Auto Sales - Feb	3.7 Mil	3.7 Mil		3.8 Mil
during the day	Domestic Truck Sales - Feb	4.2 Mil	4.2 Mil		4.3 Mil
3-3 / 9:00 am	ISM Non-Man. - Feb	51.0	50.2		50.5
3-4 / 7:30 am	Q4 Non-Farm Productivity	+6.3%	+5.9%		+6.2%
7:30 am	Q4 Unit Labor Costs	-4.4%	-5.0%		-4.4%
7:30 am	Initial Claims - Feb 27	468K	477K		496K
9:00 am	Factory Orders - Jan	+1.8%	+1.8%		+1.0%
3-5 / 7:30 am	Non-Farm Payrolls - Feb	-50K	-150K		-20K
7:30 am	Manufacturing Payrolls - Feb	-20K	-30K		+11K
7:30 am	Unemployment Rate - Feb	9.8%	9.6%		9.7%
7:30 am	Average Hourly Earnings - Feb	+0.2%	+0.2%		+0.2%
7:30 am	Average Weekly Hours - Feb	33.7	33.6		33.9
2:00 pm	Consumer Credit – Jan	-\$4.5 Bil	-\$8.9 Bil		-\$1.7 Bil