MONEY for February 27, 2013 - Part 1

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DENNIS KNEALE, FBN ANCHOR: I'm Dennis Kneale in for the irrepressible Melissa Francis. Here is what is "Money" tonight.

It is code red for the meat industry, sequester gets two days away. The alarm sound of a possible widespread beef shortage, are the fears overblown? Secretary of agriculture Tom Vilsack joins to us respond.

Plus, President Obama wants $50 billion in fresh stimulus, completely missing out though on $100 billion stimulus already coming, from the private sector. It is an economic boost almost no one has heard about. We will explain.

And, are rolling blackouts coming to California? Officials admit a growing dependence on green energy could cause an electricity crisis. You got to hear it to believe it. We got the details.

And even when they say it's not, it is always about "Money."

KNEALE: All right. First, let's start with today's market moment. Stocks mounting a huge rally today, concerns over Europe's debt crisis eased following a strong debt auction in Italy. U.S. pending home sales has also topping expectation, hitting close to a three-year high, the best day for the major indexes since January 2nd. And the

Dow is now 89 points away from its all-time high. We will see if the bulls can put it up over the top tomorrow.

Only two more days before we are hit with the dreaded sequester. Now, the president has until midnight Friday night to sign the order. And government agencies are making a list in a last push, sounding the alarm about the dire impact.

Now, the U.S. secretary of agriculture, Tom Vilsack, has warned that cuts to the USDA which oversees safety inspections of meat and poultry and egg processing plants, it could result to maybe, a $10 billion to the industry, not to mention higher prices and even supply shortages for consumers.

Now, a short time ago I spoke to secretary Vilsack from the New York stock exchange on whether the whole situation might be blown out of proportion?

(BEGIN VIDEOTAPE)

TOM VILSACK, AGRICULTURE SECRETARY: Well, the reality is the way the sequester is structured, we have to cut every line item of our budget including one in food safety by the same uniform amount. And when the food safety budget is predominantly front line inspectors it means we will have to furlough inspectors. When those inspectors walk off the line because they are being furloughed, those plant will have to shut down production at the time of the furlough. That is the unfortunate circumstance of Congress not getting its job done by dealing with the deficit and dealing with it in a smart way.

KNEALE: OK. I'm sorry for the rude or impertinent question but, given it is kind of crisis and food might go out the door without any inspections how is it that you have time to be at New York stock exchange, shouldn't you be high bound to your desk in Washington working on this crisis in some kind of war room or something?

VILSACK: First of all, let's be clear about this. Your food will not leave that facility without being inspected. What it means is the production lines will have to shut down. That is the tragedy of this. And so, it's important for folks to understand and appreciate exactly what is going on here.

We are in New York today, in order to talk to folks about the consequences of the sequester. We are also busy with folks about the some of our nutrition programs and the impact this sequester have on 600,000 women, and infant and children who will not get benefits of the WIC program if the sequester goes through.

KNEALE: Yes, I see.

Now, let's talk about you meat inspectors because I find it very hard to believe that a person running their own shop the way you're running your own department of agriculture there, doesn't have a little more discretion, actually cut back on public relations spending.

Now, I will cut back on a public ad campaign. I will cut travel. Why would you have

to cut your inspectors straight out?

VILSACK: Well, first of all, two reasons. One, because the sequester requires it. It requires that every line item be cut by the same amount. There is no discretion, no flexibility. Secondly, our budget is actually $1.2 billion less with the sequester than it was in 2009. So we basically gone four years without any increase and so we have been engaged in all the activities you mentioned. We have cut travel. We cut conferences. We cut supplies. All told between those efforts and our reduction of our workforce by eight percent, we saved somewhere between 700 million and one billion dollars.

KNEALE: I see.

VILSACK: That is how we have dealt with cuts up to this point. The sequester is on top of that.

KNEALE: Or spent that much less versus actually saving it. Does average-let's see. You only have about 8400, 8500 inspectors, right? They, inspect one out of every what, ten or 100 pieces of meat coming off the plant? What is the ratio of inspections?

VILSACK: Well, it depends on whether you're talking about poultry or processed beef or processed pork. The bottom line is, that we're fairly confident that in our food supply being safe by systems we have. And we are obviously looking at ways to improve the inspection systems. But, the law basically mandates companies can't sell product unless it has been inspected. And it also mandates that USDA be the one that does the inspections.

KNEALE: Yes. Kind of wonder whether a company can be trusted to protect its own brand by making sure it doesn't ship spoiled food. I have some numbers for you, kind of a "mission impossible".

I looked at one of your food service inspection report of 2011, they have 6200, 6300 sites to inspect. They have 147 million head of livestock every year to inspect. They got 9.1 billion chicken carcasses and doing that is maybe like, a staff of 8600 in the field. And which means, I have to be inspecting 53 carcasses per hour, almost one a minute. Aren't these guys kind of rubber stamping stuff anyway? Could the food go out and let the company take care of it?

VILSACK: Well, the problem is that the law doesn't allow that. It doesn't mandate that. It mandates that USDA basically be there in order to conduct the inspection. That it mandates that the company has to have the food inspected. And I will tell you that it is not just simply watching the food go down the line. It is also some testing that is done. Some of the pathology that's done to make sure there is not salmonella or an increased amount of e-coli. We're constantly learning more about the science and constantly changing our inspection process to make sure we do the best job we possibly can in terms of food safety.

This is an issue here where it isn't so much about food safety but food production.

Once our inspectors leave that processing facility, that processing facility has to shut down operations. That's the disruption. That is the uncertainty of it all.

KNEALE: All right. I got to tell you for some of us outside the beltway we hear all the hand ringing. We saw the crisis. And it feels a little contrived, a little manipulated. Who set up your trip to the New York stock exchange to preach the downside of the sequester? Was this directed by the White House? Was this your own decision?

VILSACK: Well, our communications department wants to make sure people understand and appreciate that when the disruption occurs they have adequate notice and that we are going to do everything we possibly can to minimize the disruption. But, there is no question in the food safety area we have very, very little flexibility because most of the budget is indeed the front line workers and support systems for these front line workers. So, if you sequester, if you are going to have to cut five or six percent of that budget and do it in a three, four, or five month period it is really about ten or 15 percent of the remaining money you have. And there is just no way you can do it without affecting personnel.

KNEALE: Now, do you think both parts of Congress might have taken that and set aside the meat inspectors guys to go ahead and let them go uncut.

Well, thank you for being with us today. We appreciate your time very much, Mr. Secretary. Good day, sir.

VILSACK: You bet.

(END VIDEOTAPE)

KNEALE: So, is the economic impact of sequester really going to be that bad? What are congressional Republicans saying?

Let's bring in Illinois Congressman Adam Kinzinger for more on this. Thanks for being with us, Congressman.

REP. ADAM KINZINGER (R), ILLINOIS: Thanks. It is good to be here.

KNEALE: So, what do you think? Is the impact being over sold here, exaggerating or are we in for a rocky ride?

KINZINGER: No. I think, we are in some Washington hysteria a little bit here. You know, the reality is when it comes to the meat inspection, the AG committee actually has been having conversations with the USDA and has been informed that they don't expect any closures of any processing plants because they are actually going to be working furloughs in a way that they can keep everything going.

You know, look. The sequester is not the way we want to go about this. But, this is really up to the president. He could drive 1.7 miles to have a conversation with Harry Reid about what they are going to do to avert this from happening. Instead he is pointing fingers at congressional Republicans who twice voted for replacement

plan to do something about these. But, absent the president's leadership, absent Harry Reid doing anything, we are not going not sit here, and debate against ourselves. It is time for real leadership out of Washington and we're not seeing that.

KNEALE: Now, President Obama has been warning us, that women and poor children, will go without being able to eat if we have the sequester cuts. Yet, he hasn't scheduled an emergency meeting at White House until Friday. The cuts have to go into place according to Congress based sometime on Friday. Is he taking this seriously enough?

KINZINGER: I don't think so. I mean if you actually look, he is something like 5,000 miles on nrcc.org. You see the video that we talk about this. He has flown 5,000 miles for campaign rallies seemingly for re-election he already won. So, I don't really understand where his quote, unquote "leadership" is coming in this.

We want to avert this with real cuts that make sense. The president hasn't been a partner and this, look, this law will go into effect without the president and Harry Reid having a discussion. They're unwilling to do it so far.

KNEALE: Search your soul, Congressman. Isn't there some part of every Republican in Congress that kind hope and we go for the sequester cuts because, at least, we start to bend the cost curve?

KINZINGER: Well, we do have to reduce the cost of government because the next generation, and frankly, or so, it is becoming current generation, is bearing the brunt of this out of control debt and it is actually going to take away things like, you know, food programs for women and children which we care about. We just don't want them to go away because the government simply has no more money. And that is the track that we're going on, unless we begin to rein in the out of control spending in Washington because we literally have gone far beyond what we can do.

KNEALE: Let's talk about that out of control spending and the debt.

Now, you met today, I believe it was, with young folks who are carrying an awfully big burden. You know, the debt I'm carrying as my portion of the government. It is only last a little while longer until I die. But, someone who is 20-years-old that is going to be carrying that debt a lot longer, the debt figure, or every citizen, over $50,000, every taxpayer up to almost $150,000. Do these kids that you were meeting with today have any idea what you're talking about?

KINZINGER: Oh, they absolutely do. The millennial generation, I'm a gen-Y-er, I guess. The millennial generation is very engaged, and frankly, the fact that, you know, we have $16.5 trillion in debt, and they're coming to grips with the fact that when they get out of college, when they get married and have families, they are now the ones that we are going to hand this out of control debt off to.

I haven't -- it was an amazing meeting today with the Republican conference and a group of us to listen to young people just hear what they have to say. You know, you see them on TV a lot talking about social issues and that is understandable. It is

something they're passionate about. But these young people are just as fired up about the debt. Sometimes it is a boring issue to talk about so folks don't do it. But they get it. They understand that, you know, we are handing them this, potentially a nation that will be worse off than the one we inherited. It would be the first generation to do that.

KNEALE: And yet both parties in Congress, both of you guys just keep spending and spending. Our federal debt has tripled since 2000, but interest cost on the debt is the same roughly as it was in 2000, only 350 million because the fed has kept borrowing rates so low.

Ultimately, does it turn out you, congressman, are utterly incapable of cutting and you are going to cut only when the fed start raising interest rates and our interest cost triples in a year?

KINZINGER: Well, not me. But I'm hoping Washington not to that point. And we passed the Paul Ryan, the house Republican budget which touched the third rail of politics. The discussion that Medicare is going bankrupt in 12 years, we have to save it for current seniors and make changes for younger people like myself in order to bend the cost curve, not just down but way down to get us to a balanced budget. We have to do that.

If we don't talk about the quote, unquote "third rail of politics," that is 2/3 of federal spending. That is what is growing every year. And unless we have an adult conversation we're in trouble.

KNEALE: All right, thanks so much for being with us. We appreciate your time, Representative Adam Kinzinger of Illinois.

KINZINGER: Thanks.

KNEALE: And next on "Money," the president wants another $50 billion in stem. Maybe someone ought to tell him about the $100 billion boost coming from the private sector. It is the economic jolt, no one is talking about.

Plus, California, all about going green, right, yet, it may just end up going black, turning out the lights all together. Why officials are warning of an impending electricity crisis for the golden state.

More "Money," baby, just straight ahead.

(COMMERCIAL BREAK)

KNEALE: All right, take a look at this. In just the past four months 75 U.S. companies have announced more than $100 billion in stock buybacks. And, just yesterday, home depot adding to that, it is going to be buying back $17 billion worth of its own shares by year-end 2015.

So, forget President Obama's push for a new $50 billion stem back to build up our

infrastructure. Major public companies creating their own stimulus plan. It is more than double what the president is proposing. And they are also raising some dividends. In addition to buying stock back like there is no tomorrow. So, how big of a boost could this give the economy?

Joining me now, one of our favorite economists, Peter Morici.

Thanks a lot. Welcome, peter. And I was just betting, someone ten bucks you would bewaring a bow tie. I appreciate you being there today.

PETER MORICI, ECONOMICS PROFESSOR, UNIVERSITY OF MARYLAND: They should have taken the other side of that debt.

KNEALE: Yes, exactly. They should have. So, buybacks, $100 billion, I feel like this could help the economy. What do you say?

MORICI: Absolutely. You know, people spend money basis of how wealthy they are, not just how much income they have got. You know, during the great recession, people won't boil down, they spent less, now the reverse is happening. This is great for car sales.

KNEALE: Yes. We got home depot at 17 billion. Look at some of these guys, UPS, $10 billion buyback, PEPSICO ten billion, GM at 5.5 billion which they bought straight back from the government, MasterCard at $2 billion.

Is this saying these big companies feel like their stocks are truly undervalued? That investors are kind of missing a major point?

MORICI: Well, you have to remember that stock values really haven't gone up in the last decade, you know. We are just around the peaks at 2000. And so, there is a sense that stock values are not high enough.

But also, these companies that are very profitable and efficient doing the right things often don't have enough new places to invest their money in this very slow-growing economy, so they buyback the stock instead of undertaking organic growth. That makes raises the stock values. Makes the stockholders wealthier in a sense and then they can go out and spend money that is good thing.

KNEALE: Now, you are kind of wishing that they put their money more into the dividend by increases late home depot increase the dividend 34 percent rather than stock buybacks. A dividend payment benefits consumers more where the stock buyback benefits the company more?

MORICI: Well, no. What it is that if you get people more dividends, they are putting cash right in the hand, you know, they are going to out and start to spend the money. But, in stock buyback you raise their value. And in order for people to realize the gain they have to sell some of their shares. So, you don't have an immediate effect.

KNEALE: I see now. You know something, Peter. There is a risk to this. I mean, of course stock buybacks were pioneered by Tom Murphy at capital cities ABC, Warren Buffett loves them. Yes, you could end up paying a whole lot for your shares like Netflix that did a lot of buybacks at $200 a share. Stock plummeted way below 100 bucks. They wasted money. And also, isn't it a sign that the companies lack creativity? Why shouldn't they plow the cash back into building new businesses instead of just buying stock?

MORICI: I think we have to look at the nature of the business. Take Apple which has huge amounts of cash. Cash is not an important fact for Apple when it comes to organic growth. What it is what is the next great product they can create. They have the next idea away from growing.

So, if you're creating a lot of cash in a slow growing economy, it doesn't mean you're not doing your job. You just have to operate within the constraints of the economy that you are in. If you are a consumer products company like a Proctor & Gamble, I mean, they can't grow much more rapidly than the economy is growing. But they become much more efficient and generate a lot of cash or buyback stocks or increase dividends their management should be commended for that.

KNEALE: All right. Now, we are almost at 120 billion in just the past three or four months. Do you think that that will be it for the year or do you think we are going to be see more multibillion-dollar buyback plans unveiled?

MORICI: I think we are going to see more buyback plans unveiled because the economy will continue to grow slowly. So, the opportunities for expanding companies within the existing market spaces are going to be limited. They have to do something with the cash and this will go on.

KNEALE: All right, thanks so much for being with us. We appreciate it.

Peter Morici, have a good day, sir.

MORICI: Take care and thanks for having me.

KNEALE: OK.

And let's just remember, guys, the bow tie is banjo of neck wear.

All right, coming up on "Money," officials warn green energy could cause California to go dark. An electricity crisis looms there and wind and solar power may be the reason, not the answer. You need to hear this one.

But, a huge lawsuit between TV titans could change your cable bill a great way forever. Why the days of paying for a whole bunch of channels you don't want to watch may be numbered.

Do you ever have too much "Money?"

(COMMERCIAL BREAK)

KNEALE: It isn't easy being green. California prides itself on its sensitive environmental policies. But, the state now faces possible blackouts. And it is all because of its growing dependency on solar and wind energy. Here to break it down, are David Kreutzer is of the Heritage Foundation and Michelle Kinman, clean energy advocate at Environment California.

Thanks for being with us.

And David, let's start with you. So, the problem is not a lack of energy because of the solar and the wind stuff. They actually are going to have a surplus going into next year. So what is the problem?

DAVID KREUTZER, HERITAGE FOUNDATION: Dennis, the problem with wind is that you can't turn it up when you need it and down when you don't need it. And they are not being able to turn it down when you don't need could be just as much trouble.

You see, in order to account for all these intermittency, the up and down, you need to balance wind with something that you can ramp up and down very quickly. That is usually natural gas turbines. California doesn't have enough capacity for the amount of wind they have. It adds instability to the grid. And that is where you get blackouts when you have too much or too little.

KNEALE: Michelle, what do you think?

MICHELLE KINMAN, CLEAN ENERGY ADVOCATE, ENVIRONMENT CALIFORNIA: No. In fact, California is not facing a looming electricity crisis. What we are facing though is, and a crisis with our air pollution. California is home to nine out of ten most polluted cities in the country. And that is due in great part to the overreliance on fossil fuels. And it is creating a major public health crisis. And for that reason California leaders have rightly so decided to shift towards renewable energy. And then, in addition to the environmental benefits, renewable energy is creating a more stable grid. Let's not forget ten years ago California did have an electricity crisis. And in that case, it is widely accepted that a major part of that crisis was our overreliance on fossil fuels. And so, it is incredible important we diversify our electricity grid.

KNEALE: Michelle, you say the whole crisis is. But, the whole reason we are doing the story today, is because "the Wall Street Journal" covered this big meeting of state officials and energy industry officials in California yesterday where they said we face rolling blackouts by 2015 because of this intermittency problem, Michelle. Why do you say we'll not have the problem when clearly state officials themselves admit they are?

KINMAN: Well, what is troubling energy planners today is not an overreliance on renewable energy. What is troubling energy planners, is just figuring out how to ramp up the renewable energy quickly enough and then a balanced manner going

forward. The good news is that California, as well as the rest of the country, has a diverse amount of renewable energy. I mean if we put down what is renewable energy.

KNEALE: Let's cut to David. We know what renewable energy is.

David, you're chuckling tell us why?

KREUTZER: Two things. Back when they had the crisis, everybody else in the country was dependent on fossil fuels and they didn't have the blackouts. The problem was California had a constrained pipeline system to bring natural gas system for their plants. But, let's leave that alone.

You know, you do have the intermittency problem. You do have this trouble balancing it. And that is what is causing, that is why we see these headlines.

KNEALE: Michelle, do you know that last year in the U.S., our carbon emissions dropped to a 20-year low, not seen since 1992 because nat-gas prices were so cheap, that utilities stopped using coal and on their own they switched over to natural gas. The market drove a decline of 20 years worth of carbon emissions. Yet, in California, Michelle, they have decreased by golly, 2020, one-third of all of our energy has to come from green sources.

Michelle, why not let the market work out what energy supplies come online?

KINMAN: Well, what we've seen if you look back at the electricity crisis that it was really about our overreliance on fossil fuels. And it is important to think about what renewable energy is. Wind power is strongest at night when our industrial customers need it the most. Solar power, provides us electricity during the hot, summer days when more and more of us need that electricity. And then, we have stable sources of renewable clean energy like geothermal and biomass which provide electricity 24/7. And so, it is really all a question of the diversity of our clean renewable energy resources.

KNEALE: Go ahead, David.

KREUTZER: Yes. The geothermal is negligible part and will remain a negligible part. The wind and solar, you cannot turn it up and down. Sometimes it may balance if you get lucky. Sometimes it comes on, if you get lucky. But, if you're not lucky you have to face reality and if you don't have the natural gas to balance it, you're going to get blackout, whether you get too much from wind or whether you are getting too little from the wind.

KNEALE: OK. Michelle, you know, gas prices are around $4 a gallon for gasoline. They'd have to be $8 before solar and wind are actually economically viable. Do you want to pay $8 a gallon for gasoline so that, finally, solar is economically a good choice?

KINMAN: You know, the cost of solar is coming down rapidly, and we see that, best

of all here in California. In fact, the cost of solar has come down about 40 percent in California for commercial systems over the past five years. So, it's a case where you've got a new technology that we're investing in, and that we, you know, if we think back in little analogy here, if you think back to cell phone usage 15 years ago.

If you told any of us that we'd all be carrying around these little tiny pieces of equipment that would allow us to talk to one another anywhere we were, we just thought you were crazy. But it's time to invest and what we're seeing at the California really is investing in solar and wind, other renewable technologies that are bringing the cost down.

KNEALE: OK. Thanks so much. I've been hearing that solar pitch since 1979 in my senior year in college. Enough already. Thank you very much, David and Michelle.

And be sure, guys, to catch Arizona governor, Jan Brewer, tomorrow night on MONEY. Melissa will talk to the governor about how California's high taxes are helping states like hers woo companies away.

Time now for today's fuel gauge report. RBOB gasoline futures tanked for their third straight session, as if I know what that really is. And today's decline, the biggest this year, oil refining activity in the northeast surged last week, easing concerns about gas supply shortages, U.S. oil imports in 2012 sank to a 15-year low.

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