



## The Daily Dish

# March 11th Edition

DOUGLAS HOLTZ-EAKIN | MARCH 11, 2014

CMS delivered big news yesterday with their announcement to abandon a controversial Medicare Part D rulemaking. In a letter to Congress CMS' Tavenner said, "Given the complexities of these issues and stakeholder input, we do not plan to finalize these proposals at this time." Douglas Holtz-Eakin [testified last month](#) on the proposal that would cut providers and how it would "fundamentally damage the program and threaten its success." CMS did the right thing by soliciting advice from experts and stakeholders and backing off of this rule. It's possible it could return in the future, however.

Regulations are often passed quietly, but can carry crushing burdens. Senator Rubio laid out his [new economic plan](#) in a speech yesterday and in it he recognizes the need for regulatory reform. Key changes are heavy on tech, taxes, and regulatory measures including a new "National Regulatory Budget." AAF has creative solutions to onerous and outdated regulations including those outline in [this paper from last year on a regulatory budget](#).

### ***Eakinomics: The Fed and the Growth Outlook***

Chicago Fed President [bluntly asserted](#) that the Fed will continue to cut its purchases of Treasury and mortgage-backed securities. "The last two meetings we reduced the purchase flow rate by \$10 billion and we're going to continue to do that," he said flatly. This is good news from the perspective of keeping uncertainty about policy to a minimum. It also suggests that the Fed is discounting the spate of weak recent reports as more indicative of the harsh winter weather than weakness in the underlying pace of growth. Good news indeed.

The Fed, however, is not entirely out of the woods. It has three major policy tools at its disposal: asset purchases, interest rates, and so-called "forward-guidance" — its ability to set investors' expectations of future market conditions. Clearly, it is getting out of the asset purchase business, having cut from \$85 billion a month to \$65 billion a month and on track

to exit asset purchases entirely in 2014. However, it said previously that interest rates would be kept near zero until the unemployment rate fell below 6.5 percent. The unemployment rate has fallen to 6.7 percent, but in part for the wrong reason — workers leaving the labor force — and not because of economic strength. Does the Fed want to change this commitment? If so, how does it do so without creating uncertainty and skepticism about the path of policy?

Stepping back, the issue is that the Fed is in uncharted waters. As it attempts to unwind the massive purchases and years of zero interest rates, it is unlikely that it will do so without missteps, including fooling markets about what happens next (recall the dismay last August when the Fed did not taper). As a result, the impact of the Fed will be one-sided. If it does everything perfectly, it will not hamper the recovery. Every mistake will create financial volatility. In short, all news will be bad news for the near-term future.