The Daily Dish

April 16th Edition

DOUGLAS HOLTZ-EAKIN | APRIL 16, 2015

Since 2002 Congress passed a patch to the SGR 16 times, but earlier this week the Senate approved a new package that would end the annual ritual. The repealing of the SGR for a permanent solution has its merits according to Douglas Holtz-Eakin, saving $295 billion by 2035. AAF's President called it "an important step forward," as a fix without raising taxes.

The House had a series of special bills for Tax Day, passing legislation that would "rein in IRS abuse." Seven out of the eight bills passed by voice vote without opposition and one passed unanimously, 424-0. Rep. Peter Roskam said "This marks a major step forward in our common quest to strengthen transparency and accountability at the IRS…" A study from AAF finds that Americans spend 7.3 billion hours filling out taxes at a cost of $181.9 billion every year.

Eakinomics: The Real Need for Financial Market Reform

Elizabeth Warren was at it again yesterday, calling for breaking up the big banks, lower interest rates on student loans, closing tax provisions described as Wall Street loopholes, and further limiting the ability of the Federal Reserve to be the lender-of-last-resort in a financial crisis. (The latter already happened in Dodd-Frank, has some bipartisan support, and mystifies me. The Fed was the single most effective policy response in stopping the free fall in 2008 — better than the Troubled Asset Relief Program (TARP), better than the stimulus — and if the Fed had been handcuffed it is unimaginable how much devastation might have ensued. Lender-of-last-resort is the most broadly-accepted, longstanding principle of central banking. I digress.) She may believe these. She may be trying to push the 2016 nominee into an even more progressive platform for the 3rd term of Obama-Clinton. Or she may just like attention. I don't know.

But I do know that she is omitting the biggest need for reforming big, bad financial institutions: Fannie Mae and Freddie Mac. Having been bailed out by the taxpayers, they remain wards of the state. They also remain undercapitalized and dangerous. Any private financial institution in this situation would be holding on to earnings, not paying dividends, and raising revenue as fast as possible. Instead, Fannie and Freddie continue to pay out their earnings (to the U.S. Treasury). Now they are proposing to cut the fees they charge to guarantee the mortgages of the riskiest borrows. They argue that they will raise other fees, leaving revenue unchanged. Perhaps, but they will have a riskier book of business and, in effect, will become even more undercapitalized.

The move is part of the president's putative "middle-class" economics, and echoes a similar recent move by the Federal Housing Administration. It stands at odds with the need for comprehensive reform of the federal backstop for housing finance in the United States. It is eerily reminiscent of the bad policies that fueled the housing bubble. It would be a better target for Senator Warren's desire to downsize.

From the Forum

Regulatory Burden of Tax Day 2015 by Sam Batkins, AAF Director of Regulatory Policy; and Gordon Gray, AAF Director of Fiscal Policy

AAF's Minimum Wage Paper 1 Year Later: Why is it so Successful? By Michael Babyak, AAF Digital Director

Offshore Drilling Blowout Prevention Rule by Dan Goldbeck, AAF Research Analyst

Revisiting Ex-Im Supports for American Small Business by Andy Winkler, AAF Director of Housing Finance Policy