The Daily Dish

Daily Dish 4.4.13

APRIL 4, 2013

Out this morning: The *Wall Street Journal* highlights a new study from AAF that finds “Individuals and businesses devote **98.8 million hours** to immigration-related paperwork annually, at a cost of approximately **$30 billion**.” Additionally, “there are **234 government forms** related to immigration, emanating from **seven different agencies**, including 116 forms produced by the Department of Homeland Security alone.”

Look no further than Medicare for a striking example of a Washington-program that’s out of balance. The *New York Times* reports that “President Obama had Senate Republicans nodding in agreement during a recent ice-breaking dinner as he described a basic problem for the nation’s fiscal future: For each dollar that Americans pay for Medicare, they ultimately draw about $3 in benefits. What’s more, he added, most people do not understand that.”

Good news? President Obama is making a point that conservatives — and the Centers for Medicare and Medicaid Services — have long been making in advocating for reforms to the program. Bad news? He “has made any broader benefit changes contingent on Republicans’ agreeing to additional tax revenues from wealthy individuals and corporations.” Medicare’s financial woes are simple math. Fixing them in a responsible way is not. A reasonable solution protects the benefits of current seniors while shielding future generations from ever-higher taxes and no guarantee of a Medicare program at all.

The AP reports that “Americans have grown more cautious and disciplined in handling their money since the financial crisis struck in 2008, a survey by a leading mutual fund company suggest.” One finding suggests “fifty-five percent said they feel better prepared for retirement than they did before the crisis.” If only the federal government would follow their lead…

Doug’s Daily Economic Outlook

On July 1, the interest rate on federally-subsidized college loans will double from 3.4 percent to 6.8 percent. The student loan cliff — like the fiscal cliff, the milk cliff, and <insert your favorite here> cliff — is a legacy of politics trumping policy in the legislative branch. Recall that last year the prospective rise — which amounted to a mere $7 a month more per student *years* from now when they graduate — became a political firestorm. The “solution” was to keep the rate at 3.4 percent for another year (“kick the can down the road”), avoid the larger deficit by offsetting the budget impact, and set up the prospect of reliving the entire nightmare again this year.

A modest suggestion for the future would be to get the federal government out of the price-fixing business. Not get the government out of being a monopoly lender — that's a good idea but a bridge too far for 2013 — just stop picking the interest rate. Price-fixing has flaws too numerous to elucidate here, but also has the serious political defect that there is no way to pick a "fair" interest rate. Why, after all, is 3.4 percent a good interest rate? Why not 3.3 percent? 5.3 percent?

A better approach is to peg the rate to a market interest rate. For example, the current Treasury rate on 5-year borrowing is 0.73 percent; 10-years are 1.81 percent. This makes clear that at present students are not benefited by the price-fixing policy (even though the President presented himself last year as the defender of the young). Shifting to something like a point or two above Treasuries would require covering a 1-time federal budget cost (it is still less than 6.8 percent) but would get the federal government out of this yearly, futile, political theater.

What We're Reading

Job Market Remains a Wild Card in Recovery Picture — As the U.S. economy picks up steam, the job market remains a question mark. A string of strong data points in recent days, especially from the housing and consumer sectors, have led economists to boost their growth estimates in the first three months of the year. Most now think output in the world's largest economy expanded at a rate of about 3.5% to start the year, which would mark the fastest pace of growth since the end of 2011 and would represent a sharp turnaround from the near stall at the end of 2012. (WSJ)

Job Growth Slowdown Likely to Reverse — The job market is getting better. But at least by one key measure, it's getting better more slowly. As the Wall Street Journal notes, the year-over-year pace of job growth has slowed over the past year. From February 2011 to February 2012, non farm payrolls grew by 2.4 million. From February 2012 to February 2013, they grew by less than 2 million. The slowdown has been even starker in the private sector, where the full-year pace of job growth dropped to 2.1 million in February from nearly 2.7 million a year ago. (WSJ)

Fed officials (cautiously) discuss how and when stimulus efforts might be dialed back — A top Federal Reserve official said Wednesday that the central bank could stop pumping more money into the economy by the end of the year if the recovery continues its current pace. In a speech in Los Angeles, San Francisco Fed President John Williams said he is hopeful that the economy has "shifted into higher gear." That momentum, he said, would allow the Fed to dial back its stimulus efforts this summer — and eventually end them this year — without short-circuiting the recovery. (WaPo)

Obama nears Arkansas health deal — The Obama administration is closing in on a deal that would pump billions of dollars into private insurance schemes for the poor in the state of Arkansas, a new model that has vast implications for the rest of the country and the health law known as Obamacare. A letter from Kathleen Sebelius, the health secretary, to Mike Beebe, Arkansas governor, released on Monday gave the state the preliminary green light to pursue the plan, which could give rise to similar proposals in Florida, Ohio and perhaps Texas. (FT)

Rents Soften as Investors Buy More Homes — It's well documented that investors have played key roles helping to stabilize home prices by scooping up distressed homes and renting them out in some of the hardest hit U.S. housing markets. But a new report shows that those purchases also have begun to squeeze single-family rents in some of the markets where investors have been the most active in buying and renting out homes. (WSJ)

Also From the Forum

Perspective: What's the Safest Way to Transport Oil? — A look at the billion ton miles shipped of oil versus the average hazmat incidents per year indicates that pipelines are the safest options for meeting our energy needs. (Blog here)