The Daily Dish

January 27th Edition

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Yesterday, Health and Human Services announced major changes to the Medicare payment system. The step will move towards a model based on “value” and not service. The proposal includes 30 percent of traditional fee-for-service payments tied to value or quality by the end of 2016, and 50 percent by the end of 2018. AAF has a full breakdown and found that HHS may have taken “wrong steps in the right direction.”

Chairmen of the House and Senate commerce committees are asking the Federal Communications Commission to provide details of their net neutrality plan prior to commission’s February 26th meeting. The letter emphasized the public debate needed on the topic, “Limited access to information is beneficial to no one.” AAF’s research found that regulating the internet under Title II is a job killer.

Eakinomics: Back-to-the-Bubble Housing Policy

When the U.S. housing bubble burst the aftershocks were at the heart of the financial crisis and Great Recession, so you might think that policymakers would avoid at all costs the kinds of policies that fed the housing bubble. Enter the Federal Housing Administration (FHA), which yesterday put into effect a 0.50 percent (50 basis points) reduction in the premiums borrowers must pay for taxpayer-backed FHA mortgage insurance. The move — which was foreshadowed during President Obama’s giveaway tour and State of the Union address — is advertised by FHA as “projected to save more than two million FHA homeowners an average of $900 annually and spur 250,000 new homebuyers to purchase their first home over the next three years.” Sound familiar? Then-Secretary Andrew Cuomo promised exactly the same alchemy when lowering premiums in 2000.

As nicely documented by AAF’s Andrew Winkler, the new FHA policy has all the elements of bubble housing policy. First, the FHA pricing will undercut the pricing of private mortgage insurers, shifting insurance from the private sector to the taxpayer. Strike one.

Worse, not all private mortgage buyers are created equal. The private sector charges more, for obvious reasons, for those with poor credit histories or very high leverage (loan-to-value ratios). Accordingly, FHA will undercut private mortgage insurance the most for those buyers. Put differently, the *worst* risks will be transferred to taxpayer backing most easily and quickly. Strike two.

Finally, one might think that the benefits of this policy outweigh the obvious costs if the FHA had an ample financial cushion (of course, that is exactly what Secretary Cuomo claimed in 2000). That is far from the case today. The Mutual Mortgage Insurance Fund (MMIF) is required to keep a 2 percent capital reserve ratio; at present the reserve ratio is a bit under 0.6 percent. The latter figure is, in turn, a misleading measure of the underlying solvency of the program as it has has been bolstered since 2012 by approximately $4 billion in funds from legal settlement money and a one-time Treasury infusion of $1.7 billion. Without these financial patches, the reserve would be roughly 0.2 percent. Strike three.

“Middle-class economics” is a perverse label for the FHA executive action. Fiscally unsound government takeovers of the private sector are not a favor to the middle class. The Great Recession continues to exact a toll and no taxpayer is ever fully immune from the consequence of bad policy.

From the Forum

HHS Takes Wrong Steps in the Right Direction by Tara O'Neil, AAF Health Care Policy Analyst; and Brittany La Couture, AAF Health Care Policy Analyst

CBO's Budget and Economic Outlook by Douglas Holtz-Eakin, AAF President

Reducing FHA Premiums: Policy & Market Implications by Andy Winkler, AAF Director of Housing Finance Policy