The Daily Dish

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New website, new problems. The administration has been testing a website, required by Obamacare, for doctors and drug and medical device companies to report gifts and payments made. According to The Hill, doctors are spending more than an hour just logging into the site. Additionally frequent error messages and results that do not match searches plague the site.

Some not so comforting news coming out of the Federal Reserve. Fed Chair Janet Yellen recently said in a speech on the housing market "I have to say that I'm somewhat surprised…Frankly, it continues to be sluggish. And I can't give you a precise reason why that's occurred." Reported by the Washington Examiner, "Fed officials have no idea what's wrong with the housing market."

Republicans in Congress are ratcheting up pressure to pass two important trade bills including the Trans-Pacific Partnership (TPP). According to Reuters, lawmakers want to pass the trade promotion authority (TPA) before the TPP, allowing congress "to set priorities for trade deals and means Congress in return votes yes or no on agreements." The Ways and Means Committee released a statement saying, "Because of the critical importance of TPA in ensuring a successful outcome in the TPP negotiations, we will not support TPP if the agreement, even an agreement in principle, is completed before TPA is enacted."

Eakinomics: Dodd-Frank and TBTF

The news yesterday was that Barney Frank would return to Congress to defend the law that bears his name. Meanwhile, on the anniversary of the Dodd-Frank financial reform law, Senator David Vitter took it to task for failing to solve the problem of too-big-to-fail (TBTF) banks. It is important to put the whole issue of TBTF in perspective. As AAF Director of Financial Research Satya Thallam has argued:

- TBTF is not the result of poor firm management, unethical conduct, or other behaviors. It is the result of creditors' beliefs that financial shocks will be transmitted among banks (contagion) and that policymakers will undertake firm-specific policies to stop any such transmission. The cost of TBTF is inappropriate perception of safety accorded financial firms' securities as a result. In short, it is the government's fault.
- TBTF perceptions did not arise as a result of the crisis and response in 2008. The roots of TBTF expectations can be traced back decades.
- Numerous studies have attempted to quantify the cost of TBTF; none is without potential weaknesses in empirical methods. His review suggests the need for a new strategy for measuring TBTF costs in the future.

Despite his criticisms, Senator Vitter ends up in nearly the same place. Vitter's argument reveals the real culprit: government. Without government action, there cannot be a TBTF perception. With poor law and regulation, it is possible for TBTF to persist and for costly overregulation to damage firms. At the same time, Senator Vitter seems to underestimate the degree to which the biggest banks have restructured. This is important because size is not the real problem. Size is merely a proxy for complexity and interrelatedness of banks, which permits financial shocks to be transmitted in a dangerous fashion. The largest banks are clearly less complex than before the crisis.

Finally, Senator Vitter seems to misread the evidence on the beneficiaries of intervention. Big banks paid back the taxpayer support from the Troubled Asset Relief Program (TARP), while the hundreds of smaller banks that got support have not (yet). That suggests that the larger taxpayer subsidy is to smaller banks, not TBTF. The data support this in that the borrowing advantage to big banks (compared to smaller banks) is less than the borrowing advantage for bigger firms (relative to smaller firms) in other sectors of the economy.

TBTF may not be gone, but it is a shrunken shadow of its former self.