The Daily Dish

July 28th Edition

DOUGLAS HOLTZ-EAKIN | JULY 28, 2014

One of the architects of Obamacare may have dealt a deathblow to those questioning the recent Halbig decision. In a 2012 speech, Jonathan Gruber, a Massachusetts Institute of Technology professor, told the audience, “The federal government has been sort of slow in putting out its backstop, I think partly because they want to sort of squeeze the states to [create their own exchanges]…I think what’s important to remember politically about this, is if you’re a state and you don’t set up an exchange, that means your citizens don’t get their tax credits.” According to The Hill, Gruber has begun to walk his words back. For more on the case, AAF has a primer on ruling.

A deal has been reached on VA reform. Politico is reporting that the deal, to be released later today, will take care of both short and long term needs of the agency. Two of the solutions likely to be included are a broader ability to fire management and more flexibility for veterans waiting over thirty days for care to choose a new hospital.

After both the House and Senate passed a bill enabling customers to unlock their cell phones, the White House will approve the measure. The Unlocking Consumer Choice and Wireless Competition Act will make it easier for customers to change carriers and keep their phone.

Eakinomics: Fed Meeting this Week

The Federal Reserve’s policymaking committee will meet on Tuesday and Wednesday this week. For the moment, there is little suspense regarding the outcome: the Fed will “taper” its purchases of Treasury securities and mortgage-backed securities (MBS) by $10 billion, reducing monthly purchases to $25 billion on its way to ending purchases in October.

It is important to recognize that the Fed views its stimulative impact as based on the size of its portfolio. A large portfolio of, say, MBS, represents a cumulative demand that raises the return to MBS and eases credit conditions. Accordingly, even though the taper is slowing the pace of purchases, monetary policy is still stimulative and far from neutral.

The bigger debate is when the Fed should begin to tighten policy by raising interest rates above their depressed levels. The more hawkish officials, such as Richard Fisher of the Dallas Federal Reserve Bank, lean toward “early next year,” while Dennis Lockhart of the Atlanta Federal Reserve Bank still argues for the second half of 2015. The only thing that can settle this debate is actual economic performance, and there will be some important data this week.

Wednesday morning — in the middle of the Fed meeting — the Commerce Department will release its initial estimate of 2nd quarter economic growth. After Gross Domestic Product (GDP) fell by 2.9 percent in the 1st quarter, most expect the release to show growth in the vicinity of 3 percent for April-June. In addition, the July jobs report will be released Friday, with the consensus pointing toward another 230,000 or so jobs. These figures push some toward tightening policy.

Unfortunately, even with 3 percent growth, the economy will have essentially broken even in the first half of 2014 — no growth. And adding over 200,000 jobs a month with no growth simply means that productivity is dropping. That in turn means that it will not be possible to generate the increases in wages that are the foundation of a higher standard of living. In short, the U.S. economy remains far from performing adequately.

From the Forum

Recycling the Health Insurance Tax by Robert Book, AAF Health Care and Economic Expert

Revised Safety Standards for Tank Cars and Trains by Dan Goldbeck, AAF Research Analyst

Week in Regulation by Dan Goldbeck, AAF Research Analyst