The Daily Dish

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DOUGLAS HOLTZ-EAKIN | MARCH 13, 2014

AAF's education expert Lisa Graham Keegan was on the Hill to testify yesterday before the House Committee on Education and the Workforce on "Raising the Bar: The Role of Charter Schools in K-12 Education." "Public charter schools were created specifically to advance achievement. They reflect the vision, the skills, and the heart of the team that founds them," Ms. Keegan said. "They are intentional schools, schools built to order, to meet a need known but not met, a possibility understood but not yet realized. Public charter schools were envisioned to be the place that we could find solutions for America's most intractable struggle to realize our children's potential. And they have been America's best public education tool."

No more delays for the individual mandate and still some fuzzy math coming from HHS Secretary Kathleen Sebelius during yesterday's hearing on ACA enrollment. As was reported on Monday, numbers were lower than the administration's goals. One major question that remains to be answered is how many of the reported 4.2 million signups have paid for a plan. Sec. Sebelius says she will get that information eventually from the insurance companies and the government will have the ability to count that when "information technology system was in place to do the accounting automatically. Agency officials have said that likely won't be finished until the summer, months after open enrollment closes."

Eakinomics: Too Big To Fail Re-Examined—Guest Written by Satya Thallam

The relationship between government and the financial industry can best be described as "it's complicated." In a new AAF paper out yesterday, I reconsider "Too Big to Fail" (TBTF) and assess some of the existing evidence of a TBTF subsidy. The simplest theory of TBTF posits that banks grow increasingly larger and more complicated which necessitates bailouts in times of distress. But the reality is much murkier. The history of extraordinary government intervention to rescue failing institutions includes banks both large and small, nonbank financial institutions, and even nonfinancial firms. The implicit costs of bailouts are of course worrying, protecting poor management and promoting excessive risk. But the pattern of intervention is far from consistent: policymakers, as one would expect, intervene intermittently, in an ad hoc fashion, without a clear mechanism or procedure ‹ meaning any company planning on a rescue will be waiting for a bouquet that more often than not never comes.

Finally, the government-industry relationship is less a tawdry love affair than a complicated love triangle. Ultimately, it's often the creditors and shareholders of these failing companies who most directly benefit from bailouts, having failed to diligently police risk. All of which is to say, there very well may be a TBTF subsidy which allows some firms to borrow more cheaply than others, but studies thus far have failed to account for possible confounding factors which may explain (at least in part) why borrowing costs differ. For example, large firms across sectors (including non financial companies) tend to benefit from lower borrowing costs than their smaller counterparts.

Since both the President¹s recent budget and Chairman Camp's recent tax reform plan propose a levy on the largest banks as a means of counteracting this TBTF subsidy, it'll be important to more fully understand the true nature of this relationship. Besides, such an approach risks turning it from "it's complicated" to "in a committed relationship."