The Daily Dish

March 21st Edition

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AAF's ACA2Z.com has officially launched a new site to be your guide to the past, present, and future of the ACA. Take a look at the new interactive timeline, blog, or dictionary. With just a click the timeline can show you all of the administration's delays. Make sure you have some extra time in your day if you plan on reading each.

Weekly Checkup: Silver Plans Offer Low Cost-Sharing to Low-Income Members: AAF takes a look into what the average consumer would look to pay under a "silver" plan and sheds some light as to why this is the most popular plan in the ACA. "Silver may be the most precious metal after all. In the Health Insurance Marketplace, implemented by the Affordable Care Act, 'silver' insurance plans are far and away the most popular choice, accounting for nearly two-thirds of all plans selected."

In-State Tuition for Undocumented Students is an Issue for States, not Washington: AAF's Laura Collins, Director of Immigration Policy, has a new insight out this morning discussing federalism and investment arguments for undocumented students receiving in-state tuition. "Public colleges and universities are funded by state tax dollars, and state governments have the responsibility of determining who should be admitted and how much they should pay in tuition." Contrary to some popular opinions, "this policy is not a budgetary hardship. Instead, it is a smart continuation of the investment already made in these students." After reading the numbers it is obvious "the benefits outweigh the costs. This is the type of good policy that should be encouraged, rather than squashed by Washington."

Eakinomics: Stress Tests and Financial Resilience

The Federal Reserve released the results of its latest round of stress tests for the 30 largest banks. The tests simulate loan losses at the 30 firms (totaling $366 billion) if the U.S. were to experience a deep recession (GDP down 4.75 percent), a 4 percentage point spike in unemployment, a 25 percent decline in home prices, and a 50 percent drop in the stock market.

The tests indicate that aggregate "tier 1 common capital ratio" — essentially equity capital and retained earnings as a fraction of risky assets like loans — for the top banks would fall from an actual 11.5 percent in the third quarter of 2013 to the minimum level of 7.6 percent. Note that this is still higher than the 5.5 percent after the crisis.

An important issue is how the results are used. Their primary value is to reveal the stability of each bank. Stress tests were invented following the financial crisis. Initially the Treasury and Fed sought to keep the first-round results confidential, but were pressured into releasing the results. Markets responded favorably to better information regarding the safety and soundness of the financial sector, and the relative rankings of different financial institutions.

However, the Fed also uses the results to regulate banks; in particular to limit their ability to pay dividends or buy back shares — both of which would reduce their tier 1 capital and may lead a bank to fall below the Fed's threshold of 5 percent in a crisis. This raises the question: if market participants know that a dividend payment exposes a bank to such a risk, won’t they simply sell the shares of the riskier banks? The threat of such a loss would be a strong incentive for the bank to limit dividends, shore up its capital and achieve a safer position. Why does the Fed need a draconian regulation in addition to the market incentives?