The Daily Dish

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Over 650 counties in the U.S. are projected to have just one insurer in the 2017 exchanges, including entire states like Alabama. Of these counties, 70% have rural populations. The downside is for consumers who are now left with less choice in both the price and provider of their healthcare. This comes on the heels of several major providers leaving entire ACA exchange marketplaces. UnitedHealth Group decided last month it was going to exit nearly all of the 34 states in which it sold exchange plans.

The retail industry is finally on the rebound, with April sales climbing by the most in 13 months. Data released by the Commerce Department Friday showed a 1.3 percent uptick in consumer spending, which surpassed the projected 0.3 percent growth rate. Online shopping is currently the strongest it's been in almost two years, with sales gains in eleven out of 13 major retail categories last month.

You're invited! AAF is hosting an event on May 18th at noon to examine potential changes to the U.S. equity market structure. Panelists include Ty Gellasch, the Executive Director of Healthy Markets, and Larry Tabb, Founder & CEO of the Tabb Group. Our moderator will be AAF President, Doug Holtz-Eakin. RSVP here to join us!

Eakinomics: Break up the Banks, Not

In many ways, the discussion surrounding large financial institutions is stuck in a time warp. Those running for some office — Bernie Sanders (president) or Neel Kashkari (to be determined) — steadily argue that the way to prevent Too Big To Fail (TBTF) banks and future financial crises is to simply break up large financial institutions. This ignores the great changes that have occurred in the intervening eight years — more capital and liquidity at large banks, closer supervision (including so-called "stress tests") and tighter restrictions on risk-taking.

This past week, former Federal Reserve Board Chair Ben Bernanke came out firmly against the notion of breaking up the banks. He does not argue that all is fine, but rather: "The argument of this post is that, while substantial and even fundamental changes may ultimately be necessary, we don't yet know exactly what they will be. Instead, the legacy of the Dodd-Frank Act, the Basel agreements, and other reforms is a sensible process which, with sustained effort, will help us solve the problem. A key element of the strategy is that it gives banks strong incentives to shrink or otherwise restructure themselves to reduce the risk they pose to the financial system."

Why not simply break up banks? First, size is not the only issue: "Lehman Brothers was only about a third the size of the largest banks when its failure in September 2008 almost brought down the global financial system." And: Financial panics can occur in systems dominated by small banks as well as by large ones, as was the case in the United States in the Great Depression. (In contrast, Canada, which has only large banks, did relatively well in both the Depression and in the recent crisis.)

Second, there is a need for large banks and small banks — no industry has firms all of the same size. As

Bernanke puts it “having large firms in the financial industry, as in other industries, has benefits as well as costs. Certainly, TBTF is a (big) problem, and there are other concerns associated with size, like undue political influence on the part of large firms. But, as in other industries, large financial firms also have cost advantages in some areas and can provide services that smaller firms cannot. Potential advantages of size for banks (not associated with TBTF status) include the ability to exploit economies of scale (in technology, in establishing networks, in branding), greater diversification of risks, the spreading of fixed overhead costs over many activities, the ability to offer combinations of complementary products, and global reach.”

One can hope that the discussion moves past breaking up the banks and towards a financial regulatory system for the 21st century.

From the Forum

A Light Moment at a Budget Conference: Trump Campaign Claims $25 Trillion in Budget Savings by Gordon Gray, AAF Director of Fiscal Policy

FY17 NDAA Invites the Next President to Fully Fund Defense by Rachel Hoff, AAF Director of Defense Analysis

In Latest Attempt To Save The ACA, CMS Issues New Rules Without Public Comment by Tara O’Neill, AAF Health Care Policy Analyst