



The Daily Dish

## October 20th Edition

DOUGLAS HOLTZ-EAKIN | OCTOBER 20, 2014

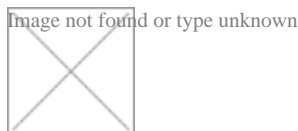
After examining two years of data, a report from HHS finds that Obamacare is failing to control costs. The main claim centers on the creation of the [Accountable Care Organization](#), or ACO. According to the [Wall Street Journal](#) editorial board, “at best the program is a wash. More to the point, the Medicare budget for 2013 was about \$583 billion and these are supposed to be the most experienced providers. If most of them can’t succeed, what about the community hospitals that need the most improvement?” “If the ACO goes the way of every other previous HHS adventure in false omniscience, government planners will invariably turn to rationing care.”

Even with recent [volatility](#) in the markets, the Federal Reserve will be unlikely to change monetary policy. As reported by the [New York Times](#), while Fed officials say they will need more time to evaluate the market’s movement, recent events could be “early indications that they have once again overestimated the recovery.”

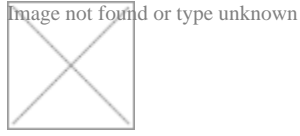
### *Eakinomics: Deflation*

Among the numerous putative causes of last week’s equity market convulsions is the potential for European deflation. Deflation is the persistent widespread decline in prices (as opposed to a drop in the price of a particular product or service). The potential for things to get cheaper provides an incentive for consumers to defer purchases, weakening demand and short-term growth. And, rather than lowering the real burden of debt as inflation does, deflation raises it. Central bankers stay on high alert when faced with potential deflation.

The cause for concern is shown in the chart below, which displays consumer inflation for France, Germany, Japan, the United Kingdom and the United States. Inflation is shown quarterly, and measured compared to the same quarter one year earlier. (Data taken from the [OECD database](#).) As shown, the perennial deflation poster child, Japan, has shown dramatic improvement recently. More generally, all inflation rates fell in the aftermath of the Great Recession, and then recovered. However, France and Germany — and to a less extent, the U.K. — have been drifting steadily lower. It is this trend that has spooked some investors.



The U.S. has seen consumer inflation rise toward the Fed’s target of 2 percent over the past year (see below, data from the [BEA database](#)). However, the hidden story is that services inflation has been at the target for quite some time. However, consumer goods prices had actually been falling — goods price deflation — until recently. The rise in inflation is very much a goods phenomenon.



The final point is that a flexible exchange rate will help insulate the U.S. from any European deflation. As overall European prices fall, the demand for cheaper goods will cause the U.S. exchange rate to fall, raising the cost of imports and limiting the spillover of deflation.

Deflation is a macroeconomic threat worth watching in Europe, but not an imminent cause for U.S. concern.

### ***From the Forum***

[Week in Regulation](#) by Sam Batkins, AAF Director of Regulatory Policy

### ***What We're Reading***

*Obamacare enrollees use more expensive prescriptions*— An October report from Express Scripts, the nation's largest manager of pharmacy benefits, has found that people who gain insurance coverage through the law's exchanges are much more likely to use expensive drugs known as specialty drugs. ([Washington Examiner](#))

*Expelled Nazis paid millions in Social Security*— Former Auschwitz guard Jakob Denzinger lived the American dream. His plastics company in the Rust Belt town of Akron, Ohio, thrived. By the late 1980s, he had acquired the trappings of success: a Cadillac DeVille and a Lincoln Town Car, a lakefront home, investments in oil and real estate. ([Associated Press](#))