The Daily Dish

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A new study finds that patients enrolled in the insurance marketplace created by Obamacare pay more for prescription drugs. According to the study, "Our results show that out-of-pocket expenses for medications in a typical silver plan are twice as high as they are in the average employer-sponsored plan…" When analyzing the types of plans consumers purchase, AAF found that silver plans are by far the most likely to be chosen.

A dozen nations agreed yesterday morning on terms to the Trans Pacific Partnership (TPP). The potential for this deal is (to steal a phrase) huge. The U.S. stands to gain $80 billion in national income and $125 billion in additional exports from signing. The deal took five years to complete and includes countries that produce 40 percent of global economic output.

Eakinomics: The Debt Limit

Treasury Secretary Jack Lew has informed the Congress that the federal debt limit needs to be increased by November. The Treasury timetable is driven by its use of "extraordinary measures" to keep the debt under the current limit of $18.1 trillion. However, as I argue (here) there are sound economic reasons to raise the debt limit in a timely fashion.

The first of these is the impact on the market for Treasury securities. Any failure to pay interest would cause capital markets to charge the U.S. even higher interest in the future — a real cost of not raising the limit. But even the whiff of the possibility that there might not be timely payments would make Treasuries less attractive to buy and, thus, harder to sell. U.S. Treasury securities are the backbone of the world financial system because of their strong liquidity. Impairing that ability to buy and sell easily would rock world markets and undermine the dollar's role as a reserve currency.

An argument is sometimes made that the Treasury could "prioritize payments" and ensure that the interest is paid in a timely fashion. Perhaps, but it is not possible to prioritize everything and without a rise in the limit, the federal government must run a balanced budget on a daily, if not minute by minute, basis. That means about $450 billion (at an annual rate) in reduced spending overnight. The very act would destroy (if it is possible) what is left of Congress' approval rating, undermine consumer confidence and harm the U.S. economy. It should not be thinkable.

How much does the debt limit have to rise? That depends on how long Congress wants to put off dealing with the limit. However, assuming that it wants to punt the next debt ceiling vote until after November 2016, the total looks to be in the neighborhood of $800 billion. Roughly half of that is needed to repay the special measures (notably borrowing from government pension funds) as well as finance other government activities, while the remaining half should cover borrowing or future deficits. Alternatively, the Congress could repeat again the trick it has used in the recent past: simply suspend the debt ceiling until November 30, 2016 and put the new ceiling at whatever the debt happens to be on that date.

Either way, damage is avoided. Congress should act soon.

From the Forum

VIDEO: #Eakinomics: Why Congress Should Raise the Debt Limit

Fact of the Day

If the U.S. was not subjected to the crude export oil ban 40 years ago, gross revenues realized could have exceeded $1 trillion dollars.