The Daily Dish

Pointless, Ridiculous, Or Dangerous?

DOUGLAS HOLTZ-EAKIN, PATRICK HEFFLINGER | OCTOBER 24, 2016

Higher-income employees can expect to see a rise in their payroll taxes next year in order to help support a 0.3 percent increase in Social Security benefits. According to the Social Security Administration the maximum amount of earnings subject to the Social Security Tax will increase as well, going from $118,500 to $127,200, an increase of 7.3 percent. The increase is expected to affect close to 12 million workers.

The Obama Administration's new overtime rule goes into effect on December 1st and business are bracing for its impact. The new rule more than doubles the current threshold for who can qualify for overtime pay. According to federal estimates this means close to 4.2 million employees nationwide will become newly eligible for overtime pay. Additionally, the new rule calls for an automatic increase in the salary threshold every three years beginning in 2020.

Eakinomics: Pointless, Ridiculous, Or Dangerous?

The Congressional Budget Office (CBO) released a short study last week of "The Effects of Increasing Fannie Mae's and Freddie Mac's Capital". The proposal is that each Government Sponsored Enterprise (GSE; Fannie Mae or Freddie Mac) would be allowed to retain an average of $5 billion of its profits annually and would thus increase its capital by up to $50 billion over 10 years. The government's commitment to purchase more senior preferred stock from the GSEs if necessary to ensure that they maintain a positive net worth would remain in place – that is the GSEs could draw a "bailout" from the Treasury as needed. And the GSEs would invest the profits that they retained under the option in Treasury securities.

The study shows a proposal whose impacts range from pointless to ridiculous to dangerous. Why?

As I lay out more clearly here for the attentive and caffeine-rich reader, it does not change the basic profitability of the GSEs. It does not change the fact that the taxpayers ultimately have full claim on those profits.

From this perspective, the proposal is pointless. All it does is introduce some artificial accounting and asset swaps. Since the taxpayer owns the Treasury and the GSEs, how the money gets divided between them changes not one single economic fundamental.

Or perhaps, it is worse than pointless. It is ridiculous because it makes the overall accounting more complex and less transparent to the taxpayer, perpetuates the legal fiction that the GSEs are private enterprises with shareholders that have rights independent of the taxpayer, and that somehow intra-government transfers constitute a bailout. (Note: there *are* substantive legal issues surrounding the GSEs that are above my legal pay grade. But I have exactly zero sympathy for these serial bloodsucking economic zombies or the private interests trying to make a quick buck via investments in them.)

But, in fact, the proposal is actually dangerous because the paper accounting that shows them accumulating capital reserves will feed the narrative that it is safe to simply turn them loose from government conservatorship. The “recapitalize and release” crowd has been working hard on this narrative for the past several years; essentially arguing for collective amnesia regarding the crony capitalism, misaligned incentives, and overreaching that generated an enormous housing bubble and widespread economic devastation.

The best course forward is real GSE reform. But in the absence of that, the worst thing is to pursue faux reforms that enable turning back the clock.