The Debate Redux

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Federal Reserve Governor Daniel Tarullo announced that the Federal Reserve will be requiring more capital from the nation's largest banks in order to give relief to smaller banks as it considers reforms to its stress test. Tarullo said that many regional banks will be exempted from the scrutiny under the stress test by limiting their review to a quantitative review. The Federal Reserve will offer more details next year as the new proposal will not affect the 2017 stress test according to Tarullo.

On Monday the Internal Revenue Service (IRS) announced that they will begin using private debt collectors to collect on overdue and older debts as well as accounts that are no longer being worked on by the IRS. The agency was granted permission to begin using private debt collectors in December. The IRS said taxpayers whose accounts will be handled by private debt collectors will be notified by the IRS in writing.

Tomorrow the American Action Forum will host an event examining how raising the minimum wage impacts the economy, employment, and poverty. Former CEO of McDonald's Ed Rensi will deliver a keynote address, which will be followed by a panel discussion moderated by the Washington Post's Jim Tankersley. For more information and to RSVP to the event, please click here.

Eakinomics: The Debate Redux

Aha! Got you to read! Truth is, I was en route to California during the debate and did not get to watch. And more to the point, there will be lots of debate commentary. Let's spend one minute on the substance of a recently-perennial political football: student loans.

A recent Brookings Institution report focuses on the possibility that the taxpayer cost of one variant of student-loan relief may be skyrocketing: public service loan forgiveness (PSLF). PSLF is just what is sounds like: loan forgiveness for those engaged in public service. But what is public service? As CNBC puts it: "To qualify, borrowers have to make 10 years of on-time payments and work for an employer the Department of Education deems to be serving the public good. Qualified employers include local, state and federal government agencies and nonprofit organizations." Government agencies seems reasonable, but non-profits? Not to put too fine a point on it, but AAF is a non-profit. Is writing Eakinomics a public service? Is it really fair that AAF get an edge hiring the newly graduated from a disguised taxpayer subsidy? Of course not.

This reflects the fact that the whole battery of student loan relief efforts are riddled with poor incentives:

- In general, relief is open to current enrollees and graduates; not just those applying to college. This means that vast amounts of taxpayer dollars will not produce one new enrollee or one more graduate. (Some argue that debt relief for graduates is needed for the economy to function. If you say that out loud you will immediately realize that it is silly. More evidence here.) And those taxpayer dollars that do incentivize enrollment are also likely pushing up tuition.

- Income Based Repayment (IBR) proposals reduce the monthly payment to keep it below a threshold as a percent of earnings. This is just a tax on jobs with higher earnings; a perverse incentive for new entrants to the labor market.

- Loan forgiveness. Loans can be forgiven for public service, or for merely participating in an IBR program for a long enough time. But a loan is a loan, not a grant. Why is it forgiven at all? Federal intervention in student loans was meant to improve the functioning of credit markets and give fair access to educational borrowers. While federal lending quickly morphed to include subsidies, in principle that kind of objective is best pursued through channels like Pell Grants (not Pell Loans, you will notice) that provide explicit federal aid to low-income students.

Student loan proposals have been frequent, high-profile, and politically appealing. But one ought to step back and ask: what problem are we trying to solve?