The Daily Dish

# September 18th Edition

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 18, 2015

A new GAO report found that the EPA failed to hit fifteen of seventeen goals for grant money that the agency set for itself. According to the Washington Examiner, “The agency partially met six goals, did not meet one goal and did not measure eight goals.” Forty percent of the agency’s funds come from grant dollars so the inability to administer those dollars could amount to serious problems.

The Department of Labor’s fiduciary rule could cost investors $1,500 a piece. The new research from AAF continues to say that nearly 50 percent of Americans have a retirement account that would be affected by the rule. In total, the rule would cost more than $76 million to American households.

***Eakinomics: The Fed Blinks***

Yesterday the Federal Reserve Open Market Committee (FOMC) decided against raising the federal funds rate (its policy-control rate) citing concerns over global weakness. This is a bad call, and here is why.

Let’s look at the key pieces of data from the economic recovery. The first chart, below, shows the annualized growth rate of the economy from the onset of the recovery (June 2009). The basic message is clear: growth quickly recovered to the 2 percent range and stabilized there. Yes, there were good and bad quarters, taking the entire growth from the onset of the recovery to 2010, 2011, 2012, etc. smooths out the volatility and shows the underlying strength.  An important takeaway of this chart is that extraordinarily accommodative monetary policy did not speed up growth. And, as everyone knows, the unemployment rate has declined steadily.

Image not found or type unknown

The second key piece of data concerns inflation. The chart below displays comparable information on cumulative, average annual inflation for each year during the recovery. Two important facts stand out. First, any downward pressure on inflation stems from prices for goods. This reflects the weakness in global economic conditions and the competition for traded goods. In contrast, the prices of services — which are the majority of the economy — have steadily converged on the Fed’s target of 2 percent inflation. The top-line inflation rate has dropped modestly recently, but remains close to its target.

Image not found or type unknown

The final piece of data is wage earnings in the labor market. Much like GDP, the growth in average hourly earnings quickly got to the range of 2 percent and has stayed there. In the absence of serious productivity growth, the growth in hourly earnings provides a foundation on the ability of prices to fall — and that foundation appears firm.

Image not found or type unknown

Where does this leave us? First, the move from zero interest rates to 0.25 percent interest rates is a minuscule change. Monetary policy would remain accommodative regardless, so there is no reason to believe that there is something special about zero. Second, the Fed's statement essentially ignored the state of the domestic economy and focused the global conditions that it does not, and can not, control. It should be more focused on its policy influence on the domestic inflation it influences.  Finally, the fact that the Fed did not move now, again, introduces the uncertainty about the future of policy. Bluntly, the Fed is now the largest source of uncertainty in financial markets — not China, not Europe, not the global growth — and if one were to know precisely the future of GDP, employment and inflation over the next year you still would not have any idea when the Fed would move.

The Fed had a chance to move toward normal and reduce uncertainty with little threat to output growth or inflation targets. It blinked.

***From the Forum***

DOL's Fiduciary Rule Costs Investors Not Only Choice But Also $1500 by Meghan Milloy, AAF Director of Financial Services Policy

Undocumented Immigrants and the California ACA Exchanges by Brittany La Couture, Health Policy Counsel

***Fact of the Day***

With as much as $14 billion in play, enabling the portability of Title I funds will better equip families when making decisions about the education provider that is in the student's best interest.