The Daily Dish

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The worst expansion since World War II has been even weaker than previously thought. New data released by the Department of Commerce downgraded the already low rate of economic growth from 2012-2014 to a paltry 2 percent. According to The Wall Street Journal, the growth since 2009 has been "more than a half-percentage point worse than the next-weakest expansion of the past 70 years."

7.5 million people were fined by the IRS this year for not having health insurance. This is 1.5 million more than the government estimated would forgo insurance and accept the penalty of $95 or 1 percent of their income. The average fine collected was $200. This year, penalties will increase to $395 or 2 percent of income per person in 2015. Meanwhile, government watchdogs recently discovered that it is exceedingly easy to register for subsidies with false information.

Eakinomics: Temporary Sanity and Post-Crisis Financial Regulation

The Financial Stability Board (FSB) announced yesterday that it was suspending plans to designate large asset managers (e.g., those who manage assets on behalf of others like mutual funds) as Systemically Important Financial Institutions (SIFIs). Recall that the FSB is a global regulator established in 2009 that is tasked with promoting financial stability. The FSB is comprised of Member States that include each of the members of the G20 in addition to Hong Kong, the Netherlands, Singapore, Spain, Switzerland, and the European Union. Each Member State is represented by its home country's financial regulators. The United States is represented by the Federal Reserve, the Securities and Exchange Commission (SEC), and the Department of the Treasury.

Turning to the substance, the the FSB recently argued that asset managers with over $100 billon in assets under management should be designated as SIFIs. Notice that this (arbitrary) threshold does not convey any information about what products or activities make the asset managers risky. As a matter of regulatory principles, this is a flawed approach. Moreover, it's convenient for the FSB to pick a criterion that identifies exactly 14 funds, all of them in the U.S., all of them already regulated by the U.S., that would be subject to stricter oversight by the FSB.

At this juncture, sanity has set in, at least temporarily and hopefully longer. First, the International Organization of Securities Commissions (IOSCO) announced that it would no longer participate in the project. It is hard to push international regulations when the primary international regulator says they are a bad idea. On top of that, in the United States, the Financial Stability Oversight Council (FSOC) had examined asset managers and discarded the notion that size alone was a good criteria. Instead, the FSOC ordered the Office of Financial Research (OFR) within the Department of Treasury to conduct a study on asset managers and whether their various activities and products — not their size — rendered them systemically important.

In the aftermath of the financial crisis, regulation is a potent political issue — often to the detriment of getting it right. Overreaching, arbitrary regulation restricts the ability of savers to receive their maximal rate of return, limits the products from which households and firms can choose, reduces the efficient allocation of capital, and — in the end — harms growth in productivity in the standard of living. Let's hope that regulatory sanity prevails over longer and longer periods.

From the Forum

Tax Reform Approaches and the Implications for Domestic Firms by Gordon Gray, AAF Director of Fiscal Policy

Reforming 340B by Brittany La Couture, AAF Health Policy Counsel

Fact of the Day

The federal direct student loan program will cost taxpayers an additional $21.8 billion in FY2016 according to the president’s budget proposal. This is reported to be the largest estimate adjustment for any federal credit program in budget history.