



The Daily Dish

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Businesses are preparing for an [onslaught of regulations](#) from the Obama Administration now that midterm elections are over. This includes the most expensive regulation ever proposed, new ozone standards that would cost \$270 billion per year. Additionally, AAF identified [\\$34 billion](#) in other regulations scheduled to be finalized in the next few months.

In a letter to the FCC, President Obama [asked the agency](#) to reclassify regulation of the Internet under Title II. The intention to keep the Internet open and free to all is admirable, but this reclassification would place [5 percent of the GDP](#) under a new onerous regulatory system. Reclassification of broadband under Title II would mean that Internet services are treated the same as telephones.

Eakinomics: Fixing the FSOC

Today the Financial Stability Oversight Council (FSOC) [faces its industry critics](#) specifically those concerned that the process for designating a non-bank financial firm as a Systemically Important Financial Institution or SIFI. Treasury Secretary Jack Lew [announced](#) the meeting last month stating that: “The council will begin to examine possible changes in the coming months.”

AAF scholar Satya Thallam has a [number of suggestions](#) that should be on the table. First, “Transparency, transparency, transparency.” While being respectful of the need to keep market-sensitive data confidential, for policy discussion and broader considerations, it’s not clear what the harm would be in an open meeting, or at least a detailed release of meeting minutes soon after (similar to the Federal Reserve’s Open Market Committee meetings).

Second, “Don’t move ahead of the Fed.” This is just common sense. SIFI designation means enhanced prudential standards and supervision by the Federal Reserve. But what if the Fed doesn’t know exactly what that means (in the case of so-called financial market utilities) or have the correct legal authorities (in the case of insurance companies.) Neither makes sense.

Third, count “costs as well as benefits.” Simply as a matter of discipline, both sides of the ledger should be examined. The temptation to make the system “safer” (a benefit) at all costs — or too great a cost — cannot be resisted without the information regarding the costs of a SIFI designation.

Finally, remember that the ultimate aim is more important than any single action, like designation. A key principle of regulation is that a rule’s burden should be avoidable if a lower cost alternative achieves the same desired end. Potential SIFIs should be given a menu of options to reduce systemic risk. As Thallam put it: “The current FSOC approach, instead, is akin to telling the firm: ‘The problem is you. Report to detention.’”

Today is a potentially important step toward improving the FSOC process. One hopes it is genuinely interested in improving its performance.

From the Forum

[Reform Principles for FSOC Designation Process](#) by Satya Thallam, AAF Director of Financial Services Policy