The Daily Dish

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If the Internet Tax Freedom Act is allowed to expire then individuals and businesses could face up to $14.7 billion in new taxes, according to new research from AAF. Without a permanent ban, states could impose a tax on Internet access at the same rate as wireless phones leading to these high costs. The current ban on the tax expires December 11th, leaving us with 64 days until a tax increase.

After a meeting of the Federal Reserve, officials are looking for new ways to tell investors that they are not ready to start raising interest rates quite yet. According to the New York Times, “most officials at the September meeting said that they were far from satisfied with the economy’s progress.” The President of the Federal Reserve Bank of New York sees a relatively small chance that the economy will finally start to accelerate.

Eakinomics: Reading the FSOC’s Mind

Although FSOC proceedings remain veiled in secrecy, it is now widely accepted that MetLife has preliminarily been designated a systemically important financial institution (SIFI) and that it has asked for the equivalent of an appeals hearing before the FSOC. Unfortunately, it is difficult to figure out *how* the FSOC came to this conclusion. What, exactly, is systemically risky about MetLife?

Running through the list of possibilities, an institution could be systemically important if they provided a unique service; for example, was the key market maker in a crucial product like Lehman Brothers and commercial paper. There are *lots* of sources of life insurance, so that does not seem to be the main problem.

A second possibility is that a “run” on the firm would force it to dump its large asset holdings, and disrupt those markets. It’s a bit hard to buy this either. I am unaware of a run on life insurance, ever. And even though MetLife is large, it is unlikely to disrupt markets by selling its assets. As we’ve seen recently, a large firm (Pimco) can get hit with a big need to sell assets to deal with redemptions (withdrawals after Bill Gross departed) and the underlying (Treasury) market was essentially unaffected.

Finally, a firm could be heavily interconnected so that its potential demise could drag down other firms. Again, Metlife does not stand out as having a uniquely large number of counterparties. If it is a SIFI on these grounds, so are dozens or hundreds more.

The last possibility is that the FSOC would agree to all of the above, but not in the kinds of distressed markets we saw at the depths of the financial crisis. In those circumstances, perhaps the logic is reversed. Unfortunately, as reported by Bloomberg, former Treasury Secretary Hank Paulson said this is wrong. According to the story “There was no similar risk of a domino effect in the insurance market, according to Paulson. 'I didn’t see another insurance company that was vulnerable’ and posed a risk to the entire economy as AIG did, he said.”

It’s hard to understand the FSOC’s logic. But it matters. As a recent UBS report on MetLife competitor Lincoln National pointed out that if SIFI designation means that MetLife and Prudential “are held to higher capital standards” then there is the chance that they will “opt to raise prices to maintain targeted returns.” Lincoln

National appears poised to follow suit, meaning higher premiums across both the SIFIs and the non-SIFIs in the industry. That’s bad news for consumers.

From the Forum

Accountable Care Organizations: What the Demonstration Projects Tell Us by Brittany La Couture, AAF Health Care Policy Analyst

The Cost of an Internet Access Tax by Will Rinehart, AAF Director of Technology and Innovation Policy