The Daily Dish

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The House is expected to vote on Trade Promotion Authority (TPA) today, which, if passed, allows the president to negotiate free trade agreements and support 500,000 American jobs. While opponents claim TPA gives President Obama the authority to change immigration laws, the fact is the text of the legislation directly refutes this claim. TPA requires the president to consult with Congress before agreements are finalized, and Congress then gets to approve or disapprove of the trade agreement.

The National Defense Authorization Act is being debated in the Senate and expected to face it's first procedural vote next week. Yesterday, Senate democrats blocked a cybersecurity provision from being included in the bill, falling four votes short from passing. Meanwhile, the House yesterday approved a $579 billion defense spending bill.

Eakinomics: It's Not the Economics Protection Agency

Environmental Protection Agency Administrator Gina McCarthy spent yesterday mis-educating the students at George Washington University. She began: "If you are selling to somebody a product, and you can assure them that that product was produced in the most environmentally responsible way, I will guarantee you that they will value that product more highly," McCarthy said at the 2015 GreenGov symposium at George Washington University in Washington. She then asserted "That is how government works — we tell you what you can do today. We give you the flexibility to get it done yourself and we send a long-term market signal that is going to open up innovation moving forward."

Nope.

If there was a market signal for low carbon products, those products would command a higher price than higher carbon products (that were otherwise the same) in the market

place. The difference in price would be a direct, dollar measure of the value that households placed on having lower carbon in their products. If a new firm can produce the low carbon product even cheaper, it can enter and make a bigger profit. This is a strong long-run market signal to innovate in the production of low carbon products.

Or, if households valued lower carbon products even more, innovations that reduced carbon content would be rewarded with higher prices. The natural market signals would move production and purchases away from something households have demonstrated that society doesn't value — high carbon products — and toward something it does — low carbon products. It would set up reinforcing incentives for those valued products to be made as cheaply as possible, and for continued innovation to reduce carbon content.

Ordering via regulations forces firms to produce something consumers are not currently willing to buy is a distortion of the market. The change in production is costly and the result is a product that commands a lower price (or else it would already have been in production and sales). Setting by fiat the amount of carbon reduction is not a market signal; it is a fiat disconnected from households' values. Knocking on doors and telling people their values are wrong isn't a market signal; it is harassment, brainwashing, or coercion.

Taxes, regulation and other government policies are conscious and deliberate distortions that represent a cost to society. They are undertaken because policymakers conclude that the benefits to the nation merit incurring the cost. Keeping costs and benefits straight aids in good policymaking. Disguising costly government interventions as market signals does the opposite.