The Daily Dish

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The administration is delaying an announcement on new methane gas regulations until after December. When originally announced in March, the administration set the fall as the target for the new regulations, but with the year coming to a close, the EPA, Department of Energy and Department of Interior decided to "hold until after the holidays." Considering other recent climate regulations, this one could get expensive.

When discussing the EPA's other recent climate regulation regarding carbon emissions, Majority Leader McConnell told the press that "I couldn't be angrier about it and whatever we can think of to try to stop it we're going to do. … I know it won't be easy with Barack Obama in the White House." The rule has been controversial for a number of reasons, including how the baseline is calculated.

Eakinomics: The Fed Takes Another Step Toward Exit

The Federal Reserve Board has kept overnight interest rates near zero since December 2008 and conducted a large-scale campaign of quantitative easing. The latter has ended — although the issue of reducing its massive portfolio of Treasuries and mortgage-backed securities remains — and the remaining task is to begin to "normalize" monetary policy; i.e. raise interest rates. The exit from extraordinary policy has always been expected to be a difficult matter and yesterday's Fed announcement is illustrative of the difficulties.

To begin, the Fed raised the issue of "beginning to normalize the stance of monetary policy," the most transparent reference to raising rates to date. However, the statement also said the Fed would be "patient" before raising rates, and also noted that the economic outlook hadn't much changed from earlier in the year when the Fed had stated that rates would remain low for a "considerable time." The subtleties confused investors looking for guidance; markets fluctuated in the aftermath of the statement and Chairman Janet Yellen's press conference.

The uncertainty over the path of rates is augmented by the fact that there were three dissents from the Fed's action: Dallas Fed President Richard Fisher, Minneapolis Fed President Narayana Kocherlakota, and Philadelphia Fed President Charles Plosser.

The Fed *will* begin to raise rates in 2015, the major speculation is about the timing. The most important factor in this regard is the path of inflation, which, in turn, is being driven by near-term fluctuations in oil prices. If one believes that the recent slump in global oil prices is a short-term event, then rates will likely rise early in 2015. To the extent that the inflation pressures from energy are more persistent, rates will rise later in the year.

A bigger issue is just how fast the Fed will raise rates. If the federal funds rate — the Fed's target interest rate — rises from 0.25 percent to, say, 1.25 percent during 2015 then the real (inflation-adjusted) interest rate will still be negative. It is hard to describe negative interest rates as "tight" monetary policy. Look for the debate to switch from the timing of Fed tightening to the degree to which the Fed tightens monetary policy.

From the Forum

Highs and Lows in Fiscal Policy in 2014 by Gordon Gray, AAF Director of Fiscal Policy

The Best and Worst of Regulation in 2014 by Sam Batkins, AAF Director of Regulatory Policy