The Daily Dish

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Today, the American Action forum launches AAF Solutions, an initiative that offers positive, constructive, digestible, and actionable policy solutions to solve ongoing problems the country faces. The first AAF Solution is from our Director of Financial Services Policy, Satya Thallam, on the Terrorism Risk Insurance Act. The AAF Solution seeks to "shift additional risk and costs to insurers in incremental and predictable increases for the next 5 to 7 years via the deductible and other risk sharing mechanisms of the program. The total increases in these mechanisms would be tied to the number of years the program is reauthorized."

The Senate Committee on Banking, Housing, and Urban Affairs will be holding a mark up today to consider S. 2244, The Terrorism Risk Insurance Program Reauthorization Act of 2014.

Freddie Mac's report on the national housing market reveals a disappointing view into where we currently stand. From the Washington Post, "The housing markets in just 10 states and four of 50 metro areas are stable, according to a recent report." Freddie Mac is hopeful that the markets, which were previously slowly correcting are just currently "stalled [and] will start moving again now that mortgage rates have eased over the past month and the spring home buying season is upon us."

Eakinomics: Obama's Carbon Emissions Rule

Yesterday the administration announced new rules for carbon emissions by existing electricity generation facilities. (There is a separate set of proposed standards for newly-constructed power plants.) The top-line objective is to reduce carbon emissions in electricity generation by 20 percent by 2020 and 30 percent by 2030. Electricity generation is responsible for around 35 percent of U.S. carbon emissions, and coal-fired facilities constitute just under 40 percent of power generation. Coal-fired generation is the clear target of the new rules.

Importantly, the cuts are measured relative to emissions in 2005. Since that time, the Great Recession, the rising use of natural gas, and efficiency improvements have already lowered emissions by 14 percent. Coal facilities can only reduce emissions by another 3 to 6 percent with investments in the existing facilities. Where will the rest of the reductions come from?

One route is shutting down power plants or shifting to natural gas or renewables. More importantly, EPA's rule proposes to allow states "flexibility" to trade higher carbon emissions in the power plants for reductions elsewhere from increasing efficiency by consumers and other initiatives. This scheme of putting a cap on total emissions and allowing trades of low-cost reductions for high-cost cuts — or "cap-and-trade" — has been used since the acid rain program was adopted in the 1990s and lay at the heart of the failed Waxman-Markey climate bill.

The cap-and-trade feature is a key to keeping costs low. EPA estimates the cost at roughly $8 billion annually, but asserts that the benefits run as high as $82 billion. Some of those benefits stem from the simultaneous reductions in other emissions — notably sulfur dioxide — and the health benefits that accompany them. The remainder are the estimated benefits of eliminating the so-called social costs of carbon such as atmospheric and ecosystem impacts.

Most ludicrously, the EPA asserts the proposal will create up to 75,000 jobs in the 2020-2030 period. Unless the EPA is forecasting a recession, the best that this (or any other) rule could do is move 75,000 jobs from elsewhere in the economy to power plant construction and other activities. Worse, by lowering the purchasing power of wages, it might induce some to stop working and cost the economy jobs. It is shoddy at best, and deceptive at worst, to label jobs as a “benefit” of the carbon rule.

The rule will have strong political fallout. As the Wall Street Journal points out a nationwide cap-and-trade to control carbon failed to get through a Democrat-controlled Congress. The president’s proposal is an administrative attempt to impose the same policy without the approval of Congress. It will be featured element of the case by Republicans that the administration regularly exceeds its authority and governs poorly as well.

In addition, it is unpopular with Democrats in coal states, a potential headwind for those candidates in an election year. In that regard, a feature of the president’s rule is that it imposes different percentage cuts for different states. The rule calls on Kentucky to cut by 19 percent and West Virginia by 21, while imposing an 84 percent cut on hydropower rich Washington. While advertised as a means to avoid economic harm, this conveniently eases political pressure on administration allies in those coal states.