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A QUICK GUIDE TO THE EVIDENCE ON REGULATIONS AND JOBS

ISAAC SHAPIRO

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The intense debate this year over the effects of regulatory efforts on jobs and the economy, driven (inaccurately) from the start by the mantra of "job-killing" regulations, has become even more heated in recent weeks. Anti-regulatory efforts have passed the House, been proposed in the Senate, and been embraced by Republican presidential candidates. EPI has issued a series of reports on this topic this year, including reports which underscore three key points. A huge shortfall in demand, not regulatory uncertainty, is what ails the economy

EPI President Lawrence Mishel goes through the evidence in *Regulatory uncertainty: A phony explanation for our jobs problem*, published in September. He finds that while data depicting a lack of demand are clear (even using conservative assumptions, per capita demand is "8.5 percent lower than we would expect" at this point in the recovery), data suggesting a significant role for regulatory uncertainty are altogether absent. Investment and employment trends are in line with, or by some comparisons more favorable than, trends in other recent recoveries. In this recovery, investment in equipment and software has grown faster than during the previous three recoveries, and private sector employment has grown much faster than during the last recovery. There are no mysterious lags that might be explained by regulatory uncertainty.

Further, the lack of demand means companies already have at their fingertips substantial resources that they do not have to use; presumably, they would use these resources before they would increase investment or hiring, and substantial unused capacity (not regulatory uncertainty) explains why job growth has not been faster. Companies are not fully using their capital stock; Josh Bivens' October post on EPI's *Working Economics* blog, "The bad economy is not just a state of mind," finds that the capacity utilization rate (the degree to which current factories and equipment are being used) is still well below its average from 1979 to 2007. Similarly, companies are not fully utilizing their current employees, with the average number of hours employed individuals are working each week still below the pre-recession level.

In his September report, Mishel also reviews a range of surveys of businesses on their perceived regulatory burden. The survey results from the leading small business association (National Federation of Independent Business) are also inconsistent with the story that regulations are now the main or a new factor holding back the economy and job creation. Summarizing the results from nine presidential terms, he finds that during the Obama administration the percent of small businesses reporting that regulations are the single most important problem they face has been within its historical range; for instance, the proportion reporting this concern is lower than it was during the Clinton years, when employment growth was rapid. What is unusual now is that the most common problem cited by far is "poor sales" (an indicator of the lack of demand); during the Obama administration, the average share of small businesses citing "poor sales" as the most important problem they face is more than double the average cited during any other presidential term examined.

Mishel's paper has prompted several exchanges with those who claim a damaging role for regulatory uncertainty; see his *Working Economics* blog posts "Clive, don't change the subject," "Really, that's all you got?" and "Regulatory uncertainty not to blame for our jobs problem." My blog post, "Business economists differ from House orthodoxy on regulation, uncertainty, and tax hikes," reports that 80 percent of business economists think the current regulatory environment is good for the economy and businesses.

New EPA regulations, in particular, can be expected to have a negligible effect on the overall economy. The largest EPA regulation proposed so far (the 'air toxics' rule) would, in fact, likely create a modest number of jobs

Perhaps no regulatory agency has been criticized more this year than the Environmental Protection Agency; hearing after hearing, now followed by bill after bill and Republican presidential candidate after Republican presidential candidate, have targeted EPA on the grounds that its rules are damaging the economy and employment. To investigate this claim, my September report *The combined effect of the Obama EPA rules* and a companion blog post, "EPA and the economy: Much ado about 0.1 percent," tallies the compliance costs of all the major EPA rules that have either been finalized or proposed during the Obama administration.

The results are striking. Not only would the benefits of these rules dramatically outweigh their costs, with tens of thousands of lives saved and even more serious illnesses prevented, their total compliance costs are negligible relative to the size of the economy. Once the rules are fully in effect, the compliance costs would amount to only about 0.1 percent of gross national product. This is an amount that the overall economy can absorb without great difficulty, especially since implementation of the new rules can take several years or more and since the figure does not take into account the frequently considerable offsetting economic benefits, such as fuel savings for consumers from new fuel mileage standards or increased work days because diminished pollution means adults are healthier (see my November blog post, "Economic benefits from two fuel standard rules alone offset much of modest compliance cost of all Obama EPA rules."

Individual EPA rules have also been criticized on the grounds that they will eliminate large numbers of jobs; these claims do not hold up to scrutiny. In *A lifesaver, not a job killer: EPA's proposed 'air toxics rule' is no threat to job growth*, Bivens conducts a comprehensive analysis of the proposed EPA rule that has the largest compliance costs, the proposed "air toxics" rule. He concludes that the "jobs-impact of the rule will be modest, but it will be *positive,*" with a central estimate that the rule will create 92,000 jobs. The gain reflects the fact that compliance expenditures create jobs when the economy has large numbers of unemployed workers, and the jobs gained outweigh any jobs that might be lost due to the modest increase in energy prices produced by the rule. The broader point about the positive effects of compliance expenditures when there are substantial numbers of workers sidelined has been made by others as well, as Bivens blogged in "Famous economists agreeing with us—the first in an occasional series."

Academic studies of and data on the relationship between employment and regulations generally find that regulations have a modestly positive or neutral effect on employment

This spring, EPI Research and Policy Director John Irons and I completed a comprehensive review of the academic and other research on the relationship between regulation, the economy, and jobs (see *Regulation, employment, and the economy: Fears of job loss are overblown*). Our examination of studies of economy-wide effects of regulations finds that:

> *The most common general studies are of environmental regulations, and these have consistently failed to find significant negative employment effects. Moreover, studies suggesting that regulations have broad negative effects on the economy offer little persuasive evidence.*

We also examine studies of the effects of particular regulations on particular industries, finding that:

> *A surprising number of such studies actually show that regulations have a small positive net effect on employment; these include studies of environmental regulations on industries generating significant pollution. Some well-executed studies have found that certain regulations led to job losses in particular areas, but most studies of various industries suggest that regulations had either a close to neutral or small positive effect on employment levels."*

Our report also analyzes the federal government survey of employers' reasons for "extended mass layoffs" of their workers. Only a tiny fraction of these layoffs are due to regulation, according to the employers themselves. In October, Bruce Bartlett wrote about this same data in his *Economix* blog "Misrepresentations, Regulations, and Jobs." He notes that only 0.2 percent of such layoffs are due to regulation, and that, "Lack of demand for business products and services is vastly more important."

Our report also underscores how the narrative that regulations thwart job creation is not only inaccurate, but is fundamentally incomplete. Such a frame not only ignores the benefits of the regulations, it also fails to consider how fundamental certain sensible regulations are to the functioning of local economies (extraordinarily lax regulation of oil drilling in the Gulf of Mexico meant that an accident such as the BP oil spill was inevitable, according to the commission set up to investigate the spill) and to particular industries (in 2010 the Food Safety Modernization Act was adopted with widespread support from the food industry, which believed the regulatory and safety improvements in the bill would boost consumer confidence in the industry's products).

Further, certain sensible regulations are essential to the national economy, and thereby to a healthy national labor market. As discussed in our report and elsewhere, the financial collapse that led to the Great Recession and the loss of eight million jobs came in the wake of deregulation of financial markets and of regulatory failure. Our report, for instance, quotes 2008 congressional testimony from Christopher Cox, then the director of the Securities and Exchange Commission and prior to that a leading Republican member of Congress: “We have learned that voluntary regulation does not work… The lessons of the credit crisis all point to the need for strong and effective regulation.”

It is unfortunate that those lessons are often forgotten today.