Dean Stuart Shapiro: Federal regulations don't really affect economic growth

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The Labor Department reported earlier this month that the American economy added more than 330,000 new jobs in September, far exceeding expectations, the latest in a series of positive reports on employment numbers. Meanwhile, while inflation has come down from its peak, it remains persistently concerning.

Experts have cited various factors behind the unemployment and inflation numbers, many of which would be familiar to a traditional student of macroeconomics. The Federal Reserve raised interest rates consistently over the past year, undoubtedly slowing inflation. Meanwhile, a lessening of supply-chain problems and the retreat of the Covid pandemic have fueled the positive employment numbers. Government fiscal policy in the form of increased spending has likely affected both employment and inflation by putting more money in the hands of individuals and businesses.

One factor has been curiously absent from these discussions — government regulation. For more than a decade, the phrase "job-killing regulations" was a prominent part of any discussion of the American economy. One analysis showed that media mentions of the phrase increased more than 17,000 percent from 2007 to 2011. Conservatives regularly argued that Obama-era regulations were leading to a significant number of layoffs.

The absence of regulation from contemporary debates on the economy is even more curious given President Biden's regulatory policies. The Biden administration has issued regulations at a pace comparable to the Obama and Bush administrations, and faster than the first two years of the Trump administration. If the Biden administration's proposals, particularly those aimed at curbing the emission of global warming pollutants, are finalized, then that pace will increase, as will the economic impact.

So why, given the continued issuance of a high volume of regulations, have we not seen much discussion of the effect of regulation on the macroeconomy? Let's dismiss one argument quickly. The Trump White House regularly cited its deregulatory initiatives as one of its chief accomplishments. Could this be behind the good jobs numbers we are now seeing? No. The Trump administration in fact eliminated very few regulations and, during its final year, actually issued a large number of regulations.

A far more plausible explanation is that the effect of regulations on the macroeconomy is either small or ambiguous. Some regulations enhance job creation, and even those with negative direct job impacts likely enhance human health, thus improving economic productivity. A number of studies examining the question of regulatory impact on the economy have found the effects to be mixed — small in magnitude and varied in direction.

If this is indeed the case, one has to view the previous emphasis on "job-killing regulation" as nothing more than opportunistic rhetoric. Not coincidentally, this argument was typically employed

by those who bear many of the direct costs of regulations. However, it is inconsistent to focus on the employment effects of regulations during tough economic times and then fall silent when the same (or more!) regulations are in place while the economy prospers and job growth is booming.

None of this is to say that every regulation is a good idea. Looking at important regulations from the perspective of analyzing their costs and benefits and (as the Biden administration has proposed) their distributional consequences will lead to better regulatory decisions, if done responsibly. And doing a better job of understanding the cumulative impact of regulations (including state and local regulations) should be a priority.

But whether the economy produces jobs or destroys them, or whether prices go up quickly or slowly, depends on a myriad of factors. Federal regulatory initiatives rank very far behind monetary and fiscal policies on that list.

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