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## BRANNON & BATKINS: Absurdity of regulatory Keynesianism

***Belief that hiring more workers to implement rules can lift economy is fanciful***

By Ike Brannon and Sam Batkins

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President Obama's latest plan to create jobs by spending government money appears dead on arrival on Capitol Hill as the administration struggles to gain the support of Democratic lawmakers, let alone Republicans. But the [White House](#) is trying a different method to use government-directed spending to supposedly create jobs. By tightening current regulations and writing new ones, says the administration, businesses will be forced to spend more money to comply with the new rules, which, in turn, will create jobs and spark economic growth.

This idea has emerged just as [Congress](#) and the courts have begun pushing back against costly regulations of questionable merit that the [Environmental Protection Agency \(EPA\)](#) and its regulatory brethren have issued.

Even [EPA](#) has retreated somewhat, announcing this week that it would save farmers from potentially onerous "farm dust" regulations, and earlier this month it made an effort to lessen the burden on states and utilities from its \$2.7 billion Cross-State Air Pollution Rule.

In response to these perceived setbacks, the administration and its left-wing allies have trucked out the "regulation creates jobs" story, or "regulatory Keynesianism."

One of the most ardent proselytizers of this idea is far-left columnist [Paul Krugman](#). In fact, [Mr. Krugman](#) has criticized the [White House](#) for not being committed enough to the regulatory Keynesianism story. The Obama administration recently acquiesced on proposed standards for ground-level ozone after affected industries voiced serious concerns that the standards would increase operating costs and reduce employment. [Mr. Krugman](#) dismissed those concerns: "Tighter ozone regulation would actually have created jobs, forc[ing]

firms to spend on upgrading or replacing equipment, helping to boost demand. Yes, it would have cost money - but that's the point!"

[Mr. Krugman](#) isn't the only one arguing that costlier regulation will create jobs. A report by a group of environmentalists and labor unions claims that the proposed tightening of two air pollution rules would create as many as 1.5 million new jobs. The report's authors would have the public believe that the rules' estimated \$200 billion cost wouldn't hurt employment or the economy. One wonders: If these two proposed rules would create 1.5 million jobs, why doesn't the report call for another 10 new rules and return the U.S. economy to full employment?

The economic and rhetorical sleight of hand being performed here is truly awesome. Instead of treating the proposed rules as imposing a "cost" on businesses - and eventually consumers - the administration and its supporters repackage that cost as a boon for job creation. In their analysis of the air pollution report they note that that "constructing such new capacity and installing pollution controls will create a wide array of skilled, high-paying jobs."

Regulatory Keynesianism is already deeply ingrained in the Obama [EPA](#). In several of the [agency](#)'s recent analyses, the [EPA](#) treats the cost of hiring new workers and buying pollution-control equipment as a regulatory benefit, theorizing that "an increase in labor demand due to regulation may have a stimulative effect that results in a net increase in overall employment." Not surprisingly, reclassifying these costs as benefits bolsters expensive rules that undergo cost-benefit analyses.

To pretend that forcing businesses to hire new workers to comply with a regulation represents a benefit to the economy rather than a very real cost is the *reductio ad absurdum* of the administration's cynical abuse of economics. It is also a manifestation of their contempt for the voters' intelligence.

We all want our economy to create more jobs, but placing more constraints on the private sector and hiring more regulators to enforce those constraints is not a recipe for success. The government needs to stop pretending that it can spend or regulate its way to a recovery. Instead, it needs to get out of the private sector's way. It is non-intuitive thinking for the American left, but the [EPA](#) seems to be getting the idea with its recent pullback on dust and interstate pollution regulations. Unless Mr. Obama accepts the idea that regulations don't create jobs, he'll watch another president follow that ethos in 2013.

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