How should policymakers factor unemployment in decisions about whether and how much to regulate? While many people are concerned that regulating to reduce pollution or conserve energy could cause people to lose their jobs, the analytical tools to understand the impact of those losses are not well-developed or widely used. A Regulatory Policy Program seminar on March 8, 2012 proposed a new approach to address that problem.

The seminar, “Regulation, Unemployment, and Cost-Benefit Analysis,” featured Eric Posner, the Kirkland & Ellis Professor of Law at the University of Chicago.

Executive agencies are currently required to produce job-loss analyses of proposed regulations. Those analyses are ineffective, according to Posner. If a regulation will cause 1000 people to lose their jobs, is that too many? Currently there is no standard to assess when a job loss amount is “too much.” In addition, the current system doesn’t compare the job losses from a regulation to the regulation’s potential benefits.

Posner discussed his proposal to reform the current system by integrating the job-loss analysis for a regulation into the cost-benefit analysis that agencies are already required to undertake. He proposed that agencies include job losses as costs in the cost-benefit analyses, instead of treating job losses as an independent assessment.

Posner said that since the economic losses of unemployment can be monetized, these costs should be incorporated into cost-benefit analysis. Posner pointed to economic literature quantifying the effects of job loss, including costs when a person is searching for a new job and costs from the person’s lower wages when they regain employment.

It is not clear, according to Posner, how this proposal would affect the number or stringency of new regulations. Since regulators currently take job losses into account, just outside of the cost-benefit analysis, Posner argued that his proposal wouldn’t necessarily reduce regulation, but instead would lead to greater sensitivity to job losses in regulatory decisionmaking.

The seminar was part of a series sponsored this spring by the Regulatory Policy Program (RPP) at the Mossavar-Rahmani Center for Business and Government on the role of cost benefit analysis in regulatory policy and new directions in financial regulation. For information, go to: http://www.hks.harvard.edu/m-rcbg/rpp/index.html