Deregulation is one of Romney's five steps in his plan to add jobs. But how do we supposedly know that deregulation will add jobs? It's a fascinating story, featuring a Nobel laureate's economic model. The model is very fancy, lots of complex math, but it's justified on the basis of data from a discredited study. Garbage in, garbage out.

The story begins with a new white paper from the Romney campaign. Four leading economists attempt to provide an explanation of the campaign's job claims. In terms of deregulation, the white paper says, "Recent research by Ellen McGratten and Nobel laureate Edward Prescott concludes that higher regulatory costs reduced both R&D and fixed investment during the financial crisis and its aftermath; and regulations continue to increase." So getting rid of regulations will increase jobs, apparently. This one paper is the sole basis given for the Romney claim (along with some figures about the length of the *Federal Register*.) As it turns out, even if the paper were valid, it would really only show that regulatory costs *might* have contributed to the recession. But let's move on to the paper itself.

I was definitely curious about McGratten and Prescott, and after a bit of a search I was able to find their paper. Their model is based on real business cycle theory, which holds that economic ups and downs are caused by unexpected shocks to the economy rather than internal factors like collapsing financial markets or technology bubbles. McGratten and Prescott argue that a "key factor" involved in the recession was the diversion of capital to meeting rising regulatory costs under Obama. (On its face, this seems a bit implausible since the recession began before Obama was in office, it hit a lot of other countries besides the U.S. that aren't subject to U.S. regulations, and it's been getting better even though more regulations are being created. But I'm not a Nobel-prize winning economist, so I guess I get more easily fixated on inconvenient facts.) In any event, putting aside the modeling, simulation runs, etc., the bottom line is that the theory assumes that businesses took a heavy hit from new regulations. As evidence for that critical assumption, the authors cite "Crain and Crain" — the discredited paper from two economists in the Small Business Administration with incredible estimates of regulatory costs. Then they say, "Most predictions for future costs are even higher because the current estimates do not include costs related to the Dodd-Frank legislation for financial firms and President Obama's health care initiatives." They point out that both of these laws will create complicated rules (citing a news journal as authority). Then they add in the budgets for regulatory agencies, to come up with the conclusion that the cost of regulation went up a lot. That's their empirical evidence: a discredited study (not, by the way, published in a peer-reviewed journal), a magazine article, and a few budget numbers. If this were a less intellectually serious blog, my next sentence would just be "OMG!"

I have to say that I was shocked by the Prescott paper. I read a fair number of economics articles, including both empirical and theoretical works. In my reading, I can't recall seeing anything as shoddy as the McGratten & Prescott paper. (What *are* they giving out Nobel Prizes for these days?) And how can the four Romney economists who relied on this study be holding reputable academic jobs? Even a law review, let alone an economics journal, would never publish something of this caliber, and even a lawyer on a retainer would think twice about using it as evidence.

Anyway, that's the trail — from a discredited empirical study by hacks at a minor government agency, to an shoddy paper by a Nobel prize winner, to a campaign white paper by four politicized economists. It goes to show how hard it is have a serious policy discussion when even supposedly reputable economists throw aside their professional standards in the name of politics.