Last week, in a post about the employment effect of regulations, I mentioned briefly that the new Director of the Congressional Budget Office, Keith Hall, had endorsed some questionable views on the subject. A reader pointed me toward an additional writing that has done a lot to escalate my concerns. There are disturbing signs about both Hall's ideological bias and even his grasp of basic economics.

This writing was part of an exchange in the journal *Risk Analysis* about an excellent book on the regulation/employment issue written by Coglianese, Finkel, and Carrigan. Here are a couple of snippets that reflect Hall's anti-regulatory bias:

"[R]egulation-related jobs are created much in the same way that a hurricane creates jobs."

"The important point is that more valuable economic resources—like labor hours in the preregulation world—are being used to produce less in the postregulation world."

A little harder to distill into a soundbite, but even more disturbing, is the basic argument made in the review, which is that jobs that are lost due to regulation count as costs, but jobs that are created don't count as countervailing gains. Here's a somewhat longer excerpt where Hall and his co-author make this argument:

"Jobs that are lost were created to respond to consumer demands. In this case, workers are only hired if what they are able to produce is valued by consumers more than what the workers are paid, a positive value. But it is always uncertain whether or not jobs that are created to comply with regulations produce value that exceeds what the newly higher workers are paid. The value created is the uncertain benefits of the regulation. . . . . Becoming involuntarily unemployed is just one of the tragedies of the regulatory enterprise but forcing the American workforce into regulatory employment that has speculative value may be the far larger cost."

The first thing that's disturbing here is the rhetoric — regulatory benefits have only "speculative value," and it is "always uncertain" whether they are worth their costs. But what's worse is that it contains a basic economic error. It's literally Econ 101 that the market won't correctly value an activity if there are externalities such as pollution. (Not to mention other market imperfections like imperfect information, oligopoly, subsidies, etc., but just ignore those for the moment). By considering only the private value of the activity — the value it producers for consumers — but not the externalities, Hall is violating this fundamental economic principle. If we're completely uncertain about externalities, then we're equally uncertain about social value, even if we know the private value of the activity. It's like an accountant saying that we can be sure a company is extremely profitable when all we know is that it produces a lot of revenue. Confusing the private value of an activity with its social value is exactly like confusing revenues with profits.

In short, Hall's argument is deeply flawed even if he is right that the value of regulation is completely speculative. Of course, that's not true either, and the fact that he thinks so is an indication of the strength of his ideological commitments. There are some other, less obvious problems with his argument, which are explored in the authors' response to the review. But what's really disturbing is that his ideology seems to be capable of leading him into basic economic errors. The issues facing CBO can be very politically fraught, and Congress is now requiring macroeconomic forecasts as well as estimates of direct costs. Given the much more complex economic issues he'll be grappling with as head of the CBO, all of this is very worrying indeed.