



Don't Do This

Once we begin to dig ourselves out from the COVID-19 pandemic, we will need to think seriously about how to rebuild the economy. And that should scare environmentalists. Expect a whole series of pushes from the usual suspects about we "can't afford" environmental protection when the nation is in depression.

That is precisely wrong.

Suppose that we get to the point when COVID-19 is no longer a significant danger: we have post-infection treatments, or a vaccine, or effective methods of contact tracing. But what will jump start the economy? Business will be frightened to invest: where will consumers put their money? Consumers will be afraid to spend: maybe we need to save because who knows what will happen - a phenomenon commonly called "putting money under the mattress." The Fed can't cut interest rates any more because they are already zero, so that method of increasing investment is out, a situation sometimes referred to as a "liquidity trap."



Paul Samuelson

The result will be a frozen economy without the demand to spur investment and growth, which Nobel Laureate Paul Samuelson famously termed the “paradox of thrift.” What might be good for an individual has awful collective consequences.

What can save us? Regulation. And lots of it.

Think of it this way. Regulation spurs demand. If the government tells manufacturers to install pollution control equipment, or orders cleanups of natural resources, that is effectively ordering an increase in demand. And in the case of every sector waiting for every other sector to move, regulation essentially orders one sector to start.

This situation isn’t always the case, of course. There are always tradeoffs, although given the current focus on cost-benefit analysis for regulation, the standard “economy v. environment” cliché is just that. Given the externalities involved in the absence of regulation, it is often more efficient to regulate even when we are out of an economic slump.

But it seems to me that from a macroeconomic perspective, in a depressed economy we should welcome more regulations - at least those of a sort that spurs demand, as many do. Assume that the next time you hear someone trot out the old anti-regulation cliché, they are either ignorant or arguing in bad faith.