Romney's argument for a regulatory cap equates regulations with taxes. My initial reaction was that this was an absurd comparison – taxes are payments to the government, whereas regulations reduce externalities. But after further thought, I decided that my initial reaction was a little too facile. Regulatory costs do have some of the same economic effects as taxes, but the effects are more complex and attenuated. It's a mistake to equate regulations and taxes, as Romney does — but a more complicated mistake than I thought initially.

To keep the discussion simple, let's assume that regulatory costs are passed on to consumers in the form of higher prices. That's something like a sales tax. One problem with sales taxes is that consumers shift to other products that aren't taxed, so demand is distorted by the tax. But this is less of a problem if the regulation affects broad sectors of the economy like energy, because it is harder for consumers to find other products to switch to. EPA regulations cover most of the economy — something conservatives frequently complain about — so the "sales tax" effect may be small.

The other effect of regulatory costs is that goods cost more. This could produce an indirect effect that is something like the impact of an income tax. Just as the income tax reduces the reward for an extra hour of work, regulatory costs do the same thing because the income from that extra hour doesn't go as far in purchasing goods. It's hard to know how big this effect of taxes is, but it's plausible to assume that the effect does exist.

But the effect on labor supply is more complicated for regulations than it is for taxes. The benefits side of the pollution regulation can counter the effect on labor. Healthier people may be willing to work more hours for the same pay or may stay in the workforce longer. Furthermore, they can shift consumption from medical care to things they value more. Also, some things like outdoor recreation become more appealing for healthier people. For example, healthier people have an incentive to work longer to pay for outdoor vacations and recreational equipment. And healthier people have higher life expectancies, so at the margin they have a little more reason to earn money they can save for retirement. It's even possible that the net effect of environmental regulations is actually to increase labor supply.

The bottom line seems to be that regulations are a *bit* like taxes, but only in a complicated and attenuated way. Their distortionary effects on consumption and labor are probably smaller than those coming from taxes and have to be balanced against their direct positive benefits to society. Before I spent a lot of time worrying

about the tax-like impact of regulations, I’d like to see a lot more modeling and empirical evidence. The regulatory cap mistakenly equates the two and could probably be compared with using a cannon to kill a mouse.