The Republican's choice for head of the CBO, Keith Hall, spent some time at a libertarian think tank reportedly funded by the Koch brothers, where he wrote about the effect of regulation on employment. Hall argued that regulations cause unemployment (include indirect effects because of price changes), and that the costs of unemployment should be included in regulatory cost-benefit analysis.

In principle, it seems right to include the special harms associated with job loss in cost-benefit analysis (not just for regulations but everything else too). There's all kinds of evidence that being fired or laid off is very damaging to people, and that's a genuine cost — assuming that we can reliably quantify the effect. As Hall has said:

"The immediate impact of job loss includes lost wages, job search costs, and retraining costs. Further, research shows that even after reemployment it can take as long as 20 years for workers to catch up on lost earnings, largely due to skill mismatches between the jobs lost and the new jobs created in the economy. These losses occur at different lengths of job tenure, in all major industries, and with workers of any age."

As I said, this seems right in principle. But there are some important caveats.

To begin with, calculating the effects may not be easy. We also need to take into account the potential positive impacts of environmental regulation on employment. If environmental regulations improve public health, people may work more, making more money, which raises consumer demand and increases employment. If some workers would otherwise have been unable to work for health reasons, environmental regulation could also help to save jobs that would otherwise be lost. Note also that we need to know more than overall employment losses. Employment decreases may also be through attrition rather than layoffs, and those shouldn't be counted.

Furthermore, the estimate should take into account the potential that the government will take action to maintain the existing employment rate. The Fed normally has some ability to do this by adjusting interest rates. (We may be at the zero lower bound right now (at least if people like Krugman are to be believed) — but because corporations are sitting on a lot of cash now, the added expense of pollution control could be considered a kind of stimulus program.) In addition, federal, state, and local governments might take other steps to support affected industries. If governments are good at hitting their target levels of unemployment, the effect of regulations on employment could be fully countered. The evidence suggests that regulation in the aggregate hasn't caused significant increases in unemployment, and countervailing actions by governments could be part of the reason.

Moreover, we should be consistent and apply the same analysis across the board to *all* government actions, not just environmental regulations. For instance, when there's a budget cut, government workers lose their jobs, and the costs to the employees from layoffs should be counted against the revenue savings. Moreover, it's important to realize that removing restrictions on markets will often cause the loss of some existing jobs. That means that some market liberalization that would otherwise be worthwhile won't pass a cost-benefit test once we take into account the special harms created by layoffs during the transition.

Finally, we should acknowledge that this is a big shift from the way economists view the world, a shift that at the margin weakens arguments for free markets. Basically, taking into account the cost of job losses disfavors changes of *any* kind to the economic status quo. One of the great things about capitalism is supposed to be "creative destructions" — the way the market eliminates outmoded activities so that new ones can thrive. But once we start taking into account the cost of layoffs to current employees, we should be less enthusiastic about this process. Moreover, regulation of labor markets may be needed to ensure that employers take into account the harms that layoffs and firings cause to employees. In short, in many contexts, taking unemployment costs into account favors liberal arguments for market interventions.

In short, I think there's something to Hall's argument for taking into account the harms associated with losing a job. assuming that we actually can figure out actual job effects. But the implications may ultimately be more to the liking of liberals than conservatives.