SHOULD REGULATION BE COUNTERCYCLICAL?

Eric A. Posner

Background

- Macroeconomic tools
  - Monetary policy
  - Fiscal policy
  - Regulatory policy?
- “Regulation” = environmental, employment, food safety, etc.
- “Regulatory stimulus” = suspension/delay of regulations during downturn
- Magnitudes?
  - Traditional stimulus programs are 1-5% of GDP
  - Regulatory costs in U.S. about 1% of GDP

What would “regulatory stimulus” look like?

- Familiar example: capital adequacy regulations
  - Microprudential approach
  - Macroprudential approach
- Pollution regulations
  - “Micro” approach
  - “Macro” approach (U.S. ad hoc approach in 2011)
- Workplace safety
- Immigration

Difficulties

- Macro benefits > micro costs?
  - Fixed (sunk) costs vs. variable costs
  - Firm’s use of savings
  - Stimulative effect of regulatory obligation
  - Loss of regulation’s micro benefits
  - Legal requirements (e.g., notice/comment)
  - Coordination among decentralized agencies
  - Problem of identifying downturns / triggers (compare automatic stabilizers)
- Traditional fiscal and monetary policy seems better
  - But: both economic (zero bound) and political constraints may suggest regulatory stimulus as a useful supplement