

Testimony before the Energy and Power Subcommittee of U.S. Congress
“Variation in the Cost of Job Loss over the Business Cycle”

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Chair Whitfield, Ranking Member Rush, and members of the Committee, it is an honor to be with you today. Existing evidence suggests that air regulation provides benefits in terms of improved air quality, improved health outcomes, and improved housing values (e.g., Chay and Greenstone 2003, 2005, Currie and Neidell 2005). However, it is widely acknowledged that air regulation also carries potential costs in terms of lower employment and lower productivity in regulated sectors (e.g., Greenstone 2002, Greenstone, List, and Syverson 2010). In my testimony I will focus on current estimates of the costs of air regulation, and in particular on the costs for those workers most affected by regulation – workers displaced from their previously stable jobs.

Our current best estimates of the effect of the Clean Air Act (CAA) suggest that the economic costs for workers present in regulated sectors at the time of regulation are non-negligible. Existing and ongoing research has shown that (A) employment in regulated sectors declines (Greenstone 2003); (B) productivity in regulated sectors is reduced (Greenstone, List, and Syverson 2011); (C) there are large and persistent wage reductions for workers induced to leave regulated firms, especially for those switching sectors after leaving their jobs (Reed 2011).

Whether the costs of air regulation are of the same order of magnitude as the benefits in terms of improved environment, health, or housing values is likely to depend on the regulation and the environment in which it takes place. For example, the most comprehensive study of the effects of the 1990 CAA Amendments (CAAA) to date estimates that there was a loss in wages of \$9

billion in foregone earnings spread over 6 years after the law came into force (Reed 2011). Relative to the estimated benefits of the 1990 CAAA, these losses are temporary and moderate.

However, the 1990 CAAA may have represented a ‘best case scenario’. This is because the amendments came into force not long before the high-pressure labor market of the mid- to late-1990s. This matters because the cost of regulation in terms of lost wages and employment tends to mostly accrue to workers induced to leave their job as a consequence of the regulation. This is true for air regulation (Reed 2011), as well as for other regulatory interventions in the labor market (e.g., Rose 1987, Card 1998).

An increasing number of studies show that displaced workers – workers that lose their stable job at stable, mid-size to large firms in the course of a downsizing – can experience large and lasting earnings losses lasting up to 15 to 20 years (e.g., Jacobson, Lalonde, and Sullivan 1993, von Wachter, Manchester, and Song 2011). While these earnings losses vary somewhat among demographic groups or industries, no group in the labor market is exempt from significant and long lasting costs of job displacement.

A job loss is also typically followed by an extended period of instability of employment and earnings (Stevens 1997, von Wachter, Manchester, and Song 2011). During this period, job losers can experience declines in health. In severe downturns, these health declines can lead to significant reductions in life expectancy of 1 to 1.5 years (Sullivan and von Wachter 2009). The consequences of job loss are also felt by workers' children, who can suffer from the consequences even as adults, and by their families (Stevens and Schaller 2009, Oreopoulos, Page, and Stevens 2008). Job losses have been also associated with a higher rate of entry into potentially costly public programs such as Social Security Disability Insurance (e.g., Autor and Duggan 2006) or Old Age Survivor Insurance (e.g., Chan and Stevens 2001).

The earnings cost of job displacement has been found to be substantially higher in recessions than in booms (Davis and von Wachter 2011). Yet, even displacements in good economic periods can lead to lasting earnings losses. However, since the early 1980s, the late 1990s is the only period in which studies have found that some job losers actually are able to substantially

close the gap relative to similar workers that were not displaced (von Wachter, Handwerker, and Hildreth 2008, von Wachter, Manchester, and Song 2011). Hence, workers displaced from their firms as a consequence of the 1990 CAAA may have had an exceptionally quick and steep path of recovery from their initial losses in earnings.

To conclude, while many workers affected by air regulation are likely to be sufficiently mobile to find a new job without major losses in employment and earnings, a subset of workers induced to move from their job – be it voluntarily or by layoff – due to the regulation are at risk of experiencing large and lasting losses in earnings. Existing research suggests these earnings losses may be substantially lower in good economic environments than in recessions (Davis and von Wachter 2011). While even in a good economic environment air regulation can lead to economic costs, for existing regulation the overall magnitude of the cost has been shown to be lower than the estimated benefits (Reed 2011).

Overall, current research the actual economic costs – and hence the net gain – of air regulation is likely to depend on the economic circumstances in which the regulation is an enacted. Hence, an assessment of these costs and their dependence on the economic environment, the type of regulation, and the types of workers affected are important questions for future research.

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