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RESEARCH SUMMARY

THE MISSING EMPLOYMENT EFFECTS OF REGULATORY IMPACT ANALYSES

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Regulatory agencies don't consider the possible impact they may have on labor markets, even though they have been, since 1971, increasingly subject to requirements that they consider the effect of regulatory change on the economy. Unfortunately, the failure to focus effectively on the employment impact of regulation means that the analysis misses several important aspects of regulation. First, agencies ignore the economic cost of job loss in the regulated industry, despite strong evidence that job displacement of any type is very costly for individuals, families, and communities. Second, agencies ignore the economic cost of indirect job loss in other industries resulting from higher priced regulated goods or services. For example, the Environmental Protection Agency found that its proposed Toxics Rule would raise the price of electricity by nearly four percent and, as a result, higher energy prices would raise prices and reduce sales in 19 associated industries. If they had carried their analysis further, they would have found that for every job lost in the electrical industry, eleven jobs would have been lost in other industries. And each of these additional jobs lost would be very costly for individuals, families, and communities. Finally, there is evidence that high levels of regulation can affect the economy dynamically and at the macro level. With respect to labor markets, this means that regulations can affect job creation, wage growth, and workforce skill mismatching with available jobs. The latter can result in lower labor force participation and higher unemployment rates in the long run.

JOB DISPLACEMENT EFFECTS

Regulation raises the cost of production, which leads to higher prices and reduced output. This causes job loss in the regulated industry. Regulatory agencies argue that these displaced workers simply find identical work in other industries and, as a result, ignore the economic cost of this job displacement. However, there is a significant literature, based on data from surveys from as far back as 1968, on the losses associated with job displacement that could be used in estimating such unemployment and underemployment losses. According to these studies:

- The immediate impact of job loss includes lost wages, job search costs, and retraining costs.
- Even after re-employment, research shows that 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.
- Recent estimates of earning losses range from 1.4 years of earnings in times of low unemployment to 2.8 years during times of high unemployment.
- Applying the 2.8 years of lost earnings to the Toxics Rule would yield an additional $2 billion in earnings loss not included in the EPA's analysis.

JOB LOSS IN OTHER INDUSTRIES

There are indirect impacts of regulation. Higher prices for regulated goods and services raise costs in other industries and lower the buying power of consumers. Both of these can impact jobs.

- For example, the EPA itself estimated that a proposed Toxics Rule would raise electricity prices by nearly four percent, and this would raise costs of production in at least 19 downstream industries.
- If the EPA had extended their analysis to the employment effects, they would have found that for every job lost in the electricity industry, 11 jobs would be lost in these downstream industries.

OTHER LONG RUN DYNAMIC AND MACROECONOMIC EFFECTS OF REGULATIONS

In the long run, regulations redistribute labor resources within an economy. This redistribution can reduce productivity as resources are shifted from market-driven production to government-driven uses, such as compliance activity. When a regulation improves the functioning of a market, productivity can be increased. These impacts can be, and often are, taken into account in economic impact studies. However, other long run effects are not typically accounted for, including:

- how regulations can impact labor force participation, the potential unemployment rate, and relative wages;
- how regulations can create “fairness” issues as certain types of occupations jobs are favored at expense of others (eg, “green occupations” at the expense of production occupations);
- how income inequality could be affected if basic production occupations lost at expense of compliance jobs require higher or lower levels of education and training.

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Keith Hall is a senior research fellow at the Mercatus Center at George Mason University. From 2008 until 2012 he served as the thirteenth Commissioner of the Bureau of Labor Statistics. In this role, he headed the principal fact-finding agency in the Federal Government in the broad field of labor economics and statistics. The BLS is an independent national statistical agency that collects, processes, analyzes, and disseminates essential statistical data to the American public, the US Congress, other Federal agencies, State and local governments, business, and labor. Hall received his BA from the University of Virginia and his MS and PhD in economics from Purdue University. His research interests include labor markets, labor market policy, and economic data.

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