DOES REGULATION KILL JOBS?

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August 19, 2016
Wellington, New Zealand
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Lights out for ordinary bulbs made in the U.S.

Source: Washington Post (Sept. 8, 2010)
Today’s Remarks

1. The regulation-jobs debate
2. What does the evidence show?
3. Implications for politics, analysis, and public policy
FIGURE 1: “JOBS” AND “REGULATION” IN THE MEDIA, 2002-2012


House Approves Regulatory Moratorium

Mima Mohammed | Aug 2, 2012 | News

Last week, the U.S. House of Representatives passed a bill that would block government agencies from adopting any significant regulations until the unemployment rate drops to 6 percent or below. The Red Tape Reduction and Small Business Job Creation Act (H.R. 4078) passed by a vote of 246 to 172, attracting support from about thirteen Democrats as well as almost every Republican member.

Until the unemployment rate drops, the proposed law would allow a federal agency to undertake a significant regulatory action only if the President determines that doing so would be necessary for addressing an imminent threat to public health or safety, enforcing of criminal laws, protecting national security, or implementing an international trade agreement, or if doing so would simply repeal an existing regulation. The President would also be allowed to request that Congress approve other actions that do not meet these exceptions.

For purposes of the bill’s regulatory moratorium, a “regulatory action” includes any step to adopt a new regulation – not only the publication of a final rule but also even an announcement of an agency’s possible interest in starting a rulemaking proceeding. And a “significant” regulatory action is defined by the bill as one that is expected to impose costs on regulated firms in excess of $50 million annually.

The bill also includes a variety of other regulatory reform provisions, some that had been contained in other bills introduced in the House earlier this session. For example, the bill would impose a similar moratorium on significant regulatory actions during the period of time between a presidential election in November and the January day when a new President is
“I will have one overriding goal when it comes to regulation: I want to keep jobs and wealth in America. … It is time to remove the anchor dragging us down.”

- Donald Trump, August 8, 2016
“[R]egulations done wrong can be a cure worse than the disease - killing jobs, harming consumers, and damaging businesses. Regulations disproportionately threaten small businesses and stops business creation and hiring.”

- A Better Way, June 14, 2016
Toward a 21st-Century Regulatory System

If the FDA deems saccharin safe enough for coffee, then the EPA should not treat it as hazardous waste.

By BARACK OBAMA

For two centuries, America’s free market has not only been the source of dazzling ideas and path-breaking products, it has also been the greatest force for prosperity the world has ever known. That vibrant entrepreneurialism is the key to our continued global leadership and the success of our people.

But throughout our history, one of the reasons the free market has worked is that we have sought the proper balance. We have preserved freedom of commerce while applying those rules and regulations necessary to protect the public against threats to our health and safety and to safeguard people and businesses from abuse.

From child labor laws to the Clean Air Act to our most recent strictures against hidden fees and penalties by credit card companies, we have, from time to time, embraced common sense rules of the road that strengthen our country without unduly interfering with the pursuit of progress and the growth of our economy.

Sometimes, those rules have gotten out of balance, placing unreasonable burdens on business—burdens that have stifled innovation and have had a chilling effect on growth and jobs. At other times, we have failed to meet our basic responsibility to protect the public interest, leading to disastrous consequences. Such was the case in the run-up to the financial crisis from which we are still recovering. There, a lack of proper oversight and transparency nearly led to the collapse of the financial markets and a full-scale...
“We focused on economic growth and job creation, and we sought to ensure that regulation did not compromise either of those goals.”

- Cass Sunstein, OIRA Administrator, 2009-2012
For “major” federal rules from 2003-2013, the “estimated annual costs are in the aggregate between $57 billion and $84 billion” (2001 dollars)

OMB (2014)
Clean air rules create jobs, TV ads from environmental groups claim

By Laura Vozzella

In a series of television ads that started running Thursday in the swing states of Ohio, Pennsylvania and — you guessed it, since you’re reading the Virginia Politics blog — Virginia, two environmental groups are promoting the idea that tougher environmental standards will produce jobs as well as clean air.
Tighter Fuel Economy Regulation

“....according to several analyses, over the next 20 years, it’ll bring us another half a million good new jobs into the American economy.”

- President William Clinton, 2012 Democratic Convention
“The financial crisis showed how irresponsible behavior in the financial sector can devastate the lives of everyday Americans—costing 9 million workers their jobs.”

- Hillary Clinton campaign website (2016)
“The relationship between regulation and jobs is more complex than portrayed in political discourse.”

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<tr>
<th>STUDY</th>
<th>REGULATION</th>
<th>UNIT OF ANALYSIS</th>
<th>TIME PERIOD</th>
<th>FINDINGS</th>
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<tbody>
<tr>
<td>Berman &amp; Bui</td>
<td>Local air quality regulations in Southern California</td>
<td>Manufacturing firms</td>
<td>1979-1992</td>
<td>No statistically significant changes in jobs</td>
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<td>(2001)</td>
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<td>Morgenstern,</td>
<td>All environmental regulations (as measured by industry-reported spending</td>
<td>Firms in pulp and paper, plastics</td>
<td>1979-1991</td>
<td>No statistically significant changes in jobs on average across all four</td>
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<td>Pizer &amp; Shih</td>
<td>on environmental compliance)</td>
<td>petroleum refining and iron and steel</td>
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<td>sectors, but small, statistically significant increases in jobs in</td>
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<td>(2002)</td>
<td></td>
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<td>plastics and petroleum sectors</td>
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<td>Greenstone</td>
<td>Federal and state air pollution requirements imposed due to nonattainment</td>
<td>Manufacturing firms</td>
<td>1972-1987</td>
<td>Average decrease in 40,000 jobs per year in nonattainment areas relative</td>
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<td>(2002)</td>
<td>status under Clean Air Act</td>
<td></td>
<td></td>
<td>to attainment areas</td>
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<tr>
<td>Walker (2012)</td>
<td>Federal and state air pollution requirements imposed due to nonattainment</td>
<td>Workers in polluting sectors</td>
<td>1990-2002</td>
<td>At most a 0.7 percent decrease in employment and a 23 percent reduction</td>
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<td></td>
<td>status under Clean Air Act</td>
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<td>in present value of workers’ wages</td>
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“Overall, there is relatively little evidence ... that environmental regulations have had a large adverse effect on competitiveness.”

Source: Jaffe et al. (1995)
“We find no evidence that the rise in New Jersey's minimum wage reduced employment at fast-food restaurants in the state.”

Source: Card & Krueger, AER (1994)
“...higher levels of regulation are associated with statistically significant, but quantitatively very small job losses...”

- Gray & Shadbegian (2013)

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<td>Gray &amp; Shadbegian</td>
<td>All environmental regulations (as measured by industry-reported spending on environmental compliance)</td>
<td>Firms in 399 manufacturing sectors</td>
<td>1973-1994</td>
<td>• Increasing regulatory stringency by 10% corresponds with a reduction of only 30 jobs out of 40,000 employees in the average sector.</td>
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<td>(2013)</td>
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| Aldy & Pizer        | Hypothetical regulation imposing tax of $15/ton CO₂ (a price increase about three times higher than that expected from EPA’s cross-state air rule) | Firms in over 400 manufacturing sectors | Simulation based on 1986-1994 data | • No statistically significant effect for 80% of industries.  
• Gross employment decrease of less than .02% for all manufacturing, decrease of between 1-2% for energy-intensive manufacturing. |
Competing Effects

Demand Effect: $\uparrow$ costs, $\downarrow$ sales (& $\downarrow$ labor)

Cost Effect: $\uparrow$ costs, due in part to $\uparrow$ labor

Morgenstern, Pizer & Shih (2002)
Job Shifts Happen.....

- Job transitions and shifts can occur due to regulation
- Layoffs can impose real harms
  - Decline in lifetime earnings
  - Mortality, mental health risks
Job impacts can vary by ...

...type of regulatory tool

(Färe, Grosskopf, Pasurka, Jr., & Shadbegian 2013)

...type of industry

(Aldy & Pizer 2013; Gray & Shadbegian 2013)
Why do politicians think regulations “kill” jobs ... when the research says they really don’t?
Public places priority on economy when unemployment rate increases
What this means for regulatory impact analysis
U.S. Regulatory Impact Assessment: Guidelines

“[T]he agency shall...provide...[a]n assessment ... of ... any adverse effects on ... productivity, employment, and competitiveness.”

- Executive Order 12,866
U.S. Regulatory Impact Assessment: Reality

“Agencies are clearly not giving much consideration to the employment (or other macroeconomic) effects of their regulatory decisions.”

- Shapiro (2013)

80% of assessments examined failed to quantify any employment effects.
What this means for public policy
Conclusion

- Employment matters, so potential losses from regulation also matter

- But other things matter too, including the benefits delivered by regulation

- Better research and analysis can help avoid giving too much or too little emphasis to employment effects