

Compensating Workers for Job Losses Due to Increased Carbon Taxes

Lessons from the Trade Adjustment Act

Presentation to the 2017 Annual Meeting of the
Society for Benefit Cost Analysis*

March 2017

Craig Thornton

*Slides have been edited slightly from those presented at the conference to clarify a few issues and eliminate some material that were not discussed.

Benefit-Cost Decision Making

- **Decision criteria: Proceed with a policy change as long as the total benefits to society exceed the total costs**
- **Caveat: Benefits and costs generally distributed differently**
- **Kaldor/Hicks: winners could compensate losers and still come out ahead**
- **But, such compensation is seldom made**

Carbon Taxes

- **Intended to correct the market price of carbon to reflect all social costs, particularly global warming**
- **Policy is attractive because it largely relies on markets to find the best ways to use carbon**
- **The overall benefits are potentially enormous if we can delay or avoid a critical tipping point in global warming**
- **The costs are likely to be highly concentrated on firms and individuals that currently produce or use a lot of carbon**
- **Costs will generally occur faster than the benefits**

Recent Carbon Tax Plan*

- **Gradually increasing federal government tax on carbon dioxide emissions starting at \$40 per ton**
- **Return the proceeds via quarterly dividend checks to all Americans (\$2,000 per year for family of four)**
- **American companies exporting to countries without comparable carbon pricing would receive rebates on carbon taxes they've paid on those products, while imports from such countries would face fees on the carbon content of their products.**
- **Repeal the Clean Power Plan and other regulations made unnecessary by the carbon tax**

*Martin S. Feldstein, Ted Halstead, and N. Gregory Mankiw, "A Conservative Case for Climate Action" *New York Times OpEd* 2/8/17

A Few Comments on the Plan

- **Suggestions to tax carbon have a long history**
- **The proposed plan offers no compensation to firms and individuals who would face substantial disruptions due to the carbon tax**
- **The proposed plan, which prices carbon at \$40 a ton, would quickly disrupt current markets.**

Trade Adjustment Act

- **Origins under the Kennedy Administration's Trade Expansion Act of 1962 and refined by the Trade Adjustment Act of 1974**
- **Amended numerous time, most recently in**
 - 2002
 - 2009
 - 2011
 - 2015
- **Discussion of Trade Adjustment Assistance arose in every debate about new trade policies**

TAA Services (under 2002 amendments)

- **Training for 2 years or more**
- **Income support (UI payments for a year or more)**
- **Wage subsidy for older workers**
- **Case management and reemployment services**
- **Allowances for job search and relocation**
- **Health coverage tax credit**

TAA Eligibility

- **Firm or union files a petition with DOL**
- **DOL certifies (within 40 days) petitions when job losses were significantly caused by foreign competition**
- **Covered job separations include those occurring**
 - One year prior to petition filing date
 - Two years after certification date
- **State workforce staff contact certified firms to get list of affected workers**
- **State contacts workers**

Evaluation Findings*

- **Findings reflect:**

- Operation under 2002 amendments
- Workers who lost jobs between Nov 2005 and Oct 2006
- Note: participating workers who spent 2 years in training re-entered a dismal labor market in 2007-08

- **Comparison group design:**

- Workers covered by TAA in 25 states (which contain almost 90 percent of all TAA-eligible workers nationwide)
- Comparison workers (selected using propensity scoring) who lost jobs at similar times in local areas similar to those of the treatment group

Evaluation Findings*

- Overall, participation had a *negative* effect on total income during the 4 years after job loss
 - Participants did receive income support and training
 - Comparison group members had even higher earnings
 - Very low use of the relocation assistance
- Estimated net present value to society:
 - If benefits from international trade are excluded, the social net present value of the assistance is -\$54,000 to -\$27,000 per participant
 - If TAA makes a modest contribution to increasing international trade, then net present value would be positive
 - Results were more positive for younger workers than for older workers

*D'Amico and Schochet 2012

Why Are Results So Disappointing?

- **Only half of eligible workers participate (revealed preferences about perceived value of training?)**
- **The eligibility process led to delays between job loss and services**
- **Participants spend more time in training and education and comparison group members**
- **Of TAA participants who were employed 4 years after job loss, just 37 percent worked in occupations for which they had been trained**
- **4 years may be an insufficient time to see the value of the training**
- **Poor macroeconomic conditions reduced the short-term value of the training and job search**

Lessons for Carbon Tax

- **Compensation is likely to arise in debates over introducing a carbon tax**
- **Look for better compensation plans than the one used in TAA**
 - Little evidence about more effective reemployment assistance
 - A simpler approach may be to offer wage subsidies only
 - Help dislocated workers make better decisions about the value of training
- **Strong macroeconomic performance makes it easier to help workers displaced by the policy**

Omit Compensation Efforts?

- **Making compensation effort work is very difficult**
- **If a policy passes the Kaldor/Hicks criteria, don't worry about the compensation**
- **Markets are disrupted all the time and generally will clear again after a while**

- **Further thought about effective options would be helpful as would studies of the benefits and costs of a carbon tax as seen from various stakeholder perspectives**

Craig Thornton
cth Thornton@mathematica-mpr.com

References

- Carbon Pricing Leadership Coalition, “What are the options for using carbon pricing revenues?” www.carbonpricingleadership.org September, 2016.
- Kugler, Adriana, “Strengthening reemployment in the unemployment insurance system.” The Hamilton Project Policy Brief 2015-02, March 2015.
- Dolfin, Sarah and Peter Z. Schochet, The Benefits and Costs of the Trade Adjustment Assistance (TAA) Program Under the 2002 Amendments <https://www.mathematica-mpr.com/our-publications-and-findings/publications/the-benefits-and-costs-of-the-trade-adjustment-assistance-taa-program-under-the-2002-amendments>. Mathematica Policy Research, December 30, 2012.
- D’Amico, Ronald and Peter Z Schochet, “The evaluation of the trade adjustment program: a synthesis of major findings.” <https://www.mathematica-mpr.com/our-publications-and-findings/projects/trade-adjustment-assistance-evaluation>. Mathematica Policy Research, December 30, 2012.

Improving Trade Adjustment Assistance Delivery

Supplemental material on ideas for making trade adjustment assistance more effective. In general, these are just ideas. There is very little evidence pointing to effective reemployment strategies for workers who lose their jobs due to international trade.

Speed up the Process

- **TAA reported better operational success when certification times and processes were improved**
- **Try to get assistance to people as soon as possible.**

Align Training with Job Market

- **Data mining of information from job sites to find trends in new jobs being posted and positions being filled.**
- **Look to generate information about trends in openings very quickly and tailor it by county. Look to post information on user-friendly sites**
- **Feed information to community colleges.**
- **See if private sector training providers can be paid on a performance basis to move quickly to offer training in sectors where jobs are available.**
- **Analyze job paths in jobs being posted to identify jobs that offer advancement potential and to understand the skills required to get into the good initial jobs.**
- **Look for innovation in training to make it quicker and more effective.**

Make Job Seeking Easier

- **Job clubs or other ways to help people make peer to peer connections**
- **Connect people looking for jobs with people from the same communities who recently changed jobs**
- **Look to support job seekers and their families**
- **Tailor approaches to specific communities hit by the policy change?**
- **Help with job/seeker matching: help people understand what is possible and what it will take**
- **Many TAA components support training and the job search process**

Improve Awareness and Use of Supports

- **Be realistic: not everyone will want help and not everyone will benefit equally**
- **Help eligible workers understand whether training will pay-off for them**

Promote Overall Job Growth

- **There is no substitute for macro policies that create economic growth. A strong economy makes all the transitions easier**
- **Support for small businesses opening in areas strong affected by the policy change. There are some programs that help job seekers start new businesses.**