

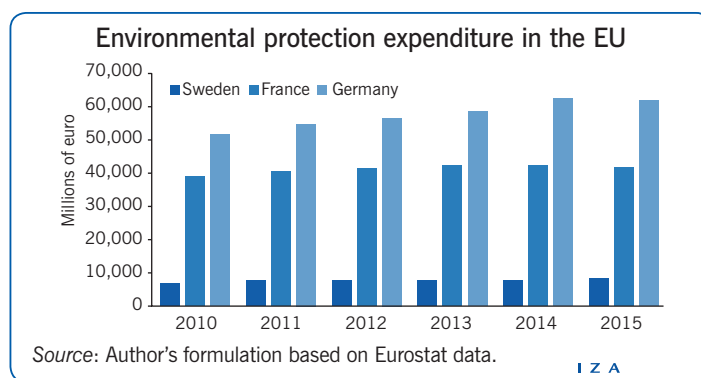
# Environmental regulations and labor markets

## Balancing the benefits of environmental regulations for everyone and the costs to workers and firms

Keywords: job displacement, employment, productivity, air quality standards, regulation

### ELEVATOR PITCH

Environmental regulations such as air quality standards can lead to notable improvements in ambient air quality and to related health benefits. But they impose additional production costs on firms and may reduce productivity, earnings, and employment, especially in sectors exposed to trade and intensive in labor and energy. Growing empirical evidence suggests that the benefits are likely to outweigh the costs.



### KEY FINDINGS

#### Pros

- + Stricter air quality regulations have improved ambient air quality.
- + Ambient air quality and health indicators are linked (e.g. lower mortality rates, reductions in hospital admissions), so air quality regulations contribute to better health outcomes.
- + Efforts to improve air quality can boost productivity by motivating regulated firms to optimize their production processes and nudging less productive firms out of the market.
- + Some studies suggest that environmental regulations affect labor demand in a relatively small group of energy-intensive industries while having very small or no effect on employment in service sectors.

#### Cons

- Environmental regulations generally impose additional production costs by requiring pollution abatement equipment in certain industries or by increasing the cost of energy inputs.
- Environmental regulations can put affected plants and industries at a competitive disadvantage, reducing productivity and employment, especially in sectors exposed to trade and intensive in labor or energy.
- Workers displaced by the regulations in polluting sectors may experience losses in long-term earnings as they make the transition to new jobs.

### AUTHOR'S MAIN MESSAGE

Air quality standards generally have negative effects on industry employment, productivity, and worker earnings. But these private costs are small relative to the social benefits of better health outcomes for the population. New or stricter environmental regulations that affect labor markets should include job training, income support, and labor market reintegration programs for workers displaced by the regulations.