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To: [Hill-Hammond, Shaunta](#)
Cc: [Booher, Martin T.](#)
Subject: SAB Economic Guidelines Review Panel - Written Comment for Dr. Black and Dr. Banzhaf
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Ms. Hill-Hammond,

I would be most appreciative if you could provide the following comments on behalf of Marty Booher and I to the review panel which are specifically directed to Dr. Black and Dr. Banzhaf and relate to identifying particularly significant worker dislocations.

Having had the opportunity to review the preliminary comments, I respectfully would ask for consideration of a few responses to the comments. The purpose of the comments is to see if you have any comments on extending your excellent comments of the social cost of plant shutdowns and job loss on workers to the ways in which those economic dislocations can impact communities in negative ways over the long term. I also have a point for Dr. Black to consider with respect to one of his comments in particular.

There is some interesting discussion in the preliminary comments of economic power (i.e., monopoly). I recall from my Mergers & Acquisition course in law school that one component of human capital that produces wages relates to a form of quasi equity that accrues once a significant amount of capital is invested in construction of a plant and establishment of a going concern in a particular location. Under the right conditions with respect to the local labor market relative to the employer, the transition costs of transferring the business to a new location have the effect of increasing the economic power of each worker and the community in which the plant is built. In that situation, the end result would be higher wages paid to the workers (once all the complex forces play out and combine). In this situation of interdependence, there is an opportunity for a worker to accrue economic capital by choosing to live and work in such a community. That choice could be very inexpensive to start if the worker is able to secure a job and rent a place to live. If the return on the “equity” of the workforce and community is large because of the large amount of investment of capital in the plant, then you can see how this situation creates a path for someone with little initial access to capital to end up with a happy middle class life. They do, however, likely have to invest in this capital for a long period of time to end up ahead (“seniority sucks unless your senior”) and their primary costs in the early years are the opportunity costs of not living elsewhere such as a large city that has more social opportunities or a more diversified economy.

There has been a widespread feeling of a “loss of the middle class” and concern over income inequality and distributional justice with respect to opportunity in recent times. Is it possible that offshoring of manufacturing facilities which are highly capital intensive has raised these kinds of concerns by reducing opportunities for a certain class of high wage employment and human capital development that had previously been relied on by communities? Ohio has a great economy and is a wonderful place to live, but it still feels that most folks here believe strenuously that the shutdown of some (but not all) of our integrated steel mills and the offshoring of a great deal of manufacturing dealt a blow in certain critical, poorly understood ways that we have not recovered from.

The question is this: Is it possible for offshoring of a manufacturing facility to have significant long term impacts on a community? As the comments note, we do not live in a world of perfect competition, and one of the key issues today is that China has in very recent times has been able to compete for a large amount of manufacturing capital as a result of its economic development reaching a certain critical level while at the same time the government in China has maintained and utilized a degree of control over its people that the usual economic forces are not in play. So it is unclear that a place like Cleveland (and by the word place I mean the entire set of economic actors including workers and governments and their willingness to work and set attractive policies) is really able to “bid” for manufacturing capital in a perfect competition global market for capital.

Finally, Dr. Black in response to your comment 3.D have you considered how your analysis of the issue and potential impact on the affect on older workers is relevant with respect to how EPA analyzes the potential timing of responses to climate change concerns? I am aware that some economists assert that there is a social cost of delaying responses to climate change because then the ultimate “price tag” of the response goes up. However, does that miss the question of whether or not the displacement of human capital of a large number of older workers all at once might be of such significance so as to offset the increased costs of delay? If a response is delayed 10 or 20 years, can that potentially, at least in theory, result in a large amount of preservation of the human capital of an older workforce? One of the very most interesting things that you state elsewhere in your comments is how younger workers are far more resilient to a dislocation than older workers. Does that not mean that in advance of a major economic transition that sufficient notice could occur so that in effect the work force can be reduced in overall average age? I believe that I have seen direct evidence of this occurring in practice. In short, please consider the timing issue and mitigation issues specifically with respect to how particular climate change response proposals should be considered by EPA.

Thank you for your consideration of these comments and your assistance in this important process.

Regards,

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