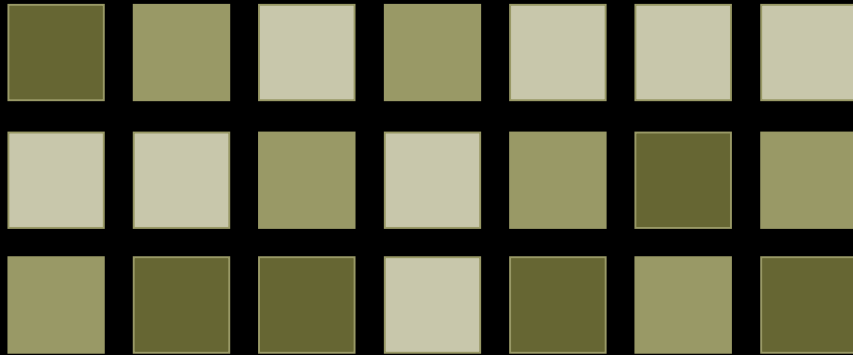


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The Secondary Impacts of Asbestos Liabilities

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The Economic Impacts of Asbestos Liabilities: The Ripple Effect



Characteristics of A Displaced Worker From Firms Facing Asbestos Liabilities

- Between 52,000 and 60,000 jobs have been lost due to asbestos-related bankruptcies *to date* (Sebago, 2002)
- About 90% of the bankrupt firms are in Non-durables Manufacturing
- A large portion of these firms had facilities in small communities
 - Average population: 138,000
 - Median population: less than 25,000



Characteristics of A Displaced Worker From Firms Facing Asbestos Liabilities

Continued...

- **The typical displaced worker is:**
 - Blue collar trade
 - High school graduate
 - 6 to 7 years of tenure at lost job
 - Earnings of about \$506 per week in lost job

- **Employment status after 2 to 3 years:**
 - 11% remain unemployed
 - 14% have dropped out of the labor force
 - Those re-employed:
 - Are unemployed for about 10 weeks
 - However, 22 to 25% are unemployed for more than 6 months
 - Earned 3 to 17% less in new job even after 2 to 3 years



Additional Costs Borne by Displaced Workers: Retraining

- 42% of displaced manufacturing workers participate in training programs
- Retraining programs cost about \$2,000 to \$3,000 per worker
- Total cost to date: \$44-76 million
- Costs are shared by:
 - Workers
 - Companies
 - Federal/state governments

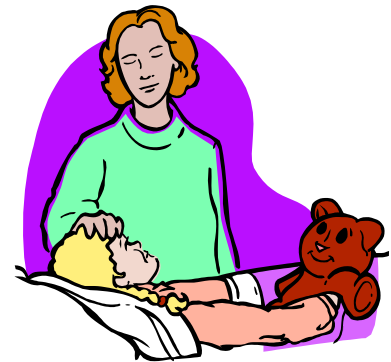


Additional Costs Borne by Displaced Workers: Loss of Group Healthcare

- Cost of health care for family of four:
 - Monthly cost under group plan: \$162 per month
 - Monthly cost under individual plan: \$464 per month

Individual plans cost \$302 *more* per month

- Individual health plan costs more than 50% of unemployment benefits
- Total *monetary* costs to date:
 - about \$30 million
- What about families without insurance?



Impact of Unemployment Insurance

- **Average national UI benefit: \$200 per worker per week**
 - Average duration of UI benefit: 14.6 weeks
 - But only 49% of displaced workers from manufacturing industries receive unemployment insurance.
- **Only a partial offset to lost wages**
 - Less than 50% of weekly earnings in lost job



Total cost to taxpayers of UI benefits to displaced workers from asbestos-related bankruptcies: approximately \$80 million



Costs Borne by Local Communities: Reduced Income for Local Businesses

- **Local business lose through indirect impacts of plant closures and the “multiplier effect”**
- **Regional impact models provide estimates:**
 - **REMI: a “state of the art” model that predicts local impacts over time**
 - **Estimates the local economic impacts from each job lost due to asbestos liabilities**
 - **The magnitude of the effect will depend on the characteristics of the local community**
- **Average effect: Eventually about 8 *additional* jobs lost locally for every 10 initial jobs lost**



Costs Borne by Local Communities: Reduced Income for Local Businesses

Continued...

Example: In 2000, Owens-Corning laid off 275 workers from its Granville plant in Licking County, Ohio

■ **REMI model predicts:**

- **Indirect/induced impacts**
 - 77 jobs lost in local Services
 - 60 jobs lost in local Retail Trade
 - 48 jobs lost in local Construction
- **Total lost employment in the county: approximately 500 jobs**
- **Total output reduced by over \$60 million annually**
- **Approximately 1 out of every 2 displaced workers will relocate out of the county**
- **Total reduction in regional income: about \$15-20 million annually**



Costs Borne by Local Communities: Reduced Income for Local Businesses

Continued...

- In summary, the effect of local reductions in income are magnified by the “multiplier effect”
- Total effect nationwide: to date, \$0.6-2.1 billion in local costs *additional* to those reported by Sebago due to indirect and “multiplier” impacts
- These represent only the *net* costs—impacts on the affected communities will be much higher



Costs Borne by Local Communities: Falling Real Estate Values

- Plant closures or mass layoffs will affect all owners of local real estate
- Research has shown that property values are dependent on local incomes and population
 - Income effect: ~ 0.2
 - Population effect: ~ 1.1

Costs Borne by Local Communities: Falling Real Estate Values

Continued...

- **Example: Licking County, Ohio—500 lost jobs**
 - Population/per-capita income each decline by 0.1%
 - Total value of local real estate falls by approximately \$5-10 million
 - The smaller the community, the larger the effect





Costs Borne by Local Communities: Local Sales and Property Taxes

- **Depends on local tax structure**
 - **Property tax collections affected by falling real estate values**
 - **Some offset due to reduced local expenditures**
 - **Sales tax receipts affected by declining local output**
- **Federal and state taxes also impacted by temporary decline in income**



Conclusions

- **Asbestos liabilities impose costs not just on shareholders**
- **Workers of the affected firms**
 - **Retraining**
 - **Health care availability and expense**
- **Local communities also can be hit hard**
 - **Other local business are hurt as people and jobs move out**
 - **Local property values will fall**
 - **Local governments face declines in revenues likely to be much greater than cost declines**

Conclusions

Continued...

- Many other costs are passed on to taxpayers across the country
- These costs are expanding from year to year
 - 50,000 to 60,000 direct workers so far...
 - How many communities will be affected?





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