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ALFRED P. SLOAN SCHOOL OF MANAGEMENT

ECONOMIC PROGRESS AND ECONOMIC DISLOCATION\*

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## Economic Progress and Economic Dislocation

### ABSTRACT

This paper presents some ideas for resolving the tension in a dynamic economy between the economic imperatives of business and the requirement of social and economic justice for the individual. As plant closings become more frequent the key policy question is whether a firm should be required to bear the costs of preventing or at least cushioning economic dislocation. The emerging pattern of legislative activity is reviewed to examine the current and needed public and private policies to deal with plant closings. Advance notice, re-employment programs, and compensation packages are evaluated. Finally, some policy guidelines for handling plant shutdowns will be recommended along with a suggested strategy for implementation.



# ECONOMIC PROGRESS AND ECONOMIC DISLOCATION

## PART 1

### INTRODUCTION

The current dilemma involving the requirements of business for change and growth and the needs of workers and communities for security and readjustment can be summarized as "economic progress versus economic dislocation." As the sides get drawn and plant closings proliferate, the key policy question is the following: Should a firm be required to give advance notice, to provide special benefits for the displacees, and generally indemnify workers and their communities for the losses involved? A spate of legislative proposals are being considered at both state and federal levels, and it is the purpose of this paper to examine what type of public and private policies are needed to deal with permanent reductions in force, to analyze the emerging pattern of legislative activity, and to present some guidelines or policy standards in the light of available experience.

The delicate balance in modern society between the economic "must" of change and the human "ought" of security and minimum harm has tilted towards the latter, especially in Europe, in part because private business has emphasized the former and has not taken adequate account of a build-up of social concern and resistance. The United States appears to be moving in the same direction, and there is a danger that new employment-standards legislation may be adopted quickly and rather uncritically as workers, union leaders, and community officials demand that

the vicinity of a half million workers at any one time are in the category "permanently displaced."<sup>3</sup> While this is a fraction of the total unemployed of seven or eight million, it nevertheless is a very important group, because of the special social and economic consequences that afflict career-oriented workers who have their jobs eliminated. Specifically, they remain unemployed substantially longer (compared to those on layoffs subject to recall), they suffer a wide range of emotional and family pressures, and since usually they are the "solid" members of the community, they are in a position to voice strong opposition to the changes being imposed.

#### Economic Change: Competing Issues

For simplicity, the issues involved in the economic changes that can lead to plant closings fall into two areas--they are the counterpoints implied by the title of this article. On the one hand, there is the perspective that emphasizes the need for adaptive change--the type of change that leads to economic progress. This has been termed the "economic must:" Businesses must be able to shut down inefficient plants and redeploy their assets if they are to survive in a competitive world economy. The neoclassical economists, such as Richard McKenzie of American Enterprise Institute,<sup>4</sup> joined by many business leaders, point to the advantages of capital mobility and view with alarm the various pieces of legislation being proposed to deal with plant shutdowns.

The competing perspective focuses on the human considerations that are involved--the individual and societal costs of economic dislocation. Change harms some people and this reality has to be

confronted. This is the "human ought" that is driving much of the legislation currently under consideration. The UAW, along with economists Barry Bluestone and Ben Harrison, is in the vanguard.<sup>5</sup>

Let us explore further the roots of each perspective. At the same time that the forces resisting economic dislocation appear to be building, the need for economic growth and change has been increasing. Productivity growth has been sagging, and most economic commentators agree that American industry needs considerable change and upgrading to remain competitive in world markets. For example, the American Iron and Steel Institute estimates that the industry should be replacing plant and equipment every 10 to 15 years, whereas over the past decade reinvestment has lagged, and recently the cycle has been in excess of 30 years.<sup>6</sup> Clearly, if this industry is to remain competitive, and stem the tide of foreign imports, which now represent almost 20 per cent of all steel purchases in this country, then substantial modernization will have to take place in steel operations across the country. In achieving such radical and pervasive change, considerable dislocation will be the inevitable result of industries' rationalization of operations (which is a euphemism for closing down outmoded facilities, introducing new technology, and generally putting the operations on a much more competitive basis).

The argument for rationalization is based on a basic principle of capitalist production, namely, that capital pays the costs of the labor factor of production only so long as it is profitable to do so.<sup>7</sup> Thus, it is "illogical" to preserve inefficient plants geared to low productivity in order to preserve workers' jobs.

New economic structures should continually replace old ones and thus layoffs and plant closings are an inevitable part of economic evolution. The argument can be summarized as follows:

Layoffs are generally viewed as an unfortunate by-product of an efficient and progressive economy. . . . Although it is recognized that layoffs result in hardship that must be borne by job losers, the benefits of actions which dislocate workers from their jobs, but allow employees to maximize their efficiency, are assumed to outweigh the costs. . . . This perspective on layoffs . . . serves to highlight an acceptance<sup>8</sup> of layoffs due to seemingly inexorable economic forces.

Job loss and plant closings, then, may be seen as painful in the short run to some, but ultimately a gain for the economic system through revitalization.

The contrary perspective questions the theoretical advantages of "economic progress," however, and emphasizes the adverse effects of economic dislocation: job loss is not equally distributed across all sectors of society and thus some groups bear an unequal burden;<sup>9</sup> emerging social norms are less tolerant of job loss; local politicians, unions, and other employee groups seem to be increasingly willing to fight to preserve jobs; and the qualitative impacts of job loss are often reflected in local and system-level costs that require public expenditure, thus socializing individual costs.

The phenomenon of increasing resistance to economic dislocation warrants further attention. It is not necessary to debate the question about whether more change is occurring today than in the past. Certainly, the country has handled major changes such as a shift of textile manufacturing out of New England into the South after WW II and a vast restructuring of the aerospace industry within the past decade. The point is that opposition is much

more overt today because values have changed in this country. Considerable attention is being paid to the task of improving the quality of life generally and the quality of the employment situation specifically. From this vantage point job loss is seen as a very troublesome event. Many individuals in this country have come to expect that the job they hold and the attachment they have given to an organization will be continued. Daniel Bell used the word, "entitlement", and Peter Drucker, "property right," to describe this outlook. What appears to be emerging in this country is a belief that job loss is below the social minimum that workers are entitled to enjoy. Just as the concept of a minimum wage has become taken for granted in this country, so the concepts of continuity of employment and job retention are becoming ingrained in a consensus over minimally acceptable employment conditions.

A gradual but fundamental shift in political economy has thus occurred within the country over the past several decades. Whereas the loss of a job once was considered one of the "breaks of the game," it now tends to be viewed as a form of economic injury for which social compensation must be received. All of the costs of change used to be internalized by workers; now they are more and more socialized, that is, assessed against the particular enterprise or government. Workers are placing a new demand on the economic system: "Somebody has to pay for economic dislocation."

The growing resistance and militancy on the part of the workers involved has not been sufficiently appreciated. A new trend is emerging on the economic scene, namely, workers taking matters into their own hands and refusing to accept changes.

Recent reports about workers and their families surging into US Steel headquarters both in Pittsburgh and Youngstown to demand a reversal of the cutbacks are illustrative. Similarly, the Canadian UAW Director has recently threatened street protests, if significant steps are not taken to cushion the impact of massive layoffs.

It is dangerous to speculate about social upheaval and its impact. Few analysts of the European scene foresaw that workers in Britain and France would conduct "takeovers" and "work-ins" at the Clyde Shipyards in Scotland, and at the Lip Watch Factory and in the steel industry in France. While these instances were dramatic and not necessarily representative of the general mood prevailing in Europe, nevertheless they led to a series of legislative measures, especially in France and Italy,<sup>10</sup> that have made it virtually impossible in practice for firms to eliminate jobs. Thus even isolated instances of strong advocacy can profoundly affect the pace of economic change.

To sum up this section, the subject of economic progress and economic dislocation involves the historical tension between the dictates of the free enterprise system and the rights and interests of the individual. The conflict is articulated either through self-protection or through collective action (as in the case of trade unions) or government intervention. The principles of the free enterprise system allow for movement of capital and pursuit of profit by altering employment arrangements. Yet, the perspective of economic and social justice dictates that a corporation compensate all parties that are adversely affected by its actions, e.g.,



workmen's compensation, product liability, and pollution compensation. Whether the impact of a plant closing on the individuals and communities involved should be included in this category of actions for which the corporation has a responsibility to make the recipient "whole" is a central question. The root question is thus: Who should assume program responsibility and bear the costs of preventing and cushioning economic dislocation?

The purpose of this paper is to present some ideas for resolving the tension between the property rights of business and the requirement of social and economic justice for the individual. The American system of political economy has encountered such conflicts before, and legislative enactments in such areas as anti-trust, collective bargaining and environmental protection have represented accommodations within the evolving American system of political economy. The challenge is to arrive at policy prescriptions which deal with some of the consequences of change but at the same time preserve the freedom of business to engage in change and thereby remain adaptive to its environment.

PART 11

THE LEGISLATIVE OUTLOOK

Legislation in Place

This section will review U.S. legislation pertaining to plant closings. Overall, one can observe that in comparison to most European countries, very little legislation dealing with plant shut-downs is currently on the books. Thus, in any presumed tradeoff between economic progress and dislocation the former has been given greater weight. Another characteristic of the approach to formulation of policy in this field has been its ad-hoc quality. Table 1 lists the major programs that are already enacted and under the auspices of the U.S. Department of Labor. Each is briefly discussed in the paragraphs which follow.

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The Trade Act of 1962 (amended in 1974) was the first protective legislation since some early attempts in the transportation and communications industry. The main features of the Trade Adjustment Assistance Programe are:

- weekly allowances equal to 70% of the pre-layoff earnings, not to exceed the national average for manufacturing, for a base period of 52 weeks.
- extended allowances for an additional 26 weeks for those aged 60 and above and those enrolled in approved training programs.
- reimbursement for job search (maximum of \$500), relocation and tuition expenses.

The amendments to the Redwood National Park Act represent the most comprehensive ameliorative legislation to date in the U.S. The Redwoods legislation takes care of workers adversely affected by specific environmental decisions (in this case the termination of lumbering as a result of the necessity of establishing a national park in California). Passed in March 1978, the bill mandates preferential hiring rights, continuing health and welfare benefits, retraining opportunities, and, if desired, severance pay. All of the alternative coping strategies are provided for in the Act, including up to six years' full pay for displaced workers. The latter provision was enacted to protect the communities involved by maintaining purchasing power. Together this program of rights and benefits, along with other related clauses, is designed to "mitigate any adverse economic impacts to public and private segments of the local economy."

A program also aimed at reducing community impact (it is not listed in Table 1 because it is not operated by the Department of Labor) is the President's Economic Adjustment Committee. This legislation has been enacted to buffer the effects of the closing of military bases and other major defense reorganizations through the creation of the Economic Adjustment Office in the Department of Defense. In addition to mandating comprehensive transfer mechanisms, this program also specifically recognizes the impact that closures could have on communities and provides funds for communities to attract new industries. More than 70 communities have been thus aided, with an overall record of creating more jobs than were lost.

The other programs in urban mass transit, Amtrak and Conrail, and airlines (along with those that are envisioned to provide employee protection in the face of discontinuance of hospital services) generally provide for continued employment until attrition or reassignment programs take care of the excess. For example, under the Amtrak Legislation earnings and fringes are fully protected for 6 years, with provision for relocation and retraining. A similar program appears in the airline de-regulation bill where there is protection of 60 per cent of wages and fringes for up to five years plus support for relocation.

Programs have also been enacted at the state level. Wisconsin enacted legislation in 1975 which requires 60 days advance notice of closure. And in Maine, the only other state with a law currently on the books, severance pay has been mandated based on years of service.

#### Legislative Directions

The legislation described above can be differentiated along several lines. First there is the notion (explicit in the Trade Adjustment Act, for instance) that if society as a whole gains from a program of expanded trade, then those who are disadvantaged should be compensated in some fashion. This involves a socially mediated bargain in which the winners in effect pay the losers. Second, government has exercised the prerogative of attaching employment standards to the disbursement of funds to local governments as it has done for Urban Mass Transit and is about to do in the hospital field. Finally, there are instances where powerful

employee groups have been able to insist on arrangements that protect their employment position in the face of economic change as has been the case with the Redwoods and railroad programs.

These types of factors have also given rise to an array of protective legislation that has recently been proposed at both the federal and state levels. The National Employment Priorities Act of 1979, sponsored by Michigan Congressmen Ford and Riegle, would require, depending on size, between six and twenty-four months advance notice of plant closings; joint consultation with workers, community representatives, and interested parties; various types of assistance and benefits to affected employees, to the firms, and to involved local communities; and the use of criminal and civil penalties and economic penalties to assure compliance. Another bill, the Voluntary Job Preservation and Community Stabilization Act, sponsored by Congressmen Kostmayer, Lundine, and McHugh, would facilitate the transfer of ownership from closing plants to employees and/or the community. A third bill, introduced by Congressman Vanik, would expand eligibility under the Trade Adjustment Assistance Act to additional firms and workers. At the state level, there have been bill proposals in eight states: Massachusetts, Ohio, New Jersey, and Michigan have bills pending in their legislatures, and various public interest groups have been working on bills in Illinois, Pennsylvania, Connecticut, and California.<sup>11</sup>

The legislation already passed and currently pending typically contains three strategies: forewarning through advance notice and involvement of labor, positive adjustment via training and other labor market programs, and compensation for losses.<sup>12</sup> Generally

speaking, the argument on behalf of notice and consultation is that a warning period provides affected parties with time to make alternate arrangements and to deal with the non-economic effects on both individuals and communities by permitting self-help. Adjustment programs are interventions that seek to minimize the various consequences through remedial measures. Compensation provides neither warning nor intervention, but reimburses the economic losses of individuals and communities. Each approach is next considered in more detail.

## PART III

### MAJOR LEGISLATIVE MEASURES

#### Consultation and Advance Notice

Nowhere is the tension sharper than between business interests that call for confidential planning and expeditious shifts of capital versus human requirements that suggest an early alert to workers and community representatives of an impending change, well enough in advance for coping to take place.

The issue gets joined in several ways in terms of proposed legislation. First, there is the notion that a firm should justify its decision to close down a facility via some type of statement detailing the reasons and proving that the action has a sound economic basis. Second, there is the idea of consultation - - a potential transplant from Europe, especially Germany, where labor is involved in the decision process. Finally, there is the concept of advance notice which has been embodied in most current and pending legislation.

The economic justification issue is inherently impractical. Many people are suspicious of the "wheeling and dealing" of corporate conglomerates, and they would like to have those responsible for shifts of capital justify their actions against some public-interest test. The challenge of providing a logical rationale for the plant closing does not tend to alter the business decisions or mitigate their effects. Most organizations have public relations staffs that are resourceful enough to conjure up sufficient reasons to support a plant shutdown decision. Thus in practice, despite the burden of voluminous paper work and adversary

maneuverings inherent in disclosure proceedings, the result (the shutdown of a facility) tends to be the same. It appears that any potential that exists for a substantive change in shutdown decisions and/or implementation programs can be better pursued through advance notice and consultation procedures.

The idea of consultation has not yet been incorporated into U.S. laws as a requirement for the shutdown process. It is a central theme in Germany and a recent white paper in Canada has recommended the concept.<sup>13</sup> The presumed advantage of consultation, which falls somewhere between duty to bargain and minimal notification, is that management retains its freedom to make business decisions but it exposes these decisions to the thinking of those who would be directly affected by these decisions.<sup>14</sup>

In this country, the concept of consultation falls in a gray area. Firms are required to bargain over the consequences of a plant shutdown<sup>15</sup> but the actual decision itself is not a mandatory subject of bargaining. While there is some movement in the thinking of the NLRB<sup>16</sup> in this latter direction, it is likely that attempts to transplant mandatory consultation into the U.S. collective bargaining culture would, in most instances, amount to little more than going through the motions.

Many of the advantages of the consultation process can be attained by requiring management to give advance notice - - thereby setting in place a period of time during which unions, local officials, and other interested parties can negotiate with management regarding the finality of the decision and the appropriate strategy for implementing the shutdown.



In approaching the subject of advance notice, it is clear that there are distinct tradeoffs between business and worker interests. Most firms prefer to keep their shutdown intentions confidential for as long as possible in order to avoid the damage that comes from word of a close-down. If it is known that a plant is about to close down, bankers may refuse to extend credit and customers will stop placing new orders, worrying about the future availability of spare parts. One firm has asserted that plans for shutdown of a large facility "had to be kept secret because of stock market considerations."

Sometimes surprise rather than secrecy prevents the firm from providing advance notice. For instance, a firm may be forced into drastic action by a sudden shift in market position, by failure to receive adequate financing, or by other unforeseen developments. Management may not know until the last minute that the firm is in serious trouble.

Managers also may worry about the difficulty of motivating employees who know they are going to lose their jobs no matter what they do. The New York state government experimented in 1976 with six months' notice for layoffs of state workers. According to one evaluation study of a six months' advance notice, a number of problems arose:

"Absenteeism increased, not unexpectedly, as employees began to seek other employment or otherwise adjust to their new circumstances. Employee morale, pride in work, and productivity all suffered during the phasing out period. Morale problems were exacerbated, since the employees had nothing to do but mark time. Even more serious were the numerous instances of vandalism, neglect of property and pilferage at some centers."<sup>17</sup>

While some of this behavior is attributable to the way the state handled the process, there are costs involved in providing advance notice. On the other hand, it is important to weigh these managerial costs against the benefits of giving workers and their communities time to prepare for the shock of layoffs. In some instances, long lead times have given workers and unions the chance to cut labor costs, improve productivity or otherwise take steps to prevent what seemed to be irreversible closures. In the case of Sperry Rand and GAF plant shutdowns, for instance, local groups worked out arrangements for worker and community takeovers of the plants slated for termination.

A longer notice period also probably makes it easier for workers to find new jobs.<sup>18</sup> Research has shown that workers have a better chance of finding other jobs while they still carry the "employed" label. Part of this is motivational; once they join the ranks of the unemployed, there may be a tendency to coast along until the benefits start to run out. Another reason is that the current employer is in the best position to provide references and counselling, organize retraining programs, and in general help the employees about to be displaced make connections with the larger labor market.

Before attempting to reconcile this conflict over notification, it is worth examining what typically happens in practice. Some companies already provide advance warnings in accordance with their collective bargaining agreements. Uniroyal, for example, gave six months' notice for its shutdowns of plants in Detroit and Chicopee, Mass., as required under the rubber industry contracts. According to a survey by the Bureau of Labor Statistics,

about 10% of existing collective bargaining agreements have advance notice provisions, with most of them requiring notification from one week up to six months.

Other companies, usually large enterprises, have provided notice voluntarily. For example, Sperry-Rand gave a year's notice before closing down the Library Furniture Division in Herkimer, N.Y., as did GAF when it terminated its involvement in Vermont Asbestos. Brown and Williamson recently gave 18 months' notice of closing down a large tobacco operation in Louisville.

More often, however, little or no notice is given before layoffs and plant closings. In a study of three plants closed down over the past two years in upstate New York, it was noted that one gave one-month notice, another three days and the third none at all.<sup>19</sup> Gerry D'Amico, a Massachusetts state senator supporting Bay State advance notice legislation, tells how his mother worked 16 years for a Worcester textile factory. Then when the plant closed down in 1978, she was given only four weeks' notice before losing her job. Hers was not an unusual predicament.

How should the costs and benefits of advance notice be balanced? The six months to two year requirements envisaged by present legislation would set in motion a long period of uncertainty and possible turmoil for managers and workers alike. Perhaps we should look to West Germany as a model. Of all European countries, Germany appears to have had the greatest success in achieving the growth and increasing the productivity that go with change, while also avoiding the political and social disruption that have occurred in France and Great Britain. German legislation requires that a firm give notice "in good time," which has usually been interpreted to be about three months.

One difficulty in implementing a guideline of three months advance notice that can be envisioned is that many businesses have no lead time and find themselves in extremis without warning. What can be done? Since time is money, if a firm cannot provide three months' notice, it could be argued that it should provide three months' severance pay.<sup>20</sup>

### The Re-Employment Process

The central objective of any program for dealing with economic dislocation is to enable the individuals and communities involved to re-engage in regular economic activity as quickly and as completely as possible.<sup>21</sup> Initially this subject will be considered from the viewpoint of individuals, while later we will briefly touch on the same process for the larger entity of the community.

Little disagreement exists about the "best practice" to be followed in helping displaced workers find new employment. The steps are part of the standard repertoire of what was termed "manpower", and now, human resource programs including: worker motivation, job placement, transfer, relocation and retraining. The real challenge is in achieving a measure of success given special characteristics of job losers - - for example, high seniority (average service is 20 years), single company employment (which can make human capital highly specific), and, more often than not, having a standard of living geared to relatively high wages.

Despite these known difficulties, the legislation existing and under consideration at the federal and state levels has

little to say about the re-employment process. The presumption is that once the displacements are accepted as a fait accompli, then the role of the former employer is over and the responsibility passes to the individuals themselves and to various labor market agencies. Important elements are thereby left out of public policy that deals with displacement problems. These elements are discussed in the succeeding sections.

1. Worker Motivation

The first step in any re-employment process is for displaced workers to take proactive and constructive steps in the labor market. Workers who are affected by plant shutdowns typically have had little experience with job search. Added to this is the fact that they probably enjoyed high-paying jobs relative to opportunities in the local market - -thus, it is not surprising that many of them just "sit tight," waiting for a "break". In commenting on a group of unemployed auto workers in Cortland, New York, there was consensus among several officials of the local employment agency that, "There are lots of jobs available, but these people won't work for anything under \$10 an hour."

As the duration of unemployment lengthens, and their expectations about pay and job opportunities become more realistic, most displaced workers become motivated to start looking seriously for work. Rather than waiting for the pressure of events to create the impetus, a number of employers (e.g., Goodyear) have conducted counselling and job search workshops for employees about to be permanently laid off. Generally, the employer of "last repose" is in an excellent position to push workers into active search and to run interference by contacting other employers and lining up job interviews for the displaced workers.

## 2. Marshalling Job Opportunities

Re-employment only takes place when job opportunities are available. In several studies (including our own), it has been found that employers, if left to their own wishes, would just as soon hire younger workers and avoid taking on displaced workers, who tend to be older members of the labor market.<sup>22</sup> Even in the case of New York state, where the new potential employer was another unit of the same agency, there was resistance to hiring displaced workers. And worse, in one private-sector situation something almost approaching "black-listing" developed as laid-off workers were spurned by other employers in the community.

One way to deal with this challenge is the formation of a local JOBS committee that brings together representatives from key employers under the auspices of the employment service, possibly as a part of the new private industry councils (PICs). The key ingredient is leadership, either from one of the public agencies, or from the private sector, in marshalling the openings to which the displacees can be referred.

## 3. Geographical Mobility

The relocation strategy is a device for responding to a weak labor market: it fosters migration from low- to high-demand labor markets. In practice, very few individuals affected by a plant shutdown actually move to other areas. Evidence of this lack of mobility can be seen in the fact that only several thousand workers covered by the Trade Adjustment Assistance Program have thus far utilized relocation benefits.

Some people find this low utilization very surprising, in the face of evidence about the overall mobility in America and

the number of people who are constantly shifting location of residence and work. The distinction is that most people who move are those who move voluntarily, as a result of the "pull" of new situations and new experiences. The workers that are typically present in a plant at the time of shutdown are least likely to be interested in geographical mobility. Aside from the age factor, there is the factor that individuals who prefer career employment with one company, are probably the more risk-averse. Consequently, they are unlikely to look upon changing jobs, let alone changing residences, very favorably.

Our own studies show that no more than 15-20% of workers experiencing job loss are willing to make geographical moves, and in most situations the range is probably closer to between 5-10%.<sup>23</sup> When confronted with a choice between "exit" and "voice" workers primarily choose the latter response. Indeed, in the study just cited it was found that laid-off workers did better economically if they did not migrate. For the limited few who can be induced to move, something like a voucher for relocation expenses might make sense as we will discuss shortly.

#### 4. Retraining

Retraining, like relocation, is a very functional step to facilitate re-employment. However, as in the case of relocation, very few recipients of trade adjustment assistance (only 2%) actually took advantage of benefits under the retraining title. Moreover, research on retraining programs has often found this measure to be inadequate for the workforce as a whole, yet always useful for some laid off workers.

To illustrate, in three years only about 100 displaced state employees benefited from retraining opportunities provided by the N.Y. State Continuity of Employment Committee,<sup>24</sup> despite ample funding and staffing. In general, retraining proved to be more viable when employment opportunities for which individuals were to be retrained did not also involve relocation (e.g., from urban to rural areas); furthermore, retraining in similar skills (e.g., from institution-based to community-based mental health care) proved more successful than retraining in quite dissimilar skills, although even in the case of the former, the results have not been overwhelming.

One special retraining program is on the books in this country. Under Title 2C of The Comprehensive Employment and Training Act (CETA) that might help displaced workers, retraining can be aimed at workers left unemployed by plant shutdowns. This Title has thus far gone virtually unutilized, reflecting several factors. First, the general orientation of CETA officials is toward the "hard-core" unemployed, and they usually accord displaced automobile and steel workers low priority, given the limited resources of the CETA program. Second, funds and programs tend to be set in place at least a year in advance, so that when a plant shutdown develops, there is little flexibility in the budget to redirect resources to the special retraining needs presented by the displacees.

##### 5. Implications for Facilitating Re-employment

Clearly, the re-employment of workers displaced by plant shutdowns is a difficult task, and in the light of the foregoing, it is not surprising that the average length of unemployment is



40 to 50 weeks. Any prescription of efforts to enhance the re-employment must be viewed against this reality.

The success of the re-employment process for individuals depends on an effective match between the special needs of job losers and various opportunities for retraining and/or relocation. It is crucial to underscore that the rationale for this effort is to nullify or minimize the deleterious effects of plant closings on many individuals. Research has shown that some groups tend to be more vulnerable than others to the loss of a job. Older workers, aged 55 or over, usually are viewed as having the least re-employment success, particularly if they have worked solely for one company. Nevertheless, some members of the older group can be handled with early retirement programs or movement to part-time jobs. Younger workers (age 40 or younger) tend to find employment more readily, are more adaptable to new careers, and may be willing to "pick up stakes" and move to a section of the country where jobs are more available. Perhaps the group presenting the greatest challenge falls between the ages of 40 and 55 - - they are too young to retire and too old to acquire easily new skills and embark upon new careers. Plant closings have been shown to be particularly harsh on workers averaging 20 years seniority and many such workers will be in this middle-aged group. Thus, in facilitating re-employment programs, considerable attention should be devoted to the middle-aged workers, while at the same time being sensitive to the variety of special needs of other worker groups.

The special needs of job losers require special service delivery systems as well as increased responsibility for the

discharging employer. The Canadian task force study concluded that efforts toward re-employment require the formation of a local task force consisting of employer and employee representatives, public employment officials, and, where appropriate, representatives of the community and government. The report also emphasizes that an employee whose job is eliminated needs services tailored to the specifics of their situation and the labor market.<sup>25</sup> This type of intervention cannot be handled adequately through standing agencies such as CETA.

The Canadian task force report also advocates a central involvement for the employer in this team effort. Industry-wide job loss funds are one possibility which has been tried in Europe. In France, the employer retains a residual obligation to retrain affected employees and to prepare them for entry into new careers. With the funding being provided by the central employment fund, the employer is motivated to participate in a "costless" operation and thereby discharge its obligation. Whether through participation in task forces or industry-wide job loss funds, the discharging employer can play an effective role in the re-employment process.

#### Community Re-Adjustment

A comprehensive policy for dealing with job loss also needs to take into account the re-adjustment process for a community. Clearly the speed and quality of community recovery depends on many factors. One dominant variable is the relative size of the cutbacks. In situations where the plant shutdown accounts for less than 10% of area employment, as was the case for three

upstate New York communities we studied, the recovery period may take two to three years. On the other hand, for communities such as Youngstown and Detroit, the recovery period will be measured by decades rather than years; many company towns never recover from plant closings.

Other factors affecting the long run prognosis for a community involve all of the ingredients of the economic development equation: e.g., transportation, energy availability and access to suppliers and markets. These are the "bread and butter" of development specialists and the heart of various infrastructure-oriented programs sponsored by commerce agencies.

It is significant to note that most pending legislation deals only peripherally with the subject of community re-adjustment. There is the proposal for monetary payment contained in several bills but no remedial proposals are included. Again, the presumption is that the established agencies and the general experience of economic development apply and no special activities are required. While in some respects the tasks facing a community are the same whether the setback has come from a natural disaster e.g., a flood, or a plant shutdown, there is a qualitative difference and certain strategies are particularly appropriate:

- First, the community needs a mechanism for coordinating the analysis of existing strengths and weaknesses, the search for new industry, and the application for development grants.
- Second, the self esteem of the community is usually fractured by a major shutdown, and requires remedial treatment.

The approach that appears most effective is the community task force that mobilizes all of the relevant groups into constructive action. Not only do substantive things happen but the morale of the community starts to climb as people realize that "everything possible is being done." Other approaches will also need to be considered as the importance of community re-adjustment becomes recognized.

### Compensation for Losses

The costs of dislocation incurred by individuals and communities are multifaceted. For individuals, the loss of a stream of income has a present value that can be determined fairly objectively. There would also be straightforward out-of-pocket costs of searching for, and perhaps relocating to take, new employment. The loss of benefits, such as health care insurance, could be valued at replacement costs. Pension losses could be calculated in the same way. Other costs, though very real and important, may be more difficult to quantify. There is a general reduction in the quality of life associated with job loss that can probably be estimated only by the costs of treating its symptoms, such as marriage counselor fees, medical expenses, and the like. Probably the most difficult loss to quantify is the write-off of firm-specific human capital that becomes suddenly obsolete upon job loss.

The costs of job loss to the community show a similar range of specificity. The direct cost of recruiting replacement employees should be easily identifiable, as should the direct loss of taxes from the departed employer. There would be a more diffused economic impact as the multiplier effect of the loss

of primary jobs ripples through the community. At the same time, there would be a general increase in the cost of community welfare-type services, although direct attribution to job loss is likely to be difficult. The most elusive cost is the loss of the quality of community life.

Although it is obviously difficult to put an exact price tag on these losses, there are data-based estimates available. For example, Jacobson puts the lifetime effect of individuals' job loss at \$15-20,000.<sup>26</sup> Certainly the severity of the impact varies substantially across individuals. The economic loss of older steelworkers displaced in Youngstown could easily equal one year of pre-layoff earnings even after all income flows from Unemployment Insurance (U.I.) and subsequent employment are considered. At the other extreme are young garment workers who readily move to other low-wage employment and suffer negligible economic losses.

Given these losses, a central question that arises is whether at least the individual should be compensated in some way for the economic losses associated with permanent job loss. Some economists would argue that the possible demise of a plant would have been discounted and the worker would have received a stream of compensating differentials prior to the shutdown. This theory may or may not be valid. That issue aside, one justification for compensation is the simple matter of equity. Corporations are allowed to write off their physical capital losses - - indeed, Bethlehem Steel in 1977 reduced its tax liabilities by a substantial amount as it wrote off three quarters of a billion dollars as a result of

plant shutdowns. At its plants in Johnstown, Pennsylvania and Lackawanna, New York the closings resulted in the layoff of 7,300 workers, yet no tax credit was available to the individuals whose human capital had been depleted because they were thrown out of work and were forced to find work in industries where their backgrounds and experiences were not applicable.

Another argument supporting compensation rests on the notion of property rights and the principle of "no appropriation without compensation." The worker makes investments in skills and experience and this equity cannot be taken away without compensation, or at least without negotiation and the opportunity to agree upon a program of benefits. While one may argue on behalf of compensation for loss of marketable skills, it is debatable how this payment should be made and who should pay the bill.

1. The Nature of Existing Compensation Programs

All individuals who are affected by plant shutdowns are presumably eligible for U.I. benefits under the various state systems. Generally, this benefit averages 30-40% and at most 50% of pre-layoff, take-home pay. The duration is typically 26 weeks, and an additional 13 weeks may be available under circumstances when unemployment is high.

Individuals whose industries have been impacted by foreign competition are eligible for trade adjustment assistance, as mentioned earlier. These benefits are higher being equal to 70 per cent of pre-layoff pay, which works out to about \$55 per week above U.I. compensation. Also, the 52-week duration of the benefits is substantially longer.

Other forms of compensation include severance pay and supplemental unemployment benefits. With respect to severance pay, approximately 38 per cent of all collective bargaining agreements provide for this benefit, and the formula is usually one half to one week of pay for each year of service. Thus the range of compensation is from less than half of normal take-home pay to, in some instances, more than take-home pay. Indeed, it has been reported that some steelworkers, who draw U.I., Trade Adjustment Assistance (TAA), and supplemental benefits are actually receiving a higher total after plant closings than before.

## 2. A Workable Proposal

Recently, the General Accounting Office (GAO) has made a very interesting proposal,<sup>27</sup> namely, to pay compensation at the level of state U.I. benefits for a base period, and then for those who are affected by plant shutdowns to continue their benefits for an extended period of time, perhaps in excess of 52 weeks. Several advantages accrue to this approach. All unemployed are treated the same way. Currently, some workers displaced by plant shutdowns only receive U.I. benefits, while others who are in industries that are linked to foreign competition receive higher level benefits. This disparity in level does not seem justified; the disparity in the benefit period may be justified, as explained below.

Further, there is evidence to suggest that the higher benefits of TAA may actually lengthen unemployment. Individuals seem to be more willing to remain unemployed because of the high replacement ratio of benefits compared to pre-layoff income.

Indeed, the estimate for the additional duration of unemployment is one week for each 10 per cent increase in benefits paid.<sup>28</sup>

Since job losers, because of their special difficulties, remain unemployed much longer than other unemployed persons (49 weeks compared to 33 weeks for those laid off subject to recall), compensation should be targeted to individuals in terms of duration of benefits rather than level of benefits.<sup>29</sup> A further advantage that would result is that the permanency of layoffs is not clear at the time of job loss. Many individuals are laid off subject to recall and then as time progresses the separation becomes permanent. Thus, the extended benefits would be paid at a point when it could be reliably determined whether the layoff was temporary or permanent.

One of the strengths of the GAO approach would be that it would clear away many disparities that currently exist in how compensation is arranged for economic dislocation. If a fair program of benefits for all those displaced by shutdowns is not enacted, we are likely to see more and more pressure for special arrangements of the sort involved in the Redwoods legislation - - which pays up to \$30,000 a year for six years to potentially several thousand lumberjacks on the west coast.

Similarly, without a comprehensive, uniform policy, there will be more and more pressure to expand the provisions of the TAA program; for example, the Vanek Bill would apply TAA benefits to secondary industries and liberalizes the qualification period for individuals who have come to work in a plant shortly prior to the announcement of shutdown. The merits of that particular bill aside, it seems that passing additional legislation for



other special groups is not the optimum long-run course of action; rather, programs should be uniform and aimed at the positive re-adjustment measures mentioned earlier, namely, facilitating re-employment.

### 3. Form of Compensation

The philosophy of social compensation should be to sustain the worker during the tough transition period and beyond that to pay for specific services which are needed. Quite importantly, many workers lose their medical insurance program when they lose their employment. Social compensation should provide for coverage of this benefit parallel to the receipt of unemployment insurance benefits. Dealing with pension credits is more complicated.

Compensation should maintain the individual during the search for re-employment. Severance pay has drawbacks that limit its suitability for a national job-loss compensation program, although collective bargaining could justifiably add this on as a supplement. Generally speaking, severance pay has been found to be dysfunctional. Experience in Britain, where it has been relied on heavily, shows that it can provide a false sense of security, reducing the motivation to look for a job.

Relating back to our discussion of retraining and relocation, it would seem desirable to make benefits available for those workers who want to avail themselves of these positive steps towards re-employment. Certainly, in most cases, the issue is not one of compensation but one of motivation to get started with retraining and/or look for employment in other parts of the country. In other words, retraining for its own sake, or movement, because it "seems like a good idea," will lead most often to discouragement and defeat.<sup>30</sup>

Nevertheless, something like a voucher system could be tried as an experiment. In some respects, this approach is already embodied in the provision of the Trade Adjustment Assistance Act, and our recommendation would be to expand it to include other groups affected by plant shutdowns.

An ideal voucher system might function like a cafeteria benefit program. Individuals would be provided an equitable level of benefits that could take the form most suited to immediate labor market opportunities and constraints, and individual aspirations. For example, the vouchers could be traded against the expenses of retraining. The exercise of individual choice would help solve the problems of career and location preferences that can plague publicly planned retraining programs.

Another use of the vouchers would be to finance relocation to high-demand labor markets. Such an approach would be in line with the point made by a Rand study which noted that "unless the receipt of an income bonus is conditional upon its being used to help defray costs of moving, income supplements given to the unemployed may be used to subsidize their staying in their current location rather than to finance job search in other labor markets."<sup>31</sup>

PART IV  
POLICY GUIDELINES

At this point we are in a position to summarize the main points of our discussion of "Economic Progress and Economic Dislocation." In the light of available experience the following guidelines appear appropriate for handling plant shutdowns:

- (1) Advance notice by the employer to the workers and affected community at least three months ahead of the shutdown.
- (2) Assumption by the employer of some responsibility for preparing the workers for successful entry into the labor market.
- (3) Establishment of local level co-ordinating groups and task forces to line up jobs, to attract new industry and, in general, to restore momentum to the community.
- (4) Provision of financial benefits that recognize the special problems faced by displaced workers: namely, the long duration of unemployment and the importance of maintaining coverage for health and (possibly) social security purposes.

The above list will be viewed by many people as overly modest. We admit to a bias in favor of minimal standards in order to avoid the stagnation effects when too many standards are imposed, as has been the case in a number of European countries. As a result of the proliferation of constraints, the labor market grinds to a halt, at least in the primary

sector. Knowing how difficult it is to declare any workers redundant, employers are hesitant to hire in the first instance and the job generating potential of the large firm drops substantially.

### Strategy of Implementation

Several routes are available for implementing the guidelines outlined above: voluntary action by employers, agreement as a result of collective bargaining, and legislation.

Certainly there is considerable scope for voluntary compliance both through collective bargaining and through unilateral adoption of management guidelines. Increasingly, unions are insisting on such provisions as advance notice when negotiating new contracts. It is likely that big business, in an effort to stem the rising threat of comprehensive legislation on economic dislocation, may adopt a "code of good practices" covering plant shutdowns and other sizeable employment contractions.

These voluntary and private programs usually represent "win-win" results for all parties concerned. The genius of industrial relations is that it provides a means for working through the impasse of the "economic must" versus the "human ought." The arrangements are tailor-made and their design usually reflects the active involvement of employees and their union representatives. One example is the Continuity of Employment Committee that has fashioned principles and programs with the result that New York State has been able to close down a number of health-care facilities while at the same time the workers involved have received offers of alternate employment and a wide range of other support services.

This industrial relations approach is the strategy followed in Germany, where "social compensation," as the readjustment program is called, is left to the collective bargaining process. If the parties cannot agree on terms, the problem is referred to a board of arbitration for determination, but this rarely is required.

While these anticipated developments may meet the challenge to some extent, inadequate or no arrangements are likely to continue in most situations, especially those involving small- and medium-sized businesses. There is also considerable reluctance on the part of many unions to confront the subject via collective bargaining, for fear that they will make the unionized sector of the industry less competitive, thereby causing rather than cushioning economic dislocation.

Thus, some type of legislative program at the federal level would seem necessary. One of the strongest arguments for a minimal package is to fill the vacuum, thereby forestalling most special deals of the sort enacted in the Redwoods legislation. Congress and the administration have become increasingly vulnerable to pressure to "do something" about impending economic dislocation as evidenced by their response to the Chrysler predicament.

—A clear policy direction would help fill this void.

Policy must also anticipate the chronic problem facing any piece of regulation, that firms will be very creative in finding ways to avoid the requirements. In Ontario, for example, where firms have to give eight weeks' notice before dismissing more than 50 employees (and longer lead times for greater numbers), many businesses have terminated an operation in steps, i.e., in

groups of less than 50, thereby sidestepping the requirement. Though such a development may at first look unfortunate, if a firm chooses to phase out operations gradually, it has by its own devices met the major objective of advance notice: to avoid the sudden and large-scale impacts of a shutdown.

The Canadian experience warns of another potential problem, the marginal enforcability of the standards. Again, let us consider a requirement for advance notice. What does government do if a firm fails to give the mandated notice?<sup>32</sup> One option would be to establish a penalty in the form of severance pay, although bankruptcy might reduce the feasibility of this penalty.

#### Responsibility for Compensation

The subject of compensation raises questions much more complicated than the problems of implementation, particularly those involving social responsibility. First, one might ask is it appropriate to hold employers accountable for the costs to individuals and communities? Second, is it practical to hold employers thus accountable? The two questions will be dealt with separately, even though they are often confused in policy discussions.

The principle of accountability is based on the notion that costs should accrue to their source and not be displaced to other entities. On the basis of this principle, it is clear that the employer<sup>33</sup> has some responsibility to individuals and communities affected by its cutback and closure decisions. Thus

the real question here is not one of appropriateness, but of extent.

More specifically, an employer is likely to maintain that it largely "pays its freight" to individuals (through wages) and to the community (through its contribution to the local economy and through taxes), and that it retains little if any residual obligation once it decides to pick up stakes and go elsewhere -- or worse, simply go out of business. This argument would have some validity to the extent the employer's contribution had all along included extra compensation for risk (i.e., a discounted stream of benefits based on the expected value of the potential loss). This is normally done only for special titles which have inherently low job security (such as business executives, advertising managers and professional athletes). However, few businesses could make a valid claim upon closing a plant that their responsibility had been fully discharged. Thus, we are left with an opposite conclusion -- that those affected by a plant shutdown have a claim to social compensation much as any creditor or injured party.

However, the practical issue is that in the face of these increased fixed employment costs corporations might attempt to maximise their short-run economic interests by pursuing evasion strategies -- such as hiring fewer regular employees or inducing turnover before the employer becomes obligated for benefits -- thereby adversely affecting overall levels of stable employment.

In the light of what is appropriate and what is practical, it appears that the financing of readjustment programs for individuals and for the communities involved needs to be largely socialized. The unemployment insurance compensation system is

the appropriate vehicle for handling the compensation that is due individual job losers, some mixture of partial experience rating and residual financing from general revenues could be adopted. The financing of the labor market programs, specifically training and relocation vouchers, could be partly supported by business but most of the expenses for these programs would also need to be socialized. Similarly, a federal program might be the most practical way to provide hospitalization and medical coverage for those caught in plant closings, extending through the period of unemployment to their becoming covered by a new employer's plan.



## PART V

### FINAL THOUGHTS: STRIKING THE RIGHT BALANCE

A basic tenet of organizational and economic theory is that organizations must constantly adapt to a changing environment. Given economic realities, a new era of what is being called "reindustrialization" is upon us.<sup>34</sup> The U.S. economy needs to reverse a period of decline through sweeping changes and plant closings are a manifestation of the selection process. When a plant cannot take in stride the necessary adaptations, it must be closed down and replaced with a more vigorous competitor. The closedown may be implemented summarily, leaving employees at the mercy of the labor market and existing unemployment and welfare services, or the continuing needs of the work force can be accommodated within the closedown plan. As the former alternative becomes less and less societally acceptable in a limited mobility labor market, various strategies emerge for accommodating employees.

There have been a number of programs arising within the broad area of public policy to deal with plant closings, and more programs are pending. The perspective of this paper has been to accept the fact that some standards will emerge along this new frontier for social policy and to direct attention to assessing the main candidates.

In the tradeoff between what is socially desirable (the human "ought") and what competitive realities require the business to do (the economic "must"), the latter usually has dominated. Thus, a union pursuing the human "ought" is seldom able to achieve a no-layoffs guarantee, but it can bargain for layoffs in reverse order of

seniority since such provisions have less effect on managerial adaptability. At the level of the plant, workers are aware of the tradeoffs: they remain cognizant that job security depends upon the market viability of the plant for which they are employed. What has changed is the willingness of workers and their representatives to accept the costs of economic dislocation without compensation, thus the zealous union pursuit of such things as severance pay provisions.

Collective bargaining must be supplemented by public policy. It would appear then that the country is in a period of history when the political-economic balance sheet needs to be reassessed - - when the enactment of some minimal standards and programs for handling economic dislocation holds the promise of improving the chances for growth and general well being. To strike this balance is an ambitious goal, but the costs of further economic decline and the costs of further human hardship are both too great to bear.

FOOTNOTES

1. Barry Bluestone and Bennett Harrison present evidence that 15 million jobs have been lost to given communities as a direct result of plant shutdowns from 1969-76. (Capital and Communities, Washington, D.C.: Progressive Alliance, 1980.)
2. New York Times, June 20, 1980.
3. See Harry J. Gilman, "The Economic Costs of Worker Dislocation: An Overview," Unpublished Paper, International Labor Office, U.S. Department of Labor, Washington, D.C., July 1979.
4. See Richard B. McKenzie, "Frustrating Business Mobility," Regulation May/June 1980, pp. 32-38.
5. See Bluestone and Harrison, op. cit., which provides the platform for the activists.
6. Iron and Steel Institute, Steel at the Crossroads, 1979.
7. Fred Caloren, "The Implications of Layoffs and Shutdowns: Cases Occurring in a Time of Recession," Proceedings of the 15th Annual CIRRA, May 29-30 1978, p. 112.
8. Donna Krawetz and Leon Muszynski, "Layoffs and Unemployment: Job Retention as a Policy Issue," Social Planning Council of Metropolitan Toronto, July 1980, p. 29.
9. Ibid., pp. 13ff.
10. Piore has made the following observation about Italy: "It is impossible to lay off permanent employees quickly and easily, and very large employers in areas where the work force is well-arranged and militant may find that for practical purposes it is too expensive to try to do so at all."

Michael Piore "Economic Fluctuation, Job Security and Labor Market Duality in Italy, France and U.S.," to appear in Suzanne Berger and M. Piore Dualism and Discontinuity in Industrial Society (Cambridge University Press, Fall 1980).

11. Thomas A. Kochan, "The Federal Role in Economic Dislocations: Towards a Better Mix of Public and Private Efforts." Unpublished paper prepared for the Office of the Assistant Secretary for Policy, Evaluation and Research, U.S. Department of Labor, October 1979, p. 3.
12. The assumption of this paper (and the legislation cited earlier) is that once a shutdown has been announced, job loss is inevitable. Of course this is not always the case and many examples exist where the impending shutdown has been reversed as a result of a financial bailout (e.g., Chrysler), employee takeover (e.g., Rath meat packing), or a freeze or rollback of wages and benefits (e.g., Ambridge Works of U.S. Steel).
13. Report of the Committee of Inquiry into Redundancy and Layoffs, (Department of Labor, Canada, March 1979).
14. In the language of the Canadian Report: "The decision to make a change is recognized as a management prerogative, . . . but better decisions can be made by involving the union in its considerations" (ibid., p. 239).
15. See FibreBoard Paper Products Corp. v NLRB 379 U.S. 203 (1964).
16. The NLRB appears to be moving in the direction of requiring an employer to bargain over a plant removal "in order to afford the union an opportunity to propose alternate measures

to alleviate the need for elimination of jobs." See the case involving Brooks-Scanlon, Bureau of National Affairs, DLR, 11-29-79.

17. Felician Foltman, "An Evaluation of the Six Month Notice Requirement Agreement Between N.Y. State and the Civil Service Employees Association," Unpublished Report, Cornell University, Spring, 1977.
18. Notably, though, at the margin, the most "marketable" employees often require little or no notice for re-employment while the "less marketable" (e.g., older workers) may be discouraged from the start and not take advantage of long notice periods.
19. See Robert Aronson and Robert McKersie, Economic Consequences of Plant Shutdowns in New York State (N.Y. State Department of Labor, 1980).
20. This recommendation has the following logic: research has shown that the average length of service for job losers is approximately 20 years. Working with the severance pay norm of one-half week for each year of service, we arrive at a lump sum approximating three months' wages, to be paid in lieu of notice. In the case of bankruptcy, employees would have a claim on the remaining assets, similar to other creditors.
21. ILO recommendation No. 119 states the objective as "finding satisfactory re-employment for redundant workers as soon as possible."
22. John C. Weidman, "Vouchered on-the-job Training in the Portland Win Program," Evaluation Quarterly, Vol. 3, No. 3, August 1979, pp. 365-384.

23. In a study using a large sample, it was found that the following proportions of those laid off engaged in a geographical move: for the young workers (26-35) 26% moved and for the older workers (45-59) only 7% moved. For more details, see Ann P. Bartel, "The Migration Decision: What Role Does Job Mobility Play?" American Economic Review, December, 1979, Vol. 69, No. 5, pp. 775-786.
24. This state-level labor-management committee provided a spectrum of readjustment and preventative programs for displaced workers, as well as sponsoring research to determine needs, evaluate programs, and guide policy. The authors participated in the work of the committee.
25. Committee of Inquiry Into Redundancy and Layoffs, op. cit., 1979.
26. Louis S. Jacobson, "Earnings Losses of Workers Displaced from Manufacturing Industries," Professional Paper 169, (Washington D.C.: Public Research Institute), November, 1976.
27. Restructuring Trade Act Benefits to Import-affected Workers Who Cannot Find a Job Can Save Millions (Washington, D.C.: GAO, 1980.)
28. Many studies have demonstrated the elasticity between a higher income replacement ratio and a longer duration of unemployment. While this effect is present for enough individuals to create a "statistically significant coefficient," it does not describe most individuals. Based on our research the response strategies can be classified as follows: (1) the "rebouncers" - about 10 per cent of the total who find another job almost immediately; (2) the "catch your breath" group - the largest segment, about 50 per cent, who slowly sort out opportunities and who welcome non-work time up to a limit of about

2-3 months; (3) the "stretchers" - about 15 per cent who remain unemployed until the benefits run out; and (4) the "hard core" - about 25 per cent who remain unemployed long after benefits terminate.

29. Currently, TAA compensation is paid to many workers who are not permanently separated but are on short-term layoff from industries impacted by foreign competition. Indeed, about 65 per cent of all recipients fall into this category.
30. In some field work that we have been conducting on the use of assistance for workers affected by two plant shutdowns, we have noted that some workers are enrolled in retraining not because they have any hope of placement, but simply because additional benefits are contingent on this step. Certainly, if no openings exist, one can expect only bitterness to result at the end of a training program.
31. Julie DaVanzo, Why Families Move, R & D Monograph, Number 48 (Santa Monica: The Rand Corporation, 1977).
32. In Quebec where notice requirement is law (2 to 4 months depending on size), 76 per cent of cases complied with the requirement. See Jean Sexton and Jacqueline Mercier "Advance Notice of Mass Layoffs: The Quebec Experience," Industrial Relations, Vol. 31, No. 2, 1976, pp. 206-207.
33. This would apply to the public as well as the private sector. For example, in Britain there is a long standing principle that the Government should act as a "model" employer, providing a lead and example for all other employers to follow concerning the terms and conditions of employment. See P.B. Beaumont, "The Obligation of the British Government

as an Employer in the British Civil Service," Public Administration, (Spring, 1978), pp. 13-24.

34. See Business Week, "Special Issue: The Reindustrialization of America," June 30, 1980.



TABLE 1

MAJOR U.S. EMPLOYEE PROTECTION  
PROGRAMS--SELECTED PROGRAM DATA

<u>Program</u>	<u>Period</u>	<u>Number of Persons Served</u>	<u>Expenditures Cumulative</u>
Trade Adjustment Assistance (1974)	thru 7/79 FY 1979	481,476 131,722	\$765.4M 284.2M
Redwoods (1978)	thru 10/79	2,197	12.2M
Urban Mass Transit	1964 thru 12/74	n.a.	1.3M
AMTRAK (1970)	thru 1977 1977	19,890 1,165	42.5M 2.0M
CONRAIL (1973)	thru 11/79	40,379	187.3M

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SOURCE: Statement of Arnold H. Packer, Assistant Secretary of Labor for Policy, Evaluation and Research, Before the Oversight Subcommittee, Committee on Ways and Means, U.S. House of Representatives, February 21, 1980, p. 16.

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