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Field Hearing on Displaced Workers: Meeting Their Special Needs : [Testimony]

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Field Hearing on
Displaced Workers: Meeting Their Special Needs
U.S. House of Representatives
Northeast-Midwest Congressional Coalition
Lansing, Michigan

May 23, 1983

My name is Wayne Wendling. I am a Senior Research Economist at the W.E. Upjohn Institute for Employment Research in Kalamazoo, Michigan. The Upjohn Institute is an endowed, nonprofit organization that has been engaged in conducting research in the broad areas of employment and unemployment since 1945.

My comments on the issue of displaced workers are based on the research on plant closure, in which I have been engaged for the past year. Moreover, my several years of research in education also have provided a foundation for my suggestions as to possible solutions.

I. The Magnitude of the Displaced Worker Problem

The problem of displaced workers is not restricted to the Northeast-Midwest industrial corridor, although it is fair to say that it has been concentrated in this region during the past several years. The recessionary period since January 1980, however, may have affected our perspective of the problem. The cyclical unemployment problems in many of the industries located in this region have been commingled with plant closures and large scale reductions in employment.

The magnitude of the displaced worker problem depends on the definition that is used. One definition is the following: displaced workers include all individuals who have lost jobs to which they are not expected to be recalled. Approximately 5 million individuals fit this definition. Another definition is based on the length of unemployment. Specifically, displaced workers are the long-term unemployed who were previously employed in industries experiencing an overall long-run decline in employment. This definition reduces the the number of displaced workers to approximately 1 million individuals.¹ A definition

*The statements of facts and the views expressed in this review are the sole responsibility of the author. The viewpoints do not necessarily represent positions of the W. E. Upjohn Institute for Employment Research.

of displaced workers that uses the multiple criteria of those over the age of 45 years who had been employed in industries losing employment plus all other unemployed residing in declining areas results in between 375 thousand and 490 thousand displaced workers.²

If we concentrate on the plant closure aspect of displacement, alternate estimates of displacement are generated. One group has counted 619 plant closings during 1982. The average size of plants that were closed by Fortune 500 firms in the 1970s was 208 employees. Combining these two figures would suggest that approximately 130 thousand employees lost their jobs due to plant closings in 1982. Another estimate places the average size of plants closed during the first quarter of 1982 at 587 employees, which would generate an estimate of 363 thousand workers losing their jobs to closure in 1982.³

The displaced worker issue is a permanent problem. Consumer demands change through time. Some industries will be growing and others will be declining. The most efficient locations for producing the different products will not necessarily be the same, nor will the skills required be identical. This process usually will generate some displacement.

The organization of manufacturing is changing in the United States. Roger Schmenner of Duke University reported on the plant closings in the 1970s by 410 major firms.⁴ He determined that the average age of the plant at closing was 19.3 years and the median age was only 15 years. Fully one-third of the plants were only 6 years old or less and two-thirds of the plants had only one level. Thus, the existence of a new plant in a community is not a guarantee that the workforce will not be displaced by a plant shutdown in the near future. Furthermore, although the average size of all plants in his study was approximately 490 employees, the average employment size of plants opening in the 1970s was approximately 240 employees.

Bluestone and Harrison have reported that the rate of plant closure was greatest in the South in the 1969 to 1976 period.⁵ Approximately 34 percent of the plants in existence in 1969 in the South closed by 1976, whereas the percentage for the North Central region (Midwest) was 25 percent. The key difference, however, was that the rate of job creation was much greater in the South. Thus, the impact of plant closure has been more severe in the North Central region.

II. Is the Older Worker Adversely Affected?

The impact of displacement tends to be concentrated on the older worker. The older worker is most affected because the usual process of attrition and gradual reduction in employment returns younger workers (less senior) to the labor market seeking alternate employment. That gradual flow permits these younger workers to take advantage of the available openings. They are not flooding the local labor market. Although seniority protects the older worker (the more senior worker) against layoffs it does not protect that worker against plant closure. Consequently, when closure occurs, a large number of older workers are returned to the labor market simultaneously. This fact is exacerbated by policies which require workers to stay until closure in order to receive severance pay and other related benefits. Their work skills may be

somewhat obsolete, their job search skills have atrophied and their numbers may greatly exceed the available openings in the market at the time. Moreover, since their skills tend to be firm- or industry-specific they may have significant difficulty in transferring them to other employment opportunities.

Other aspects of the market or institutionalized policies also result in a greater impact on older/senior workers. One of these is that compensation policies tend to be seniority-based. Therefore, the wages they have received are greater than they could reasonably expect to receive in alternate employment opportunities. Older workers may tend to be attached to declining industries. Industries go through life cycles; so do plants. Depending on the cycle of that industry or plant, those workers who were young when that industry was experiencing its growth may be old when that industry is declining.

Finally, older workers are affected more severely because there are just fewer job offers available for them. First, older workers may be more expensive to hire than younger workers because many benefit plans tend to define benefits in terms of age. As a result, even though the wage is the same older workers may be more costly to hire. Also, older workers may tend to restrict their job search to the local market because of homeownership, and to that subset of relatively high paying jobs because of their wage expectations. Thus, their expected duration of unemployment tends to be longer.

Several studies have documented the extent of the wage loss incurred by workers who have been displaced by plant closure. Arlene Holen *et. al.* developed estimates of earnings losses from a sample of 9,500 workers who were impacted by 42 different plant closings in 21 different states.⁶ The analysis was restricted to 8 different industries. This data demonstrated the differences in the experiences of younger and older workers affected by closure. The average earnings loss in the first year after closure for male workers was 24.1 percent. In the second year after closure, the average loss was 14.4 percent, and became negligible between the fourth and fifth year after closure.

The differences by age group are very striking. Workers under the age of 40 experienced a 13.4 percent drop in average earnings in the year after closure relative to the year before closure. Workers over the age of 40 experienced a 39.9 percent reduction in earnings in the year after closure. Furthermore, the average earnings of workers over 40 in the year after closure were less than the average earnings of those under 40, as indicated in Table 1. In addition, the labor force activity of the older group declined by approximately 33 percentage points, whereas the reduction in labor force activity for the younger workers was approximately 7 percentage points.

A study of a plant closure in Western Michigan further demonstrates the impact of closure on older workers.⁷ The average number of years of seniority for the workers left at the time of the closing was over 17 years. The average age of the workers was approximately 45 years. The wages for skilled, semi-skilled and unskilled workers had been \$10.22, \$9.97 and \$9.43 per hour, respectively. Approximately 11 months after the closing, the workers were surveyed, and for those who had found jobs, the average hourly wages were

Table 1
Mean Real Earnings and Labor Force Activity By Age,
Before and After Closure

	Under 40		Over 40	
	Year prior to closing	Year after closing	Year prior to closing	Year after closing
Average Earnings	\$5,705	\$4,943	\$8,111	\$4,877
Percent change		-13.4%		-39.9%
Full-time labor force activity (%)	82.9	76.1	93.5	60.1

* 1970 Constant Dollars

SOURCE: Calculations based on data provided in Arlene Holen, et. al., Earnings Losses of Workers Displaced by Plant Closings, Public Research Institute of the Center for Naval Analysis, CRC 423, December 1981.

\$10.02, \$7.51 and \$6.52 for skilled, semi-skilled and unskilled workers, respectively. Furthermore, over one-half of the workers were still unemployed, with the largest proportion of them being semi-skilled and unskilled.

III. A Program for Meeting the Needs of Displaced Workers

The evolutionary, and not revolutionary, technological change that the U.S. is undergoing is not likely to mean that millions of workers will be thrown out of their jobs in the short run. As Jacobson has reported, "while technological change was labor saving, it occurred at a steady and relatively slow pace."⁸ Instead of workers losing their jobs, jobs are going to be lost, and the principal mechanism is going to be attrition. Displacement will occur and the usual cause will be the closure of a plant or a large scale reduction of employment. As indicated above, those who will be most impacted will be the older, more senior, workers. However, there is likely to be an upgrading in the skill requirements, not only in the jobs created by the new technologies, but also in the next generation of existing jobs.

As we consider programs for displaced workers, we should keep several objectives in mind.

1. The program should not increase the cost of using labor, as opposed to using capital, for the firm. Increasing the cost of labor will simply make the adoption of new technology more attractive for employers, possibly exacerbating the problem.

2. The program should attempt to solve the immediate problem of permanent job loss in areas of high unemployment. It should attempt to be particularly sensitive to the problems of the older worker.
3. The program should be forward-looking and flexible so that those trained for the technology of today do not become the displaced workers of tomorrow.

At the federal level, I would suggest the following responsibilities.

1. Alter the National Labor Relations Act to include the decision to close a plant as falling under the definition of wages, hours and other terms and conditions of employment, with the requirement of good faith bargaining on both sides.
2. Provide vouchers to displaced workers seeking on-the-job-training. The voucher could be turned in as a refundable tax credit by the firm offering the training. The voucher should be attached to the displaced worker in order to provide the worker the greatest flexibility.
3. Facilitate and support the establishment of a labor market information system.
4. Alter the Internal Revenue Service's policies so that education expenses for adults either can be deducted from gross income or tax credits can be received by individuals to encourage and to reduce the cost of continuing education and retraining for individuals. This credit also should be refundable.
5. Adequately fund the Job Training Partnership Act. In the implementation of the JTPA, the remedial training needs in the basic skills for the older unskilled worker must be recognized. Ensure that the relocation assistance offered under the JTPA is adequate.

The rationales for these suggestions are as follows.

Altering the National Labor Relations Act as described would make bargaining over the decision to close one plant of a multiple plant employer a mandatory topic of bargaining. Management would be required to notify the union of the decision to close and both sides would be able to explore the possibility of continuing operations at the plant.⁹ The closure of a plant impacts senior workers most severely. There is no escaping the loss of the job. Concessions may be necessary to make the plant profitable enough to justify continued operation, but concessions may be the best alternative available. In other instances the concessions required would not be acceptable because better alternatives are available. Furthermore, recent quality of work life programs have shown that more productive work environments can be developed when management and labor work things out cooperatively. It is recognized, however, that plant closings are not restricted to unionized establishments.

The voucher should be attached to the individual to permit him/her to make the best deal possible. The displaced worker could use the voucher to lower the cost to the firm of hiring him/her and therefore, be more competitive in the labor market. If the firm and the worker agree on the type of job and type of training, the worker could sign over the voucher to the firm, which in turn would be compensated for the cost of the on-the-job-training by using the voucher to obtain a refundable tax credit.

The need for a labor market information system is obvious. It is very difficult to make informed choices without adequate information as to the location of jobs, the expected types of jobs that will be available and also the expected type of training that will be necessary to compete for those jobs.

Several recent reports have demonstrated that we need to devote additional resources to education. In order to facilitate the development and enhancement of skills in an evolving economy, it is imperative that the costs of human capital investments be reduced. One mechanism to accomplish this is to provide individuals tax credit subsidies to obtain training and retraining. Currently, if an individual wants to develop new skills, the individual must bear the full private cost of the investment. It only seems logical that if we provide tax credits to firms for new investments that similar subsidies should be provided to individuals.

The design of the Job Training Partnership Act is reasonable. It envisions an array of services for the dislocated worker, plus the determination of local employment needs. An additional issue that may need to be addressed is the provision of remedial training for the older unskilled worker who appears to be having the greatest difficulty adjusting to displacement. JTPA also has a worker relocation element. The relocation assistance must be adequate and probably requires greater coordination at the national level. In some circumstances the displacement may be a geographical imbalance as opposed to the decline of an entire industry. Local communities may be reluctant to lose the human resources that relocation implies, but the long-run cost to the individual and society may be much less if he/she relocates.

I would assign the following responsibilities to states.

1. Alter state unemployment insurance legislation to permit individuals to obtain retraining while also receiving unemployment insurance benefits.
2. Provide technical assistance to communities that have had plant closings. Technical assistance could take the form of establishing job clubs, counseling displaced workers and organizing meetings of other employers in the area to encourage hiring of those displaced.

I would assign the following responsibility to local units of government.

1. Develop a community model of assistance in the case of plant closure or large scale reduction in employment.

In closing, it has been estimated that annual real growth of Gross National Product of 2.7 per cent is necessary just to maintain the unemployment rate at its current level. Without significant economic growth we will not make real progress in solving the displaced worker problem.

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Displaced Workers: Meeting Their Special Needs

Location: Lansing, Michigan

Date: May 23, 1983

Background: The Lansing field hearing will be the second in a series of seven planned by the Northeast-Midwest Congressional and Senate Coalitions and the Northeast-Midwest Institute to develop a legislative agenda on employment and training and related human resource issues for the 98th Congress. Each field hearing will address a specific aspect of the rapidly changing employment picture in the United States. The hearings will be held every few weeks from April through July, and the process will conclude formally later in the year with a national conference in Washington, D.C. A final report will bring together the principal findings of the field hearings and national conference to help achieve a consensus on the regional aspects of these issues and how best to address them.

Format: The Lansing hearing will be co-chaired by members of the Congressional and Senate Coalitions and conducted to allow the greatest possible exchange of views between participants. The hearing will be open to the public and the press, and invitations will be sent to state and local officials and other public and private sector leaders.

Focus: The Lansing hearing will focus on the problems and needs of displaced workers. Title III of the new Job Training Partnership Act describes displaced workers as those who have been terminated or laid off from employment and who are unlikely to return to their previous industry or occupation. Under this definition, between 1 and 3 million workers -- up to 25 percent of the nation's unemployed -- are considered displaced, and therefore are likely to remain jobless even after the current recession is over.

The United States -- and the Northeast-Midwest region in particular -- is undergoing a fundamental restructuring of its economic base. Over the last 30 years, employment in the goods-producing industries (manufacturing, mining, and construction) fell significantly as a share of total employment, from 40 percent in 1950 to 28 percent in 1980. In the same period, employment in non-goods-producing industries like banking, finance, and services increased from 54 percent of total employment to 70 percent. The declining importance of manufacturing in the overall economy is illustrated most vividly by the fact that the manufacturing sector's share of employment dropped from 34 percent to 21 percent. The regional distribution of these changes has not been even. Between 1970 and 1981 the South and West experienced absolute increases in the number of persons employed in manufacturing, though service employment in those regions grew more rapidly. However, in those 11 years the Northeast and Midwest suffered a loss of over 1 million manufacturing jobs, while their service sector growth was lower than the rate in other regions.

In an age of rapid technological change, the need for highly skilled white collar workers in professions like engineering and the sciences is growing. Undoubtedly the need for low-skilled workers will continue, though increasingly these types of jobs are being exported overseas. The need for blue collar skilled and semi-skilled workers -- who over time have won substantial pay raises and fringe benefits -- is not so assured.



NORTHEAST-MIDWEST CONGRESSIONAL COALITION U.S. House of Representatives

TIME SCHEDULE

Field Hearing On

DISPLACED WORKERS: MEETING THEIR SPECIAL NEEDS

May 23, 1983

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INTRODUCTIONS AND OPENING STATEMENTS	9:00-9:30 am
Representative Howard E. Wolpe Representative Bob Carr Representative Robert W. Davis Representative William D. Ford — <i>no</i> Representative Donald J. Albosta Representative Sander M. Levin Martin Taylor, Director, Michigan Department of Labor and Michigan Employment Security Commission	
TESTIMONY	9:30-9:45 am
Sue Woodard, De Witt, Michigan	
PANEL #1: DEFINING THE PROBLEM!	9:45-10:30 am
Dr. Wayne Wendling, Sr. Research Economist, Upjohn Institute Sam Fishman, Executive Vice President, Michigan AFL-CIO State Representative Debbie Stabenow Dr. Dan Kruger, Professor of Labor and Industrial Relations, Michigan State University	
PANEL #2: LABOR MARKET INFORMATION	10:30-11:00 am
Dr. Dan Hamermesh, Professor of Economics, Michigan State University Von Logan, Director of Research and Statistics, Michigan Employment Security Commission	
PANEL #3: EDUCATION AND EMPLOYMENT PROGRAMS	11:00-11:45 am
Dr. Richard T. Burke, Dean of Continuing Education, Western Michigan University Daniel Fields, Manager for Training and Development, CWC Castings, a division of Textron Inc. Freda Rutherford, Director of Employment and Training, Downriver Community Conference Marshall Goldberg, Program Associate, UAW-Ford National Development and Training Center	
QUESTIONS	11:45 am-noon