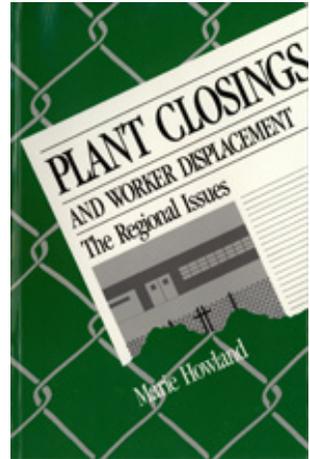

Upjohn Institute Press

The Problem and Current Policy

Marie Howland
University of Maryland, College Park



Chapter 1 (pp. 1-12) in:

Plant Closings and Worker Displacement: The Regional Issues

Marie Howland

Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1988

Plant Closings

The Problem and Current Policy

In the 25 years immediately following World War II, the United States economy experienced moderate industrial and regional restructuring. The decline of the manufacturing sector and the movement of capital and population from parts of the North to most of the South and West took place amidst vibrant national economic growth and relative cyclical stability, and, consequently, went unnoticed in most parts of the country. In the last 18 years, these trends have accelerated. Not only is restructuring now occurring more rapidly than in previous decades, but it is taking place in an environment of weaker national growth and greater cyclical instability. In this context, it is not surprising that the loss of manufacturing jobs and the decline of many of the older industrialized regions have caught the attention of policymakers and academics, and that issues surrounding worker displacement have risen near the top of the domestic policy agenda. More and more often, manufacturing workers seem to be the victims of plant closings and permanent layoffs in regions and industries where employment opportunities are limited.

The aggregate numbers show that in recent years, job loss in some locations and industries has been significant. Between 1981 and 1986, the manufacturing sector lost 1.2 million jobs. This decline was not shared equally by all regions and industries. During the same period, for example, the Mid-Atlantic region lost 0.6 million jobs, while the East South Central gained 16,000 and the Mountain states gained 31,000 (U.S. Department of Commerce 1985 and 1988). There were also structural changes within manufacturing, with the skill-extensive, high-wage industries experiencing the largest employment losses. The steel industry lost almost 230,000 jobs; at the same time, office and computing

2 The Problem and Current Policy

machine manufacturing gained 94,000. While manufacturing employment declined in the U.S., the service sector grew by 4.5 million jobs (U.S. Department of Commerce 1982-83 and 1988).

Large overall employment losses in manufacturing hide the fact that a far larger number of jobs were lost and workers displaced. For example, with the net loss of 1.2 million manufacturing jobs, estimates from the U.S. Bureau of Labor Statistics are that approximately 2.6 million manufacturing workers, with previously stable work histories, were involuntarily and permanently laid off between 1981 and 1986 (U.S. Department of Labor 1986).

These permanent job losses can be traumatic for the individuals affected. Numerous studies have documented the psychological and financial costs of displacement and have found that the consequences can be devastating for individuals and communities. Many victims of plant closures and mass layoffs experience prolonged periods of unemployment, and, if they find new jobs, they often accept a dramatic cut in their standard of living. Medical studies have shown that dislocated workers exhibit rates of anomie, depression, alcoholism, heart disease and suicide that far exceed the rates in the general population. The problems are particularly acute for many older dislocated workers because they have had a stable work history (and consequently have rusty job search skills) and a high-paying job and comfortable life style which cannot be duplicated. Furthermore, they are less geographically mobile and often are perceived by employers as being less retrainable than younger workers (Gordus, Jarley, and Ferman 1981). Communities can also face difficult adjustments after a plant closing or mass layoff. When a large employer closes or downsizes, local governments can be hit with a declining tax base, a rising tax burden, and reductions in the quality of services.

The purpose of this study is to look behind net employment changes to (1) examine the relationship between regional employment shifts and plant closures, and (2) draw the implications of that relationship for displaced worker policy. More specifically, this study explores four questions.

- Is regional economic restructuring responsible for high rates of plant closures and permanent layoffs in the less competitive regions?

- What are the characteristics of the enterprises most likely to close? Does a plant's age, size, or status as a headquarters, independent, branch, or subsidiary affect the probability of a closure?

- To what extent do adverse local economic conditions, such as high wages, utility costs, and taxes; a unionized labor force; or shrinking local market influence the probability a plant will close?

- Do workers displaced in an expanding local labor market experience large postdisplacement financial losses, or is economic dislocation a problem specific to the Rust Belt economies?

The intention of this study is both to increase our conceptual understanding of the process of economic decline and job loss, and to contribute to the ongoing debate on displaced worker policy.

Plant Closures and the Dynamics of Regional Change

In regional economics and regional planning literature, plant closures are widely believed to be both cause and consequence of industrial restructuring. When an industry shifts location, high rates of plant closures in the less competitive region are assumed to coincide with high start-ups in the low-cost or higher-revenue regions (see for example, Bluestone and Harrison 1982; Markusen 1985; Mansfield 1985). Underlying causes of employment shifts to the South and West, or the so-called Sun Belt, are changes in regional production costs, technological change within industries, growing union strength among regional workforces, intensified industrial competition, and declining local markets.

Changes in relative regional production costs can alter the least-cost location calculus for an industry. For example, the slowdown in European immigration into New England in the 1920s caused the price of unskilled labor to rise in the northern states. Southern and southwestern locations, with abundant low-skilled labor from rural areas, became more attractive to assembly line manufacturing. Second, technological change in an industry's production process can free many industries to seek lower input costs in new locations. For example, with the development of steam power in the 1830s, the textile industry was no longer tied to the inland rivers of New England, and many firms relocated toward

the coast and the South to cut labor costs. Third, restructuring may also be capitalists' response to growing militancy or organization on the part of labor (Bluestone and Harrison 1982; Storper and Walker 1984). Firms may close branches, relocate operations and open new plants in the non-union areas as a strategy for keeping in check labor's demand for higher wages and other benefits. Fourth, intensifying international competition is cutting into the profit margins of many domestic companies, forcing them to take new cost-cutting measures. One such measure may be a move to lower-cost production sites. Markusen (1985) argues persuasively that the steel industry would have decentralized earlier, to be near markets and to reduce transportation costs, if not for the industry's oligopolist structure, market power, and high profits. Prior to foreign competition, the steel industry did not have an incentive to tighten costs. Finally, the loss in local markets has led to the regional shift of market-oriented manufacturing out of the Frost Belt.

Manufacturing industries in the process of decentralizing are generally beyond their earliest stages of product development, and are consequently no longer anchored to a region-specific, specialized labor force. If not tied to a natural resource, they are free to relocate, and if they operate in a competitive environment, they have the incentive to seek out their most profitable location.

In order to understand the process of regional employment shifts and its relationship to plant closures, this study examines the components of employment change in three decentralizing industries, metalworking machinery, electronic components, and motor vehicles. These industries are intended to be representative of many manufacturing industries shifting out of the northern states to the South and West.

The components of employment change include plant start-ups, closings, relocations and net on-site expansions. At the outset, there were three possible findings.

- (1) Industry plant closure rates and rates of worker dislocation are highest in the regions where the industry is exhibiting the greatest decline.
- (2) Dislocation occurs at even rates in all regions of the country, but worker displacement is not a problem in growing regions because new jobs absorb the laid-off workers.

(3) Displacement occurs evenly in all regions, but workers do not move easily into new firms. Consequently, displaced workers are forced to accept dramatic losses in income, even in growing regions.

In the first and second cases, worker displacement is an issue confined primarily to declining economies. In the third instance, worker displacement is a national concern.

The findings support case 3 above, with two reservations. First, in industries experiencing dramatic declines in employment and where plant start-up rates are already low, as with motor vehicles, permanent layoffs appear to be highest in the declining regions. In other words, case 1 applies. The second exception is that the youngest, best-educated, white and female workers displaced in labor markets exhibiting strong employment growth appear to make the transition to a new job with relatively small or no income losses. In other words, for these workers, case 2 applies.

Current Public Policy to Assist Displaced Workers

Policymakers have acknowledged the high costs of job loss for the stable worker, but a coherent federal policy is still in the formative stages. At present, there are four policies which address some aspects of the displaced worker problem: import protections for selected domestic industries, Trade Adjustment Assistance, the Job Training Partnership Act, and plant closing legislation.

The U.S. restricts imports of a number of commodities, with the explicit purpose of protecting domestic jobs in those industries. At present, textiles, apparel, some leather products, steel, large motorcycles, and small trucks are protected by import duties, voluntary restraints, or import quotas. Several additional industries are protected by antidumping duties, including semiconductors and steel. An antidumping case can be brought when foreign producers are found to either sell their product in U.S. markets at a lower price than they charge at home or sell their product in U.S. markets below cost. Trade protection is the only major policy in force that attempts to slow structural shifts and

inhibit job loss, and even this policy has become less common with time (Goldstein 1986). Increasingly, uncompetitive industries are forced to improve the quality of their product, cut costs, or experience major revenue losses that lead to employment declines. The emphasis of displaced worker policy has switched away from protecting jobs through trade restraints to providing some adjustment assistance for workers after layoff.

One such policy and a second form of assistance to displaced workers is Trade Adjustment Assistance (TAA). TAA provides supplemental financial assistance and a small amount of job search and relocation assistance to workers who lose their job as a result of the liberalization of trade. The legislation states that TAA is to be made available to workers when imports “contributed importantly” to their separation. The justification for this assistance, which supplements unemployment insurance, is that it will reduce political resistance to trade liberalization and provide partial income maintenance to the workers who face the greatest barriers to reemployment. Because of questions about the equity of TAA, and findings that many recipients are later reemployed by the same company, there is growing congressional pressure to phase out TAA and shift additional resources to the Job Training Partnership Act (JTPA Title III), the third program to assist displaced workers.

JTPA Title III makes aid available to all dislocated workers, not just those affected by trade. These funds are flexible, but the most common uses are to set up plant-based job search and training assistance. The Reagan administration has voiced support for this program, and Congress increased funding from \$223 million in 1985 to \$287 million in fiscal year 1988. JTPA’s performance evaluations noted delays in getting the money to a closing plant, shortages in funds for hard hit areas, and lack of knowledge about the program on the part of displaced workers (U.S. Congress 1986).

A fourth set of policies to assist displaced workers falls in the category of plant closing legislation. This legislation has focused on assisting all workers affected by plant closures. Presumably, the legislation excludes workers who lose their jobs through cutbacks, because a layoff is clearly permanent when a plant closes, while it is not easy to determine whether layoffs from a continuing plant are permanent or cyclical.

The proposed legislation has been designed to both minimize the personal losses and community costs of plant closures and to reallocate the social costs of displacement to those responsible for the layoff decision.

In some states, protections for workers have already been adopted. Maine and Wisconsin have enacted legislation requiring employers to give workers 60 days notice before a merger, liquidation, relocation, or plant closure. Connecticut, Maine, Massachusetts, Maryland and Delaware have passed laws to promote employee ownership, and California, Michigan, New Jersey, New York, and Pennsylvania have passed laws providing loans and/or loan guarantees and technical assistance for worker buyouts of closing plants (Rosen, Klein, and Young 1986, pp. 253-254). Other states have introduced, but not enacted, bills to require prenotification or to assist workers in buying out their closing plant.

Legislation to shift some of the burden of large scale job losses from workers to firms has also been introduced at the national level. In 1974, Senator Walter Mondale of Minnesota and Congressman William Ford of Michigan introduced the National Employment Priorities Act (NEPA). This original bill died in committee, and was unsuccessfully reintroduced in an altered form every year until 1984. The major components of these bills provided for employee prenotification of a closing, severance pay to separated workers, grants and loans to failing businesses under some circumstances, and economic redevelopment assistance to local governments. In response to strong industry opposition and the bill's failure to get out of committee, Congressman Ford, along with Congressman Conte of Massachusetts, introduced a new bill in 1985 as a stopgap measure. This bill required that workers be given 90 days advance notice of a closing for plants with 50 or more employees, and was designed to aid displaced workers until a blue ribbon commission could evaluate the need for a more comprehensive bill. This last initiative was narrowly defeated on the floor of the House.

In response to a request from Congress, Secretary of Labor William Brock established an economic adjustment and worker dislocation taskforce, made up of representatives of industry, government and academia. The taskforce's January 1987 recommendations call for a

merger of the JTPA and TAA programs into a Worker Adjustment Assistance Program, with additional spending for job search, training, and cash assistance. The taskforce could not agree on a law requiring mandatory prenotification of a closing for displaced workers and communities.

In 1988, Congress again introduced displaced worker legislation. This time it passed both Houses as part of the 1988 Omnibus Trade Bill. This bill included \$900 million for worker retraining, continuation of TAA, and 60 days advance notice of a closing for firms with 100 employees or more. In mid-1988, President Reagan vetoed the bill. While the House of Representatives mustered enough votes to override the veto, an override failed in the Senate.

In contrast to the U.S. experience, the largest industrialized countries outside of the United States have already instituted some benefits for displaced workers. In Sweden, Great Britain, and West Germany, corporations are legally obligated to give advance notice before a closing and to negotiate the closing with their employee unions or workers' councils. The extent of other protections, such as severance payments, varies by country (U.S. Congress 1983, pp. 113-163).

In the United States, most structural adjustments are allowed to take place with little public sector intervention, leaving workers to bear a substantial share of the costs. In part, our reluctance to adopt a coherent and successful policy to deal with displaced workers can be attributed to a conservative political trend, but the effort to implement displacement legislation has also been hampered by a lack of understanding about the relationship between plant closures and economic growth, about the causes of plant closings, and ultimately about the most efficient and effective way to help displaced workers. This study attempts to address these issues.

Organization and Major Findings

The study is organized into five additional chapters. Chapter 2 describes the Dun and Bradstreet (D&B) data, used to carry out the analysis in chapters 3 and 4. This data set includes establishment level

information for the years 1973, 1975, 1979, and 1982 for three industries, metalworking machinery, electronic components, and motor vehicles. From these data, we can estimate regional and central city-suburban employment changes, subdivided by plant closures, start-ups, relocations, and on-site contractions and expansions. Chapter 2 explores the reliability and shortcomings of these data.

Chapter 3 examines the hypothesis that plant closures within industries are more frequent events in the economies where the industry exhibits the greatest decline. The chapter begins by describing the regional distribution of employment and employment trends for metalworking machinery, electronic components, and motor vehicles. All three industries are decentralizing from the industrialized North to the Sun Belt states. Metalworking machinery and motor vehicles are also decentralizing within regions, whereas electronic components employment is growing fastest in central cities. Regional employment shifts are analyzed by their components of growth, and finally the chapter tests whether, holding establishment characteristics constant, a plant is more likely to close in declining than in growing economies.

Four points characterize the process of regional restructuring for the three industries. (1) Employment shifts to the Sun Belt are not explained by relatively high rates of plant closures in the Frost Belt, but by high rates of job creation in the Sun Belt and, to a limited extent, by plant migrations from the Frost Belt to the Sun Belt. This same pattern also holds for intraregional shifts in employment. Plant closure rates are relatively even across central city, suburb, and nonmetropolitan areas, and uneven rates of growth are explained by spatial variations in job creation through plant start-ups and expansions. (2) After holding constant a plant's status as a branch, subsidiary, headquarters or independent, and its size, there is no evidence that plant closure rates vary by location. (3) In the metalworking machinery and electronic components industries, the number of displaced workers is substantially higher in the older, industrialized states only because these industries are concentrated in those states, not because of higher closure rates. (4) There is some evidence for the 1975-79 period, in the motor vehicle industry only, that job loss through plant closures was greater in regions with greater industry decline. These results suggest that industrial decline

may initially take the form of falling rates of job creation, which fail to compensate for losses occurring through an average rate of plant closures (as was found for the metalworking and electronic components industries). When an industry's rate of job creation is already very low, industrial decline is furthered by a rising rate of job loss through plant shutdowns.

Chapter 4 examines the hypothesis that high wages, utility costs, and taxes, relatively large increases in wages and utility costs, a unionized labor force, degree of import penetration, and/or shrinking market demand are responsible for plant closures. While some evidence from the metalworking machinery industry shows that the relocation of establishments is more likely out of unionized states than nonunion states, we find no evidence that the variables commonly believed to affect plant closures do, in fact, have an impact. Instead, plant closure decisions appear to reflect the strategies and idiosyncracies of individual firms.

The limited cross-industry results are similar. There is no evidence that plant closure rates are higher in slow-growth than in expanding industries. The only variable to consistently influence the probability a plant will close is the plant's status as a subsidiary or branch. Branch plants and subsidiaries are between 8 and 32 percent more likely to close than headquarters or single plant operations.

Even with equal rates of plant closures, and, for metalworking machinery and electronic components, permanent job loss in all regions of the country, worker displacement may still be a regional problem, specific to the economies where new job creation is not sufficiently strong to absorb workers laid off by plant closures and permanent layoffs. The analysis in chapter 5 relies on a January 1984 Bureau of Labor Statistics survey of displaced workers to identify the labor market conditions under which displacement is a problem. Specifically, we test the hypothesis that worker displacement is still primarily a problem concentrated in declining economies, because workers laid off in labor markets with high rates of job creation successfully make the transition to a new job.

Chapter 5 argues that workers displaced in economies where the industry of displacement is growing are unemployed shorter periods of time and with smaller financial losses than workers displaced in areas where their industry of displacement is declining; that many displaced

workers do not move easily into growing industries after displacement; and that many workers, especially those who are older and less educated, experience large reductions in living standards after displacement, even when they are displaced in a growing local labor market. We therefore conclude that worker displacement is a national issue, especially for older, less educated workers, and not a concern specific to the Rust Belt economies.

These findings indicate that the commonly accepted view of the causes of worker displacement is inaccurate and the problems of worker displacement, so evident in the Frost Belt region, are not simply a consequence of regional and industrial restructuring. A worker is as likely to be displaced in a growing region as in a declining region, and for the industries studied, as likely to be displaced from a declining as a growing industry. Structural shifts are, however, responsible for the increasingly high costs of displacement. Many displaced workers do not move easily into new occupations and industries and as a consequence regional realignments mean that the new, compatible jobs are frequently in the wrong location. Furthermore, industrial shifts mean that the skill requirements of newly created jobs do not match those of many displaced workers. The reemployment barriers are, therefore, particularly severe for workers displaced from shrinking industries in stagnating or declining economies.

Chapter 6 explores several policy options for both national policymakers and local economic development officials and argues for increased federal support to assist in the local takeovers of closing branch plants and subsidiaries, and for financial and adjustment assistance, especially for older, less educated displaced workers. The study's findings argue against industrial policy as a means of slowing the pace of worker dislocation, and against concessions in wages, utility bills, and taxes as a strategy for retaining local jobs.

REFERENCES

- Bluestone, Barry and Bennett Harrison (1982) *The Deindustrialization of America*. New York: Basic Books.
- Goldstein, Judith (1986) "The Political Economy of Trade: Institutions of Protection," *American Political Science Review* 80, 1 (March), pp. 161-184.
- Gordus, Jeanne Prial, Paul Jarley, and Louis Ferman (1981) *Plant Closings and Economic Dislocation*. Kalamazoo, Michigan: W.E. Upjohn Institute for Employment Research.
- Mansfield, Edwin (1985) *Microeconomics*, shorter fifth edition. New York: W.W. Norton.
- Markusen, Ann (1985) *Profit Cycles, Oligopoly, and Regional Development*. Cambridge, Massachusetts: MIT Press.
- Rosen, Corey, Katherine J. Klein, and Karen M. Young (1986) *Employee Ownership in America: The Equity Solution*. Lexington, Massachusetts, Lexington Books.
- Storper, Michael and Richard Walker (1984) "The Spatial Division of Labor: Labor and the Location of Industries" in Larry Sawers and William Tabb (eds.), *Sunbelt/Snowbelt: Urban Development and Regional Restructuring*. New York: Oxford University Press.
- United States Congress (1983) *Testimony before the Subcommittee on Labor Management Relations of the Committee on Education and Labor*. 98th Congress, First Session, HR 2847. Washington, D.C.: Government Printing Office, May 4 and 19.
- United States Congress, Office of Technology Assessment (1986) *Plant Closing: Advance Notice and Rapid Response*. Washington, D.C.: Government Printing Office, September.
- United States Department of Commerce, Bureau of the Census (1982-83, 1985, and 1988) *Statistical Abstract*. Washington, D.C.: Government Printing Office.
- United States Department of Labor, Bureau of Labor Statistics (1979 and 1984) *Employment and Earnings*. Washington, D.C.: Government Printing Office.
- United States Department of Labor, Bureau of Labor Statistics (1986), "Reemployment Increases Among Displaced Workers," *News*, October 14.