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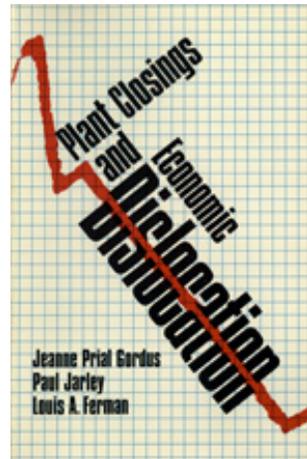
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## Introduction

Jeanne Prial Gordus  
*University of Michigan*

Paul Jarley  
*University of Michigan*

Louis A. Ferman  
*University of Michigan*



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Jeanne Prial Gordus, Paul Jarley, and Louis A. Ferman

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# Chapter 1

## Introduction

### *The State of Plant-Closing Research*

Until recently, plant closings have been a relatively neglected area of research. While several case studies date back to the Great Depression and even before, and the threat of automation aroused considerable interest in the field in the 1960s, the fact that the national economy has been expanding has made the problem of industrial relocation appear to be a temporary phenomenon. While industrial relocation has meant disruption for individuals and communities, ultimate benefit was seen in the industrial growth that plant closings and relocations heralded. Considering the quantity of research on other employment problems, the literature on plant closings remains modest. Nevertheless analysis of the findings we do have can pinpoint areas where research is most urgently needed, areas where policy needs to be developed, and directions in which programming efforts should move.

There is now enormous public concern about the problems of plant closings, and this concern is reflected in the growing need of workers for reassurance as to the security of their jobs. Communities also are worried, especially those cities in the Northeast and Midwest that are losing old industries while failing to attract new facilities. Indeed there is apprehension on a national scale as an increasing fraction of the world's manufacturing capacity is being located abroad because of the cheaper labor markets available there. In-

terest has been keen in efforts by employees and/or community members to purchase plants slated for closing and to continue operations. At every level of government, serious problems arise as workers displaced by plant closings move to enroll in government programs that will compensate them for their losses or prepare them for effective labor market reentry.

Two additional factors contribute to the need for research on plant closings. The United States lags behind the other industrialized nations of the world in the development of a national employment policy, particularly of a policy directed toward the orderly management of the investment and disinvestment process. Various proposals have been brought before Congress and legislative initiatives on the local level are moving rapidly in some areas. Many states are considering bills requiring plants to give advance notice of closings. This legislative action is, however, taking place without adequate knowledge of the scope of the plant-closing problem and its long term effects, still less the appropriate strategies for reducing the costs incurred by industrial and economic dislocation.

Furthermore, we are still without information that is critical, not just to formation of national policy, but to effective development, implementation, and administration of *ad hoc* programs designed to confront economic emergencies. We do not have data on the prevalence of plant closings, on how many facilities shut down during any given year or for what reasons. We do not know the number of workers affected or the scope of the effects on communities. We do not know to what extent companies that move benefit from this investment strategy, and we have no clear idea of the available interventions or of their cost-effectiveness.

While the negative impact of plant closings upon individuals and communities has seldom been dismissed light-

ly, it has been possible to develop an argument that unemployment associated with plant closings is a relatively insignificant portion of the total national unemployment picture. Cross-sectional data to document the reasons why individuals are unemployed at a particular time are not available. Case study data, the staple of plant-closing research, reveal a great deal about unemployment in particular instances but have no wider applicability. There have been assertions that research, policies, and programs need not be developed especially for plant closings since the extensiveness of the problem does not justify widespread concern, but arguments as to the permanence of the termination associated with plant closings have been stressed to justify concern. Data are still not available to indicate clearly what percentage of those unemployed at any specific time are jobless because of plant shutdowns, but recently collated indirect evidence shows joblessness associated with plant closings now contributes significantly to the statistics on national unemployment. *Business Week*<sup>1</sup> estimates that two million jobs have been lost as a result of plant closings over the past five years. Bluestone and Harrison<sup>2</sup> examine the National Longitudinal Sample (NLS) and cite the findings of Parnes and King over the 7-year period 1966-73 for 4,000 males over the age of 45. Men were selected who had served at least five years with their employers and their employment histories were followed. About 4.6 percent of the sample, representing men over 45, experienced permanent involuntary separation from employment during the study period. These data, while far from comprehensive, confirm that plant closings provide a substantial part of the total unemployment figures. Research in plant closings has been confined to the case

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1. *Business Week*, March 12, 1979, p. 41.

2. Barry Bluestone and Bennett Harrison, *Capital and Communities: The Causes and Consequences of Private Disinvestment* (Washington, DC: Progressive Alliance, 1980), p. 19 ff.

study and evaluation tradition and that as a consequence there is no comprehensive listing of plant closings and no statistics concerning the extent of unemployment directly or indirectly attributable to plant shutdowns.

While we have come to understand some of the consequences of plant closings for individuals and communities better than we did some two decades ago, we are coping with these consequences in much the same ways that were common then. The earlier solutions were designed as stop gap measures for victims of short-run problems created by an expanding economic system ultimately expected to benefit all. Even these limited goals were not met with a high degree of success; but this was not considered a serious deficiency, for this was a period when economic growth and job opportunities were expected to be in an upward spiral that would go on indefinitely.

Research on plant closings has always been undertaken with a strong orientation toward policy and program development. In fact, the literature is primarily concerned with the evaluation of programs. It is therefore particularly striking that in the years between 1963, when the first series of plant-closing studies were analyzed, and 1980, no really new approach has been tried. Benefits paid are higher, more attention is given to various provisions of collective bargaining agreements designed either to assist with plant-closing problems or to be adapted to meet that situation, and early retirement options have increased, but all these responses were available in one form or another in the early 1960s. Thus the past two decades have seen program amplification rather than program change. Despite the fact that these measures were never designed to attack a problem at its root, but simply to ease the difficulties in a transition period, they were not particularly effective in achieving even their stated and limited goals. Over the past two decades, they have been elaborated, extended, and evaluated. During the same period

the plant closing, often a healthy sign of growth and change, has become a symptom of a stagnant economy; measures designed to ameliorate the negative impact of plant closures have become less and less well adapted to that end.

Plant closings have a widespread rippling effect, and parties concerned have a repertoire of responses available to them. Once the decision to close has been made, management, unions, individuals, communities, local agencies, and elements of the government all have their own particular interests and priorities. If these parties view their problems as similar and agree on strategies for coping with them, a closing can take place with minimal difficulty. Yet, even in the best circumstances, it is clear that each of these groups will perceive a different part of the problem or often a different problem altogether, and that no single framework for understanding the full implications of plant closings currently exists. It is scarcely surprising then that no coherent policies or programs have been developed.

The design and implementation of policies and programs to deal with problems associated with plant closings inevitably promote suggestions about the development of a national policy—in fundamental opposition to the basic assumption that a capital market operates perfectly and that to intervene in this process risks serious disturbance of the market. This conflict, which is seldom made explicit in the plant-closing literature, is at the root of most of the observed inadequacies of research, policy development and program design, implementation and evaluation.

Although the national economic climate, the general industrial environment, and local realities and constraints are all significant both to the plant-closing decision and to its aftermath, plant-closing studies tend to be focused on the aftereffects of the decision. The decision in its general and specific context will be considered below at some length, but

the emphasis in this review will be placed upon the actors in the plant-closing situation, the repertoire of responses available to meet their concerns, whether and in what ways these concerns and responses are conjoined, and how this conjunction or lack of it affects final outcomes. The actors in a plant-closing situation are usually (1) management, (2) the union or unions, (3) the individual workers, and (4) the community. Within the idea of community, it is appropriate to group the local population in the most general sense: merchants whose sales will drop off; teachers whose jobs may be eliminated as the tax base is reduced; persons who provide services to affected workers, as well as those who join in a community effort to take action that may be deemed appropriate to the crisis. Local government, including both the service sector and industrial development, can also be assigned community membership, despite frequent strong links between local, state, and federal agencies. The fifth actor, often intimately involved with some or all of the others, includes state or federal agencies. Each actor has a specific set of concerns and a number of possible responses from which to draw actions that may be considered appropriate to the particular situation. It must once again be stressed that plant-closing research continues in the case study tradition and that the time dimension of these studies seldom extends beyond a year or two at most. Such studies never assess the problems beyond the narrow scope of one closed plant, because there are theoretically numerous ways in which the closing of a plant can proceed. Thus we can draw only upon limited evidence for a limited number of closings, but that evidence does suggest that certain responses by the several actors involved can minimize the costs associated with economic dislocation, while other responses can exacerbate the initial disturbance.

### ***Management Post-Decision Concerns***

Whatever reasons are advanced for plant closings, management will have much the same concerns during the shutdown period, whether the action is a closing or a relocation.

One major concern is to keep productivity as high as possible from the time the decision is announced until the time of actual closing. During the phase-out period, another management concern is to avoid public opprobrium. While this concern is directed chiefly toward workers, it includes the community at large, and to both groups management wishes to validate its competence in decisionmaking. It is important for management to avoid court suits that may be initiated by workers or the community. This priority is close to another management concern: that is, keeping industrial and local peace involves both avoiding local disapproval and restricting costs. Maintaining the physical integrity of the facility is crucial; a building must be in good repair if management plans to sell it. Maintenance of equipment is also important, whether that equipment is to be moved to another location or for the use of an eventual purchaser. Good relations must be maintained between management and the community to avoid possible tax penalties and to enlist the cooperation of local leaders in the sale of the facility. If the plant is moving to a new location, management must regard a smooth transition as one of its priorities, for such a transition will be obviously less costly. It is at this point that encouragement is given to certain key personnel to transfer with the plant, while inducements are offered to less valued workers to remain behind.

### ***Union Post-Decision Concerns***

A major priority of labor unions is to maintain the viability of the organization in the face of loss of membership. To

some degree this priority is consonant with labor's other aims during the phase-out, most if not all of which concern the affected workers. First, the unions attempt whenever possible to delay closings or to avoid them completely. Since either attempt is usually futile, the unions then move to maintain job security for members through transfer. Whether or not such transfers can be arranged, labor tries to maintain the income level of members as far as possible. Labor also is concerned about the trauma inflicted on unemployed and employed members of the union alike, stepping in to assist with problems associated with unemployment. Labor is concerned, as a first priority, with obtaining for members all the benefits to which they are entitled—and additional benefits if possible.

### *Community Post-Decision Concerns*

Local communities faced with the prospect of a closing plant look first to maintaining the population and industrial base of the area. In one sense, this concern is closely tied to that of maintaining the tax base at its preclosing level. Often communities, like management, wish to delay the closing to insure a smooth change and avoid the flare-up of conflict and hostility that might endanger life and property. Local communities also hope that the physical plant and its equipment will remain intact and so they also wish to maintain a high level of services in the community for, even though the tax base may be jeopardized by the announced closing, communities are keenly aware of the important role that good services, roads, public safety, and schools can play in attracting and retaining industry.

### *Individual Post-Decision Concerns*

Individuals wish above all to maintain economic and social security during the phase-out period. They need information about a range of issues bearing on job security and

income maintenance, as well as a sense of certainty about what plans are and are not feasible under the circumstances.

### ***Governmental Post-Decision Concerns***

Concerns of local, state, and federal government and the various agencies specifically mandated to respond to employment-related crises are roughly similar, although different levels of government and government agencies undoubtedly have different priorities depending upon the situation at hand. However, most levels of government would agree that, if possible, the ideal solution would be to prevent, delay or at least minimize the effects of closings. Failing that, concern shifts to recompensing workers for lost income, and to efforts toward their reemployment, such as training or retraining. However, local, state, and federal agencies have recently become aware that the problem of unemployment encompasses more than income maintenance and reemployment; the entire area of physical, emotional, and social consequences of unemployment and a changing industrial environment has become a matter for serious discussion. Finally, a continuing concern is to rebuild the economic base of the community after the shutdown.

Each group affected by a plant closing has at hand a repertoire of responses. Which responses are selected by any one group depends in part upon the choices of the other groups. The responses settled upon by the different groups and their interaction determine the nature of the plant-closing experience.

### ***Management Repertoire of Post-Decision Responses***

Management may elect to provide the workers and the community with advance notice. Early notice is required by law in some areas, and many states have legislation now pending that would require a substantial payment to be made

if insufficient notice is given. Often management refuses to provide much if any advance warning, lest property damage be done to the facility and its equipment. Management may delay closing to permit certain community actions to take place, or it can stagger layoffs so that the labor market is not flooded with job seekers at any one time. Union collective bargaining agreements often insist that management provide transfer rights, and in some cases management is willing to give active help with transfer. For workers who do not transfer, management can offer placement assistance. Severance pay, which may or may not be required by contract, may have various conditions attached to it. Post-closing negotiations with labor and the community will be smoother if management elects to participate in the transition from full production to closing. Management can also inform the community about plans for the facility and can solicit help with the sale of the plant.

### ***Labor Post-Decision Responses***

The unions affected by a closing can respond in a variety of ways, depending often upon management's post-decision actions. Responses to management can range from strike activity at one end of the spectrum to a position where virtually no contact with management is maintained. Often at a midpoint in this spectrum, *ad hoc* bargaining is tried. Going over management's head by invoking political power is a response occasionally found, but recourse to political initiatives is usually considered a strategy by a union rather than a tactic by a local. In addition to seeking all possible benefits for members, unions respond externally with strenuous efforts to build coalitions.

### ***Community Post-Decision Responses***

A community faced with an imminent plant closing has available to it a wide range of activities that can minimize the

impact of the closing upon the economic and social well-being of community members. While one group or another—the mayor’s office or local social service agencies, for example—can accomplish limited objectives, comprehensive actions can be taken effectively only by a well-organized, carefully coordinated effort involving representatives from many sectors of the community.

Fundamentally, there are only five areas in which responses can be made by a community. The first priority is commonly an attempt to prevent the closing or, in the event that the shutdown is inevitable, to vary the conditions and timing of the closing in order to minimize its impact. Community assistance here is peripheral, although cities and counties are occasionally eligible for certain kinds of federal assistance that may be of help to the workers. The second important community response is directed to reemployment of laid-off workers. Community leaders and agencies can often cooperate with other local groups to provide job referral services or can work with local employers to this end. Third, training and training-related assistance are areas in which communities often take an active role and inventories may be made of local training institutions. Fourth, information about present and future labor needs may be gathered and matched with the abilities of the displaced workforce. Funds for such efforts can be acquired from several federal sources. Finally, the assembling of such labor market information often becomes the basis for a continuing effort to monitor the local economy in order to maintain the stability of local employers and to rebuild and develop the economic base of the community.

### *Individual Post-Decision Responses*

In theory, a whole range of responses is available to those individuals who are thrown out of work by a plant shutdown. Depending upon personal characteristics, the actions

of other workers, and the state of the labor market, however, the unemployed worker may in fact have a limited range of options. At one extreme, the worker may immediately become reemployed at a similar job or, at the other extreme, may enter upon a period of prolonged and/or recurrent unemployment. Intermediate responses include retraining, relocation, temporary employment, or the development of a new strategy to maintain family income. In some cases responses include retirement or early retirement. Economic deprivation is associated with prolonged and recurrent joblessness, and a wide range of physical and mental health problems may be the outcome of the plant shutdown.

For those workers more seriously affected, response to the closing can be seen as a process, beginning perhaps with denial of the fact of the closing and continuing with vain hopes of a reopening of the facility and a recall to the old job. There is some evidence to suggest that many workers react passively after this initial phase and begin seriously to look for a job only after benefits have been exhausted, a time when the labor market is apt to be at its least receptive. Continued unemployment or, perhaps even worse, intermittent employment marked by the acceptance of jobs at lower pay and lower status may ultimately leave these workers at risk for mental and physical illness.

### *Government Post-Decision Responses*

The plant shutdown is a classic situation in which income security, a major goal in American society, is no longer provided by private enterprise; the government response is a patchwork of income supports. When plant shutdowns are particularly threatening to localities already suffering high rates of unemployment, the federal government accepts residual responsibility on an *ad hoc* basis for assisting communities with special grants and for dispersing certain sorts

of income assistance accompanied by retraining and relocation assistance. Attempts to pass legislation on the federal level to prevent or delay plant shutdowns or to levy fines for late notification have not been successful. To some degree, federal funds provide income for families with no means of support after unemployment benefits have been exhausted. Both state and federal agencies support a certain amount of intervention as well as research directed toward determining the most advantageous deployment of intervention funds. There has been no continuity of effort in this area, mostly because the negative effects of economic dislocation were, until recently, considered minor in comparison to the benefits associated with economic change.

This inventory of concerns and post-decision responses to plant shutdown sets out the limits within which intervention may be designed to minimize the impact of plant closings upon individuals and communities. That these concerns, responses, and potential interventions exist should not imply that informed and active programs are commonly initiated or that even those that are undertaken are documented and analyzed. Still less should there be any implication that the literature suggests the costs of economic dislocation should be borne by any parties other than the affected individuals and the local communities, supported in part by some federal assistance. But it is now generally recognized in the policies, programs, and literature since 1963 that considerable costs are associated with plant closings, and accordingly attempts will be made to spread these costs across society.

Most responses of the groups concerned in a plant closing are rational ones when considered in the light of each group's special concerns. Some responses, like the call of a strike by a union, are only marginally helpful, while others (the rapid and early formation of a community coordinating council, for instance) serve the purposes of several groups

well. It is important to note, however, that the concerns and the responses of any one group may conflict with those of another group or may simply not seem worthwhile. What this indicates, in addition to the usual adversary process at work between management and labor, is a fundamental disagreement about the relations between these groups and their place in the larger economy.

Inevitable conflicts accompany industrial relocation, and nearly every plant-closing study will resound with one or another of them. For example, while arrangements are necessary to provide an acceptable level of subsistence during the adjustment period, it is equally necessary to motivate workers to seek employment and return to work as rapidly as possible. These goals are sometimes contradictory. Moreover, it is equally difficult to balance the competing claims of management to the rights to which it is entitled and of social responsibilities toward workers and communities which management is sometimes expected to assume. The problem lies in the belief that intervention in other than a superficial ameliorative fashion would inhibit the operation of a free capital market.

These conflicts surface frequently in debates about specific policy suggestions. For example, requiring advance notice of plant closings may be supported by individuals and community groups on the grounds that their joint interests, such as rapid reemployment, retraining, relocation, or employee-community attempts to purchase the plant, can thus be dealt with more expeditiously. Management, on the other hand, may object to providing any substantial period of advance notice on the grounds that productivity might drop before closing or damage be done to the physical plant and equipment. Yet a more profound disagreement may underlie this dispute. Advance notice may be perceived by community, unions and individuals as indicating that the closing decision could yet be reversed, while management

may feel that both the decision and the timing of its announcements are rights inherent in ownership. On another level, those favoring advance notice may argue that it acts as a brake on industrial movement and support this as a favorable outcome, while those who oppose it may also see it as a brake on industrial mobility but as therefore destructive to the functioning of the capital market.

This study will follow the plant-closing experience chronologically. First it will explore the international, national, and individual environments in which the plant-closing decision is made. Then the post-decision experience will be analyzed in terms of the responses discussed above. Specific issues will receive attention. Severance pay, for example, is part of the industrial context in which the decision is made; it is also both a management and a union response to the plant-closing decision, and it has an impact upon the individual and the community alike. Throughout, the concerns and responses of the major actors—management, labor, individuals, communities and government—will be shown as interacting, sometimes in conflict and sometimes in cooperation, to result in that complicated phenomenon, a plant closing.