

SUMMARY AND CONCLUSIONS

Plant closings and permanent mass layoffs are a continuing feature of the American economy. Changing conditions of competition and a rapidly growing field of competitors mean that while some companies will be created, flourish, and expand, others will go out of business or cut back production, or install labor-saving technologies, and workers will be displaced. These adjustments go on during all parts of the business cycle, during recovery and economic growth as well as recession. In the expansion years of 1983 and 1984, over a million workers in larger establishments (more than 100 employees) lost their jobs due to business closure or permanent mass layoff, according to preliminary results from a recent nationwide survey done by the General Accounting Office. It is likely that at least as many were similarly affected in smaller establishments.

The GAO survey found that 88 percent of larger establishments provide some kind of notice to at least some of their displaced workers, but many people get little or no specific warning that *their* jobs will be lost. For example, 30 percent of employers give no individual advance notice to blue-collar workers, and another 34 percent give 2 weeks or less. In general, the amount of notice individuals receive is short. White-collar workers get an average of 2 weeks' notice and blue-collar workers 7 days; blue-collar workers in unionized establishments are given an average of 2 weeks' notice, compared with 2 days in non-unionized establishments. Notice periods this brief do not allow enough time to prepare an effective program of adjustment assistance for the displaced workers. The GAO survey is the first work done by statistically valid methods that provides national information on the extent of advance notice given to workers who lose their jobs in plant closings and permanent mass layoffs.¹

¹ The GAO survey was of employers, not workers. For the most part, it provides information on the number of establishments providing advance notice and services to laid-off workers, not on the number of workers receiving notice or services. Results of the GAO survey cited throughout this report are from a preliminary analysis. GAO's final analysis will be completed in fall 1986; no major changes in results *are* expected.

In the discussion that follows, the term "advance notice" is used to mean all cases of prior notice of job loss, whether voluntarily provided by employers, encouraged by government programs, or required by law.^z Wherever required notice is meant, it is so identified. A great deal of controversy surrounds the issue of *requiring* advance notice by law, but there is wide agreement on the benefits of notice itself (aside from the question of a legal obligation). The conviction that advance notice is an important element in helping displaced workers find or train for new jobs is not unanimous, but it is broadly held by representatives of business, labor, communities, and public agencies.

One of the most important benefits of advance notice is that it allows companies, labor, and government agencies time to plan and develop adjustment assistance. The peak demand for help in finding or training for new jobs is immediately after job loss. It takes about 2 to 4 months' work in advance (depending on the number of workers involved) to prepare a comprehensive adjustment program, including testing and assessment, counseling, job search skills training, job development, vocational skills training, and remedial education. It is sometimes possible to put together a partial but worthwhile emergency program, including the key element of connection with workers, in a shorter time—even a couple of weeks. However, with the shorter preparation time many services, such as vocational skills training and job development, will not be ready when the project opens. Moreover, many conditions must be met to achieve a fast response. Among the contributing factors are a company with a strong commitment to serving its displaced workers and the resources to provide funds up front, partnership with a supportive union or worker representatives, expert private consultants, and a

^z Legislation to require employers to provide advance notice of plant closings or mass layoffs has been proposed in every Congress since 1973, but no law requiring notice has been enacted. A few States require or encourage advance notice. See the section entitled "Advance Notice Programs and Proposals in the United States" for details.

high degree of cooperation from public agencies. Some experience in developing and operating displaced worker projects, on the part both of the company and labor, is often a key element as well.

Another benefit of advance notice is that displaced workers are much more likely to participate in projects that begin before job loss; it is difficult even to let workers know that help is available after they are out of work and out of touch. Moreover, some of the best adjustment programs are run jointly by management and labor, and it is much harder to get their participation after a plant is closed.

Advance notice benefits people, whether or not they are offered or take advantage of adjustment services. Notice gives workers a chance to develop their own job-hunting or training options, or to adjust financial or other family plans. Advance notice can also benefit companies. According to some business spokesmen, the way their companies treat employees who are being let go is important to the morale and loyalty of remaining workers, and to the company's reputation in the community.

It is sometimes argued that advance notice can be instrumental in keeping plants open that would otherwise close. Several critical elements are needed in efforts to save a failing plant; some of the key questions are these: 1) Are there realistic prospects for profitability? 2) Are both management and labor willing to make sacrifices to create a more efficient plant? 3) Is there enough time? There are some instances where advance notice, combined with assistance from government agencies, communities, and workers has helped to avoid a closure; however, this seems to happen infrequently. Advance notice of a few months is rarely enough time to turn an ailing business around. And decisions of large companies to close down branches for strategic reasons are not usually amenable to change. Advance planning, however, can often lessen the impacts on workers when a company is cutting its work force due to technological change. Some companies have used a combination of strategies—such as offering early retirement, transferring workers to other plants

owned by the company, using surplus workers for vacation replacements, allowing job sharing, and attrition—to avoid involuntary layoffs even while reducing the work force by as much as one-third in a few years.

The broad, though not unanimous, agreement on the benefits of advance notice does not extend to legal requirements for notice. Disagreement is intense over whether the Federal or State governments ought to place legal obligations on companies to provide notice. Opponents of mandated advance notice argue that the costs of providing notice are substantial, and that a good adjustment program is much more important than notice per se.

One of the objections to mandated advance notice is the need for flexibility. Every plant is different, it is argued; even with escape clauses for unforeseeable circumstances, compulsory notice requirements might be too rigid, burdensome, or costly. There is also widespread concern that advance notice requirements would be hardest on small businesses. Many small firms cannot anticipate the need for work force reductions much in advance; and once the need is clear, it is often difficult for a business with limited cash and credit to carry unneeded employees on the payroll. Small business can be exempted from advance notice requirements, but there is little agreement over where to draw the line defining small business.

Another argument is that advance notice could worsen the conditions that led to the notice, and make a firm's decline inevitable. According to this view, notice that a firm intends to lay off workers or close gives signals to customers and creditors that the firm is in trouble; loss of customers and increased creditor pressure could hasten or guarantee the closure or layoff. While these are credible arguments against mandated advance notice, it is difficult to find actual occurrences of customer or creditor desertion following notices. One company spokesman said that loss of custom-

³Since notice is not required in most of the United States, it is difficult to find instances of loss of credit or customers following notice. Businesses may be unlikely to give notice voluntarily if they anticipate such costs.

ers is “no problem” for businesses that make commodity products, but could be for a producer of specialty products. The same person also said that advance notice of a plant shutdown had not affected his own company’s access to credit, but that his company would consider limiting credit to other companies that announced a shutdown or curtailment. Although these are not examples of actual loss of customers or creditors, they underscore the potential for such problems. It should also be noted that, while loss of credit is a potential problem for firms, advance notice can benefit creditors and customers.

A drawback to advance notice that some companies have reported is the loss of key employees needed for an orderly closure or layoff. However, many companies do not provide severance pay to workers who leave before the closing date (though they make exceptions for individuals). Some pay severance to everyone but offer stay-on bonuses to key workers. These measures, while often successful, add costs. Another argument sometimes made against advance notice is that worker morale will be lowered and production and quality will suffer. However, most people with practical experience, including business spokesmen, report that productivity, quality, and even safety records have all improved during the period of notice.

Finally, some opponents of mandatory advance notice legislation may object not because notice itself is overly burdensome or costly, but because one requirement might open the door to other, more expensive obligations related to plant closings and mass layoffs. Other obligations might include consultation with labor about alternatives to the intended closings or layoffs, or the required provision of certain benefits such as severance pay or employer-provided health insurance coverage. Extensive obligations to the work force in the event of a closing or permanent layoff may make employers reluctant to hire new workers. It is often argued that such obligations have hindered job creation in Western Europe in recent years; many European countries have requirements that go far beyond advance notice,

OTA found that American forest products companies operating in Canada, where there are few company obligations regarding group dismissals except advance notice, readily accepted the Canadian laws and customs. One company, located in Ontario, mentioned no difficulty in complying with a Provincial law requiring notice; two companies operating in British Columbia, where advance notice is not required but seems to be customary for large companies, provide advance notice. The parent companies operating in the United States differ markedly. All three strongly oppose mandated advance notice; one provides notice as a matter of company policy but the other two do not favor advance notice even as a voluntary company policy.

While many of the arguments made by opponents of mandatory advance notice are credible, it is more difficult to find evidence of the costs than evidence of the benefits. Moreover, some of the costs may be confined to special cases, while the benefits apply more widely. Much of the benefit of advance notice depends, however, on a prompt, effective response,

According to the GAO survey, a substantial fraction of larger establishments offer some kind of severance benefits to at least some of their employees who lose jobs in plant closings and layoffs. Employer-provided help in finding a new job is less common. Establishments are more likely to offer some kind of assistance to white-collar than to blue-collar workers,⁴ Slightly more than half of the larger establishments offer severance pay to displaced white-collar workers; about one-third provide it to blue-collar workers, Approximately one-third of the establishments offer placement help to white-collar workers; one-fifth provide it to blue-collar workers.

Typically, companies that offer placement assistance commit staff, space, and funds to the job-finding efforts. However, few take on the whole burden of adjustment assistance, much

⁴ According to the Bureau of Labor Statistics 1984 survey of displaced workers, more blue-collar workers than white-collar workers were displaced in the 5 years 1979 to 1983, and typically had greater problems finding reemployment.

less provide it before or at the time of layoff, when help is most in demand. Usually, government support—both technical and financial—is needed to mount a comprehensive adjustment project.

The Job Training Partnership Act (JTPA) Title III, a program intended to help organize and pay for services to displaced worker programs, allows States and local service providers to begin displaced worker programs before layoffs, as soon as notice is given. Despite the consensus that the sooner displaced workers can get help the better, delays of 3 months or more in getting JTPA assistance and funding are apparently common. Delays are longest in receiving funds granted at the discretion of the Secretary of Labor. State officials report that it takes 4 or 5 months at the least to get a proposal through the decisionmaking steps (at local, State, and Federal levels) for a Federal discretionary grant.

Although systematic, nationwide information is lacking, the available evidence indicates that very few States are able to provide an effective rapid response when plant closings or mass layoffs are announced. Moreover, acquaintance with the JTPA Title III program and the possibilities it offers for publicly funded assistance to displaced workers seems to be very limited in the business community. In general, it appears that relatively few displaced workers get help from JTPA programs. OTA has estimated that about 1 out of 20 eligible workers are being served.

Most States are aware of their difficulties in mounting a rapid, effective response to plant closings and major layoffs; some have established rapid response teams, and others are taking steps to do so. None so far has a system

comparable to the Canadian Industrial Adjustment Service, which is able to move quickly, effectively, and inexpensively in helping to set up labor-management adjustment committees in plants that are closings. The Department of Labor and the National Governors' Association are planning demonstration projects based on the Canadian model in cooperation with half a dozen States over the next year or so. However, the general problem still remains that neither funds nor technical assistance for displaced worker projects are reliably and readily available when needed. Unless a good rapid response system is in place, some of the prime benefits of advance notice—whether it is voluntary, mandatory, partial, or universal—will not be captured.

Positions in the debate over legally required advance notice have changed little in more than a decade. In general, business spokesmen and industry groups oppose mandatory Federal notice legislation, while labor representatives favor it. There are areas of agreement in the debate, however. There is a broad consensus that advance notice is a humane thing to do, and that notice facilitates effective displaced worker programs. Business groups and spokesmen generally think that advance notice is overemphasized, however, and that prompt delivery of adjustment assistance is more important. Labor representatives continue to support advance notice legislation and argue that good adjustment programs depend on advance notice; but they agree that rapid, effective responses should be developed, funded, and emphasized.

⁵Three-quarters of the Canadian work force is covered by Provincial or federal laws requiring advance notice.