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WORKERS AND THE EVOLVING ECONOMY OF THE EIGHTIES

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HEARINGS BEFORE THE COMMITTEE ON LABOR AND HUMAN RESOURCES UNITED STATES SENATE NINETY-SIXTH CONGRESS

SECOND SESSION

ON

EXAMINATION OF WORK FORCE DISLOCATION AND EXPLORING WAYS TO ENHANCE WORKER MOBILITY AND RETRAINING TO ENSURE FULL UTILIZATION OF OUR WORK FORCE'S POTENTIAL

SEPTEMBER 17 AND 18, 1980



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WORKERS AND THE EVOLVING ECONOMY OF THE EIGHTIES

WEDNESDAY, SEPTEMBER 17, 1980

U.S. SENATE,
COMMITTEE ON LABOR AND HUMAN RESOURCES,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 4232, Dirksen Senate Office Building, Senator Harrison A. Williams, Jr. (chairman), presiding.

Present: Senators Williams, Javits, and Riegle.

OPENING STATEMENT OF SENATOR WILLIAMS

The CHAIRMAN. Let us begin our hearings and come to order.

I would like to say that we certainly welcome everyone to hearings on the role of the worker in the evolving economy of the eighties. The coming decade presents us with unique and unprecedented challenges of how we can best foster the development of our work force. Our industrial base is rapidly evolving to meet heightened foreign competition, shifting energy sources, and changes in market demand. Many of our industries will undergo basic structural changes in response to the changing economy. These changes will increase the need for occupational mobility and opportunities for skill development. Moreover, we are faced with the challenge of how we can best foster sound national policies to assure full worker participation in this period of economic growth.

There is perhaps no area where the need to develop sound national policies is more pronounced than in the area of economic dislocation. Economic dislocation is nothing less than the permanent removal of resources other than human labor from production—plant machinery and raw material stocks. In this context, worker dislocation is the separation of the worker from the means of production.

Worker dislocation typically occurs on a mass scale with locally focused effects. Workers in entire industries as well as individual firms may be affected. Because dislocation may reflect realignments in the underlying economy, workers may not have any realistic opportunity to find new employment which is related to the skills and training that they have acquired over the years.

The special nature of economic dislocation, particularly its permanence and its scale, distinguish dislocation as an economic and social phenomenon separate from other sources of employment changes such as unemployment or temporary layoffs.

Recent estimates indicate that as many as 2.5 million workers may suffer from the effects of economic dislocation annually. The

uprooting of these workers frequently causes severe physical and emotional trauma for the workers and their families. Clearly, the traditional programs of unemployment compensation and welfare do not provide a satisfactory response to workers facing dislocation. The plight of these workers presents us with the unique challenge of how we can best facilitate their occupational mobility to insure that they are productively employed.

Our hearing today and tomorrow will focus on work force dislocation. We will explore the continuity of how employment can be maintained when workers are faced with the possibility of cessation of business activity. Where employment continuity cannot be maintained, we will explore ways of enhancing worker mobility and retraining to insure the full utilization of our work force potential.

Hopefully, these hearings will help to foster better communication about the massive changes that will be taking place in our industries, as well as the development of sound national policies to assure the full and productive utilization of our work force.

We have a most distinguished list of people to guide us this morning as we begin this hearing, a very distinguished list indeed. We will now insert the opening statement of Senator Riegle.

OPENING STATEMENT OF SENATOR RIEGLE

Senator RIEGLE. The profound social and economic dislocations now occurring in our country have dramatic implications for every segment of our society, but most especially for those workers who find their jobs disappearing.

In my home State of Michigan, we presently have more than a half million jobless persons. The latest projections we have from the United Auto Workers show that even when unemployment begins to level off and we begin to see some rebound in the economy, some 150,000 auto industry jobs will be gone forever.

Those auto workers and many others in different fields, are being forced to find other means of employment. Many of them must be retrained and in some cases relocated and this will be very expensive. And yet the human and societal costs of failing to understand and meet this challenge are many times greater. Many factors are contributing to this growing problem.

Today we will focus on one major factor, plant closings and relocations. These hearings will help broaden our understanding of how plant closings and relocations have affected workers, communities, and companies. We will see a mixed picture. We shall be hearing of some successful cooperative efforts between all those affected when a plant is required to shut down. We must examine these successes and try to duplicate them just as we must also examine the many instances where private action either has not been initiated, or has not helped to alleviate the economic damage caused by a plant closing or relocation.

I realize that unavoidable plant closings will always occur. This is a natural occurrence in our free enterprise system. But there is reason to believe that many plant closings do not result solely from market-initiated financial distress or market retrenchment. We must act to make certain that all parties concerned are fully aware

and conscious of the aftermath of plant relocations, and are encouraged to act responsibly.

We must squarely face the issues of economic dislocation and the human misery and suffering that result from a plant shutdown. Clearly we can and should have programs in place that would help provide workers with alternative ways to regain employment, including a careful examination of possible ways to keep threatened plants open if at all feasible.

This is the challenge we face in these hearings. The challenge to develop policies that will avoid the needless waste and misery and fear caused by avoidable plant shutdowns and to see that new response mechanisms are developed to deal with necessary plant closings.

Our goal for the 1980's must be to restore new life and vitality to our basic industrial economy. We must do this through policies that encourage saving and capital investment, innovative efforts to improve productivity, a reduction in overburdensome government regulations, and through a new spirit of cooperation between business, labor, and government. Success in bringing about a change in our approach to our basic industries will yield a great national benefit. It will mean more jobs, more exports, less imports, more capital formation and a better standard of living for everyone.

As we will see today, new strategies for coping with job losses due to plant closings will be an important factor in our overall efforts aimed at strengthening the economy.

The CHAIRMAN. Our first witness, to lead the way, is Howard Samuel, president of the industrial union department of the AFL-CIO.

We are certainly very pleased to welcome you to our committee deliberations. We are glad you are here to begin these hearings.

STATEMENT OF HOWARD D. SAMUEL, PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL-CIO, ACCOMPANIED BY BRIAN TURNER, DIRECTOR, ECONOMIC POLICY, AND MARVIN CAPLAN, LEGISLATIVE DIRECTOR

Mr. SAMUEL. Thank you, Mr. Chairman. May I, with your permission, introduce my two associates. On my left is Brian Turner, the director of economic policy for the industrial union department; and on my right is Marvin Caplan, the legislative director of the IUD.

With the chairman's permission, I will summarize my opening statement, and if I could add some material of a different context, but I will try to keep it fairly brief. If I could, I will leave my statement for the record, in its entirety.

The CHAIRMAN. Fine. It will be included in the record following your oral remarks.

Mr. SAMUEL. These hearings on the role of the worker in the evolving economy of the eighties are focused on the employment issues relating to economic and social change, and particularly on the problems resulting from dislocations and plant closures. In our view, these issues are of the utmost importance and deserve immediate priority attention, and I congratulate the chairman for making it possible to do so through the medium of these hearings.

Dislocations occur for many reasons, chief among which are loss of markets to imports, corporate decisions to relocate plants and other business establishments either to other parts of the United States or abroad, technological advances, shifts in corporate management strategies resulting from mergers and acquisitions, changing consumption patterns, and of course, genuine business failures. Although it is true that changes of this sort have always been with us, it is equally true that in recent years, the pace of change has quickened. Moreover, there is every indication that this faster pace will continue unabated and even increase during the coming decade.

I am told that there is a continuing debate, particularly in academic circles, as to exactly what is meant by dislocation. For the workers experiencing it, however, the niceties of definition are neither interesting nor relevant. To such workers, dislocation means loss of jobs, with little or no chance of recall, and all the attendant misfortunes, deprivations, and sacrifices that go with that.

That the economic and social costs of dislocation are high has been well documented. These costs not only affect the workers directly involved, but also their communities and inevitably society as a whole.

Unfortunately, no satisfactory records are kept concerning the full dimensions of the dislocation problem, although some estimates have been made. One Government estimate put the number of workers unemployed as a result of dislocation at about 400,000 persons a year. However, this estimate was made before the present crisis in the auto and steel industries and is, therefore, very likely to be on the low side. Another more recent estimate prepared by independent researchers, Barry Bluestone of Boston College and Bennett Harrison of MIT, put the annual number of dislocated workers at about 2.5 million. Either way, we know that the job loss associated with dislocation is significant.

Also, it is clear that the problem is national in scope, affecting every part of the country, every industry, and companies and business enterprises of all sizes, both large and small.

But despite the universality of the problem, its increasing incidence and high social and economic costs, as yet we have not developed or put into place a clear comprehensive national policy to deal with the problems. We are very pleased, therefore, that this committee has taken the initiative to develop such a policy and the necessary implementing legislation.

In developing the legislation to deal with the dislocation problem, the primary objective must be to get dislocated workers back to work—or, if possible, to maintain employment for those threatened with dislocation. A secondary and related objective must be to get affected communities back to economic health.

The key to achievement of these objectives is adjustment, in its broadest sense. In some cases, adjustment will mean that workers will have to shift to new and different kinds of employment. But in others—even perhaps most—adjustment will mean maintenance of employment but will entail finding alternative solutions to a full or partial shutdown. In both instances, adjustment policy should be based on three principles, which I will summarize.

First, dislocations for which there is no sound or overriding economic justification should be prevented. While many dislocations and plant closures are necessary, others serve no valid economic purpose. In some cases, we know that perfectly viable plants and business operations have been closed, for example, simply because they no longer fit into general corporate strategy. Relocation decisions often are based on unfair competitive practices, such as special tax breaks, low-cost financing, subsidized or underpaid labor. Little or no thought is given to the economic or social costs of these decisions.

Second, an adjustment policy should compensate those who bear the major burden of dislocation, particularly those resulting from other government policies undertaken in the name of benefiting society as a whole. The level of compensation must bear a reasonable relationship to the degree of injury or inequity involved. The typical State unemployment compensation program does not meet this standard.

Third, an adjustment policy should provide assistance to both workers and communities to help speed the process of adjustment in those cases where dislocation is unavoidable.

A fourth principle which must guide the development of policy is the practical one of starting from where we are—of building on the few existing adjustment measures already in place, such as the trade adjustment assistance program, and other adjustment facilitating programs directed toward specific situations such as the redwoods program, the Railroad Reorganization Act program, the Mass Transportation Act program, and so forth.

An effective dislocation-adjustment policy should include several different elements, aimed at different facets of the problem. Some can be put into place immediately, by administrative action; other elements will require special legislation.

First, employers should be required to give advance notice of an intent to close a plant or lay off a substantial portion of the work force. Prenotification should be given at least 6 months prior to closure or layoff, and longer, when large numbers of workers will be affected. And I think we must agree that this is an absolute first step in developing any kind of program for dislocated workers.

Experience in other industrial countries where prenotification or mass layoffs has long been required indicates that it can help facilitate adjustment by allowing time to work out alternative solutions, and in some cases, even preventing unnecessary closures.

I might add that a large number of workers are already covered by prenotification provisions in existing union contracts, and so far as we know, no one has complained that they have been unusually harmful to the company or have undermined any country's efforts to preserve its economic health.

Second, a Federal task force on dislocation should be established at the highest level of Government, on a permanent basis, and with sufficient resources and staff at its command to fulfill its mandate. The task force would establish within affected communities local labor management committees, both at the plant level and at the community level. The task force should be responsible for providing continuing support, and technical assistance to these committees. They also would have responsibility and authority for direct-

ing application of Federal resources to specific dislocation situations. I might add that there is the framework of such a task force already in existence in the Commerce/Labor Adjustment Action Committee, which was set up a couple of years ago, coordinating the adjustment activities of the two major Departments involved, the Department of Labor and the Department of Commerce. That framework exists, has made some efforts in these directions, and I think could well be encouraged to continue them and to expand them substantially.

An adjustment policy should compensate workers affected by dislocations with the same level of benefits currently provided to workers who lose their jobs through increased imports.

Fourth, employers should be required to continue to make payments to provide dislocated workers with health and pension benefits for at least 1 year or until the worker is reemployed.

Fifth, a separate earmarked appropriation should be made under CETA title III to provide for new training or retraining for certain workers affected by dislocation.

Finally, dislocated workers should be reimbursed for a portion of job search expenses and moving expenses, a principle which is already embraced in the trade adjustment assistance program.

I have tried here to state what I felt should be the main objectives of adjustment policy and outline its principal elements. I am hopeful that these hearings will lead to full discussion of the issues and the enactment of legislation which can help to meet the problems associated with dislocation, problems which I feel certain will only become more acute in the absence of such legislation.

Before I close, Mr. Chairman, I would like to read, if I could, a few paragraphs from a report made by some officials of three unions, the UAW, the Machinists, and the Steelworkers, who made a trip to Europe with support from the Department of Labor and I think, the German Marshall Fund 2 years ago, to examine what other countries in our condition, developed countries with the same kind of economy that we have, had taken toward this particular problem. They found in some of these countries—and they went to Germany, Sweden, and Great Britain—that they were far ahead of us, that actually the United States lags far behind most other developed countries in providing adjustment policies for dislocated workers.

Now I would like, if I could, to read just two paragraphs from the summary of their statement.

There were significant variations among the approaches taken in the three countries. Without exception, however, all three had programs for coping with the adverse effects of economic dislocation upon workers and communities which are far in advance of anything yet tried on a large scale or in a coordinated way in the United States. In all three countries, corporations are legally obligated to give advance notice, usually to the national employment service, before closing a plant or dismissing workers for economic reasons.

Before initiating layoffs, moreover, a company must first negotiate the matter with its employees' union on the plant's work council. These two statutory provisions often buy a considerable amount of time, and in some cases, an alternative to the planned cutback is found, for example, a new product line.

Often, the procedure is stretched out sufficiently so that the planned reduction is handled entirely by attrition, and no dismissals are necessary. The time gained gives affected workers and potential new employers the chance to arrange for alternative employment and enhances the effectiveness of public authorities in assisting them and the community. To varying extents in all three countries,

advance notice triggers into action labor market boards at the national, regional, local, and in some places, workplace levels, institutions which for the most part have no exact counterparts in the U.S. These labor market boards have at their disposal a broad array of policies and programs for preventing dislocation and cushioning its impact. Even when workers do lose their jobs, unemployment represents much less of a burden for the individual worker in the three countries. In the United States, fewer than a third of the unemployed have any private medical insurance at all. Just when they need it most, it is financially most out of reach. By contrast, in all three countries, an unemployed worker's medical coverage is protected by statute, provided through the national health care system. In all three countries, unemployed workers have contributions made on their behalf to the social security system. As a result, their statutory old-age pensions are not reduced on account of the spell of unemployment.

With the exception of benefits received by the relatively small number of workers covered in this country by programs like Trade Adjust Assistance, the proportion of income replacement provided by statutory unemployment benefits in the three countries is far higher than in the United States. Workers fortunate enough to be in strong unions here have used collective bargaining to overcome much of the deficiency of U.S. statute, through negotiated supplementary unemployment benefits and related plans. Most American workers, however, do not have this kind of protection.

Moreover, the unemployment insurance system tends to be used far more flexibly and creatively in the other countries than in the U.S., for example, to pay short-week benefits to people still on the job, to pay part or all of the wages of workers engaged in in-plant retraining during slack periods, or even to support public works projects undertaken by the firm.

It seems to me, Mr. Chairman, that we could well take a harder and more intense look at what has been found to have worked in other countries very similar to ours, with the same kind of economic arrangements and setups, and we might benefit from those lessons and possibly, of course, follow them, at least to the extent warranted.

Thank you very much for giving us this opportunity. I would be happy to answer any questions you may have.

The CHAIRMAN. Thank you. Your statement provides us with an excellent beginning for our hearings. I could keep you here a long time to further explore the ideas you have suggested to us, that will, I am sure, provide a basis for thoughtful analysis and projection later on.

There are two or three things, though, even within our time limitations, that I would like you to elaborate on. On page 5 of your testimony, you indicate that there is now in place within the Federal Government a task force with two primary Departments involved, the strong team of Labor and Commerce. My staff tells me that this team at present is still at half force, not put together for full strength and application of its resources to the areas of dislocation.

It would seem to me that this is a very necessary ingredient, bringing together those who have authority to move in with an understanding of the situation, and then to work to deal with the problems of dislocation as other countries do.

What is this present grouping of Government agencies doing in this area; are you familiar with that?

Mr. SAMUEL. Yes; I am. I was in the Department of Labor, Mr. Chairman, in charge of the International Affairs Bureau, when this Commerce/Labor Adjustment Action Committee was set up. It was experimental, although it is no longer experimental today; it is in business and doing well, as far as I know. The problem is that it is committed to, and its mandate only extends for dislocations caused

by international economic problems, in other words, imports, which only covers a small part of the problem. In addition, it does not have the kind of mandate that my testimony suggests such a task force should have. It really sort of works on an ad hoc basis. It is not in legislation, although it would be if the Vanick bill were passed. There is a provision in that bill establishing this committee as a permanent institution, with its own financing, its own budget, and permanent staff. Now it is simply a framework, sort of points in the right direction.

The other direction that we have—and I do not recall the name—but when the Defense Department closes bases, there is an institution available, composed of a number of different agencies and departments of the Federal Government, to take a look at the situation and see how unemployment can be minimized when those bases are closed, and how alternative activities can be promoted to fill the vacancy.

So there are some examples. We are not totally inventing a new wheel here. There are some examples that can be used for the Government itself to apply the full weight of all its existing resources, without even adding much in the way of resources—although, as I suggest in my statement, other resources should be added, as well.

The CHAIRMAN. It would certainly seem logical to broaden the action group beyond the Federal departments of Government, to others who could make a contribution. Certainly, the business community is gaining a lot of experience here, both in terms of problems and also, I gather, in terms of answers. Many of our companies operate abroad and in the countries that have done so much more in preparing for dislocation. If a U.S. company is operating in any of those countries where responses to dislocation are available it seems to me that they know something about it, and evidently are living with it, and successfully.

Mr. SAMUEL. That is right.

The CHAIRMAN. I would think that they could be, hopefully, a natural part of such a grouping. Certainly, those who speak for the working community have shown their alertness to the problems. I believe it was labor that took the initiative on that European trip to study the response to dislocation abroad; am I right on that?

Mr. SAMUEL. Yes; you are, that is correct.

The CHAIRMAN. Wasn't that about 2 years ago?

Mr. SAMUEL. Yes; it was in the spring of 1978. And it was the initiative of the labor movement to make that trip and make that study, and to produce a publication afterward, summarizing their experiences.

The CHAIRMAN. I can say they made an imprint and a favorable impression abroad, too. I followed a year later in a couple of countries where they were, and they were still talking about the alertness of the people who were on that mission to develop an understanding of these dislocation situations.

Mr. SAMUEL. I think you raise, Mr. Chairman, a most useful point, and that is that, although we recommend a Federal task force which would have the final responsibility for using Federal resources, or directing Federal resources, I think you are quite right that the plan should be made in conjunction with other

elements of the community, including labor and business and local government officials, and local people from other walks of life, and this kind of advice and input from every element of the community, it seems to me, the chances of success in reorienting the community and rebuilding it are much more likely.

The CHAIRMAN. Point five of your statement deals with training and retraining. And we read—it is perhaps a superficial observation—but we read the observation that we now have excellent training and retraining programs in place, both public and private, and yet the problem is that there is training or retraining in areas where there is no favorable prospect for employment after training and retraining. It seems to me that those who are engineering and designing parts of the economy for the future could well look to the need for training and retraining in new areas, so that we will have experienced people prepared for the new technological applications in industry.

Mr. SAMUEL. There are two specific problems amplifying that, Mr. Chairman. One is that, as I indicated in my testimony, because inadequate funds are earmarked for this purpose, for training of people affected by dislocation, the present training programs under CETA simply are not able to provide training for a lot of these people. There simply is not enough money in the basket to take care of them, although under the law they have the right to that training.

The second problem is caused by the lack of advance notification. By the time the Government reaches people who have suffered loss of jobs because of dislocation, it could be many months after they have actually left their job. It is sometimes hard to find them. They may have gone back into the same industry, into another inadequate job, and knowing that it is not going to last very long. In other words, there are people who probably would benefit by being retrained who we do not reach until it is too late to really institute it. Again, advance notice would be a very valuable weapon in our armory to make training a more viable answer.

The CHAIRMAN. You did not spend much time talking about another point that presents such overwhelming hardship—human hardship, the protection of benefits, the programs of health insurance, hospitalization, and all the rest. Generally, what is the picture now, when workers are organized and working under a contract, do those contracts generally provide for continuation of benefits after dislocation, layoff, for whatever reason?

Mr. SAMUEL. I really do not have that information with me. Some do, but my guess is that a majority would not, or, if they did, they would be very short, for a month.

The CHAIRMAN. This is one of the harshest effects.

Mr. SAMUEL. Yes.

The CHAIRMAN. We have our unemployment compensation and other programs, but when you lose that particular kind of benefit, the disaster can just be monumental.

Mr. SAMUEL. That is right. It can be devastating for a family, you are quite right.

The CHAIRMAN. And I would imagine some of those countries that we know have considered and responded to dislocation by

providing for continued coverage for health and health care needs is one thing that continues.

Mr. SAMUEL. Yes; of course, it is made possible by the fact that most other developed countries do have a program of national health insurance, and that would continue whether the worker is employed or not. So that it does not even become a special cost for employers; it is just a normal cost of doing business.

The CHAIRMAN. Of course, one way to respond to health needs would be to put health insurance coverage into position, as we have done with unemployment insurance.

Mr. SAMUEL. Yes; of course, there have been a number of ways suggested to establish a national health system.

The CHAIRMAN. This is one suggestion, however, that might get over a low hurdle. We are having trouble getting over the high hurdle of national health insurance. But in the meantime, this might well be the solution.

Mr. SAMUEL. Yes; I think it would be very worthwhile considering. There are so many different ways of considering it, I must say I am not prepared here to put myself behind one or another proposal. As to the extent to how much the employer has to finance this and how much the Government should be involved, there are all kinds of variations of such a system to provide health benefits.

The CHAIRMAN. We hope that you can be kept available for further consultation as we advance on finding solutions dealing with the problems of dislocation.

Thank you very much for a very fine statement.

Mr. SAMUEL. Thank you, Mr. Chairman.

[The prepared statement of Mr. Samuel follows:]

Statement to be Presented by Howard D. Samuel, President
Industrial Union Department, AFL-CIO
Before the Senate Committee on Labor and Human Resources
Hearings on "The Role of the Workers in the Evolving Economy of the 80's"

Wednesday, September 17, 1980

These hearings on the role of the worker in the evolving economy of the 80's are focused on the employment issues relating to economic and social change, and particularly on the problems resulting from dislocations and plant closures. In our view, these issues are of the utmost importance and deserve immediate priority attention.

Dislocations occur for many reasons, chief among which are loss of markets to imports, corporate decisions to relocate plants and other business establishments either to other parts of the United States or abroad, technological advances, shifts in corporate management strategies resulting from mergers and acquisitions, changing consumption patterns, and of course, genuine business failures. Although it is true that changes of this sort have always been with us, it is equally true that in recent years, the pace of change has quickened. Moreover, there is every indication that this faster pace will continue unabated and even increase during the coming decade.

I am told that there is a continuing debate -- particularly in academic circles -- as to exactly what is meant by dislocation. For the workers experiencing it, however, the niceties of definition are neither interesting nor relevant. To such workers dislocation means loss of jobs, with little or no chance of recall -- and all the attendant misfortunes, deprivations and sacrifices that go with that. That the economic and social costs of dislocation are high has been well documented. These costs not only affect the workers

directly involved, but also their communities and inevitably society as a whole.

Unfortunately, no satisfactory records are kept concerning the full dimensions of the dislocation problem, although some estimates have been made. One government estimate put the number of workers unemployed as a result of dislocation at about 400,000 persons a year.¹ However, this estimate was made before the present crisis in the auto and steel industries, and is, therefore, very likely to be on the low side. Another more recent estimate, prepared by independent researchers Barry Bluestone of Boston College and Bennett Harrison of MIT, put the annual number of dislocated workers at about 2.5 million.² Either way, we know that the job loss associated with dislocations is significant. Also it is clear that the problem is national in scope, affecting every part of the country, every industry, and companies and business enterprises of all sizes, both large and small. But despite the universality of the problem, its increasing incidence and high social and economic costs, as yet we have not developed or put into place a clear comprehensive national policy to deal with the problems. We are very pleased, therefore, that this Committee has taken the initiative to develop such a policy and the necessary implementing legislation.

In developing the legislation to deal with the dislocation problem, the primary objective must be to get dislocated workers back to work -- or, if possible, to maintain employment for those threatened with dislocation. A secondary and related objective must be to get affected communities back to economic health.

The key to achievement of these objectives is adjustment -- in its broadest sense. In some cases adjustment will mean that workers will have to shift to new and different kinds of employment. But in others, even perhaps

¹Unpublished paper prepared for National Commission for Employment Policy Seminar on Economic Dislocation, July 1979.

²CAPITAL AND COMMUNITIES -- THE CAUSES AND CONSEQUENCES OF PRIVATE DISINVESTMENT, The Progressive Alliance, Washington, D.C., April 1980.

most, adjustment will mean maintenance of employment but will entail finding alternative solutions to a full or partial shutdown. In both instances, adjustment policy should be based on three principles.

1. The prevention of dislocations for which there is no sound or overriding economic justification. There is a growing body of evidence that many dislocations, many plant closures, are not really justified and serve no valid economic purpose. In some cases, we know that perfectly viable plants and business operations have been closed, for example, simply because they no longer fit into general corporate strategy. Relocation decisions are often based on unfair competitive practices, such as special tax breaks, low-cost financing, subsidized or underpaid labor. Little or no thought is given to the economic or social costs of these decisions. We recognize that some shutdowns, some dislocations are necessary, particularly in the light of the massive structural changes currently taking place in our economy. But many of the present dislocations are not in this class. Therefore, we believe that every possible step should be taken to prevent unnecessary closures and to maintain existing employment.
2. Compensation of those who bear the major burden of dislocations particularly those resulting from other government policies undertaken in the name of benefiting society as a whole. This is a long established and widely accepted principle that needs no particular defense or explanation here. It should be noted, however, that the

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level of compensation must bear a reasonable relationship to the degree of injury, or inequity, involved. The typical state unemployment compensation program does not meet this standard.

3. Provision of assistance to both workers and communities to help speed the process of adjustment in those cases where dislocation is unavoidable. Obviously, the faster the adjustment is made, the better it will be for all; the workers, the community and the economy as a whole. Too often those affected by dislocation are simply left on their own to try to work out solutions as best they can. This is both costly and wasteful; a non-adjustment rather than an adjustment program. Measures -- many of them at little cost -- can and should be taken to speed the process and to make the adjustment as painless and cost free as possible.

A fourth principle which must guide the development of policy is the practical one of starting from where we are -- of building on the few existing adjustment measures already in place such as the Trade Adjustment Assistance program, and other adjustment facilitating programs directed toward specific situations such as the Redwoods program, the Railroad Reorganization Act program, the Mass Transportation Act program, etc.

Elements of a Dislocation Adjustment Policy

An effective dislocation-adjustment policy should include several different elements, aimed at different facets of the problem. Some can be put into place immediately, by administrative action; other elements will require special legislation.

1. Advance Notice. Advance notice by an employer of an intent to close down the enterprise or lay off a substantial portion of the work force is an essential, perhaps the most important element of an adjustment policy. Experience in other industrial countries where prenotification of mass layoffs has long been required indicates that it can help facilitate adjustment, by allowing time to work out alternative solutions -- and in some cases even preventing unnecessary closures. A mandatory prenotification procedure avoids the economic shocks characteristic of most dislocations -- thereby reducing or even eliminating the costs of adjustment. Advance notice should be given at least six months prior to closure or layoff, longer when large numbers of workers will be affected. Although some states have adopted prenotification requirements, and some unions have successfully bargained for prenotification clauses in the collective agreements, national legislation is needed to permit all workers threatened or affected by dislocation to have this very basic kind of adjustment assistance.
2. A federal task force for dislocations. There are many resources which can be brought to bear on dislocation situations to alleviate economic hardship and facilitate the process of adjustment. Some of these resources are governmental, some are found in the private sector. To be effective, however, they must be brought together with a comprehensive and cohesive plan. As with advance notice, other industrialized countries have shown us how this can be done, with the national government taking the responsibility and leading the way. A federal task force on dislocation should be established at

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the highest level of government, on a permanent basis, and with sufficient resources and staff at its command to fulfill its mandate. The task force should focus its efforts on two areas of activity, both areas triggered by the prenotification process: The first area would be to establish within the affected communities, local labor-management committees, both at the plant level, and at the community level (in which case, of course, representatives of the public would be included) to consider alternative solutions to threatened dislocations, and if a shutdown proved inevitable, to make plans for the positive adjustment of both workers and the community. The task force should be responsible not only for providing continuing support and technical assistance to these committees, but should also have responsibility and authority for directing application of the full range of federal resources to particular dislocation situations.

3. Compensation for affected workers. Workers who are affected by mass layoffs resulting from structural changes are apt to be more severely injured than most. Unemployment lasts longer; lifetime earnings' loss tends to be greater, most workers being forced to take lower paying jobs when they are eventually reemployed. Closures affecting a major source of employment in a particular community or area have a particularly devastating effect especially among older workers who have little chance of new employment but who are not yet eligible for Social Security retirement benefits. Further there are clearly inequities existing in the government treatment afforded corporations which close plants and the

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treatment afforded workers who lose their jobs when the closure occurs. The corporation is allowed to write off the value of their undepreciated capital from their taxable income. The worker, who may have worked 15 years or more, gets no such depreciation allowance, and not only loses his job, and benefits, but may also be left with a non-marketable skill. To compensate for these losses, workers affected by dislocations should be provided with the same level of benefits currently provided to workers who lose their jobs to increased imports. They should be provided with an adjustment allowance for up to 52 weeks, and older workers, those 52 through 61, should be entitled to a second year of such allowances.

4. Protection of benefits. For most workers affected by dislocations, loss of pension and health benefits presents as serious a problem as loss of wages. Although ERISA, and the Pension Benefit Guarantee Corporation provide some pension protection to workers who have gained vested rights in their pensions, other workers are not given this kind of protection. Loss of health coverage can be particularly hard for dislocated workers and their families, since -- as recent studies show -- the incidence of health problems rises among long-term unemployed. Employers should be required to continue to make payments to provide dislocated workers with health and pension benefits, for at least one year, or until the worker is reemployed.

Dislocated workers can also face serious financial problems in maintaining decent housing for themselves and their families. Some dislocated workers find that they cannot keep up mortgage payments

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on their homes. Others, those who are forced to relocate to other areas to take new jobs, can find themselves faced with the necessity to take on mortgages at considerably higher rates than they were previously paying. To assist these workers, consideration should be given to providing mortgage protection through a government guarantee.

5. Training and retraining. The majority of workers affected by dislocations will not need new training or retraining to be reemployed. However, a minority -- perhaps a significant minority -- will require such training. As the pace of technological change accelerates, retraining will become even more important. The need for retraining for workers affected by dislocations can occur in different contexts. In some cases, where plant closures can be prevented through the development of alternative solutions, some retraining of the existing work force may be an important part of those solutions. In other cases, where the closure cannot be prevented, retraining may be required to enable laid-off workers to take new and different jobs.

Current adjustment programs such as TAA include provisions for training affected workers. However, these provisions have been underutilized. Very little retraining has taken place. One reason for this underutilization is the fact that no funds have been earmarked for this purpose. Another is that CETA prime sponsors, who might have been expected to provide training are operating under federal directions which strictly limit the populations they can serve, effectively eliminating many dislocated workers from

consideration.

To meet the needs of dislocation-affected workers for retraining, a separate earmarked appropriation should be made under CETA, Title III. These funds should be targeted to the areas where they are needed and not distributed to prime sponsors on a general formula basis.

6. Relocation. Clearly, some dislocated workers will be forced to relocate, to move to new areas and localities where jobs are available which fit their skills and abilities. Most of the industrialized countries have long recognized that a relocation policy can help to protect workers from such economic shocks as those caused by plant closures, and at the same time contribute to economic growth by improving the working of the labor market. In these countries, the government generally undertakes to support both a job search for the affected worker, and when he or she locates a new job, subsidization of actual moving costs. In some countries, notably Japan, rehousing costs are also reimbursed.

The Trade Adjustment Act includes provisions to cover some of the costs of relocation for workers who lose their jobs to imports. Workers can be reimbursed for job search expenses and moving expenses up to a maximum of \$500 in each category. At a minimum the same level of assistance should be provided to workers affected by dislocations.

I have tried here today to state what I felt should be the main objectives of adjustment policy and outline its principle elements. I am hopeful that these hearings will lead to full discussion of the issues, and the enactment of legislation which can help to meet the problems associated with dislocation -- problems which I feel certain will only become more acute in the absence of such legislation. Thank you for this opportunity to appear before this Committee on this important matter. I would be happy to answer any questions you may have.

The CHAIRMAN. Next, we welcome back to our committee Mark Roberts, an economist from the department of economic research of the AFL-CIO. We are always glad to have you here.

Mark, during your testimony, I might pass the baton to Senator Riegle. There is a Conference on Housing right now awaiting my attendance at the committee meeting upstairs. So if I depart, that is the reason. But I will certainly read with interest your entire statement.

STATEMENT OF MARKLEY ROBERTS, ECONOMIST, DEPARTMENT OF ECONOMIC RESEARCH, AFL-CIO, WASHINGTON, D.C.

Mr. ROBERTS. Mr. Chairman, we understand that you are involved in a lot of good causes, and we appreciate that.

Mr. Chairman, we do appreciate this opportunity to present the views of the AFL-CIO on the serious economic dislocation problems of plant closings and their impact.

I also want to express our appreciation at the AFL-CIO to you, for your leadership in developing legislation on this general subject and holding these hearings to explore the subject further. We look forward to working with you and with this committee, and we look forward to presenting additional testimony in subsequent hearings on legislation relating to plant closings.

I am going to summarize my prepared statement and move as quickly as I can, appreciating the time constraints on you and on this committee.

The CHAIRMAN. Your full statement will be included in the record following your oral remarks.

Mr. ROBERTS. The statement sets out the AFL-CIO policy resolution on plant closings and relocations, and we declare the full support of the AFL-CIO for legislation along the lines of the Williams-Riegle-Ford proposals. We think it is crucially important to require employers to recognize their responsibilities to their employees and their communities before they shut down a plant, and it is important to require employers to provide economic protections to workers and their families who must suffer the consequences of rash and hasty corporate action. In the resolution, we call on Congress to address these problems, also caused by governmental relocations, and to provide protections for affected workers and communities.

I point to the human costs of plant closings. You have alluded to those, Mr. Chairman, and I ask that you include in the record an article that is attached here from the AFL-CIO American Federationist of August 1980, about the human costs of plant closings and dislocations. It is a sociology professor's examination of some of these problems that have, in previous testimony in Congress, been set forth by Harvey Brenner and various other people. They point to this very serious human problem, the increased suicide problems, heart disease, a great many problems that result from economic dislocation and plant closings.

In the statement, I refer to some of the ways in which collective bargaining, labor-management agreements, have dealt with the problems of economic dislocation and plant closing. I think there is a lot of fruitful experience that has already occurred, and there is a lot of evidence from years of successful labor-management relations that employers and workers through their unions can work out advance notice arrangements and arrangements for retraining and protecting workers' incomes and jobs. So I think that is something to keep in mind, the experience that we have gained from labor-management relations and collective bargaining, in dealing with some of the problems of plant closings.

In the testimony, I refer to a number of these. I know the Steelworkers and the American Can Co. have 1 year advance notice, and just recently, the Rubberworkers included a 6-month advance notice of any plant closings in their negotiations with major rubber companies, including Goodyear, Firestone, Goodrich, and Uniroyal.

So the evidence is clear. Many industries have already indicated their ability to live with advance notice requirements. It is also clear that these early-warning systems help to make it possible to meet the problems of workers who lose their jobs or have reduced income. And there are a whole variety of ways of labor-management agreement and cooperation, in cushioning these adverse effects on workers.

I go on in the statement to point out that there is a need for national legislation on this subject, however, because it is simply too big a problem to be dealt with effectively through labor-management negotiations and contracts. Some of these problems are just beyond the capacity of an individual union and an individual employer to work out, and certainly for many communities, the problems are horrendous.

So it is clear to us that national legislation is needed, and that is why we are supporting legislation along the lines of the Williams-Riegle-Ford bills.

As Senator Williams pointed out earlier, there is nothing new or radical about these proposals for advance notice and cushioning programs. These requirements of advance notice and employer assistance to the affected workers are in the law in many of the other advanced industrial democracies of the world, and in fact, in those countries, as Senator Williams pointed out, American business firms are living with the laws that are on the books. So it is clear that American business can live with the kind of legislation that is proposed in the Riegle-Williams-Ford legislation.

It is clear from the widespread activity in State legislatures on plant closing legislation that we have a national problem. In fact,

Senator, as you know, the State of Wisconsin has a never-enforced bill—as far as I know, it has never been enforced—to deal with plant shutdowns, and in some 19 or 20 other State legislatures, there are bills that have been introduced, that are pending. There have been hearings in some cases and I think in the State of Rhode Island legislation has passed one house of the State legislature—and these bills in the State legislatures have a very great deal of labor union interest and labor union support. But we believe that, while it is commendable that there is this activity in the State legislatures that State action cannot deal adequately with the problem that is really bigger than any single State.

Now, I want to raise an issue that is not addressed in the Riegler-Williams-Ford proposals, and that issue is the tax advantages for corporations to close down a viable, moneymaking, profitable plant.

This is an issue that is difficult to document with hard facts, because no company will admit that it is shutting down a viable, money-making, profitable plant and throwing workers on the scrap heap and demoralizing the local community, simply to get a tax break.

However, I call to your attention an article, "It Pays To Go Out of Business," in the August 1980 issue of the Progressive magazine, and with your permission, Mr. Chairman, I would ask that this article be included in the record.

Senator RIEGLE. We will include it in the record.

Mr. ROBERTS. This article, by a professor at the University of Massachusetts, lays out the tremendous, often irresistible incentives the Internal Revenue Service offers to businesses to shut-down plants. He points to some of the plant closings by United States Steel, and he goes on to say that these tax breaks for abandoning and closing down plants were never intended by Congress to apply to viable, profitmaking operations. And he says that unquestionably, the Internal Revenue Service's permissiveness toward business has encouraged this epidemic of plant closings. He says to corporate management, these tax breaks, tax loopholes, can be a tax bonanza, but to the worker, they are a very harsh injustice. And certainly, to local communities it is, I would say, a social insult to close down a profitmaking operation for tax purposes and create all that social injury to local communities.

So I think Congress should look into these plant closing situations very carefully, to see if indeed there is an array of tax incentives for business to close down plants and to work out some legislation which will stop these tax loopholes and which will prevent such plant shutdowns with all the attendant economic and social costs.

Mr. Chairman, I am going to give to the committee staff a number of articles and clippings which might be examined by the staff, possibly for inclusion in the record, but for the information of those who are interested. One is an article from the Monthly Labor Review of the Department of Labor, which deals with assistance to displaced workers, and it calls attention to a number of union contracts, and also Federal laws which have various job protection mechanisms. Also, there is an article from the Conference Board, and I am presenting to the staff this article, entitled, "Plants Close,

No Jobs", from the Conference Board publication of 1980. The magazine is called Across the Board. This examines a variety of proposals at the State and Federal level to deal with plant closings. Now, this article ends up on a rather negative note, but I think it lays out many of the human, social, and economic concerns, and it is one of a number of relevant issues.

Also in the Progressive magazine of August 1980 is an article about the Youngstown closing of the steel plant there, and a number of steel plants. That points to both the human problems and also a number of possible causes and, I would say in some cases, the recalcitrance of the management people in trying to alleviate the problem.

And then, as an indication of concern in the States, I have a clipping from the AFL-CIO News which deals with a major conference in Portland, Oreg., a conference sponsored by Oregon AFL-CIO and the Woodworkers' Union, dealing with this problem of plant shutdowns. From the other side of the country, in Connecticut, an AFL-CIO news clipping tells about the very strong concern of the Connecticut State Labor Council about plant closings. And then, just this coming Sunday in Minnesota, a major conference is being put on by the Minnesota AFL-CIO and United Autoworkers, a very lengthy and detailed and careful examination of this problem.

I think those will be useful to the staff and possibly to the committee.

In conclusion, Mr. Chairman, I want to repeat the support of the AFL-CIO for legislation along the lines of your bill, S.1608, the National Employment Priorities Act, and Senator Williams' bill, S.1609, the Employee Protection and Community Stabilization Act. We share your concern for establishing basic job and income protections for workers, protecting workers' pensions and health care and other benefits. We will certainly be available at the AFL-CIO to work with you and with this committee in exploring these issues and in developing and refining the legislation to deal in an effective and humane way with the economic and social dislocation resulting from plant closings.

That completes my statement, Mr. Chairman. I will be happy to answer any questions.

[The prepared statement of Mr. Roberts and the articles referred to follow:]

STATEMENT BY MARKLEY ROBERTS, ECONOMIST
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS
TO THE SENATE COMMITTEE ON LABOR AND HUMAN RESOURCES
ON THE ECONOMIC DISLOCATION OF PLANT CLOSINGS

September 17, 1980

Mr. Chairman, I appreciate this opportunity to present the views of the AFL-CIO on the serious economic dislocation problems of plant closings and their impact on workers and local communities. Also, Mr. Chairman I want to express to you our appreciation for your leadership in developing legislation on this general subject and for holding these hearings to explore the subject further. We look forward to working with you and with this Committee and we look forward to presenting additional testimony in subsequent hearings on legislation relating to plant closings.

Reflecting a very strong and widespread concern among our affiliated unions and state and local central labor bodies, the AFL-CIO Convention last December unanimously adopted a policy resolution on "Plant Closings and Relocations." This resolution reads as follows:

"Sudden plant closings in this country are occurring with alarming frequency. They affect not only large industrial cities but small towns and rural areas and even the South, a region in which many plants relocate. Governmental decisions to close or relocate federal facilities or functions are also occurring at an increasingly alarming rate.

"The impact on particular communities can be devastating in economic, social and personal terms. In urban areas, which often already have high rates of joblessness, plant shutdowns aggravate the unemployment problem. An estimated 900,000 jobs have been lost in the Northeast and Mid-West alone in the last ten years. The local tax base is further weakened. Suppliers and retail stores may be forced to cut back on their operations or go out of business.

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"Workers who lose their jobs because there are plant closings may not be able to find new ones or may be forced to work at reduced pay. Family life is often disrupted. The mental and physical health of displaced workers often declines at a rapid rate. Research over a 13-year period finds that the suicide rate among workers displaced by plant closings is almost thirty times the national average. Such workers also suffer a far higher than average incidence of heart disease, hypertension and other ailments.

"Legislation to deal with this grave economic and social problem has been introduced in this Congress -- in the Senate by Harrison Williams of New Jersey and Donald Riegle of Michigan; and in the House by Representative William Ford of Michigan and 44 co-sponsors.

"Although these bills differ in some respects they would do much to counteract the devastating effects of shutdowns and relocations. Neither bill, however, addresses the problems caused by the relocations of governmental facilities. Among other things, these bills would: (1) require firms to provide advance notice of their intentions to close or relocate a major facility, (2) advocate programs to support troubled businesses, including incentives to promote employee ownership, (3) call for the issuance of economic impact statements and federal investigation of the circumstances, and (4) require employers, whenever existing jobs cannot be saved, to provide minimal protections to their workers in such matters as transfer rights, relocation expenses, severance pay, pension protection, health care and job training. Although the legislation may be subject to changes and improvements once hearings get underway, it is clearly an important advance; therefore, be it

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"Resolved: That the AFL-CIO declares its full support of such legislation and its intention to work for enactment in this Congress. It is crucially important to require employers to recognize their responsibilities to their employees and their communities before they shut down a plant and to provide economic protections to workers and their families who must suffer the consequence of rash corporate action, and be it further

"Resolved: That the AFL-CIO also calls on the Congress to address the problems caused by governmental relocations and to provide protections for affected workers and communities.

In another resolution on "Corporate Concentration," the AFL-CIO Convention also explicitly declared that "Plants relocating or closing should be required to give early advance notice and provide aid to affected workers and communities

And in the recent AFL-CIO 1980 platform proposals presented to the Democratic and Republican National Conventions the AFL-CIO again called for protection for workers from sudden plant closings:

"The devastating effects on workers and their communities from unannounced, sudden plant shutdowns and relocations could be eased by legislation to require: advance notification, issuance of an economic impact statement, federal investigation, and basic employee protections of transfer rights, relocation expenses, severance pay, continuation of pension and health care benefits and job retraining."

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Human Costs of Plant Closings

Mr. Chairman, these policy statements may sound abstract and generalized, but they reflect a lot of painful and bitter experience on the part of millions of laid-off workers in communities all over this nation.

Barry Bluestone and Bennett Harrison report that more than 15 million workers lost their jobs to plant closings between 1969 and 1976.

The 1980 Bluestone-Harrison report, "Capital and Communities: The Causes and Consequences of Private Disinvestment," published by The Progressive Alliance, declares that unregulated capital mobility devastates the economic base of whole regions when productive facilities shut down and creates not only serious unemployment but also terrible physical and emotional trauma for the victims of the shutdowns.

"The Human Cost of Plant Closings" is the title of an article in the August 1980 AFL-CIO American Federationist magazine. This article by Arthur Shostak, a sociology professor at Drexel University in Philadelphia, reports a wide range of negative human impacts from plant closings. These include not only loss of jobs and loss of income but also family and social hardship, social and political alienation, new openness to economic radicalism, and more health problems such as higher blood pressure and more heart disease, more hypertension, more hard drinking, and "a tragic increase in self-destruction and inexplicably fatal accidents."

Professor Shostak points out that a sense of personal responsibility and guilt is frequent among workers losing their jobs as a result of plant closings. He notes that "a laid-off worker can derive a profound sense of guilt" from the notion that he or she has let the family down. Self-esteem and family life take a beating.

I ask that Professor Shostak's article be included in the record of these hearings. It corroborates other findings, including those of Dr. Harvey Brenner, about the serious negative impact of unemployment on physical and mental health and on social stability.

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Workers and unions have an obvious interest in establishing basic protections against the adverse effects of plant closings and large-scale lay-offs.

Role of Collective Bargaining

Collective bargaining holds a vitally important role in meeting the challenges and dangers of economic dislocation and plant closings. And there is much to be learned from past experience in collective bargaining. The flexibility of labor-management negotiations and bargaining and agreements at the plant, company, and industry level, helps workers and unions settle with employers on reasonable and humane protections for workers against adverse effects from plant closings and other economic dislocations.

The costs to the employer of the adjustment process, the adjustment cushions, should be viewed by business as part of the cost of doing business. A broad range of labor-management cooperation is already included in agreements that have negotiated specific adjustment procedures.

One method to ease the human costs of economic dislocations and plant shutdowns is to assure advance information to workers and their unions about management plans for future changes which will affect workers with job loss or other serious problems. Major changes and plant closings result from management decisions taken long before the innovation is actually introduced. The shutdown of the Youngstown, Ohio, steel plant involved corporate decisions made years earlier. Certainly there should be long advance notice before any change which results in layoffs or plant shutdown.

Union Contracts Show Advance Notice Feasible

One example of required advance notice is the United Steel workers contract with American Can Company which provides for 12 months advance notice of major technological change, work transfer, or plant closing. The contract also gives workers the right to train for a new job, to transfer to another plant or to a replacement facility, the right to preferential hiring at the same plant or another plant with retention of seniority, the right to severance pay, and the right to moving expenses up to \$1,000.

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In this year's contract negotiations, the Rubber Workers agreed to a 6-month notice provision in their negotiations with the major rubber companies, including Goodyear, Firestone, Goodrich, and Uniroyal. Under these contracts, workers have preferential hiring and seniority in a new plant, severance pay, liberalized pensions, and full service credit for fringe benefits. Under the United Food and Commercial Workers contract with Armour, they have had a long standing contract provision for 6 months of advance notice. Under this agreement, workers can replace other workers who have less seniority in different plants. The contract has other types of provisions that deal with moving expenses, seniority and other transfer rights.

At the New York Times, the Newspaper Guild contract provides for 4 months of advance notice to workers who face permanent layoff due to technological change.

Thus, a variety of industries already have demonstrated their ability to live with advance notice requirements.

An "early warning system" of advance notice makes it possible to meet the problems of affected workers. Such "early warning" provisions have long been standard in many union contracts. With advance notice and labor-management cooperation, workers can look for or train for a new job, perhaps with the same employer in the same plant or at another location. Employer-paid retraining is an important part of any adjustment-to-innovation program.

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There are other methods and techniques for labor-management cooperation to cushion adverse effects on workers. These include income maintenance with work and/or pay guarantees. One way is through "no-layoff" attrition to reduce the workforce by natural turnover, deaths, retirements, and voluntary quits, thus protecting the jobs and earnings of those workers who remain with the company. Of course, attrition alone is not an adequate solution. "Red circle" earnings protection for workers downgraded through no fault of their own attaches a wage rate to an individual instead of to the job itself and thus protects workers against loss of income which might result from induced downgrading.

Seniority is a key principle in protecting workers against layoffs and downgradings. This rewards long service, but does much more -- properly reflecting the worker's investment in the job and the company's investment in the worker. Early retirement is an option that older workers should have available when plant shutdown or any other major change threatens to wipe out their jobs. But the option should be available as a free choice, not as a requirement. Many older workers cannot afford to retire early and others prefer to continue working.

Transfer and relocation rights and mobility assistance to workers are other ways to provide job and income protection. Within-plant and inter-plant transfers, relocation assistance, severance pay, pension rights and seniority protections and supplemental unemployment benefits can all help cushion adverse effects of workers and their families when plant closings or other economic dislocations occur.

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Thus, it is clear that collective bargaining has an important role in helping to meet the challenge of economic dislocation and plant shutdown -- and this role must be strengthened and expanded.

Need for National Legislation

But the human and social problems of economic dislocation and plant closings are too big and too complicated to be handled effectively simply through collective bargaining. This is why the AFL-CIO supports legislation along the lines of the Williams-Riegle-Ford bills. National legislation along the lines of the Williams-Riegle-Ford bills is absolutely essential.

Obviously these problems are much easier to deal with in the context of a healthy, full employment economy. But the U.S.A. must have specific legislation enacted by Congress to require employers to recognize their responsibilities to their employees and to their communities before they shut down a plant. Workers and local communities need legislation to assure basic protections against hasty, unilateral action by employers who are laying off major segments of their workforce or closing down an existing plant.

Other Nations Require Advance Notice

There is nothing radical or unusual about national legislation requiring advance notice and other worker-community protections. The Williams-Riegle-Ford bills are entirely consistent with legislation already on the books in other nations where private business firms -- including affiliates and subsidiaries of many American firms -- find they can live with the laws requiring advance notice and other protections for workers and communities against the adverse effects of economic dislocation and plant shutdowns.

In terms of international comparisons, Sweden requires 6 months notice where more than 100 workers are involved, 4 months notice where 26 to 100 workers are involved and 2 months notice where 5 to 25 workers are involved. Under the Swedish law, no dismissals may take place until the unions have been contacted and granted an opportunity to negotiate concerning the issues and consequences of the dismissals.

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In the United Kingdom, 90-day notices must be given where 100 workers or more are involved and 30 days where 10 to 99 workers are involved. Failure to communicate with the unions and to make the appropriate notices can make the employer liable for continuing the pay of the workers during the required notice period.

In France, Greece and the Netherlands, prior to making large-scale dismissals, the firm must have permission of the government to lay off the workers and in practice the actual notice periods before layoffs take place is as long as a half a year to a year depending upon the specific circumstances.

These examples tend to indicate that advance notices are practices with which firms can live. It must also be remembered that in most foreign countries the benefits paid workers are generally two-thirds of lost earnings and for up to a year under their unemployment benefit programs.

Plant Closings: A National Problem

As I understand it, the Senate of Wisconsin in 1975 passed a never-enforced bill to deal with the plant shutdown problem, and in 1980 in some 19 state legislatures, bills have been introduced and are pending to deal with plant closings. Many of these bills were introduced with labor support and continue to have strong labor backing.

I think the existence of all this action at the state level indicates that the problem of plant closings and plant shutdowns is a national problem. The effort in support of this legislation in the states is praiseworthy. But it is too big a problem to be handled effectively through state legislation only.

Tax Incentives for Plant Closings

In closing, let me raise another issue which is not addressed by the Williams-Riegle-Ford proposals: the tax advantages for corporations to close down a viable, money-making, profitable plant.

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The Bluestone-Harrison report warns against the "myth" that plant shutdowns are most often due to business failure. And the present tax system may encourage shutdowns of profitable operations in order to get a big tax loss for the parent company.

This is an issue which is difficult to document with hard facts because no company will admit that it is shutting down a viable, money-making, profitable plant and throwing workers on the scrapheap and demoralizing the local community simply to get a tax break. However, I call to your attention an article. "It pays to go out of business," in the August 1980 issue of The Progressive magazine.

This article by Harry Brill, a professor at the University of Massachusetts in Boston, lays out "the tremendous, often irresistible incentives the Internal Revenue Service (IRS) offers to businesses to shut down plants." He wrote "U.S. Steel's closings of more than a dozen facilities entitled the company to hundreds of millions of dollars in tax write-offs."

Professor Brill points to the profitability of two U.S. Steel plants which were profitable and yet were closed down. "To treat these plants as if they were losing money is a violation of the intent of Federal tax laws and an affront to the workers who are paying for the rebates with their jobs." he wrote.

Professor Brill notes:

"Tax breaks for abandonment were never intended by Congress to apply to viable, profit-making operations. Moreover, business losses for tax purposes are not intended to include losses deliberately incurred. Nothing in the tax code justifies interpreting loss as a voluntary cost that a business freely chooses to incur for its own reasons."

And he concludes:

"Unquestionably, IRS permissiveness toward business has encouraged the epidemic of plant closings. As a result, the nation's tax collector has participated in dotting the country with graveyards of empty lots and boarded buildings where vital business enterprises once resided. The agency claims that its abandonment policies are in strict adherence to the law's 'true meaning.' But to corporate management, they can be a tax bonanza, and to the worker, a harsh injustice."

I think Congress should look into these plant closing situations very carefully to see if there is indeed an array of tax incentives to business to close down plants and to work out some legislation which will stop such loopholes and will prevent such plant shutdowns with all the attendant human and social costs.

In conclusion, Mr. Chairman, I want to repeat the support of the AFL-CIO for legislation along the lines of your bill, S.1609, the Employee Protection and Community Stabilization Act, and Senator Riegle's bill, S.1608, the National Employment Priorities Act.

We share your concern for establishing basic job and income protections for workers and protection of workers' pension and health care and other benefits. We will be available to work with this Committee in exploring these issues and developing and refining the legislation to deal in an effective and humane way with the economic and social dislocation resulting from plant closing. Thank you.

The Human Cost of Plant Closings

by Arthur Shostak



Union members are by now all too familiar with the tremendous social and economic consequences of a plant closing. Yet when they look to academia for help in sorting out the antidotes, for ways to ease the pain, for remedies to heal the hurt, they are likely to be seriously disappointed.

The necessary research work has still not been done. Our library of materials is paltry and inadequate. We do know some helpful things, however, and with the assistance of the trade union movement this subject could soon get the research attention it deserves.

Our case studies of plant closings were largely done in the 1960s, and are still quite sound. The difference in being unemployed in the 1960s and being unemployed in the 1980s appears a matter of degree, rather than one of kind.

Here are some of the highlights of what we found in the 1960s in the aftermath of plant closings:

- **Social Hardships**—People were reluctant to move, and geographic mobility was low. Relocating represented an incredible challenge for the individual. They were not only reluctant to move from the frost belt to the sun belt, for example, but were unwilling to move even a few hundred miles. We soon secured anecdotal data about what it cost people to be weekend husbands, to be without family, to leave familiar settings for a savage-appearing new city.

In the 1960s we had considerable failure to regain steady and satisfactory employment after plant closings. Men and women who readily found jobs showed up disproportionately later as frequent job changers, discontented and restless. Large numbers of re-employed workers suffered real losses from previous levels of economic attainment. If they had been working for \$7 an hour, they were soon working for \$4.50 or \$5.25. And many of the others laid off with them struggled to survive protracted unemployment.

- **Health Problems**—Health research is difficult. You've got to talk people in the home or the factory into giving urine samples, take blood from them, measure blood pressure, and do a lot of things that appear not so much for their benefit as for the benefit of "ivory tower" research needs. That's tough. Thus the little research we got from the 1960s indicated high uric acid levels, increased cholesterol, elevations in blood pressure, and elevations in pulse rate among the suddenly unemployed. We also found the rich

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man's disease of gout, which, in fact, was no longer exclusively a rich man's disease. We connected data on plant closings to heart disease, hypertension, and pervasive tension. At the bottom of all of this we found an increase in drinking—hard drinking—and we found a tragic increase in self destruction and inexplicably fatal accidents.

At a reductionist level of analysis, each of us is a social system. As such we promote an equilibrium, a pattern of habitual behavior and attitudes. There are certain times of day when all of us like our morning coffee. You may prefer to brush your teeth before or after breakfast; you probably take a particular route to work every day. All of us like to minimize stress through such repeatable behaviors. One of the major consequences of plant closing, then, is that it shatters habitual worklife patterns.

There's a terrible story about Russian troops moving through the remains of Berlin at the end of World War II. They are supposed to have found at the Civil Service headquarters of the shattered Third Reich civil servants at their desks preparing requisitions for next year's paper clips, rubber bands, note pads and that sort of thing. I don't know if it's true, but I've been told that certain elderly Berlin postal workers continued to walk their mail rounds after the city was destroyed, even though they had no mail to deliver, because it helped fill out the day and it made sense to them—delivering non-existent mail to bombed-out addresses, the better to cling to routine and help time pass in a meaningful, familiar way.

That is the kind of deep-reaching psychological attachment to worklife habits that can get shattered in the aftermath of a plant closing.

- **Reduced Social Interaction**—People begin to withdraw into themselves in the aftermath of a plant shutdown. They begin to withdraw from family contacts; many begin to abandon community organizations; they begin to withdraw from union meetings and even from a passive interest in union matters.

- **Political Alienation**—A worker caught in a plant closing can become bitter in every direction. They feel betrayed and sold out, and he or she may demand to know where organized labor has been all that time. Where was COPE? And how did it come down this way?

- **Openness to Economic Radicalism**—Sociologists have noted a new openness to economic radicalism among workers when capitalism gets them in the neck; one is receptive to hearing something radical and even revolutionary in the aftermath of a plant closing, the research suggests.

That's about the sum of what we know from the case studies of plant closings in the 1960s. There are some new research strategies now in the 1980s, one of which focuses on closings as a type of separation experience, a trauma with about six phases.

In the opening phase, a plant is "up and going." You may hear we used to have 8,700 on the payroll,

and now we've got 1,800; we used to have 9,000 now we have 3,000, but the plant's still "up and going."

That's a pre-closing state of affairs, and in pre-closing time you may get what workers perceive as company blackmail: "we need more productivity." In this pre-closing phase some workers will urge the union to take the issue to the mayor, government, or the press. Employees know when a closedown is coming. Certain kinds of strategic stock materials are not being reordered; certain kinds of maintenance are not being done; farming out of contracts is increasing. So, a pro-activist set of possibilities exists in the pre-closing phase.

Then comes the news of the closedown over the loudspeaker, in the mail, or in a general auditorium session. Some are stunned; others say, "I told you so." The cynics may rise to power in the local union; the optimists are likely to fall in stature.

Then is the phase of unemployment itself, the search for a new job, and a new definition of "success," as a wage-earner. This "success" becomes highly individual. We might look at the job-seeker's new job and think it second rate; but that's not legitimate—only the individual can tell us whether it's second rate or not, and why, and we must learn to listen and suspend our judgment.

The next and last phase is the rehired worker's adjustment to the new job, a stage that is often overlooked by researchers, union leaders, and counselors. Not only is the job new, but the worker has the equivalent of a new family and a new community. Once you get a new job, your family may be altered by that event and its aftermath.

A psychologist told me recently about his practice, which now includes an increasing number of plant closing cases. One of his clients, for example, came off traditional factory work and found a job driving a panel truck. This gave him independence and autonomy, removed him from supervision, put him out in the open air, allowed him to choose his own coffee breaks, and to go to his favorite diner. It was all wonderful, except for one minor problem: he was now employed as an exterminator, complete with a can and a hose, and his wife now said that at the end of the day, he stunk. He hadn't smelled badly before; he had always been clean, even fastidious.

So, what did our re-employed worker have now? A different wife and a different family, because of an odor problem unadvertised and unavoidably part of his otherwise desirable new job.

In our 1980s research we should focus on certain problems regrettably unexplored in the 1960s material, such as the sense of self-punishing personal guilt that may come with plant closings. In the book, "The Hidden Injuries of Class," Richard Sennett and Jonathan Cobb explain that America encourages us to hold ourselves responsible for what happens to us, the better to exonerate its social order: "It isn't capi-



talism. It isn't federal favoritism to regions. It isn't corporate board decisions. It's probably some flaw in you and me that explains our plight. We picked the wrong plant to work in; we picked the wrong industry to identify with; we didn't get out in time; people told us 10 years ago we should leave. The handwriting was on the wall."

When all that nonsense comes together, a laid-off worker can derive a profound sense of guilt from it, a notion that he or she has let the family down. This sense of guilt for those caught in plant closings is something humanists and capitalists alike should worry about.

Another problem for new research attention is that individuals involved in plant closings often suffer from diminished attention span. If a local union meeting has an agenda that puts something else on ahead of the subject of a shutdown's impact, you are likely to discover 35 minutes into the meeting that people are wandering out of the hall. People involved in a plant shutdown have little patience for any other topic. It had better come early in the meeting's agenda.

Then there is the widespread feeling of loneliness, especially in the sense of abandonment, that often accompanies a factory shutdown. If there is guilt, if there is self-blame, then loneliness and abandonment on top of it can be hard for many ex-workers to handle.

In the 1980s we've begun to find evidence of the notion that "they've done it to me again." "They," those incredibly vague "others," include the government, Congress, union staffers—somebody. The worker begins to pull from memory a host of past failures: "I should have gone to get that associate degree" or "I should have taken that training program" or "When I was offered the stewardship, I should have said 'yes.'" And so on. Such an individual may begin to

wallow in "I-should-haves," and in much self-blame, all at a great cost to mental well-being.

Since the critical success of Gail Sheehy's book, *Passages*, we've begun to give a lot of attention to middle age crisis. Beginning at about age 40, social events begin to shift away from weddings, bar mitzvahs, and baptisms to the funerals of friends and acquaintances. And that shift is easily exacerbated by plant closings. Middle-aged unemployed adults begin to think of themselves as over-the-hill; plant closings invite a morbidity in one's mind set, a new sense of personal frailty, a heightened recognition of the uncertainties of life and, the allure of a stress-resolving death.

Work gives many people the indispensable leverage they need to contain self-destructive habits and behaviors. Certain people who used to drink to excess get a job and sober up; the pressure that comes from knowing alcoholism isn't accepted on the job is enough to help keep them from further drinking, at least during working hours. Similarly, people who are chronic gamblers, or on occasion abuse a spouse or a child may control the situation through the discipline of their employment: after a plant closing, however, they may find the loss of a job severely weakens the control mechanisms they so desperately need.

For these reasons we may see more and more men whose anxiety on losing their jobs appears disproportionate, as it is, after all, "only a job." But, such men may understand that this loss could mean a return to alcoholism or to gambling, or to other comparable terrors, even if they've been sober and self-regulating for many years. And that specter, for them, is the end, the sentence of a living death, a fate being forced back into their lives by the reverberating disaster of a plant closing.

When we focus our research on family life one of the things that worries us is the possibility of "cabin fever." Blue-collar wives do not welcome having the male hanging around home, particularly during conventional working hours. And when a male displaced by a plant-closing does stay home, cabin fever is highly predictable . . . as when an exasperated unemployed worker says: "It isn't anything that she's said or done; it's the way she puts the coffee on the table in the morning." His wife, in turn, may say: "I don't know what the hell he's talking about. He hasn't been the same for three months, since the plant closed. There's nothing that I can do that can make a difference, even a little difference. And when I put a cheaper cut of meat on the table, he almost destroyed the kitchen. I thought I was doing good; he behaved like I was destroying him."

Finally, one of the major 1980s research frontiers may concern how men and women relate in their sexuality. Many working class women seem to have absorbed new attitudes in the sexual realm, and their sexual agendas are different today from the 1960s; they expect their husbands to be better lovers, and

their lovers to be more sensitive than before, and both husbands and lovers to be more open to their female sexuality than was true in earlier decades. In good times, all of this could be a fine prescription. In a recession, however, especially one combined with plant layoffs, it can prove a prescription for interpersonal disaster: men who are cut off from work may have self-esteem hurt by the loss of the central role in the male life, that of the primary bread-winner, and it also hurts self-esteem in the bedroom.

Given all these historic, ongoing, and readily anticipated social problems, what are some possible reforms worth research attention?

- **Social Impact Legislation:** The proposed National Economic Security Act of 1977, 1978, and 1979, does make reference to the social costs of plant-closings. What we must add to these bills, however, concerns the "psychological contract," a commitment from employers that is conspicuously absent from these bills at present.

Harry Levinson, a leading industrial psychologist, identified the presence of the "psychological contract" some years ago while doing research on a Kansas utility company and its workers. The "psychological contract" is never put in writing, but it assures an injured worker a claim on the company for another post in the company compatible with the worker's remaining capabilities. This is one way we get factory gatekeepers, watchmen and messengers, many of whom are former employees who have been crippled in work-related accidents, and even sometimes in a non work-related accident. This pledge of re-adjusted work is a tradition, a "psychological contract" that we might add to social impact legislation. Employers might pledge to provide new jobs and compensation, under the "psychological contract," to cover counseling costs entailed in helping workers recover any emotional and social well-being undermined by a plant closing.

- **Career and Community Continuation Teams:** You cannot adequately help workers in a plant closing unless you also help the larger surrounding community. The federal government should therefore have, on a stand-by basis, several career and community aid teams of economists, counselors, psychologists, job-location and job-retraining experts, all trained in crisis theory and intervention techniques.

- **Home Buying Agency:** The Swedish government presently has an agency that is ready to buy the home of victims of plant closings. Our homes, of course, are the biggest fixed investments most of us have—followed by our car, our home entertainment console, and so on. If somebody won't take your home off your hands, you're not going to consider geographic relocation in search of a new job. And, in a community where a plant has just closed, nobody is going to take your home; it's a "Catch 22." The federal government, however, could buy the home and use it, perhaps as the Swedes do, as a vacation home for fellow Americans from other cities or locales. No one

but the federal government can handle this, and since it's being done successfully abroad, it's not a pie-in-the-sky.

- **Rehabilitation for the Re-employed:** People who are rehired should not fade out of our concern.

First, many rehired workers become sensitive to the idea that the new employer expects them to be obligated for the job. The rehired workers may soon resent a new foreman, a new regimen, a new set of expectations that makes it seem the new boss is lording it over the new worker. And the new worker may determine not to put up with this. A troubled person, a troubled union member, a person under a lot of stress, is a very real possibility here, though no one ever intended this, and few intervene in time to avert avoidable trouble.

Another thing we find is loss of morale: some re-employed workers may privately say: "For 27 years I worked for one employer, and I gave him everything. I was there on time, accepted overtime with a smile, never stole a thing. I put suggestions in the suggestion box. I'm not going to do any of that again; I'm not going to do one little part of that again. They fooled me the last time. They're not going to get anything from me this time but eight hours of regular output, and they damn well better accept that because it's all they've got coming this time around."

The last kind of reaction for which post-rehiring counseling would seem necessary involves the gunshy new worker. This individual comes in expecting his new work place to close, even though the plant is in a great industry, is healthy, has a Dun & Bradstreet rating of AAA plus—but, if this worker has known disaster, he is sure that if something can go wrong for this company, it will. The presence of such a person can bring the local workforce stress, trouble, bad vibes. Such workers need remedial counseling, concerned "outsiders" who can help notice this troubled worker and help guide him or her to a source of counseling help.

In sum, then, plant closings are still far too under-researched. We in academic work are going to need labor's help if this subject is soon going to get the research attention that its quotient of human problems deserves. Only as organized labor reaches out to concerned researchers at colleges and universities will we really have any chance of it soon happening.

In every locale with a major plant, there are at least a few academics nearby who will respond to labor's request. At first, of course, they will be astonished that you've asked; they will be pleased; then they will ask how can they help. America needs the case studies they can do—and workers need them.

The subject grows daily too important to continue without this research. The impact of plant closings can be lessened, provided some fresh lessons are soon drawn from collaborative labor-academic research into this topic—possibly the most important domestic issue of the 1980s.

When they close the factory gates

How Big Steel scrapped a community

John Logue

Just west of the Pennsylvania border lies the Mahoning Valley, once the second-leading steel producing area in the United States. In Youngstown and in its industrial suburbs, mills line both sides of the river. For generations their noise has muted the Mahoning, but in recent times the furnaces have gradually been banked, and one by one the mills have closed. In a matter of months, the sounds of the river will be audible again.

Youngstown is a microcosm of the problems of the aging industrial towns of the Northeast: the predatory conglomerate, systematic disinvestment, the flight south, the trained labor force suddenly unemployed, the collapse of the community tax base, and the obsolescence of the rusting mills that once employed thousands. The names of the mills are a litany of despair:

¶ The Campbell works, abandoned in September 1977 with the loss of 5,000 jobs.

¶ The Brier Hills works, which employed 3,300 a few years ago, shut in December 1979 with the loss of 1,250 jobs.

¶ U.S. Steel's McDonald and Ohio works, which once employed 10,000—final shutdown now under way, with the loss of the remaining 3,500 jobs.

¶ Republic's one remaining blast furnace in Youngstown, scheduled for shutdown in 1981, as is the coke battery that still employs about 700 at the remnants of the Campbell works.

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Ten years ago, the steel industry employed 25,000 directly in the Mahoning Valley; today there are 12,000; by the end of next year, there may well be fewer than 10,000. The valley and its steel towns have lost their reason for being.

Youngstown's symptoms of decline—aging industrial plants, a decision at some distant corporate headquarters not to reinvest, and finally the closing of the mills—are not a product of a corporate conspiracy but of the facts of American economic life.

In the United States, economic power has become increasingly concentrated. The 200 largest firms controlled 45 per cent of manufacturing assets at the end of World War II; they control 60 per cent today. The 2,000 largest firms—about 1 per cent of all the manufacturers—control 88 per cent of manufacturing assets and make 90 per cent of the manufacturing profits; the other 99 per cent share 10 per cent of the profits. The U.S. economy is hardly the preserve of home-owned small business.

There is no reason to be sentimental about size in business. Scale is vital to efficiency, particularly in the capital-intensive steel industry. The price tag for a major modernization program at a medium-sized steel works starts at about \$200 million. But there is good reason to be concerned about the lack of worker and community influence on the decisions of corporate giants. That is what the Youngstown story is all about.

The Youngstown mills were antiquated. Their blast furnaces were small. All of them used open-hearth

furnaces for steel making, less efficient than the more modern Basic Oxygen and Electric Arc furnaces. Some of the finishing mills are run by the original steam engines installed before World War I. "Hell, they belong in the Smithsonian," says Ed Mann, president of the Brier Hill steelworkers' local.

Despite the equipment, the Ohio works set production record after production record in the months before the shutdown. Among U.S. Steel's oldest plants, it outperformed the company's new Baytown, Texas, facility in head-on competition in 1978. Im-



provements in productivity rested on the creativity and dedication of the labor force, aware that saving their plants and jobs depended on increasing production. They succeeded, but the gates still closed.

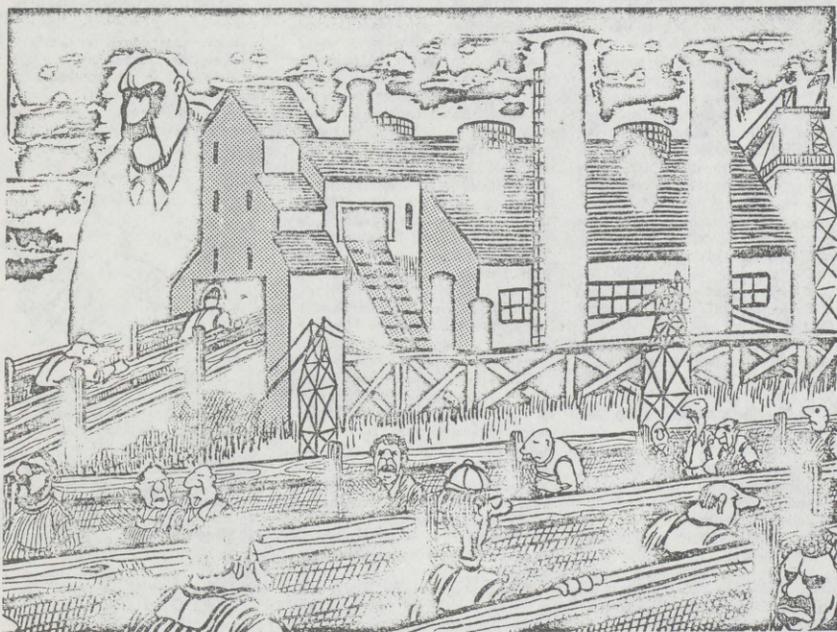
In the long run, labor force dedication cannot replace modernization. And modernization simply did not occur in Youngstown. The steel companies took millions out of the valley over the last decades and returned little to the plants.

The lack of reinvestment in the Mahoning Valley had a variety of causes. One is geographic: Inland mills lack cheap water transportation, a notable handicap for traditional mills (though not for those with modern electric furnaces which use a higher proportion of scrap). More crucial was the changing industrial structure. Merger activity hit steel—and Youngstown—hard.

Lykes, the New Orleans-based shipping conglomerate, acquired Youngstown Sheet and Tube in the late 1960s. Sheet and Tube was more than six times the size of Lykes at the time of acquisition but the smaller fish swallowed the bigger. Lykes was less interested in Sheet and Tube's dies and presses than in its large cash flow, which could be diverted into financing other acquisitions. Plant maintenance diminished from the day Lykes took over, and investment in modernizing steel facilities slowed notably. Similarly, Jones and Laughlin Steel (J&L) was absorbed by the LTV corporation, a Dallas-based conglomerate.

Systematic disinvestment by the conglomerates is a symptom of the deeper problem: International competition in steel is intense,

and profits are lower than in other industries. Emerging from World War II with its facilities intact, the American steel industry prospered while its foreign competition was prostrate. In time, the German and Japanese mills were reconstructed with more advanced technology, but American management rested on its laurels, in large measure because of the conviction that the new technology being pioneered abroad (derived, ironically, from foreign studies of American plants) was inappropriate for the huge scale of the American domestic market. New investment went instead into advanced versions of technologically antiquated production processes. By the late 1960s, foreign steel companies were making major inroads into the American market, while American investment had lagged so far behind the growth in demand that American



producers were no longer able to meet peak domestic requirements.

Wages play a subsidiary role to investment. American steelworkers are among the best-paid industrial workers in the country, but the same can be said of Western European steelworkers. Japanese wage rates, long below those in other industrial countries, have moved up rapidly. But new plants now coming on line in such Third World countries as Brazil and South Korea will benefit not only from a low-wage labor force but also from the anti-union policies of those governments.

The obvious answer is to encourage unionization, and efforts to aid union organizers in Third World countries have met limited success. The principal problem is pressuring Third World governments to permit union organizing. Unions in western nations have had occasional successes: The threat of a boycott on unloading Chilean exports wrung a few concessions from that government in allowing union activity in Chile. But what is really needed is governmental pressure, and for all the human rights campaign, the Carter Administration has done little in this area.

Not all American steel firms have been slow to modernize. Some smaller companies, like Armco's Western Steel division, which has installed electric furnaces in all its plants, are fully modern, highly competitive, and profitable. But the industry giant, U.S. Steel—which last year grossed \$12 billion, equal to the gross national product of Egypt—has lagged so far behind that cynical outsiders suspect it of deferring capital spending and allowing foreign inroads into its market in order to compel the Government to provide tax breaks for the industry.

Instead of modernizing their mills, many American steel firms are diversifying—diverting profits from steel into investment in other areas. The conglomerates that now own Youngstown Sheet and Tube and J&L do this as a matter of course. But even U.S. Steel is turning its back on the industry, channeling an increasing portion of its investment dollars into the chemical industry, oil, gas, and uranium exploration, and real estate development. U.S. Steel's latest annual report is illustrated with pictures of a company-developed shopping mall.

If Youngstown's problems were typical of the industry's, its response was not: Workers and community have fought stubbornly and imaginatively to save the valley's economic backbone. It is this struggle that has projected Youngstown into the national consciousness.

The fight began with Lykes's surprise shutdown of Sheet and Tube's Campbell works. Campbell local union presidents first learned of the impending disaster when they were called into management offices one Monday morning in September 1977 to receive

'We are not talking about a . . . bakery shop'

the press release announcing the closure; the first layoffs began three days later. Initially accepting management's explanation that the plant was a victim of pollution control rules and Japanese imports, tens of thousands signed petitions asking the Government to invoke import restrictions and relax environmental protection standards.

But public outrage grew as the real reasons for the closure became clear: New Orleans executives had plundered Sheet and Tube to invest elsewhere, leaving Youngstown with a silent mill and 5,000 unemployed. The formation by religious leaders of the Ecumenical Coalition of the Mahoning Valley provided a focal point for organization. Its goal quickly became a worker-community run steel mill—a suggestion first made by Gerald Dickey, a steelworker at the Brier Hill works and recording secretary of the union local. The proposal called for a community corporation that would combine worker, community, and private investment. After a study by Gar Alperovitz and the Center for Economic Alternatives established that a community mill was potentially viable, the Ecumenical Coalition asked

the Federal Government for \$245 million in loan guarantees—guarantees of the sort provided to other steel producers, such as Wheeling-Pittsburgh, for modernizing aging plants. Reaction was initially favorable, but in March 1979 the Government rejected the request, killing the Campbell plan. (See "Must Youngstown Roll Over and Die? How 'Big Steel' Got to Jimmy Carter," *The Progressive*, October 1979.)

By this time, the Justice Department had compounded Youngstown's problems by suspending antitrust rules that would probably have prevented the merger of Lykes, the owner of Youngstown Sheet and Tube (the nation's eighth-largest steel producer), and LTV, which owned Jones and Laughlin (the seventh-largest). Overruling staff recommendations, Attorney General Griffin Bell approved the merger under an imaginative application of the "failing business doctrine," otherwise reserved for firms in or near bankruptcy. Bell cited a desire to save jobs at Sheet and Tube, but that wasn't one of the results of the merger. Sheet and Tube's Brier Hill mill was superfluous to the integrated company and was closed in December 1979.

The U.S. Steel shutdown, announced November 27, 1979, was less surprising than the earlier closures. The Ohio and McDonald works were among the most marginal facilities the company owned; they had been close to getting the ax before. Yet to a community organized on the issue of plant closings, the shutdown was the final straw: Keeping the plants open or selling them to the employees was an issue to be pushed in the streets as well as in the courts.irate steelworkers seized U.S. Steel's district headquarters on January 28 to underline their view.

The aborted plan for a community takeover of the Campbell works was readily adapted to U.S. Steel's Youngstown works. This time the plan called for a small infusion of local capital, a \$60 million Federally guaranteed loan, and a substantial reduction in labor costs by deferring incentive payments and writing off accumulated pension and vacation benefits. Plans called for running the mills "as is" until the regular capital market could be tapped—possibly with Government

loan guarantees—for modernization funds. The plan called for cutting labor costs by 21 per cent, but this time it was hoped that labor's sacrifice would save the mill jobs permanently.

"We have a much better chance than ever existed for reviving the Campbell works," said Bob Vasquez, chairman of the Ohio Works local. "The labor force is in place. The management is in place. Our customers have not turned to other suppliers yet."

There was just one problem: U.S. Steel refused to sell the mills to any group which sought Federal loan guarantees—a proviso that would exclude sales to several of U.S. Steel's competitors as well as to former employees. Ironically, the company's stand was announced at a press conference in conjunction with the steel industry's request for new tax deductions which would cost other taxpayers some tens of billions of dollars.

The leadership of the steelworkers' locals at U.S. Steel's McDonald and Ohio Works in Youngstown are not

radicals. They seemed more discomfited than the company itself by the temporary occupation of U.S. Steel's Youngstown headquarters, preferring to place their hopes in reviving the mills under community ownership. That required the cooperation of the Carter Administration, not notable for its enthusiasm for plant occupations. They sought redress in the courts, suing U.S. Steel for breaking what they alleged was an oral agreement to keep the mills open as long as they broke even, and for anti-trust violations in refusing to sell the mills to Community Steel.

"We are not talking about a local bakery shop, a grocery store, a tool-and-die shop, or a body shop in Youngstown that is planning to close and move out," Federal District Judge Thomas Lambros declared in granting the restraining order that prevented the planned March 10 shutdown. "U.S. Steel cannot leave the Mahoning Valley and the Youngstown area in a state of waste." In agreeing to hear the case, the judge said he chose to "view

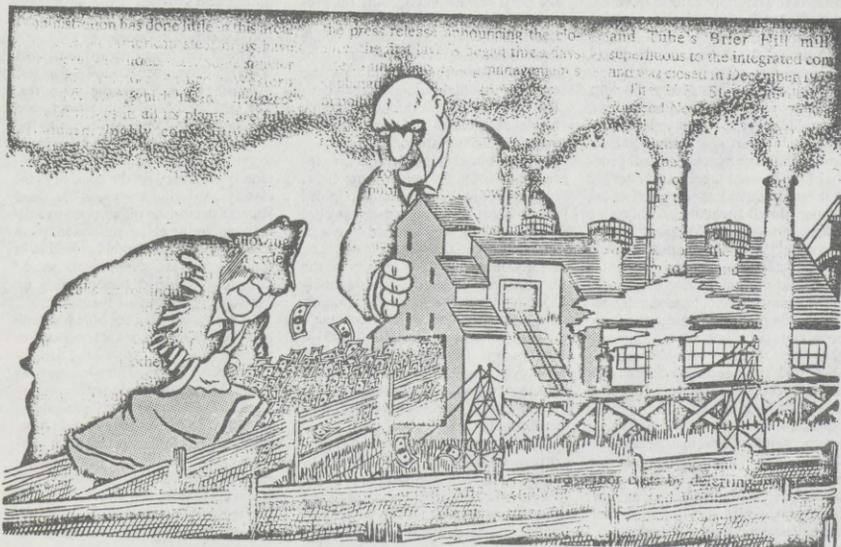
the law not as something static but in terms of modern-day conditions." And he moved the trial to Youngstown to enable the plaintiffs to subpoena U.S. Steel executives from Pittsburgh.

William Roesch, president of U.S. Steel since April 1979, told the crowded courtroom of studies that had been undertaken to determine whether there was a "viable fit" between Jones and Laughlin and Youngstown Sheet and Tube, and whether a merger would improve the profitability of the two.

What about the "fit" between Sheet and Tube's Brier Hill works in Youngstown and J&L's seamless operation at Aliquippa, Pennsylvania? asked Staughton Lynd, attorney for the steelworkers.

"I didn't see that as a problem," Roesch responded. There were murmurs from the audience, most of whom were free to attend the trial because of what the "fit" had done to the Brier Hill works in December.

David Roderick, chairman and former president of U.S. Steel, making his



first trip to Youngstown since 1977, testified that when the decision was made to shut down the Youngstown works on November 27, 1979, U.S. Steel officials had performance figures for Youngstown showing profitable operation in the first half of the year and a cumulative loss of only \$300,000 for the first ten months (Roderick's salary in 1979 was \$360,000). It was on the basis of future projections that U.S. Steel acted, Roderick said.

What projections? Lynd demanded. He said U.S. Steel's own figures, from plant management, showed a projected 1980 profit on fixed expenses. Roderick said he had no knowledge of that report.

Roderick's answers seemed surprisingly thin on facts, but he spoke categorically on policy topics. U.S. Steel would not sell the plants to its employees or any other group with a Government-guaranteed loan.

"Are you closing the door?" Lynd asked. Roderick affirmed his belief in free enterprise and the market place.

"Is there anything that the USW locals and the community can do to reopen U.S. Steel's consideration of the closures?" Lynd asked. "I cannot foresee such circumstances," the company chairman replied. His answer had a ring of finality.

The judge also heard from William Kirwan, general superintendent of the Youngstown works. Kirwan did not talk of free enterprise but of producing steel profitably—of the fact that the Youngstown works turned a \$10 million profit on fixed expenses in 1978 and \$4 million in 1979, with the projection of a tiny profit in 1980. He recalled how, in February 1979, Youngstown had produced half the profits in U.S. Steel's Eastern Division, and how production records were broken time and time again despite the antiquity of the equipment.

Kirwan spelled out the details of his "Kirwan plan," which he had pushed on the unreceptive U.S. Steel hierarchy, for massive new investment in the Youngstown works, and for building a new mill on the site of the old works. The audience applauded this glimpse of what community control is all about.

Judge Lambros's decision favored the company. The last heat of iron was tapped at the Ohio works within hours

after the decision was handed down. Judge Lambros dismissed the employees' antitrust case three weeks later, ruling that despite Community Steel's offer of \$20 million for the Youngstown works, the steelworkers had not demonstrated "any ability to purchase, [and] therefore no one has denied them anything."

A legal victory by the steelworkers might have brought a delay of one or two years in the shutdown. But the Youngstown issue goes deeper than that: What is a corporation's responsibility to employees and the community and what influence should employees have on investment decisions?

The Youngstown shutdowns and community opposition to them have drawn national attention. The United Steel Workers, whose national leaders have done little to help save the Youngstown mills, have now introduced plant shutdowns as a national bargaining issue.

Pending before the Ohio legislature is a bill requiring advance notification, severance pay, and payment to a community readjustment fund in the event of closures of major plants. Similar legislation has been proposed in Oregon, Michigan, Massachusetts, Pennsylvania, and New York, and in Congress. Milder plant closing laws are already on the books in Maine and Wisconsin.

Such moves deal with effects, not causes. Employee influence on investment decisions is more crucial; it was the decision not to reinvest in Youngstown, made in the 1960s and early 1970s, that led to the shutdown. Employees now have some influence in other countries—in Sweden and in Germany, for example—and few would maintain that the plants are the worse run for it. Swedish employers are required to provide full information to their employees and to negotiate all major investment decisions with the union. Full disclosure requirements would probably improve the quality of information in the hands of managers when they make important decisions. Perhaps the most astonishing point in Roderick's testimony in the Youngstown trial was the paucity of his company's knowledge of the profitability of the Youngstown works when the decision was made to shut them. ✕ ✕ ✕

It pays to go out of big business

The nation's fifteenth-largest industrial corporation, U.S. Steel, last year earned a whopping \$261 million from its vast and diversified operations. Yet, paradoxically, the corporation will also be receiving millions of dollars in tax rebates for 1979. To the envy of every mom-and-pop grocery store, the corporation's net profits will actually exceed its gross profits.

The reason is the tremendous, often irresistible incentives the Internal Revenue Service (IRS) offers to businesses to shut down plants. U.S. Steel's closings of more than a dozen facilities entitled the company to hundreds of millions of dollars in tax write-offs. Although this is entirely legitimate when segments of a company's operation are losing money, at least two of U.S. Steel's largest plants, the Ohio and McDonald works of Youngstown, had been profitable. To treat these plants as if they were losing money is a violation of the intent of Federal tax laws, and an affront to the workers who are paying for the rebates with their jobs.

It is not unusual for a corporation to transfer capital into businesses and regions that promise higher rates of profit. Without the tax incentives, however, the capital would have to be raised by selling less profitable busi-

nesses, rather than abandoning them. Ordinarily, there is not much to be made from junking old plants and equipment.

In the case of U.S. Steel, workers and the Youngstown community were interested in purchasing the two facilities to be junked, but the company refused. Without the windfall tax benefits of abandonment, the odds are that if the firm had still refused to sell the facilities, it would have continued to operate them as long as they remained profitable.

Here's how the IRS giveaway program works: When a company decides to abandon any of its businesses, for whatever reason, it can write off from its taxable income various accounting losses, which involve no actual cash outlay. The entire cost of land can be deducted, as can the "good will" attached to the business being closed. The company can claim that the reputation of the business was worth a good deal of money and should therefore be recognized for tax purposes. The plant and equipment are also deductible items.

A business normally writes off a percentage of the costs of these assets each year. The time span that a company takes to recover these costs is supposed to reflect the length of

their useful life to the business. When a plant is abandoned, however, costs that have not yet been deducted can be taken in full as a one-time charge against income.

The advantages of doing so extend well beyond simply recognizing these costs earlier rather than later. Business managements continually seek to move up tax deductible costs, because by doing so they are able to obtain earlier reductions in taxes. Also, the substantial one-time deductions of abandonment can completely eliminate a firm's current Federal tax liabilities for that year. And when these accounting losses exceed actual profits, the tax laws allow them to be applied retroactively against profits earned within the past three years, to obtain tax refunds. Any remaining losses can be carried forward for seven years to reduce future income tax obligations. For the big corporations in particular, going out of business can be a lucrative affair.

Bethlehem Steel's plant shut-downs in 1977 are a good example. The company received a tax refund of \$134 million by carrying back its losses to 1974, a year in which its profits, and therefore its tax bill, were substantial. The year 1977 was a bitter and anxious one for thousands of

steelworkers and their families who tried in vain to persuade the company at least to postpone the shutdown. The catch was that even a one-year postponement would have meant losses could be carried back only to 1975 which, along with 1976, was a year of smaller profits—profits too small to recapture any big returns.

Along with the timing of the decision to close, the decision itself was strongly influenced by IRS regulations. To qualify for the abandonment loss deductions, a corporation must provide evidence that the plants are being permanently discarded and can never be used again by the owners or retrieved for sale. This usually means scrapping the machinery and equipment, and even demolishing the buildings. Non-use alone, for no matter how long, won't do. As a result, during slack periods many companies which might otherwise mothball their factories until business conditions improved, decide instead to abandon.

Tax breaks for abandonment were never intended by Congress to apply to viable, profit-making operations. Moreover, business losses for tax purposes are not intended to include losses deliberately incurred. Nothing in the tax code justifies interpreting loss as a voluntary cost that a business freely chooses to incur for its own reasons.

The original abandonment regulations did conform to the law. The purpose was to give tax relief to those forced out of business by the Prohibi-

tion law. They applied to any business as long as evidence could be provided of a "change in business conditions" brought on by "unforeseen causes." Only economic hardship could qualify a business for tax write-offs due to abandonment losses.

The most recent major overhaul of the Federal tax code, in 1954, did not change the meaning of loss for tax purposes, but the IRS dropped the requirement of adverse circumstances when it adopted the current abandonment regulations in 1960.

It had good reason to do so. The IRS is an agency of the highly business-sensitive Treasury Department, whose Secretary must approve new IRS regulations and often participates in writing them. The new abandonment regulations reflect the changing requirements of big business, which by 1960 had begun moving rapidly toward greater regional and product diversification. To support the trend, a tax policy was needed to help business shift in and out of different localities and product lines.

Revising the abandonment provisions in Congress would have generated a public furor, but the administrative route posed no such problem. John B. Anderson, the Treasury Secretary at the time, had been, among other things, the president of a large holding company with diverse interests. He was particularly sensitive to these changing signposts of big business, and accordingly, approved the new abandonment regulations.

IRS regulations on deductions for pension funds provide yet another incentive for closing down plants. According to some IRS private letter rulings to various companies, which were unavailable to the public until the Tax Reform Act of 1976, the agency has approved highly questionable formulas for computing pension costs resulting from shutdowns. These formulas naturally included the additional costs to the companies that result from massive early retirement. On the other hand, various important offsets were conspicuously excluded.

One exclusion was the tremendous savings to the corporations as a result of vested workers (those with pension rights) receiving smaller retirement benefits because of their shorter term of service.

Unquestionably, IRS permissiveness toward business has encouraged the epidemic of plant closings. As a result, the nation's tax collector has participated in dotting the country with graveyards of empty lots and boarded buildings where vital business enterprises once resided. The agency claims that its abandonment policies are in strict adherence to the law's "true meaning." But to corporate management, they can be a tax bonanza, and to the worker, a harsh injustice.

—HARRY BRILL

(Harry Brill is in the Sociology Department at the University of Massachusetts, Boston.)

From family firm to mini-conglomerate

Small, family-owned companies have been hit hard by the merger wave of the 1960s and 1970s, with countless hundreds of locally owned firms falling into new hands. The A.C. Williams Company in Ravenna, Ohio, about thirty miles west of Youngstown, is a case in point.

Founded in 1844, A.C. Williams is among the oldest foundries in the country, and until 1976 it was still owned and managed by the family that founded it. The firm's two plants in Ravenna—together the town's second-largest private employer—had been unionized since the mid-1930s, and while wages were hardly munificent, the atmosphere was decent, the work steady, and the stress less than at the higher-paid assembly line jobs in the region. Union local president Jim Boyle described labor relations as average to good; in the twenty-one years he had worked at A.C. Williams, there had been only one strike, and that had lasted less than a day.

Four years ago, a group of investors bought the firm, and quickly used the assets to acquire three other Ohio foundries. As it happened, two of the new plants were non-union. So it was hardly surprising that the new management was willing to take a strike at A.C. Williams when the old contract expired in January 1980. Management did not even appear at the bargaining table; it sent only its attorney.

In the third week of the strike, the company bought a non-union foundry in Tennessee and announced its intention to move machinery from one of the struck plants to the new one, where production could be resumed. What followed could have been a scene out of a Grade B 1930s strike film.

Shortly after midnight on Thursday, February 14, a convoy of eleven trucks drove full speed through the picket line, along with a car and a van carrying twelve men equipped with pistols, shotguns, mace, nightsticks, and riot helmets. The pickets were forewarned of the arrival of the "movers" (who, according to Boyle's queries, specialize in such operations and have moved 192 plants under comparable circumstances) because the convoy got lost and radioed the police for directions. The police charged the eight pickets with aggravated riot, but they did not search the trucks for armaments. Only after the trucks were on the road did the police have a look in the remaining vehicle—the van—to find some disassembled shotguns and a fully assembled pistol.

The story has a happy ending. Although production did begin at the Tennessee plant, a decent contract was finally signed in Ravenna, raising wages, improving pensions, and leading to the rehiring of three employees previously fired. The old machinery stayed in Tennessee, but new machinery was brought in from

yet another plant bought during the strike. The union chalked it up as a victory.

But the nature of the company and its relations with the employees had been fundamentally changed. Four years ago, A.C. Williams was part of the community; today, it is free to shift work among union and non-union plants, or even-out of state.

"When I went to work there twenty-one years ago," Boyle says, "the manager was Harry Beck. He knew the wife's name, the names of your children, whether they played baseball or football, when they were sick. All that's gone now. This president don't give a damn whether he operates in Ravenna or someplace else."

A few months after the end of the strike, the company proved Boyle right by shutting one of its two Ravenna plants indefinitely for economic reasons and laying off half the work force. It was the first shutdown within memory; A.C. Williams had weathered other recessions and the Great Depression by reducing the work week rather than shutting down.

As in Youngstown, the power has moved out of the community, and with it has gone the old sense of security. Community loyalty and 130 years of tradition mean little in the new world of the mini-conglomerate.

—J.L.



Mike Konopacki

"Kirwan plan" to modernize the works.

Though the plant closing legislation under consideration confers no powers on employes or communities, it does raise the cost of shutting marginal facilities rather than modernizing them. Currently the tax law weights the balance on the other side. The economics of massive closures are more attractive to corporate executives because the public pays most of the tab. The company takes a one-year bath of tax losses (which can be written off against future income) and ends the drain on current earnings. Its executives gain a reputation for acting decisively to "turn the company's profits around."

But the cost to the taxpaying public for shutting marginal mills is heavy. Of the roughly \$200 million loss, charged against future taxable income, that U.S. Steel took in the Youngstown shutdown, other taxpayers will eventually pick up 46 per cent, or almost \$100 million. In addition, the direct cost in unemployment compensation, retraining, and other benefits for workers idled by the shutdown is esti-

mated at \$70 million over the next three years. Add in the state and Federal governments' losses in taxes, the waste in underutilization of Youngstown schools, roads, water and sewage plants, and the sum of losses absorbed by the public would far exceed \$200 million—about the cost of Kirwan's modernization program.

Perhaps the greatest irony is that Youngstown employes were unable to use their considerable financial clout. The assets of U.S. Steel's manual employes pension plan are *double* the value of the corporation's stock. Were the equity of the fund subdivided, Youngstown workers would be entitled to about \$100 million. But far from following the interests of its nominal owners, the company-controlled pension fund has sunk (as of 1976) a half billion dollars into the stock of predominantly non-union and, in some cases, blatantly anti-union firms. Conceivably, many of the beneficiaries would have preferred to see some of that fund invested in saving jobs by modernizing the mills instead of being pumped into non-union companies in-

vesting in the South or farther afield in Taiwan, South Korea, or Brazil. But the company controls the fund.

At issue in Youngstown, then, was the question of economic power. Do the rights of property ownership include the right to scrap jobs, mills, an entire town? The answer of the Youngstown community was a resounding No. While community control has been invoked as a last resort, Community Steel could have provided the vehicle to save Youngstown's steel industry by taking over the mills as Sheet and Tube, J&L, and U.S. Steel shut them down. Stabilizing the Youngstown steel industry under community control would also have cost jobs, but nothing like the 10,000 that now have disappeared.

The decision was not up to Youngstown. It rested with the steel companies and the courts, which ruled, albeit reluctantly, that the privileges of ownership included the right to scrap a community and its people. ■

Providing assistance to displaced workers

A number of union contracts and Federal statutes offer a variety of job protection mechanisms and layoff aid; economic, social, and political costs also must be weighed

BRUCE H. MILLEN

How can workers be protected against job loss caused by changing technology, economic structure, or public policy? Since the 1930's, trade unions have helped to safeguard workers through strategies of collective bargaining. In recent years, Congress has devoted increasing attention to the issue of alleviating the distress of job loss caused, or induced, by public policy. Several new or amended statutes, including the Regional Rail Reorganization Act of 1973, the Trade Adjustment Assistance Amendments of 1974, and the Redwood National Park Act Amendments of 1978, have provided job protection or adjustment assistance or both to certain classes of workers.

This article offers a brief review of both the collective bargaining and the statutory response to the threat of job loss. The programs described (whether collectively bargained or government initiated) are "reactive"; they are designed to protect workers against dislocation based on decisions already made or, at best, on decisions as they are being formulated.

Collective bargaining approaches

Unions always have played a key role in protecting workers from job loss resulting from technological or other change. They have succeed-

ed through obtaining a wide variety of contractual clauses, including work rules, exclusive jurisdiction over certain work, transfer rights, reduction in jobs through attrition, and protection of long-service workers through seniority.

Union concern over job security has heightened recently because of an acceleration in the rate of change—the increased government effort to bring about structural change or to achieve socioeconomic goals associated with health, safety, and clean air.

Work rules. One example of preserving jobs, most common in the printing, railroad, and longshoring industries, is the negotiation of work rules often designed to increase, or at least to hold constant, the level of employment by specifying standard crew sizes. Data from a Bureau of Labor Statistics survey show that in 1975 approximately 23 percent of workers studied were covered by contracts with a provision for limiting or regulating crew size.¹ Many of these rules are based on safety factors or on reasonable workload factors such as weight. In some industries—printing, mining, transportation, construction, utilities—as many as 50 percent of the workers were covered by agreements that included a provision on crew size restrictions.

Longstanding work rules may become dysfunctional if they place the industry in a noncompetitive position. This situation occurred on the West Coast, when an elaborate set of restrictive work

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rules on longshoring placed severe limitations on employers' freedom to assign longshoremen or on management's right to introduce new equipment.

To help the industry remain competitive, the union changed its approach to job security. Instead of resisting change, the union offered employers an opportunity to "buy out" the most restrictive work rules in exchange for a worker trust fund which would provide for an employer-financed, guaranteed workweek and early retirement rights.

Similarly, in May 1978, the National Constructors Association and eight craft unions affiliated with the AFL-CIO Building and Construction Trades Department signed an agreement that standardized work rules on major industrial construction projects in 11 States and gave management considerable latitude in assigning work and in the use of tools and prefabricated materials.

Slack-work provisions. Slack-work provisions are designed to keep all employees at work when operations are curtailed. Most of these provisions have limitations on the periods during which they are operative; therefore, they alone are not sufficient solutions to permanent displacement problems caused by plant shutdowns.

Worksharing is often part of a slack-work provision. Thirty-six percent of the organized workers examined by the Bureau of Labor Statistics in 1975 were covered by contracts providing for worksharing. Of these provisions, 75 percent provided for a reduction in hours. Other approaches to worksharing include division of work and rotation of employment.

Nine percent of the worker were covered by slack-work clauses that provided for restrictions on overtime. Clauses covering 27 percent included restrictions on subcontracting during periods of slack work.²

Employee transfer. Provision for transfer of employees among plant facilities also can preclude displacement, if employees are willing to relocate to continue their employment. According to 1975 BLS figures, 47 percent of the workers studied were covered by contracts providing for interplant transfers under varying conditions. Thirty-two percent of these workers were under contracts providing transfer in the event of impending layoffs, and 20 percent were under contracts providing transfer in the event of plant closure, consolidation, or mergers.³

Union jurisdiction clauses. Yet another method of protecting jobs through collective bargaining is the

union jurisdiction clause, which establishes exclusive rights over certain kinds of work for members of specific unions, typically the more skilled tradesmen. These contract clauses reflect provisions for assuring job security, which are found in union constitutions or bylaws and which have been accepted by employers. Unions also may establish jurisdictional rights to certain operations through agreements requiring that workers operating new machinery remain within the bargaining unit.

Historically, jurisdictional disputes and strikes have presented serious difficulties. However, jurisdictional problems have been reduced greatly in recent years with the development of a mechanism by the AFL-CIO nationally for the peaceful settlement of internal interunion disputes.

Attrition plans. If the number of employees affected is a small percentage of the total work force, it is sometimes possible to avoid worker displacement by relying on normal attrition to achieve planned reductions in the work force. Through a combination of hiring suspension, voluntary quits, retirements, discharges for cause, transfers, and deaths, a work force can be reduced gradually to the required size. While attrition clauses are relatively common in the railroad industry, according to BLS, only 0.5 percent of all collective bargaining agreements studied in 1972 (excluding railroads) provided this means for reducing the work force.⁴ Attrition provisions most often are limited to specific situations and are applied only on a one-time basis.

Since 1971, the contract between the U.S. Postal Service and the Letter Carriers and American Postal unions has specified that reductions of full-time postal workers be achieved solely through attrition. To date, attrition has reduced the postal work force by approximately 80,000.

Seniority and adjustment assistance. Because full protection from layoff or displacement cannot be achieved, most collective bargaining agreements provide greater job security to employees with longer service. Most agreements assign relatively more weight to seniority than to ability and other factors in determining the order in which employees are laid off. A 1971 BLS study found that all but 1 of the 364 contracts studied made seniority a criterion in layoff procedures.⁵

Plant shutdowns or large-scale layoffs, however, cannot be accommodated by rear-guard actions. Therefore, adjustment assistance or income maintenance programs have been negotiated.

The most common type of assistance is the severance pay allowance. According to 1975 BLS figures, 38 percent of workers studied were covered by agreements providing severance pay.⁶ Such pay was provided most commonly in the event of permanent plant or departmental shutdown, technological displacement, and layoffs expected to last more than 2 years. The benefits received are related to length of service, with 1-week's pay typically prescribed for each year of service, up to a specified maximum.

Supplemental unemployment benefits (SUB) grant weekly payments from an employer-financed fund over and above State unemployment insurance benefits. In 1975, 28 percent of the workers studied by BLS were under SUB provisions.⁷ While designed to provide relief against cyclical unemployment, SUB benefits can be an imperfect adjustment assistance program when plant closures occur. In recent years, the plans have been extended to provide weekly benefits to partially unemployed workers and severance pay and moving allowances to released workers.

Early retirement and advance notice. To reduce the size or the makeup of their work forces, an increasing number of companies have been encouraging their employees to retire early. According to BLS figures for 1974, more than 96 percent of those workers covered by defined benefit plans of more than 100 employees were eligible for early retirement benefits. The vast majority of these workers retire at their own option.⁸

Advance notice of layoff also can provide modest assistance to help employees in danger of job loss provide for financial contingencies and to find work elsewhere. Forty-four percent of workers studied by BLS in 1975 were covered by contracts with provisions requiring advance notice of layoff; a week or less (sometimes less than 24 hours) was the typical length of notice required.⁹ In addition, 9 percent of the workers were covered by contracts requiring advance notice of plant closure and 17 percent by contracts requiring advance notice of technological change. In view of the limited nature of the typical warning, this device is little more than a palliative.

Special negotiated agreements. In several cases, special agreements have been negotiated to protect specific groups of workers from the impact of displacement or technological change.

In 1936, the railroad unions and 141 carriers negotiated the "Washington Agreement of May 1936" to lessen the employment impact of railroad

consolidations. Under the agreement, a railroad employee losing his job as a result of consolidation was awarded an allowance equal to 60 percent of his earnings in the year prior to loss of employment, for up to 5 years. Relocation expenses and losses on sales of homes were paid by the railroads, and benefits such as free transportation, pensions, and hospitalization continued during the period of protection. The Washington Agreement provided the model for virtually all subsequent protective agreements and legislation in the transportation sector.

In 1959, the Armour Company and the two unions representing its employees established the Automation Fund Committee in response to worker displacement from shifts in production caused by market changes and the replacement of obsolete plants. This tripartite committee was a comprehensive effort to cope with mass layoffs within the framework of collective bargaining. The committee's activities were supported initially by a \$500,000 fund created under the 1959 agreement and financed through company contributions.

Methods effective yet limited. The array of methods developed by labor and management have been useful devices to protect workers in a single location or, as on the railroads, in a given industry. Some costs are incurred, of course, in following orderly processes of job and income protection to permit change to take place; but these costs must be balanced against the potential and actual economic, social, and political costs derived from unregulated job dislocation.

Labor and management, however, are limited in their capacity to manage change in today's interdependent economy and in the face of what are often social policy decisions imposed by the body politic. Moreover, only roughly 25 percent of the work force are covered by union contracts, so that the protections offered fail to protect a majority of workers and place greater costs on specific union employers than on their nonunion counterparts.

Legislated protection

Structural changes in the economy are taking place alongside of demands for such social imperatives as a cleaner and safer environment. The dual thrust of private and public policy has raised the spectre of job loss to a wide range of workers. They, as well as their unions, have been in the forefront of those urging adoption of various forms of protection and assistance in conjunction with the passage of legislation involving economic and

social change. Many believe the Unemployment Insurance program is sufficient protection and workers dislocated by reason of government policy have no greater claim for assistance than do workers made jobless by regular market forces.

Others, including workers affected by such government decisions as the encouragement of trade or the consolidation of the railroads, perceive the problem differently. They view a worker's career as an investment deserving of a return when affected adversely by new national policies. The recent record indicates that the Congress is sympathetic to the special needs of the claimants for extraordinary relief as the quid pro quo to gain support for necessary legislation.

Statutory provisions protecting special groups of workers against the adverse effects of government actions first appeared in transportation industry legislation in the 1930's. Initially introduced into railroad industry statutes, protective provisions subsequently were incorporated into laws dealing with the airlines and urban mass transportation. Outside of the transportation sector, such statutory requirements were relatively rare until recent years, when Congress appended job protection provisions to legislation in fields other than transportation.

Railroad industry. Federal legislation providing employment protection to railroad workers was first enacted in 1933 with the passage of the Emergency Railroad Transportation Act, a law that facilitated railroad consolidations. This statute, which expired in 1936, imposed a job freeze for all railroad workers. Soon after formulation of the Washington Agreement, the Interstate Commerce Commission (ICC), acting without an explicit statutory mandate, began to condition its approval of consolidation actions upon carrier acceptance of employee protection arrangements. Then, in the Transportation Act of 1940 (Sec. 5 (2) (f)), Congress amended the Interstate Commerce Act to impose such a legal requirement on the Commission.

In 1970, Congress passed the Rail Passenger Service Act to preserve intercity rail passenger service by creating a private profitmaking corporation, the National Railroad Passenger Corporation (Amtrak). Section 405 of the act provides protection for those employees who might be adversely affected by the corporation's takeover of intercity passenger operations. This section, modeled after Section 13 (c) of the Urban Mass Transportation Act, requires a railroad to provide fair and equitable arrangements to protect the interests of

employees affected by discontinuance of intercity rail passenger services. These arrangements include the following: (1) preservation of rights, privileges, and benefits under existing collective bargaining arrangements or otherwise; (2) continuation of collective bargaining rights; (3) protection of individual employees against a worsening of their positions with respect to their employment; (4) reemployment priority for employees terminated or laid off; and (5) paid training or retraining.

In addition, it became apparent early in the 1970's that additional Federal assistance to the railroad industry was needed when several rail carriers were involved in a series of bankruptcies that threatened liquidation and cessation of service. The Regional Rail Reorganization Act of 1973 attempted to deal with this problem by providing for the restructuring of the rail system in the Northeast and Midwest and for the establishment of a profitmaking corporation, the Consolidated Rail Corp. (Conrail), to operate the restructured system.

Unlike earlier statutes that required employee protection but set forth only guidelines toward that end, Title V of this act specifies the protective conditions that apply to adversely affected workers. Title V requires that protected employees who are dismissed or displaced to lower paying jobs receive a monthly allowance equal to their average monthly railroad earnings over the 12 months prior to the adverse action.

Employees with 5 years service or more on the effective date of the act are eligible to receive the allowance until they reach age 65 and become covered by the retirement system.

Under the title, laid-off employees may be required to transfer to vacancies for which they are qualified. If such transfers require a change in residence, the employees are reimbursed for all moving and traveling expenses for themselves and their families. The employees also may be reimbursed for any loss suffered in the sale of their homes or for any loss incurred in securing cancellation of a lease.

All allowances, expenses, and costs provided employees pursuant to these protective arrangements are to be reimbursed ultimately by the Railroad Retirement Board from a \$250-million authorization fund, known as the Northeast Rail Transportation Protective Account, maintained in the U.S. Treasury.

Payment of benefits under the various rail programs is made by the employer to the affected worker. In the case of Amtrak, the moneys are derived from general income, including Federal

subsidies. In the case of Conrail, payments are derived from a U.S. Treasury account via the Railroad Retirement Board. As of December 1977, \$90 million out of a total \$250 million authorization had been used.

The transit and airline industries. The award of any grant or loan by the Department of Transportation in support of urban mass transit is contingent upon the certification by the Secretary of Labor that fair and equitable arrangements including collective bargaining rights have been made to protect the interests of mass transit employees within the project service area. Section 13(c) of the statute provides that such arrangements shall include essentially the same protections as those under the Rail Passenger Service Act noted earlier in this article.

Protective arrangements similar to those provided by the Urban Mass Transportation Act also are required under the High Speed Ground Transportation Act of 1965, which authorizes research and demonstration projects involving high speed ground transportation. Payments to employees are made by the operating entities, some of that money being derived from Federal subsidies.

Since 1950, the Civil Aeronautics Board (CAB) has approved mergers and related actions only when carriers accept arrangements for protection of employees. The CAB instituted this policy during a period of instability in the industry which was marked by a number of transactions among carriers.

The next important step in what is, essentially, a line of progression was the establishment of conditions by the CAB in 1972, called the Allegheny-Mohawk decision, which provided a wide range of protections, including wage retention for those downgraded, 5-years' income maintenance at 60 percent of earnings for those dismissed, relocation allowances, and maintenance of fringe benefits.

Most recent has been the passage of the Airline Deregulation Act of 1978. Employees with more than 4-years' service with a certified carrier (one suffering a reduction in force of 7.5 percent over a 12-month period) are entitled to a number of cash and service benefits. Assistance payments will be paid for a maximum of 6 years. Unlike other legislation of this type, the Secretary of Labor is authorized to determine benefit levels for each class and craft of employee. While these benefits have not yet been determined, the Secretary undoubtedly will rely on precedents established in both the rail and air sectors of the transportation

industry. Eligible employees have first right of hire with other carriers, are entitled to training and other employment services, and receive relocation allowances.

It is not yet clear whether payments to airline employees will ever be required. Should it be necessary, a special fund has been authorized by Congress, but no money has been appropriated.

Trade adjustment assistance. Special programs of assistance have been created for workers adversely affected by increased imports. The first were established under the Trade Expansion Act of 1962. Then benefits were liberalized in the Trade Act of 1974. This act attempted to improve access to the program and to speed up the certification of impact and benefit delivery process. The qualifying criteria were eased substantially, and responsibility for worker adjustment assistance was assigned solely to the U.S. Department of Labor.

A worker certified by the Department of Labor as eligible to receive benefits under the 1974 Trade Act may receive the following: (1) a basic Trade Readjustment Allowance for up to 52 weeks, equal to 70 percent of the average weekly wage earned before employment was disrupted by import competition when added to State unemployment insurance payments (older workers and workers in approved training programs are eligible for 26 additional weeks); and (2) a full range of employment assistance services offered by State employment security agencies, including skills training and an allowance for job search and relocation.

Certification for eligibility for program benefits is a complex process. In recent months, the Bureau of International Labor Affairs has succeeded in reducing the time from application through investigation to certification of an adversely affected group to the 60-day statutory requirement in a high percentage of cases. Possibly another 2 or 3 weeks pass before the individual worker is certified for benefits by the individual State employment agency. Cash benefits are paid from the Federal Unemployment Benefits Account, and cost of training and other employment services is borne by CETA funds.

Redwood National Park Act amendments. Legislation enacted in March 1978 provides protection to workers displaced by the expansion of the Redwood National Park, established under a 1968 act. The Department of Labor began paying benefits under this program on September 13, 1978.

The act specifies benefit payments from the Federal Government to covered workers, including (1) supplemental layoff benefits for each week of

total and partial layoff, equal to their level of earnings prior to the park expansion; (2) maintenance of fringe benefits, such as seniority, health insurance, and pension rights, which affected employees would otherwise have had; (3) severance pay equal to 1-week's layoff benefit for each month of service, up to a maximum of 72 weeks for workers with less than 5 years of service and for other workers who choose this option; (4) retraining; (5) job search allowance; (6) relocation allowance; and (7) preferential hiring for jobs in the expanded park. These benefits may be received for a 6-year period.

An important aspect of this legislation is that the total or partial layoff of a covered employee between May 31, 1977, and September 30, 1980, is "conclusively presumed" to be attributable to the expansion of Redwood National Park. In other protective legislation, such as Trade Adjustment Assistance, the Department of Labor must certify the eligibility for coverage after the fact.

Benefit levels are high—\$350 per week is not unusual. Many have suggested that disincentives to job search have come into play. It must be kept in mind, however, that the lumber industry is a high-paying sector in this area and that benefits are tied to previous earnings.

Cash benefit payments (weekly or severance) are paid out of the Federal Unemployment Benefits Account, and cost for employment services are supplied under CETA.

Economic issues: equity and efficiency

No one can question the importance of the programs described in this article to individual workers caught in the shifts in public policy. And, in many cases, desired public policy, whether it be maintaining free trade or revitalizing urban transit, could not have been achieved were it not for the existence of these specialized programs. Thus, the programs can be supported on the grounds that gains made by the society, or the economy as a

whole, justify payments to individuals who suffer private losses.

Often, of course, it is difficult—as in the case of the expansion of the Redwood National Park—to quantify the gains to the public welfare and to compare them again with the benefits paid out to a specific group of workers. This means that in most instances—in the absence of generally accepted standards of what is "fair" in the society—the ultimate justification for a program, and for the redistributive function it represents, is a political one.

Political decisions or not, certain economic questions concerning both equity and efficiency must be addressed. On the equity side, every attempt must be made to treat people in similar economic situations in equal fashion. This is one of the arguments used by those who favor the exclusive use of unemployment insurance for all types of unemployment. If there are to be special assistance programs for certain classes of workers, then an attempt should be made to assure that horizontal equity across programs and within each program exists.

Economic efficiency demands that benefit levels and duration of benefits should be structured to encourage workers to seek new jobs. Or, under certain circumstances, lump-sum payments to discharged workers would spur earlier job search than would weekly benefits.

Care must be exercised in designing economicaly efficient programs. Job protection programs in inefficient industries promote less efficient utilization of labor and result in a misallocation of labor and resources not only domestically, but within the international economy.

This last element is at the base of the present effort by the Organization for Economic and Cooperative Development to develop "positive adjustment policies." The statement of such a goal, however, is a far cry from achieving it. As long as one person's definition of "efficiency" means another's job, the way is fraught with difficulties. □

FOOTNOTES

¹ *Characteristics of Major Collective Bargaining Statistics, July 1, 1975*, Bulletin 1957 (Bureau of Labor Statistics, 1975), p. 99.

² *Characteristics*, p. 85.

³ *Characteristics*, p. 86.

⁴ *Layoffs, Recalls, and Worksharing Procedures, 1972*, Bulletin 1425-

13 (Bureau of Labor Statistics, 1972), p. 18.

⁵ *Layoffs*, p. 31.

⁶ *Characteristics*, p. 90.

⁷ *Characteristics*, p. 90.

⁸ Unpublished Bureau of Labor Statistics data.

⁹ *Characteristics*, p. 89.

'PLANT CLOSED— NO JOBS'

An examination of the effects of legislation proposed to "soften the blow" of plant closings.

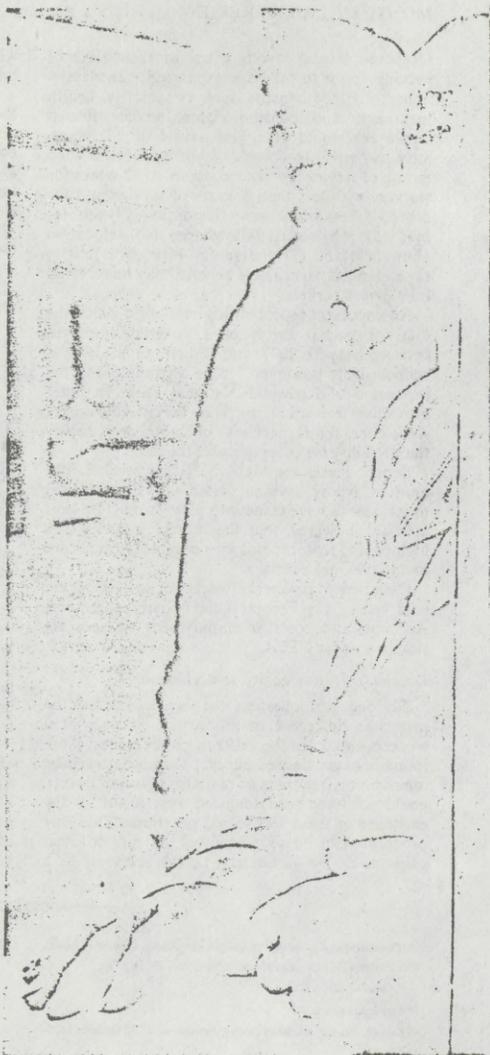
by Audrey Freedman

CG Public Affairs

The Federal government's decision to help provide life-support systems for the Chrysler Corporation, and possible intensive care for businesses connected with the auto industry, has been justified solely as a way of staving off staggering job losses. A Transportation Department draft report on the effects of a Chrysler shutdown estimated that 100,000 production workers would join the unemployed in a "decimated Detroit economic base," and that there would be a minimum of 292,000 additional job losses among suppliers, dealers, freight carriers and other related pursuits. This aspect of the potential bankruptcy caused the Administration and Congress to develop an ad hoc financial guarantee package that—at the least—would retard the eventual shrinkage of this less-than-private enterprise.

The special effort to save Chrysler comes at a time of plant closings in many parts of the country. Moreover, the recession will, undoubtedly, increase the business failure

Like it is—Joe Pettway, 27 years a steelworker, waits for unemployment compensation in Youngstown, Ohio.



across the board

rate.¹ While no government data exist to measure the number of plant closings and resulting job losses in the U.S.,² there is a growing apprehension that the next decade will be characterized by major employment cut-backs.

As a result, important figures in the union movement are calling for national legislation to soften the blow, pointing to European laws that regulate layoffs as examples of an appropriate extension of corporate responsibility to employees. In France, for example, a firm cannot reduce its work force without prior authorization from the government. If the work force is greater than 10 employees, the union must be consulted.³ Thus, when the need to retrench in the steel industry became acute, a "social contract" was worked out to eliminate 21,000 jobs over three years. The agreement included provisions for early retirement, worker relocation and training measures, and (outside the agreement) special severance bonuses as incentives for voluntary quits.⁴

In Germany the 1972 Works Constitution Act requires employers to give prior notice to the works council of any "operational changes which may be of great disadvantage to workers or to large numbers of them." This requirement covers plant closings, relocation of all or part of production, introduction of new work or production methods, and major changes in the organization or physical structure of the plant. The Federal Labor Court recently ruled that the prior notice requirement extends to large-scale "redundancies"—or layoffs. Thus, the further requirement for union-management negotiation of a "social plan" (covering severance payments and other cushions to loss of income) also applies.⁵

¹Alfred L. Malabre, Jr., "Rise in Firms' Loans, Lag in Ability to Repay Could Deepen a Slump," *Wall Street Journal* (April 4, 1980), p. 1.

²Some analysts have used Dun and Bradstreet establishment numbers. See C. L. Jusenius and L. C. Ledebur, *A Myth in the Making: The Southern Economic Challenge and the Northern Economic Decline* (Washington, D.C.: U.S. Department of Commerce, Economic Development Administration, November 1975); Peter M. Allaman and David L. Birch, "Components of Employment Change for States by Industry Gross, 1970-72" (Joint Center for Urban Studies of M.I.T. and Harvard University, September 1975), as cited in Richard B. McKenzie, *Restrictions on Business Mobility* (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1979).

³*European Industrial Relations Review*, #74 (London: Industrial Relations Services, March 1980), pp. 19-20.

⁴*European Industrial Relations Review*, #73 (February 1980), p. 23.

In the United States, management decisions to open and close production facilities, as well as to alter the scale of operations from day to day, are unilateral—a "prerogative" of capital. This is still true even though in the past decade several bills have been introduced in Congress that would restrict or regulate the "prerogative" of closing or reducing the scale of operations—primarily by adding mandated costs. Three bills introduced in 1979 and 1980 (S.1609, S.2400, and S.1608/H.R. 5040) are being examined by the Senate Committee on Labor and Human Resources. Field hearings were held in Camden, New Jersey, and Cleveland, Ohio, early this year. No more have been scheduled as of this writing. But the current retrenchment of the auto and related industries (steel, rubber, tires) may provide a tide of community unemployment to float new legislation through Congress.

The concentration of job loss in industrial towns creates political constituencies for regulation. In a Congressional district, a plant shutdown may suddenly bring high rates of unemployment, unexpected change in the job prospects of young people, new incentives for out-migration, loss in the value of personal investments, such as housing, and a major contraction in the tax base. The Chrysler report pinpoints the issue: "The most glaring conclusion of our analysis is that several major industrial communities will bear a very heavy burden in any Chrysler collapse, owing to the concentration of Chrysler plants in specific areas."

"In most Chrysler communities, Chrysler employment is a significant portion of the manufacturing work force. Even a 2 or 3 percent reduction in employment, the effect in the most diffused Chrysler locations, will produce local unemployment effects which can snowball.

"School budgets, city budgets, property values, and retail trade could all be severely affected in the short term in these areas. In cases such as Detroit and New Castle, the effects would be debilitating."⁶

Consequently, the first natural constituencies for plant-closing regulation are districts and communities that expect more losses than gains in their trade with other areas. Because auto, steel, and rubber industries are a major presence in Ohio, there is strong local pressure

⁵*European Industrial Relations Review*, #71 (December 1979), pp. 3-4. A detailed tabular presentation of legal restrictions and protections in group dismissal situations, covering Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Netherlands, Sweden, and the United Kingdom, is available in *European Industrial Relations Review*, #76 (May 1980), pp. 19-24.

⁶Preliminary Draft of Report on Employment and Economic Effects of Shutdown or Major Reduction in Business of Chrysler Corp." Transportation Systems Center, U.S. Department of Transportation, transmitted to the Secretary of the Treasury on September 5, 1979.

backing state regulation. Bills to regulate plant shut-downs have been formally introduced in states with concentrations of heavy industry: Ohio, Pennsylvania, Michigan, Illinois, Indiana, New York, Massachusetts and Rhode Island. Wisconsin passed a law in 1975 requiring a 60-day notice in the event a merger or other action will cause cessation of a business operation. Maine has a law requiring severance pay (but not advance notice) when plants are closed or relocated more than 100 miles away.

Thus, extensive job losses create aggrieved communities. If enough of them accumulate in industrial areas, the likelihood of "punitive" state regulation increases. For the Midwest, this course of political development has already begun, as the state legislation list above demonstrates. The movement has a flavor of protectionism, particularly when other states, offering better tax and regulatory terms to businesses, are viewed as competitors or pirates. Ultimately a state law restraining plant closure and relocation acts as a restraint (or tax) on the interstate mobility of capital.

The other potential constituency for regulation of plant closings is made up of unions in manufacturing. Their concern is, first, loss of membership, as unionized plants shut down; and second, loss to individual workers of high-paying jobs and seniority-accrued benefits such as paid vacations and pension rights. The unions see their concern as nationwide, and therefore seek to lobby for Federal bills. As an instance, the United Auto Workers has called for plant-closing legislation for several years. Two years ago, its vice president, Marc Stepp, proposed:

- "Creation of public bodies to exercise control over plant relocations. Specific criteria should be met before any plant is given approval to close or relocate.
- "Advance notice to workers who may be displaced by plant movement, and opportunities for those workers to transfer and receive sufficient relocation allowances.
- "Displaced workers to receive a transition income comparable to their income prior to the plant move; continued health and medical coverage; and expanded job search and retraining programs.
- "Affected communities to be protected from tax revenue loss. Corporations that relocate should be required to pay a tax to a community-state readjustment fund equal to a percentage of the annual lost wages from their action.
- "Federal tax codes to be amended to remove incentives to relocate. Plant shutdown, moving and relocation expenses should be disallowed as deductions unless stringent conditions regarding the workers and community are met.
- "A 'last resort' panel to investigate the possibility of continuing plant operations under different auspices.
- "Federal, state and local governments to require businesses to file detailed, accurate information on closings,

openings and transfers of work."⁷

More recently, the UAW has termed one potential plant closing in Cleveland "yet another tragic symptom of the ailments besetting our nation's economy, including the unduly high proportion of imported vehicles, which endangers the stability of the U.S. auto industry."⁸

As noted, Congressional proposals to regulate "run-away plants" have been introduced since the early 1970s⁹ without attracting much interest or support. Now, however, legislative aides for business are concerned that the UAW's heightened fear of industry contraction, plus a similar mood in steel, rubber, electrical products, and other manufacturing, will create a united union front in favor of regulation. Moreover, industrial communities that have experienced major layoffs (such as Youngstown, Ohio) may represent a specter to legislators who may feel pushed to prevent their districts from being "next." Finally, public interest advocates, such as Alice Tepper Marlin, of the Council on Economic Priorities, and Mark Green, of Public Citizen's Congress Watch, are proposing Federal regulation of plant closings as part of a suggested Corporate Democracy Act covering a wide variety of business practices. They have been joined by the Building and Construction Trades Department of the AFL-CIO.

Bills concerning plant closings and related matters that have been introduced in this Congress are, therefore, attracting business notice and business concern. One such measure, introduced by Sen. Harrison Williams (D., N.J.), is the "Employee Protection and Community Stabilization Act of 1979." Sen. Donald Riegle (D., Mich.) and Rep. William Ford (D., Mich.) have drafted another bill with the same purpose, but with somewhat different requirements and "remedial" measures. Recently, Sen. Howard Metzenbaum (D., Ohio) added his own proposal for legislation.

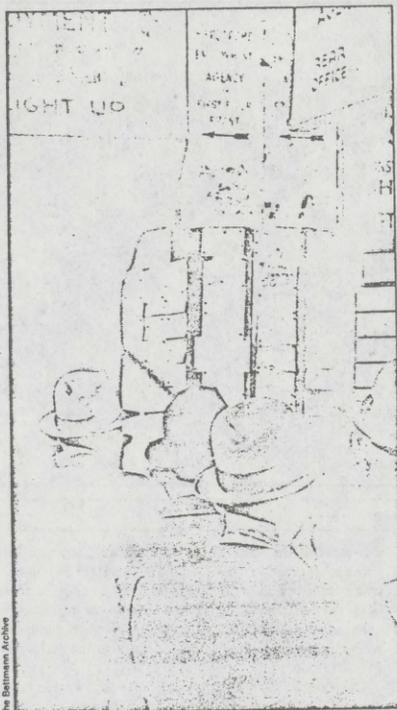
All three bills specify obligations of the corporation toward employees and toward "communities" (i.e., local governments) in which the company's plants or offices are operating. For example, all require advance notice to employees and communities of planned closings. All contain specific income and job security measures that the corporation must provide its affected employees. And all include various types of indemnity to the local government, to be paid by the departing company.

The job and income security measures, to be imposed

⁷United Auto Workers News Release (July 24, 1978).

⁸United Auto Workers News Release (February 25, 1980).

⁹E.g., H.R. 76, The National Employment Priorities Act of 1977, first introduced in 1973 (*Daily Labor Report*, #158, August 15, 1978).



The Bettmann Archive

Shadows of the Thirties.

by law, have a close parallel in voluntarily negotiated union contract provisions and in some personnel practices of individual companies. For instance, the bills require that employees be given transfer rights to comparable jobs at other company operations, as well as certain company-paid moving expenses. The Williams bill requires that companies post job opportunities in other parts of the company for the potential transferee to explore, and provide training for the new job at full pay. Transfer rights are a relatively common union contract provision in industries with multi-location production plants, especially where previous industry shifts have commended the transfer option to union negotiators. The most thoroughly

examined transfer options were embodied in the Armour "Automation Agreement" of the mid-1960s.¹⁰ Among 6.7 million union workers in large bargaining units, 46 percent have some type of interplant transfer rights, and 27 percent have relocation allowances.¹¹

In practice, such rights may not represent as much employment security as they suggest. Whether provided by contract or by law, transfer options are significant only to the extent of job growth (or high turnover) in other parts of multi-establishment companies. In a one- or two-location company, in a failing company, or in contracting industries, transfer rights and preferential hiring rights cannot be exercised, simply for lack of openings. Such rights are also unrealistic when other company operations use wholly different skills—if, say, other factories produce different product lines. Thus, the Steelworkers Union has not pressed U.S. Steel to offer formal transfers to its chemical or mining operations. Finally, even when vacancies for similar work are opening up in other activities of a business, the employee's housing investment, community ties, and family may all make relocation an unattractive choice, even if employment continuity is assured. The accumulation of these investments and social ties is a major cause of the relative immobility of middle-aged and older workers.¹²

The legislative proposals also include income security requirements that parallel those of union contracts. The Williams bill, for example, requires a company that is closing a plant to provide severance pay (and continued health coverage) in a formula that is very much like the Supplemental Unemployment Benefit (SUB) arrangement in auto, steel, and rubber union contracts.¹³ The

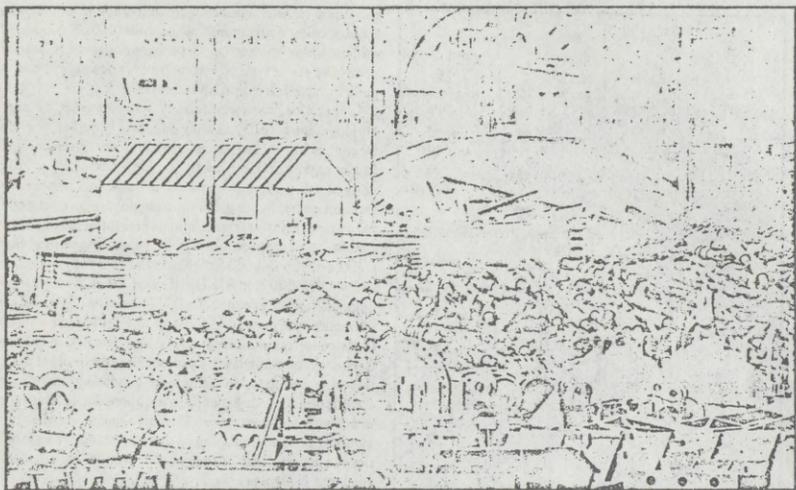
¹⁰See, for example, George P. Shultz and Arnold R. Weber, *Strategies for Displaced Workers* (New York: Harper & Row, 1966).

¹¹*Characteristics of Major Collective Bargaining Agreements, July 1, 1976* (U.S. Bureau of Labor Statistics, 1979), p. 74.

¹²A detailed analysis of the determinants and wage consequences of migration at different stages of the life cycle, including lay-off-related moves, can be found in Ann P. Bartel, "The Migration Decision: What Role Does Job Mobility Play?," *American Economic Review* (December 1979), pp. 775-786.

Partially subsidized job relocation was provided by experimental labor-mobility projects operated by the U.S. Department of Labor during 1965-69. Laid-off skilled workers with families and community investments, though they needed less job-finding counseling, required more money and project resources for the actual move. See Audrey Freedman, "Labor Mobility Projects for the Unemployed," *Monthly Labor Review* (June 1968), pp. 55-62.

¹³See chapter two of Audrey Freedman, *Security Bargains Reconsidered. SUB, Severance Pay, Guaranteed Work*, Report #736 (New York: The Conference Board, 1978).



Scrap heap—Obsolete equipment in an abandoned lot in Youngstown.

severance amount is not specified as a lump sum calculated on years of service and wage rate (as it would be in a typical contract's severance pay clauses). Instead, it is calculated as an amount that, when combined with the unemployment insurance benefit to which the displaced worker is entitled, would replace 85 percent of his previous weekly wage for a year (or for two years if the worker is over 55 years old). In effect, this bill would expand SUB-type coverage beyond the union group (one quarter of all employees in large bargaining units), and create an additional "specific circumstance" unemployment insurance. Since it would be paid by the company, the legislated severance pay would add a major cost to plant closings.¹⁴

It is fair to say that the bills propose nothing entirely new in employee readjustment procedures and income security arrangements. They seek to establish by law some special benefits that have been negotiated by some unionized companies in the give-and-take of collective bargaining. But the legislation pulls together a package of individual job and income protections, each one

¹⁴Conventional lump sum severance pay clauses cover 38 percent of workers in large bargaining units. *Characteristics of Major Collective Bargaining Agreements, July 1, 1976* (U.S. Bureau of Labor Statistics, 1979), p. 79.

expressed at the most liberal formulation known to bargain-ers, and rarely, if ever, found all together in one contract. So, a compounded best-package remedy, devised over two decades of pragmatic union negotiations in changing industry settings, would be given to nonunionized employees whose circumstances meet the plant-closing definition.

One further job protection right may soon appear in the plant-closing proposals, since it is already becoming a fixture in transportation reorganization regulations. The affected employees are given a "right of first hire" on other carriers, unless found less qualified (or a phrase that might ultimately be interpreted as "untrainable"). Use of this job-rationing technique in railroads has led to the need to specify, for example, that the ex-Rock Island employee's right-of-first-hire will be coequal with that of the ex-Milwaukee Railroad employee's right.¹⁵ The effect, for airlines and railroads, is industrywide hiring rights and the intensification of pressure for industry job listing and industry-arranged hiring.

As those who are designing regulations for plant closures begin to notice that employee rights are greatly limited by the size and vitality of the company that owns the plant, they may look toward the "transportation mod-

¹⁵*Daily Labor Report*, #62 (March 28, 1980), p. A-13.

el" of job security. After all, if a state or locality could require local employers of all kinds to provide right-of-first-hire to the plant's ex-employees, then extensive labor mobility would not be required, nor relocation subsidy, nor income support and welfare. The logical progression is toward a job clearing system in which, at the least, all local openings are required to be posted with an agency such as the state employment service, and all terminated employees must be given a chance at those jobs.

If there is nothing really new in the employee protection proposals (just a generous extension of some union-won provisions) there is a very new idea in the "community" rights sections. The Riegle-Ford bill requires that companies indemnify local governments for part of the tax loss that will occur because of the plant closing. The idea of a community payment has arisen from the tax shocks in areas like Youngstown, Ohio, where a sudden contraction in local government income hit social service activities (such as schools) at the same time that rising unemployment put added demands on those same community programs. A special indemnification requirement may have another effect: the lowering of the asking price for the plant.

When a company decides, say, to terminate a factory, the proposed bills require it to give "advance notice" of six months to two years. At this point, it faces the choice of selling the plant to another operator (an employee group, perhaps, or the "community" with Federal assistance)—or paying the local government a proportion of previous average annual taxes and stiff income security payments to ex-employees, after the plant is closed. As soon as notice is given, then, the market value of the plant is diminished by the required tax and layoff obligations. The plant is an industrial hot potato: as capital, it is encumbered by major future obligations. So a sale of this capital—which would remove the obligation—becomes desirable, and the price is lowered by the amount of the tax and layoff benefits that the company will escape.

Obviously, it would be better to sell the plant before notice is required; that is, to pass the hot potato before it becomes necessary to announce the impending closure. However, in the sensitive buyers' market for distressed plants (the news gets around) the sale price will also be discounted, to varying extents, for the avoided tax and layoff benefits. It is in this fashion that *the bills lower the value of existing capital invested in plant and equipment*. In a sense, this is capital as hostage.

One study of plant closings, by a public interest group called The Progressive Alliance, discusses employee and community "buy-out" legislation and continues:

A progressive program for redeveloping local economies impacted by business closings and cutbacks converges nicely with another important issue which events have shifted to the back burner of the American political agenda. We refer to the direct public investment in, and own-

ership of, at least a few major companies in such key sectors of the economy as housing, transportation, energy, communications, and basic materials. The case for such "benchmark" public enterprise, which has been made in detail elsewhere, turns, in a nutshell, on the need to gain direct access to information about the true costs of production in a sector, to be in a position to replace outputs or services if they are withheld by private corporations, to offer genuine price competition in the face of inflationary private markups, and to have an instrument for directly creating at least some jobs in the places where people most need them. In the context of the present subject, abandonment of a plant or a region by private enterprise creates a potential opportunity for introducing carefully targeted public enterprise, obviating (or at least reducing) the necessity for outright nationalization.¹⁶

The tone of this argument suggests an underlying characteristic of the supporters now assembling behind the plant-closing bills: they seem to be drawn from many different particularistic bases. Some, like the unions, emphasize the unemployment and union shrinkage caused by industrial shift. Others see an opportunity for breaking up corporate concentration; they may include the community cooperative and employee ownership enthusiasts. Other supporters may be the city and county governments of old industrial towns and the state governments of the Midwest. All of these interests may succeed in putting together an eight course meal that satisfies every palate within the grouping. But it seems likely that this very fullness will weaken the chance of passing omnibus plant-closing legislation.

Decisions to reduce or to relocate business operations are made in a competitive world with constantly shifting relative advantages. These shifts include the level and the location of demand for products; the kind and cost of transportation of raw materials—as well as of finished products; the relative tax burdens; the relative costs of inputs such as raw material, labor, and energy; the competitive adrenalin level in the company and the industry. The vitality of our economic system is based on a flexible response to such market signals. Consequently, our social programs have been centered on sustaining income while allowing job change and employment shifts to take place. In the U.S., we have encouraged mobility of labor, rather than subsidizing and "stabilizing" employees in one place, one technology, one industry, and one occupation for life. It seems unlikely that public opinion will support measures to ossify present industrial structures, subsidize the less efficient, and allocate jobs. ▽

¹⁶Reprint of concluding chapter of the Progressive Alliance's study on plant closings, (*Daily Labor Report*, #73, April 14, 1980, p. D-7).

[From the AFL-CIO News, July 19, 1980]

NATIONAL REMEDIES SOUGHT TO COPE WITH PLANT CLOSINGS

PORTLAND, OREG.—Although the Pacific Northwest has been hard-hit by shutdowns of timber mills and fish packers, the issue of plant closures is national in scope and requires federal legislation to remedy the economic disaster that has cost an estimated 15 million jobs since 1969.

That was a major conclusion of participants in a weekend conference here addressing the theme: "Shattered Factories—Shattered Lives: Reclaiming Our Future." Taking part were 350 trade unionists, and members of religious, environmental, civil rights, community action and women's organizations. Sponsors of the conference included the Oregon AFL-CIO and the Woodworkers, which has its international headquarters in Portland.

Boston College economist Barry Bluestone, co-author of a recent study on plant closings, called the shutdowns a weapon in the "profits vs. people" war. He linked plant closings with political attacks in state and federal legislatures on such worker protections as the Occupational Safety & Health Act, social security, workers' compensation, unemployment insurance and the Federal Trade Commission.

Bluestone said plant closings and "cut-and-run" management practices in the forest products industry are often done as a result of deliberate corporate planning without regard to the profitability of a particular plant.

He suggested that the technological revolution in communications and transportation has made this possible. "We have a permissive technical environment whereby the multinational corporations can move where they want to and move so quickly that no community can do anything about it," he observed.

These corporations, Bluestone said, have their "cash cows, that is, industries and plants they milk to invest money elsewhere like the South with its non-union labor and overseas countries with their cheap labor."

Kathy McKirchy of the University of Iowa, a representative of the National Organization for Women, pointed out that plant closings not only cost women workers jobs needed for family maintenance, but often make them victims of intense social problems that stem from the economic pressures of job losses, including beatings, child abuse and divorce.

William Olwell, a vice president of the Food & Commercial Workers, told the conference his union has lost 100,000 jobs in the retail trades and 50,000 jobs in meat packing in the last five years.

Olwell was particularly critical of corporations that pull out and leave unions "holding the bag" for pensions.

The erosion of community tax bases caused by plant closings and the resultant cutbacks in public employment were cited as major problems by Roger Yockey, executive director of Oregon Council 75 of the State, County & Municipal Employees. He warned of the "forces trying to divide" public and private sector workers.

Woodworkers' President Keith Johnson, who served as moderator for the conference, called the decision by Georgia-Pacific Corp. to move its headquarters from Portland to Atlanta "symbolic of the shift of capital from the Northwest to the South."

Johnson, whose union has thousands of members out of work because of plant closings, some caused by the decline of the housing industry, termed Georgia-Pacific's move an illustration of the corporate practice of "boom and bust, cut and run."

The Oregon AFL-CIO will support plant closing legislation to be presented to the state legislature at its biennial session which opens in January. State Federation President Robert G. Kennedy said labor's proposed Employment Stabilization Act will contain comprehensive safeguards, including requirements for one-year advance notice of closings, compensation to employees in the form of income and benefits maintenance, relocation expenses, and compensation to communities for lost tax revenues.

[From the AFL-CIO News, Sept. 13, 1980]

PLANT CLOSINGS POSE JOB WOES FOR CONNECTICUT

HARTFORD, CONN.—Delegates to the 24th annual convention of the Connecticut State Labor Council addressed themselves to the growing problem of runaway shops and its adverse impact on employment in the state.

State AFL-CIO President John J. Driscoll warned that the problem is acute in Connecticut, citing the closing of manufacturing plants involving some 2,500 work-

ers in industries vulnerable to import competition. He urged support of the national AFL-CIO drive against counter-productive federal tax programs, which make it profitable for American corporations to locate operations in foreign countries.

Senator RIEGLE. Well, thank you very much, Mr. Roberts, for the very comprehensive statement and the materials that you have put together for us and made available to us.

I want to talk with you just briefly about the nature of this problem, because I think it is a large problem, a complex problem, and there are a lot of parts to it. It is difficult to make sense of it, and then integrate the many facets of the issue into an overall picture.

One thing that has concerned me very much the more I have gotten into this, is that, we support the concept of the free enterprise system and see the advantages of that, we also are beginning to see that the private sector oftentimes can dump off certain costs onto the public sector. The nature of our public income maintenance programs, that are designed to help communities or people in distress, are such that they must pick up the costs when, for example, a company in a given situation makes a decision to move a plant somewhere across the country or outside the country. This is one of the ways that a relocating company can shift the costs associated with that disruption onto someone else or some other entity. And that other entity today normally is either government or private individuals. But there is no way, as things now stand today, unless the company does it voluntarily, to assign the costs of the disruption or relocation to the party that is really responsible for the decision.

Let me add that I think philosophically, as we deal with plant closing legislation and these larger issues, that one of the things all of us are going to have to do is to think through this particularly complex issue and decide where we draw the line as to the question of how costs are incurred and then assigned to responsible parties. We also face a similar issue right now with chemical wastes.

As you know, we have a problem with the disposal of chemical wastes, and it raises an equivalent sort of philosophical and governmental public sector issue. The question is: Should the company that actually creates the hazardous waste be responsible for its final disposition, or is it sufficient to simply pass responsibility on to someone else, whether the burden falls upon the affected private individuals or the nearest governmental unit?

I think another area that we need to investigate here, a basic human and philosophic issue, is whether workers and human beings in a company are qualitatively different from other assets in a business. We have seen situations where in a business environment, if a plant or a physical asset is seen as no longer necessary, oftentimes that physical asset, if it does not have any great value, may be thrown out the back door onto the scrap heap.

We need to differentiate between people, that is, the workers and the other elements of production, the nonhuman elements. These two elements should be treated differently. Today, companies, when they fold, oftentimes treat the workers exactly the same as they would treat an obsolete machine sitting in some corner of the factory, and the two are quite different. I think as a society, despite all our problems with energy, reindustrialization, and so forth, we have to think through the issue of what are the differences, and,

whether there are reasons for us as citizens to want to take a different view toward workers who are displaced and another part of the means of production that is nonhuman. I think theorists can easily confuse these two integral parts of the production process and treat them as one, while they are not the same at all.

This also relates to the question of the public responsibility for the costs of trying to keep people's lives together when they lose their jobs, or their company moves away. Those are burdens, that we are all asked to carry as taxpayers, and therefore, I think we have some right to expect an assignment of responsibility, an assignment of cost, that attaches to the parties that are responsible for the creation of the cost. This question of what parties, public or private, should bear such costs will provide timely topic for interesting debate. I have not heard it debated much yet in the context of this Presidential campaign.

Looking into the eighties as a decade, it is clear that we must begin sorting out these equity issues and deciding how we want to maintain the best strengths of our society without slipping into a centralized planning society—that, when one looks around the world at them, have clearly demonstrated many shortcomings. The issue as framed is: How can we keep the vitality of our private sector while at the same time act responsibly, humanely, and wisely, to achieve the right blend of private and public interests? This is really what lies at the foundation of these hearings.

Do you have any data in any of the information that you submitted for the record that goes to the issue of the public cost of an abrupt plant closing where the plant has been shut down only to move either across the country or out of the country?

Mr. ROBERTS. I think not so much in the material that I referred to. Howard Samuel, preceding me, referred to the Barry Bluestone/Bennett Harrison report, which contains some estimates on that. I do not have anything that extends beyond that question of the social cost estimates raised there—

Senator RIEGLE. I think we need to have these kinds of figures. And let me just suggest to you that it would be very helpful if, within the AFL-CIO or elsewhere, we could begin to develop factual illustrations of the costs and who pays them today. We know there is a cost; the question is, Who pays it?

We need to focus more on what is the public cost. In order to get a public mandate for change, which I am not sure we have, because the debate has not yet framed the issues with adequate clarity, we must have a persuasive case that appeals to people outside of the regions like the industrial Midwest and Northeast. These are the hardest hit regions; we have had a lot of plant closings and relocations there. We must appeal to people across 50 States by demonstrating the costs in both human and dollar terms that are borne by people who lack the resources to pay these costs. The costs should be borne more directly by those responsible for the plant relocation or plant closing decisions.

I also think we need more leadership from the business side. I think we need some people—there used to be a phrase, “business statesmen” and “business stateswomen”—I have not heard many from the private sector speaking to this issue. This is an issue that affects both sides, management and labor. I am not looking for an

answer that is stacked one way. We are looking for something that constitutes a rational response to a real problem.

So my invitation, while it is directed to you as a witness at the table now, goes beyond, to members in the business community. I would like to see a response from the business community with an answer to the problem. And to simply say that the problem is someone else's is not a reasonable response. That is a failure to accept responsibility, a failure to recognize the problem. On major issues of this kind, we are all parties to the decision, and we all have to participate.

Mr. ROBERTS. Let me just make a point in connection with what you have just said. We recognize that not all the costs will necessarily, or necessarily should fall, on the employer, and there are inevitably going to be costs which are carried by both the local community and the broader community, our society as a whole. But I think the very great and praiseworthy aspect of your legislation and the legislation that Senator Williams has proposed is that it sets a tone for increased business responsibility, the responsibility of business management to internalize more of these costs. We do not say that all the costs of, say, a plant closing or a relocation should be borne by business; we are not doctrinaire about the split between the internalizing and the externalizing of these costs. But it is certainly very clear to us that at present, the allocation of cost is very heavily on the workers and the communities and the society as a whole, and much less so on the business management.

So I appreciate very much the comments that you made.

Senator RIEGLE. Well, you know, these tremendous pockets of unemployment we have are as current as the article that is on the front of today's Washington Post, where they announced that they had 70 Federal jobs available in Baltimore within the last week, and 15,000 people came forward, people on crutches and every manner of circumstance came forward, desperately, to apply for those 70 jobs that were advertised. We had a situation in Detroit the other day where we had advertised 10 jobs in the sanitation department. On the first day, there were something like 3,500 people that arrived, and they finally had to take police action because they literally could not cope with the number of people who were trying to respond.

So we know in certain areas that to some extent the nature of this unemployment problem is related to the issues surrounding plant closings. It is part of the larger problem we are trying to investigate more fully here.

So I am hopeful that in these discussions today, and I say this especially to the people in the room who have come and have an interest in this, whatever side of the issue you support, we can begin to tackle this issue and help work solutions through. We should set out to do this with good will, with compassion, feeling, intelligence, and wisdom.

We do not always have issues as clearcut as the Vietnam war, around which people can rally. But I think this issue, in a very real sense, contains a lot of the same elements because it should touch us deeply. We should be aware of the very real suffering brought upon workers and communities when plants relocate or

close. I hope this situation compels us to want to find some answers here and not just sidestep responsibility.

So let me sum up here by saying I appreciate your discussion today, and we want to stay in close touch with you.

Mr. ROBERTS. Thank you, Mr. Chairman.

Senator RIEGLE. Thank you.

Our next witness is Carroll Teague, who is the vice president of the Brown & Williamson Tobacco Corp., of Louisville, Ky.

We are delighted to have you, Mr. Teague. We will make your entire statement a part of the record following your oral remarks, and ask that to the extent possible you summarize the high points of your testimony.

STATEMENT OF CARROLL H. TEAGUE, VICE PRESIDENT OF PERSONNEL AND LABOR RELATIONS, BROWN & WILLIAMSON TOBACCO CORP., LOUISVILLE, KY.

Mr. TEAGUE. Thank you very much, Senator.

I am Carroll Teague, vice president of personnel and labor relations for Brown & Williamson Tobacco Corp. We are the Nation's third-largest cigarette manufacturer, and we are headquartered in Louisville, Ky.

I do appreciate very much the invitation to appear before this committee to outline the procedures followed by Brown & Williamson in the closure of our Louisville manufacturing facility which, incidentally, is continuing to take place, and the reduction of operation of our plant in Petersburg, Va.

Plant closures and work force reductions can be a traumatic decision for management, a major disruption in the lives of employees. We believe ours was conducted with understanding of and compassion for the human factors, with careful planning for the economic necessities of both corporation and its employees, with close attention to the inevitable impact on our plant communities.

I would caution, however, that plant closure is a subject that cannot be considered in generalities, for each is a unique situation of time, place, and circumstance. Whether a company is publicly or privately held, is large or small, is a major or minor employer, is with or without bargaining representatives for labor, is discontinuing operations, or is moving within or outside jurisdictional boundaries—all of these factors must be evaluated. In addition, the overall economic times, the specific conditions of locales and regions, the reasons for closure, and the economic conditions of companies faced with closure are also major considerations on this issue.

From my own experience, merely dealing with the needs of one company, its communities and its employees, I do not envy this committee its task of attempting to find a just and equitable understanding of this very complex issue.

In the interest of brevity, I will outline four points regarding Brown & Williamson's closure. First, the reasons the plant closure was necessary; second, the planning that went into the closure announcement; third, the actual negotiations between the company and its 10 separate unions representing its employees, and then finally, the closure settlement agreement between the company and the unions involved.

By way of background, in the 1960's, Brown & Williamson was growing at a rate twice that of our industry average. Moving into the 1970's, all indications were that this fantastic growth would continue. Our two major plants in Louisville, Ky. and Petersburg, Va., had been expanded to the bursting point. Based on the company's projections at that time, additional plant capacity was an absolute necessity.

In the early 1970's, a plant in Macon, Ga., was conceived and funded as an investment in the future. Then came the downturn. In 1973, our rate of growth declined. By 1975, our market share was decreasing at an accelerating rate. But substantial investments had already been made in land, and construction had already begun on the Macon plant. That construction was continued with high hopes of rapidly turning the sales decline around, thus permitting the use of three major cigarette manufacturing plants.

In January of 1977, the Macon plant was opened with a nucleus of employees transferred from our Louisville, Ky., plant and our Petersburg, Va., plant.

By 1978, however, the company's sales position had not improved; decline was continuing. Furthermore, total U.S. industry sales were leveling off. We had built beyond our needs. We had two multifloor plants that were some 40 years old and subject to all of the problems of such facilities. We had one single-floor, ultra-modern operation with unparalleled production capabilities.

For many reasons, some of which are technological, it became absolutely clear that Macon's production efficiency and output could provide the immediate economic stability as well as the growth potential that the company required.

Macon had to become Brown & Williamson's primary manufacturing facility. Louisville operations would have to be phased out, Petersburg's reduced.

We investigated every aspect of plant closure with a planning team composed of representatives within our company from law, manufacturing, corporate affairs, finance, personnel, and labor relations. We consulted with Robert McKersie and Fil Foltman of Cornell University's School of Industrial and Labor Relations, and evaluated their extensive research.

Our final plans after this planning would be guided by three basic principles.

The first principle was advance notification of plant closure. The union representatives with whom we bargain proposed and received agreement from the company as far back as 1971 that the earliest possible notification would be given should a plant closing be required. The contract provision also stated that the company and the unions would immediately upon notification begin negotiations on all terms and conditions.

This provision on advance notification was amended in 1974 to provide for 1-year advance notice and amended again in 1977 bargaining to provide for 18 months' advance notification. For our company, advance notification, although proposed by the unions, was not resisted. On the contrary, we felt it both proper and beneficial to all concerned.

The second principle was one of joint involvement. We knew that the major stakeholders in our decision would be our employees and

the unions representing them. We took the time and made the effort to answer any and all questions raised by bargaining unit representatives.

We asked for and received the cooperation of union leadership in avoiding a potentially explosive situation. What could have resulted in sabotage, wildcat strikes, or slowdowns became an orderly procedure, with loyal, however saddened, employees continuing to work regularly and diligently.

The communication lines that were opened by this joint involvement proved invaluable in shaping the final agreements. When those were reached, joint committees of union and management transmitted them to our employees.

The third and final principle was one of gradual reduction of work force spread over what will, in the end result, be about 3 years. This gradual phaseout has served several purposes. It has allowed affected employees to make required job transitions in a more orderly, less emotionally disturbed manner. It has provided for a staggered influx of new workers into the general job markets, thus reducing community unemployment burdens and minimizing competition between workers who once stood in our factory side by side. It has facilitated the gradual expansion of the Macon plant to fully operational status, thus eliminating many of the problems that would have been caused by rapid development. The settlement agreements agreed by the unions and the company built in flexibility that allowed senior and older employees the option to leave the company earlier than junior employees, thus enhancing their chances for finding suitable jobs elsewhere. This was at the option of the older, more senior employees.

On January 18, 1979, we announced the plans for the closure of the Louisville plant and the reduction of the Petersburg operation by approximately one-third.

Senator RIEGLE. Mr. Teague, excuse me. I have got a very awkward situation that has arisen. I will describe it to you, and I am going to have to ask your understanding with it. The testimony is important to us, because I think you are an example of what can be done in a constructive way when a company is willing to face these issues and really make an effort to try to resolve them fairly and responsibly.

I am obligated to be on the Senate floor presiding right now. In fact, I am 15 minutes late, and I have gotten a call indicating that they are going to have to shut down the process over there unless I get over there immediately. Senator Williams is upstairs at the moment in a conference. He will be back down here very shortly, within 10 minutes or so.

So what I am going to have to do, and I apologize to you for doing it, we are going to have to recess here briefly. I would like to ask you to remain and continue your testimony in a very short period, as soon as Senator Williams returns, as well as the other witnesses. I apologize for that, but there really is no other way around it at the moment.

So, if you would be understanding enough to just suspend for maybe 10 or 15 minutes here, and the other witnesses as well to remain, we will resume in about that time.

Mr. TEAGUE. I certainly understand, Senator, and would be glad to do so.

Senator RIEGLE. I thank you.

The committee stands in recess, then, subject to the call of the Chair.

[Recess.]

The CHAIRMAN. Mr. Teague, I must apologize, but I am sure you can appreciate that we have reached the point where we are experiencing impossible conflicts.

Mr. TEAGUE. I certainly understand, Senator.

The CHAIRMAN. I greatly appreciate the fact that you could stay so that I could be here for, I gather, the balance of your statement.

Mr. TEAGUE. If I may, I would like to resume where I left off.

The CHAIRMAN. I would appreciate it.

Mr. TEAGUE. We considered it of paramount importance that employees hear our plans first and at approximately the same time. International union representatives and local business agents were contacted on the morning of day one. A meeting of the local union officials and committee persons was held and the announcement was read. Factory management was told, followed by first line supervisors. Hourly employees received word of the closure from their supervisors, and each was given a copy of the announcement. Union officials were told that we would very shortly be prepared to detail the company's plans and answer all pertinent questions and to bargain collectively.

Our employees were naturally saddened by the news of plant closure, but they were encouraged to hear that the company and unions would meet for a full explanation of why closure was necessary. Their representatives heard us out; they accepted our sincerity in making the closure as orderly and as fairly as possible. And they contributed substantially to the give and take discussions that led to closure planning and final settlement.

During the 3 months of intensive negotiations, company and union representatives arrived at a settlement. The unions did not challenge the proposal to close the plant and moved into active bargaining about the effect on employees.

The bargaining issues included, for example, pensions, retraining and job placement opportunities, relocation rights and financial assistance, seniority provisions, health and welfare benefits and medical coverage. In addition, we were able to renegotiate with the unions involved work rules for the Louisville plant that would facilitate the phase-out while still allowing the plant to operate efficiently.

Without exception, finally, all unions ratified the settlement offers by the company by June of 1979.

Now I would like to move into the final settlement itself, very briefly.

The severance pay agreement for hourly workers provided for 26 weeks' pay for employees with 1 to 6 years of service. Employees with 7 to 10 years of service received 26 weeks' pay plus 1 additional week for each year of service in excess of 6. And finally, the bulk of our employees had 10 or more years of service and received 26 weeks' pay, plus 1 week for each year of service that they had been

with us. This meant that employees with 30 years of service would receive a total of 56 weeks of severance pay.

Improvements were made in our pension and benefits plans. The principal change for both hourly and salaried employees affected by the closure was to institute what we call deferred early retirement benefits, or the rule of 70. Under this plan, employees with a combination of age and service equaling at least 70, whose employment with the company is severed prior to age 55, will, upon reaching age 55, be eligible for early retirement benefits. I might add that our early retirement benefit has historically been in effect at age 55, so this provided for employees who were not yet 55, at attaining age 55, to retire.

We provided this benefit in recognition that older employees will probably have more difficulty finding other employment and may very well need security beginning as early as age 55.

Recognizing that employees severed by the company may not be able to move directly into the job market, we provided, at no cost to the employee, life and medical insurance continuation for up to 6 months from the date they are severed from the work force.

The final major benefit improvement involved our profit-sharing plan. Prior to the settlement agreement, employees receiving severance benefits could not participate in the profits during the year in which they received the benefits. This was changed to allow employees severed as a result of plant closure to receive proportionate shares of profits during the year in which they are severed.

To provide incentives for employees to leave in the numbers and at the times called for by the company plan, our settlement agreements specify that these benefits will only be received by employees when the company needs to reduce the force. As earlier noted, this permits us to phase out the Louisville operation over a 3-year period by gradually reducing the force, while maintaining necessary production output.

The next major element in the settlement agreement was relocation to our Macon, Ga., facility. During negotiations with the Bakery, Confectionery and Tobacco Workers' Union, we agreed to designate between 325 and 375 jobs at the Macon, Ga., plant for Louisville and Petersburg employees. We also agreed to offer some 45 craftsmen jobs to those represented by the International Association of Machinists, those jobs to be in Macon, Ga.

The company provided a comprehensive financial assistance program to help employees transfer from the older locations. We paid for all of their moving expenses and helped them with their housing. As with the other benefits, the number of employees and timing of relocation were at the option of the company.

At various times during the phase-down, we have announced job opportunities for Louisville and Petersburg employees, with selection based on seniority. The employees are then given from 60 to 90 days to visit Macon, at our expense, select housing, move their belongings and physically go to work in the Macon, Ga., facility.

On the management side, substantial numbers of managers from the Louisville plant and some from Petersburg have been offered management opportunities in Macon, and these will continue as the plant grows in size.

The final part of our settlement agreements provided programs to assist severed employees in finding other employment or in adjusting to various job markets. The first part of these programs was extensive employee counseling. Counselors from both management and union ranks were trained in group counseling techniques. Groups of about 20 employees were gathered in conference rooms where all benefits and programs of the settlement agreements were explained in detail, with time provided for questions. Other programs dealt with early retirement counseling, financial planning counseling, and available programs of the Small Business Administration. I might add parenthetically at this point that a considerable number of our employees chose to be familiar with small business operations' and the Small Business Administration was very helpful to us in coming out to our facility and conducting these counseling sessions.

Our job placement assistance program began with broad mailings to industries throughout the State, indicating that the company was phasing out its Louisville operation and had skilled and semi-skilled employees who would soon be available for jobs elsewhere. The company assisted employees in preparing resumes; we also provided company facilities and time off for employees to be interviewed by these company representatives.

In addition, the company contracted with the State and local boards of education to conduct high school classroom training on company premises. This training allowed employees to take the high school equivalency examination. To date, over 400 employees have taken the GED equivalency test as a result of this program.

Another part of our program dealt with retraining. One group specifically—what we call making and packing machine adjusters—are highly trained craftsmen who have skills unique to the tobacco industry which are not readily transferable to outside job markets. For these employees, we financed outside programs to retrain them as skilled craftsmen for other industries and to receive comparable pay.

The International Association of Machinists represented employees were offered retraining opportunities to become multi-craftsmen in our Macon plant. These are the 40 opportunities I alluded to earlier in my statement.

One final benefit that resulted from the plant closure negotiations deserves comment. A joint effort by company and union officials was successful in getting the State Unemployment Compensation Commission to revise its rules to allow employees receiving severance benefits as a result of plant closure to also receive unemployment benefits. Now our employees who cannot find jobs receive both their severance benefits from us and can also apply for and receive unemployment compensation.

If our successful plant closure means anything, it is summed up in the words of International Union Representative Joe Masterson, who said, "Brown & Williamson has demonstrated the type of company they are in their concern for their employees by agreeing to the best plant closure agreement I have ever seen. Probably the best in the country."

In light of the inevitable necessities that befell us, we are proud of that achievement. But we are also humbled by the contributions

made by our employees and their representatives to a fair and equitable settlement. The company, its employees and its unions were benefitted by union/management relationships based on respect, trust and recognition of need.

Thank you very much.

The CHAIRMAN. Well, it is a most impressive story that you give us of your company and your workers and your unions, through collective bargaining, coming together so completely, so intelligently, so wisely and so humanely, to address themselves to this particular dislocation. It is very impressive. It seems to me that it could also be a model for others to understand, and hopefully, provide a viable alternative to other companies confronted with similar difficulties.

How many employees are affected? Maybe that is in your statement, but I missed it.

Mr. TEAGUE. There will be about 4,000 affected by the plant closure and reduction in force; 3,000 in our Louisville plant will be affected by the plant closure, and 1,000 in our Petersburg, Va. plant affected by the reduction in force. So, about 4,000 out of a total hourly work force of 6,000.

The CHAIRMAN. And how many have been separated at this point?

Mr. TEAGUE. About 1,500, sir.

The CHAIRMAN. What have the employment results been for those who separated and did not take a transfer? Have they been successful in finding other positions?

Mr. TEAGUE. Well, we think very well. I say, "We think," because it has been difficult to keep track with all of the employees after they leave our employ. The counseling programs and the retraining programs take place while they are still with us, and the interviewing programs. So we do not have exact numbers on those that have found employment elsewhere, once they leave us. But the informal feedback is that it is going very well, and many of them are finding suitable jobs, particularly the more skilled employees.

The CHAIRMAN. If you were to advise another company facing plant closing, what would you suggest would be the most important action to take in handling that impending closing?

Mr. TEAGUE. I think the three principles that we jointly arrived at have served us in good stead—that of advance notification, that of joint involvement by the unions and the company, and then the phasing out over a period of time. That is certainly one key to both the employees being able to find other employment and the effect on the community.

The CHAIRMAN. And I was going to ask what actions should be avoided in a closing situation, but I would imagine it would be the other side of the coin.

Mr. TEAGUE. That would be my opinion, yes, sir.

The CHAIRMAN. We will be referring to this statement and your experience as we continue in this whole basic study of how dislocation can be more intelligently handled than it has been in the past.

Thank you very much.

[The prepared statement of Mr. Teague follows:]

TESTIMONY OF CARROLL H. TEAGUE
VICE PRESIDENT, PERSONNEL AND LABOR RELATIONS
BROWN & WILLIAMSON TOBACCO CORPORATION
BEFORE THE
U.S. SENATE COMMITTEE ON LABOR AND HUMAN RESOURCES
WASHINGTON, D.C.
SEPTEMBER 17, 1980

I'm Carroll Teague, Vice President of Personnel and Labor Relations for the Brown & Williamson Tobacco Corporation. We are the nation's third largest cigarette manufacturer, headquartered in Louisville, Kentucky.

I appreciate the invitation to appear before this committee to outline the procedures followed by Brown & Williamson in the closure of our Louisville manufacturing facility and the reduction of operation of our Petersburg, Virginia plant.

Plant closures and work force reductions can be a traumatic decision for management, a major disruption in the lives of employees. We believe ours was conducted with understanding of and compassion for the human factors, with careful planning for the economic necessities of both corporation and its employees, with close attention to the inevitable impact on our plant communities.

I would caution, however, that plant closure is a subject that cannot be considered in generalities, for each is a unique situation of time and place and circumstance. Whether a company is publicly or privately held, is large or small, is a major or minor employer, is with or without bargaining representatives for labor, is discontinuing operations or moving them, is moving within or outside jurisdictional boundaries--all these factors must be evaluated. In addition, the overall economic times, the specific conditions of locales and regions, the reasons for closure, the economic conditions of companies faced with closure are also major considerations.

From my own experience, merely dealing with the needs of one company, its communities and its employees, I do not envy this committee its task of attempting to find a just and equitable understanding of this complex issue.

In the interest of brevity, I will outline four points regarding Brown & Williamson's closure:

1. The reasons the plant closure was necessary.
2. The planning that went into the closure announcement.
3. The negotiations between the company and its 10 separate unions.
4. The closure settlement.

In the 1960s, Brown & Williamson was growing at a rate twice that of our industry average. Moving into the 1970s, all indications were that this fantastic growth would continue. Our two major plants--in Louisville and Petersburg--had been expanded to the bursting point. Based on the company's projections, additional plant capacity was an absolute necessity.

In the early 70s, a Macon, Georgia plant was conceived and funded as an investment in the future.

Then came the downturn. In 1973, our rate of growth declined. By 1975, our market share was decreasing at an accelerating rate. But substantial investments had been made in land, and construction had already begun on the Macon plant. That construction was continued with high hopes of rapidly turning the sales decline around, thus permitting the use of all three major manufacturing plants.

In January, 1977, the Macon plant was opened with a nucleus of employees transferred from Louisville and Petersburg.

By 1978, however, the company's sales position had not improved; decline was continuing. Furthermore, total U.S. industry sales were leveling off.

We had built beyond our needs. We had two multi-floor plants that were some 40 years old, and subject to all the problems of such facilities. We had one single-floor, ultra-modern operation with unparalleled production capabilities.

For many reasons, some of which are technological, it became clear that Macon's production efficiency and output could provide the immediate economic stability as well as the growth potential that the company required.

Macon had to become Brown & Williamson's primary manufacturing facility. Louisville operations would have to be phased out, Petersburg's reduced.

We investigated every aspect of plant closure with a planning team composed of representatives from law, manufacturing, finance, personnel and labor relations. We consulted Robert McKersie and Fil Foltman of Cornell University's School of Industrial Labor Relations and evaluated their extensive research.

Our final plans would be guided by three basic principles:

First was advance notification of plant closure. The union representatives with whom we bargain proposed and received agreement from the company in 1971 that the earliest possible notification would be given should a plant closing be required. The contract provision also stated that the company and the unions would immediately upon notification begin negotiations on all terms and conditions.

This provision on advance notification was amended in 1974 to provide one year advance notice and amended again in 1977 to provide 18 months notice.

For our company, advance notification, although proposed by the unions, was not resisted. To the contrary, we felt it both proper and beneficial to all concerned.

The second principle was one of joint involvement. We knew that the major stakeholders in our decision would be our employees and the unions representing them. We took the time and made the effort to answer any and all questions raised by bargaining unit representatives.

We asked for and received the cooperation of union leadership in avoiding a potentially explosive situation. What could have resulted in sabotage, wildcat strikes or slowdowns became an orderly procedure, with loyal, however saddened, employees continuing to work regularly and diligently.

The communications lines that were opened by this joint involvement proved invaluable in shaping the final agreements. When those were reached, joint committees of union and management transmitted them to our employees.

The third and final principle was one of gradual reduction of work force spread out over what will, in the end result, be about three years. This gradual phase-out has served several purposes. It has allowed affected employees to make required job transitions in a more orderly, less emotionally disturbing manner. It has provided for a staggered influx of new workers into the general job markets, thus reducing community unemployment burdens and minimizing competition between workers who once stood side by side. It has facilitated the gradual expansion of the Macon plant to fully operational status, eliminating many of the problems that would have been caused by rapid development. The settlement agreements built in flexibility that allowed senior and older employees the option to leave the company earlier than junior employees, thus enhancing their chances for finding suitable jobs elsewhere.

On January 18, 1979, we announced the plans for closure of the Louisville plant and the reduction of the Petersburg operation by approximately one-third.

(Reems)

We considered it of paramount importance that employees hear our plans first and at approximately the same time. International union representatives and local business agents were contacted on the morning of day one. A meeting of the local union officials and committee persons was held and the announcement was read. Factory management was told, followed by first line supervisors. Hourly employees received word of the closure from their supervisors and each was given a copy of the announcement. Union officials were told that we would very shortly be prepared to detail the company's plans and answer all pertinent questions and to bargain collectively.

Our employees were naturally saddened by the news of plant closure. But they were encouraged to hear that the company and unions would meet for a full explanation of why closure was necessary. Their representatives heard us out; they accepted our sincerity in making the closure as orderly and as fairly as possible. And they contributed substantially to the give and take discussions that led to closure planning and final settlement.

During three months of intense negotiations, company and union representatives arrived at a settlement. The unions did not challenge the proposal to close the plant and moved into active bargaining about the effect on employees. The bargaining issues included, for example, pensions, retraining and job placement opportunities, relocation rights and assistance, seniority provisions, health and welfare benefits and medical coverage. In addition, we were able to renegotiate work rules for ^{the} Louisville ^{plant} that would facilitate the phase out while still allowing the plant to operate efficiently.

Without exception, all unions ratified the settlement ^{offer by the UO} by June 1979.

The settlement contained the following:

The severance pay agreement for hourly workers provided for 26 weeks' pay for employees with one to six years of service. Employees with seven to 10 years of service received 26 weeks' pay plus one additional week for each year of service in excess of six. Employees with 10 or more years of service received 26 weeks' pay, plus one weeks' pay for every year of service, inclusive from year one. This meant that the employee with 30 years of service would receive a total of 56 weeks' pay.

Improvements were made in our pension and benefits plans. The principal change, for both hourly and salaried employees, was to institute what we call Deferred Early Retirement Benefits, or the rule of 70. Under this plan, employees with a combination of age and service equaling at least 70-- whose employment with the company is severed prior to age 55--will, upon reaching age 55, be eligible for early retirement benefits. ^{with age} We provided this benefit in recognition that older employees will probably have more difficulty finding other employment and may very well need security beginning as early as age 55.

Recognizing that employees severed by the company may not be able to move directly into the job market, we provided, at no cost to the employee, life and medical insurance continuation for up to six months from the date they are severed from the work force.

The final major benefit improvement involved profit sharing. Prior to the settlement agreement, employees receiving severance benefits could not participate in the profits during the year in which they received benefits. That was changed to allow employees severed as a result of plant closure to receive proportionate shares of profits during the year in which they are severed.

To provide incentives for employees to leave in the numbers and at the times called for by the company plan, our settlement agreements specify that these benefits will only be received by employees when the company needs to reduce the force. As earlier noted, this permits us to phase out the Louisville operation over a three year period by gradually reducing the force while maintaining necessary production output.

The next major element in the settlement agreement was relocation to Macon. During negotiations with the Bakery, Confectionery and Tobacco Workers' Union, we agreed to designate between 325 and 375 jobs at the Macon plant for Louisville and Petersburg employees. We also agreed to offer some 45 craftsmen jobs in Macon.

The company provided comprehensive financial assistance to help employees transfer from the older locations. As with the other benefits, the number of

employees and timing of relocation were at the option of the company. At various times during the phase down, we have announced job opportunities for Louisville and Petersburg employees, with selection based on seniority. The employees are then given from 60 to 90 days to visit Macon, at company expense, select housing, move their belongings and physically go to work in the Macon plant.

On the management side, substantial numbers of managers from the Louisville plant and some from Petersburg have been offered management job opportunities in Macon. These will continue as plant capacity is increased.

The final part of our settlement agreements provided programs to assist severed employees in finding other employment or in adjusting to various job markets. The first part of these programs was extensive employee counseling. Counselors from both management and union ranks were trained in group counseling techniques. Groups of about 20 employees were gathered in conference rooms where all benefits and programs of the settlement agreements were explained in detail, with time provided for questions. Other programs dealt with early retirement, financial planning and available programs of the Small Business Administration.

Our job placement assistance program began with broad mailings to industries throughout the state, indicating that the company was phasing out its Louisville operation and had skilled and semi-skilled employees who would soon be available for jobs elsewhere. The company assisted employees in preparing resumes; we provided company facilities and time off for employees to be interviewed.

The company contracted with the state and local boards of education to conduct high school classroom training on company premises. This training allowed employees to take the high school equivalency examination. To date, over 400 employees have taken the GED equivalency test as a result of this program.

Another part of our program dealt with retraining. One group specifically--making and packing machine adjusters--are highly trained craftsmen who have skills unique to the tobacco industry which are not readily transferable to the outside job market. For these employees, we financed outside programs to retrain them as skilled craftsmen for other industries.

International Association of Machinists represented employees were offered retraining to become multi-craftsmen in Macon.

One final benefit that resulted from the plant closure negotiations deserves comment. A joint effort by company and union officials was successful in getting the State Unemployment Compensation Commission to revise its rules to allow employees receiving severance benefits as a result of a plant closure to also receive unemployment benefits. Now, our employees who can't find jobs receive both severance benefits from us and can also apply for and receive unemployment compensation.

If our successful plant closure means anything, it is summed up in the words of International Union Representative Joe Masterson, who said, "Brown & Williamson has demonstrated the type of company they are in their concern for their employees by agreeing to the best plant closure agreement I've ever seen. Probably the best in the country."

In light of the inevitable necessities that befell us, we are proud of that achievement. But we are also humbled by the contributions made by our employees and their representatives to a fair and equitable settlement. The company, its employees and its unions were benefitted by union/management relationships based on respect, trust and recognition of need.

Thank you very much.

The CHAIRMAN. We invite the American Society for Personnel Administration, Mr. Davis and Mr. Blodger, to join us.
Gentlemen, we welcome you.

STATEMENT OF JOHN D. BLODGER, GROUP DIRECTOR, EMPLOYEE RELATIONS, BENDIX CORP., NEWPORT NEWS, VA., AND IMMEDIATE PAST PRESIDENT, ASPA; RONALD H. DAVIS, VICE PRESIDENT, INDUSTRIAL RELATIONS, CAROLINA STEEL CORP., GREENSBORO, N.C., AND NATIONAL VICE PRESIDENT FOR PUBLIC AFFAIRS, ASPA; AND JIM FERGUSON, VICE PRESIDENT OF GOVERNMENT AFFAIRS, ASPA, A PANEL

Mr. BLODGER. Thank you, Mr. Chairman. We appreciate this opportunity to appear before you.

I am John D. Blodger, immediate past president of the American Society for Personnel Administration. I am accompanied this morning by Ronald H. Davis, national vice president of public affairs for ASPA, and Jim Ferguson, vice president of government affairs.

The American Society for Personnel Administration is the world's largest organization of personnel and industrial relations practitioners in business, industry, government, and education. It has 30,000 members and 330 chapters in all 50 States and in 29 foreign countries. ASPA's members represent organizations which employ about 27 million people.

Needless to say, we feel that as professionals, any improvement that can be made in organizational and individual effectiveness will have definite benefits in increasing productivity for the future.

The title that you have chosen for these hearings, "The Role of the Worker in the Evolving Economy of the 1980's," is rather broad in scope. In order for us to make any attempt to make a contribution, we would like to limit our testimony to possibly three areas.

They are: One, involving the workers in the decision process as it relates to individual plant productivity; two, a brief discussion of some programs in forward-thinking companies to minimize the impact on employee dislocation or relocation, and three, suggestion of areas of study in cooperative efforts prior to determining any national policy on reindustrialization efforts within our country.

Within this framework, we assume that the major emphasis in these oversight hearings will be to examine ways and means to avoid mass unemployment or layoffs which would impact on the community. Obviously, the closure of a plant in a company-town setting is always traumatic. On the other hand, the closing of a similar sized plant in a metropolitan area where jobs are plentiful could have minimal impact.

The inquiry, then, is whether a Federal program or policy should be developed to ease the burden on individuals and communities as the result of employee dislocation or relocation.

At the same time, we would like to suggest it is essential that any program considered be carefully evaluated in terms of potential impact on the economy as a whole and particularly on the question of foreign competition. We mention foreign competition as being particularly important to this study because it is our observation that most of the problems we are having in unemployment at the present time is directly related to industries which are suffer-

ing from the inability to compete with foreign manufacturers. Most obviously, this would include automotive and steel and those companies which are directly related to those industries such as suppliers.

It is generally agreed by persons of all political persuasions today that we in the United States must take dramatic action to get our industry revitalized or we are in serious trouble.

Both major political parties are proposing, by way of tax programs, to encourage investment in new plants and equipment. The basic purpose of those proposals is to improve our productivity as a nation and create substantial numbers of jobs for our citizens. We applaud that approach and believe it is critical to get on with that type of program immediately. In fact, the creation of an economic atmosphere to accomplish these goals in our country is long overdue, and we have already lost too much ground in vital industries.

The June 30, 1980 issue of Business Week was dedicated to the subject of "Reindustrialization of America." In that issue, the role that government could approach in providing a policy which would aid in the reindustrialization of America is reviewed. However, the authors indicate that there will have to be a change of attitude on the part of our elected representatives and career government employees.

One of the authors indicates, and we quote:

Devising a successful government policy for reindustrializing the U.S. requires a markedly changed attitude in Washington both by elected representatives and the career bureaucrats who staff government agencies. To bring this about, the government first has to assign a high priority to the development and implementation of such a policy.

In the United States, during the past 20 years, policy has emphasized improving the quality of life, particularly attempts to redistribute income to low income groups and minorities and to create an egalitarian society. Now it is clear that the government cannot achieve such goals, no matter how admirable, without economic growth. And the United States cannot have economic growth in the future unless its industrial base is modernized. To start the government process, however, a consensus has to exist among labor, management, and other major interest groups. The climate is right for a coalition approach.

We support this conclusion that the time is right for mutual cooperation.

Relative to the original three points that we made at the beginning of our testimony, let me amplify with some discussion in those areas.

We are aware that there have been joint employee-management cooperative efforts since the early 1920's. However, only during World War II and beginning in the 1970's was there any major activity ongoing. We are all familiar with such terms as the Scanlon plan, the Rucker plan, the Jamestown Project and individual industrywide productivity committees such as those of basic steel and the automotive industry. While these efforts have been scattered and widely publicized by groups such as the National Center for Productivity and Quality of Working Life, American Productivity Center, and the American Center for the Quality of Work Life, a collective effort on the part of the Government, employees and management should be made to package these new productivity improvement techniques for dissemination to industries feeling the foreign competitive crunch.

We are aware that the United States is among only a few countries in the free world that does not have a social policy which directly addresses the impact of mass redundancy on the unemployed. We, of course, are to some degree aware that Japan has had a social policy which encompasses the concept of lifetime employment in large measure. In recent times, they have moved toward accepting the fact that some degree of unemployment is necessary under given economic circumstances.

European countries have become involved in issues through the concepts of industrial democracy or codetermination in what would be management decisions in this country, to the point where it can be very difficult to lay off employees or close a plant. Our multinational companies have certainly experienced working under those conditions and could give testimony as to the impact.

Specifically, within our own corporation, we have recently been involved in opening a facility in a European country which requires mandated time limits for notification of layoffs or plant closings.

Given that a number of countries have, by social policy or law, addressed this issue, the question still remains whether the United States and its citizens should adopt some similar program. We believe that a serious and comprehensive study of the issue would indicate we should not.

The second item of our testimony deals with examples of ongoing programs in this country. We would like to point out that forward-thinking companies have attempted through their social performance committees, to minimize the impact of employee dislocation or relocation by virtue of economic pressures whether due to aged plants and facilities or the lack of a market for production of a product. Examples of some of the experiences are as follows.

Several companies have used the concept of outplacement or third party firms to insure employees are properly trained in seeking other positions within the United States prior to closing a plant or relocating employees. Under normal circumstances, employees in most major corporations are advised that they will be dislocated or relocated in a 3- to 6-month time frame. If there are insufficient opportunities for all displaced employees, most major corporations have separation pay allowances which can be extended from 1 to 2 years depending on the level of the employee displaced. A recent limited survey of major corporations demonstrated a minimum separation allowance of 3 months' salary. In addition, a number of employers provided sweeteners to induce early retirement for those eligible employees in order to maintain hard-won gains in minority and female employment.

A major example of aiding employees in relocation was identified in the Wall Street Journal of August 15, 1980, in which it was planned by a company to relocate 900 workers from New York to Ohio. This article describes an extremely elaborate process which includes mortgage differential payments for up to 3 years, interest-free loans for up to \$5,000 for new home purchase downpayments and interest-free loans for the purchase of a primary or secondary automobile. We highlight this situation because it is our understanding that only 50 to 60 percent of those employees chose to

move to Ohio, which leads us to think that there are additional studies required to determine worker mobility patterns.

Other companies have mandated a freeze on external hiring to insure that those dislocated or relocated employees have first option on all internal positions for which they may be immediately qualified or trained to fill within these organizations.

Some companies are beginning to use the concept of work-sharing as a way to minimize unemployment of their employees. There has not been enough history to determine whether or not this is a feasible solution. European countries, however, have utilized this concept for the past 10 years, and perhaps we could gain from a study of their models.

The third item, as suggested earlier in this testimony, is that we believe there should be a cooperative effort in researching the subject of a national policy on full employment and reindustrialization, and we believe our organization is uniquely qualified to be of assistance to your committee in that regard.

One approach to the study of this issue would include an analysis of the entire Japanese economic environment. Perhaps their employment policies have been successful because they have maintained cartels in critical industries and have a single national banking system which is all dedicated toward making Japanese products competitive in world markets.

The alleged practice of dumping excess products in our country may explain in part their ability to maintain social policies protecting the individual from the impact of unemployment. It is our understanding, however, that no one receives welfare payments in Japan unless they actually perform some work. In the United States, we have a liberal unemployment compensation by international standards and have complementary welfare programs to assist our unemployed.

A similar study of European policies should also be undertaken.

Within our own country, we would suggest a number of additional subjects which need to be researched in depth. Some of these are suggested by reason of legislative proposals of recent vintage relating to this issue which have come to our attention. Our list, which I am sure you could expand upon, would include the following:

One, mobility of employees in the United States today;

Two, what are major companies now doing to lessen the impact of plant closures or mass layoffs;

Three, what would be the impact of any legislative mandate on medium-sized and small employers, particularly single-plant operations;

Four, a study of the reasons for major employment dislocations, including both the circumstances causing the loss of jobs and the impact on employees and communities;

Five, a study of the local communities who have suffered serious unemployment conditions to determine whether some of the responsibility to maintain and encourage job opportunities is a community or a State obligation rather than Federal;

Six, a study to see whether voluntary programs should be encouraged such as the quality circle method to improve productivity through cooperation between management and labor, thus eliminating the circumstances which can lead to unemployment.

We have probably raised more questions than we have answered with our testimony. However, we believe that there are some processes available within the industrial setting to aid in development of organizational effectiveness and productivity within the workplace.

For example, the concept of quality circles is now the buzz word of industry, and is a process which originated in Japan. This process of cooperative effort and worker participation allows for problem identification and analysis at the grassroots level of the organization. Employees and management should be encouraged to utilize a technique such as this to salvage unproductive workplaces.

In essence, our recommendation is that a great deal of research is necessary before any legislative action is seriously considered. With our economy struggling by any evaluation, it would be dangerous, to say the least, to impose a Federal program which could further damage our ability to compete and inhibit the remaining entrepreneurial spirit of our citizens.

Much has been said about the need to reduce the size and scope of government bureaucracy and regulations in our country. We should be very careful before we embark on the establishment of another substantial Federal program unless it is unquestionably determined to be necessary to meet a critical need.

We in ASPA stand ready to work with the Congress in further exploring what we consider to be one of the major problems facing this Nation.

Thank you very much.

[The prepared statement of Mr. Blodger follows:]



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TESTIMONY OF
THE AMERICAN SOCIETY FOR PERSONNEL ADMINISTRATION
BEFORE THE
SENATE COMMITTEE ON LABOR AND HUMAN RESOURCES
CONCERNING
THE ROLE OF THE WORKER IN THE EVOLVING ECONOMY OF THE 1980'S

Mr. Chairman and members of the Committee, we appreciate this opportunity to appear before you. I am John D. Blodger, Immediate Past President of the American Society for Personnel Administration and Group Director of Employee Relations for the Electronics and Engine Control Systems Group of the Bendix Corporation, Newport News, Va. Accompanying me are Ronald H. Davis, ASPA Vice President for Public Affairs and Vice President-Industrial Relations, Carolina Steel Corporation, Greensboro, N.C., and James H. Ferguson, ASPA Vice President, Government Affairs.

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National Headquarters 30 Park Drive Berea, Ohio 44017 Telephone (216) 826-4790

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- o Involving the worker in the decision process as it relates to individual plant productivity;
- o Brief discussion of some programs in forward-thinking companies to minimize impact on employee dislocation or relocation; and
- o Suggestion of areas of study in cooperative efforts prior to determining any national policy on reindustrialization efforts in our country.

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employees, most major corporations have separation pay allowances which can be extended from one to two years depending on the level of the employee displaced. A recent limited survey of major corporations demonstrated a minimum separation allowance of three months salary. In addition, a number of employers provided "sweeteners" to induce early retirement for those eligible employees in order to maintain hard won gains in minority and female employment.

2. A major example of aiding employees in relocation was identified in the Wall Street Journal of August 15, 1980 in which it was planned by a company to relocate 900 workers from New York to Ohio. This article describes an extremely elaborate process which includes mortgage differential payments for up to three years, interest free loans of up to \$5,000.00 for new home purchase downpayments and interest free loans for the purchase of a primary or secondary automobile. We highlight this situation because it is our understanding that only fifty to sixty percent (50% - 60%) of these employees chose to move to Ohio which leads us to think that there are additional studies required to determine worker mobility patterns.

3. Other companies have mandated a freeze on external hiring to ensure that those dislocated or relocated employees have first option on all internal positions for which they may be immediately qualified or trained to fill within these organizations.

4. Some companies are beginning to use the concept of work-sharing as a way to minimize unemployment of their employees. There has not been enough history to determine whether or not this is a feasible solution. European countries, however, have utilized this concept for the past ten years and perhaps we could gain from a study of their models.

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In essence, our recommendation is that a great deal of research is necessary before any legislative action is seriously considered. With our economy struggling by any evaluation, it would be dangerous, to say the least, to impose a federal program which could further damage our ability to compete and inhibit the remaining entrepreneurial spirit of our citizens.

Much has been said about the need to reduce the size and scope of government bureaucracy and regulations in our country. We should be very careful before we embark on the establishment of another substantial federal program unless it is unquestionably determined to be necessary to meet a critical need.

We in ASPA stand ready to work with the Congress in further exploring what we consider to be one of the major problems facing this nation. Thank you.

The CHAIRMAN. Thank you very much, Mr. Blodger.

Were you here, by any chance, for the Brown & Williamson testimony?

Mr. BLODGER. Yes, I was.

The CHAIRMAN. Unfortunately, I did not hear some of it, but I heard much of it, and I will study it, too. Their kind of experience is the type of situation we are researching. And certainly, their response to the dislocation within a company was inspiring. You heard the three elements contained in their strategy that did inspire me, including, of course, the prenotification of closing. This gave time for the parties to negotiate the benefits that would follow before and after closing, for orderly adjustments.

I am not quite sure from your statement whether you would feel that notification, is one of the essentials for an orderly reaction to a dislocation through closing.

Mr. BLODGER. As I had indicated in my statement, in taking a brief survey of corporations, most of them, when they are going to close plants, give notification of from 3 to 6 months. So yes, I think that is one of the essential ingredients of any kind of plant closing situation. There should be advance warning or advance communication; I certainly concur.

The CHAIRMAN. I read from your statement, though, that you suggest that this provision not be mandated.

Mr. BLODGER. I think that most forward-thinking companies in today's environment are rather humanistic in their approaches to their employees. And I guess what I am suggesting here is that it need not be mandated because it is currently ongoing in most corporations.

The CHAIRMAN. Now, I am wondering whether this question reflects your society's situation. Does the American Society for Personnel Administration provide assistance to its members encountering a work force dislocation?

Mr. BLODGER. Well, we do have a research arm of our society. To answer your question, the society is available upon request from our members to provide any kind of information related to the personnel field in general. So certainly, plant relocation is a part of this, and they would be available to make recommendations.

The CHAIRMAN. You are a resource, then, that can be available—

Mr. BLODGER. To our members, correct.

The CHAIRMAN. Have either of your companies, Carolina or Bendix, been involved in a work force dislocation?

Mr. BLODGER. Yes. I have been involved in a number of work force relocations.

The CHAIRMAN. Mr. Davis?

Mr. DAVIS. No, our company has not. I would like to comment, if I may—and if I may presume on Mr. Teague's excellent presentation, and you were not here when he did it, if I may quote from him, he said, "I would caution, however, that plant closure is a subject that cannot be considered in generalities, for each is a unique situation of time and place and circumstance." I think within that text, in his paragraph it continues, there may, of course, be circumstances wherein, because of the tremendous loss of productivity that might occur during an announcement period,

or what could happen for a 6-month or 12-month period, a company may have to decide under some other set of rules. But I believe that the companies that we hope we represent would be sophisticated enough that in those cases where the announcement might have to be earlier or sooner, the payout period would still be of sufficient time to afford retraining, searching out new jobs, and the variety of things that we would encourage any of our member companies to be involved in from a professional personnel standpoint.

So there may be another time phase, and that is why we would not suggest a mandatory fix on that, but rather, a sophisticated approach on a company-by-company basis.

The CHAIRMAN. There are other questions that I know we would benefit by from your answers, but time is our enemy right now. Let me thank you very, very much.

Mr. DAVIS. May I emphasize our last offer, Senator. We very much want to become involved as an organization in providing research and information to you and your committee that might aid in this. We have talked with some of your staff earlier, and we mean that sincerely. We would like very much to be there.

The CHAIRMAN. We will count on that, and we appreciate it very much.

We would now be pleased to have Kimberly Johnson-Smith, director of labor relations, National Association of Manufacturers.

We welcome you.

**STATEMENT OF KIMBERLY JOHNSON-SMITH, DIRECTOR,
LABOR RELATIONS, NATIONAL ASSOCIATION OF MANUFACTURERS,
WASHINGTON, D.C., ACCOMPANIED BY PETE LUNNIE,
ASSISTANT VICE PRESIDENT, INDUSTRIAL RELATIONS
DEPARTMENT, AND GERRY COLOMBARO, ASSOCIATE
DIRECTOR, LABOR RELATIONS**

Mrs. Johnson-Smith. Mr. Chairman, I am Kimberly Johnson-Smith, director of labor relations for the National Association of Manufacturers.

With me are Pete Lunnie, who is assistant vice president of our industrial relations department and Gerry Colombaro, who is associate director of labor relations for NAM.

On behalf of our association, I would like to express our appreciation for the opportunity to participate in this committee's initial investigative hearings on the role of the worker in the evolving economy of the 1980's.

I will be summarizing our remarks and as such, request that the full body of our testimony be incorporated into the record of today's proceedings.

The NAM is a trade association comprised of approximately 12,300 member companies which produce nearly 75 percent of the country's manufactured goods and employ nearly three-quarters of all employees engaged in manufacturing.

Through our association's department which represents over 100 separate trade associations, and through the National Industrial Council, we are affiliated with an additional 158,000 employers. Almost 80 percent of our members are small- or medium-sized enterprises.

From our composition, it is obvious that we are deeply interested in the work force of the 1980's, the role they will be playing in shaping our economic and social future, and the effect this future will have on their individual and collective well-being.

We have been considering the issue of worker and business dislocations for a number of months, but have refrained from adopting any official positions or policies until such time as our research is more complete. As such, we will merely present our general observations on the dislocation issue, its causes, the possible long-term solutions, and interim steps that can be taken to lessen the impact on affected workers.

It is our belief that dislocation must be considered in the context of our economy and the international and domestic forces which are shaping it. From the international perspective, we are facing serious competition from many of our allies, and are witnessing diminishing access at greater cost to raw materials. These factors have affected our ability to compete in world markets and to withstand the pressures of imports. In turn, employment opportunities for America's workers have been affected.

On the domestic front, inflation and recession are challenging our economic vitality. The proliferation of regulations have added new costs to American enterprise. Deficit spending has reduced the amounts of capital available to business. Many of our industries, notably, steel, autos and consumer durables, have matured, as have certain areas of our country. Increasing economic constraints have reduced our abilities to modernize facilities, equipment, and techniques.

Other economic factors are affecting our overall vitality as well—energy availability, capital shortages, declining rates of productivity, tax rates, the unavailability of a skilled work force, a lack of markets or changes in market locations, transportation costs, new technologies replacing old technologies—all have the potential to affect the ability of facilities to remain operational and to retain existing levels of employment.

Beyond general economic conditions, other factors must be considered as well in any discussion of worker dislocation. We have provided the committee with a summary of a study of business climates of the 48 contiguous States of America.

This study indicates that governmental decisions and policies can directly influence worker and business dislocations, whether through plant closings, relocations, firm expansions or firm births.

Community deterioration need not be a consequence of worker and business dislocations, but can instead be a cause of these dislocations. As indicated in Philadelphia magazine, the article entitled, "Business: 184,000 Reasons Why Your Taxes Are Staggering," the lack of attention paid to business needs and the needs of the general citizenry created an atmosphere conducive to outmigration, an atmosphere which at the same time served as a disincentive for business expansions and the creation of new enterprises in the area.

The many factors which give rise to worker and business dislocations clearly indicate that any meaningful solutions to the dislocation issue can only be reached through broad public policies designed to revitalize the American economy, that these policies to

succeed must arise through collaboration and cooperation, and that flexibility must be a central theme. Restrictive policies all too often have only one result—a diminution in the vitality of American business with a corresponding adverse pressure on our ability to create new jobs and preserve existing jobs.

NAM has announced a six-point program designed to address the central problem, the decline in our competitive advantage and the vitality of our industry. Generally speaking, we advocate a more sound fiscal policy, including the control of Federal spending; we advocate making money available for investment; a reexamination of old and new regulations to ensure that they are cost-effective and reasonable; using natural resources more wisely and more effectively; improving our ability to compete effectively in the export arena, and improving the productivity of our people. While all these policy points are essential to solving the problems that give rise to worker and business dislocations, we wish to stress in particular that benefit can be derived from strengthening our country's export policies. Our international economic affairs department presented testimony to the House Ways and Means Committee earlier this year, and we recommend their statement to the committee's attention.

What can be done while we are developing policies to solve our socioeconomic problems is another area worthy of consideration. Industry is increasingly experimenting with options in this area—options to ease transitions which are a result of worker and business dislocation. A wide variety of internal policies and programs have been developed by American businesses in response to the situation. The programs are of necessity at least somewhat general in scope, allowing businesses to respond according to their own capabilities and in response to the specific needs of their workers. Typical private sector programs based on a small sampling of NAM member companies include at least some of the following features: prenotification of varying time periods; severance pay; supplemental unemployment benefits; continuation of medical coverage, with or without cost to the worker; early retirement; retraining; relocation; pre-closing counseling; and job placement. Programs of this type are found in organized and unorganized companies alike.

Some programs are in their experimental stages, such as the quality of work life programs, designed to correct workplace problems and give full consideration to the well-being of the workers; or the career continuation services, designed to assist workers in reentering the work force after a dislocation. Again, these programs vary from facility to facility and are in a constant state of refinement and improvement.

Many related types of programs are being developed or experimented with in facilities throughout the country. The fact that these programs are developed with flexibility in mind, in the spirit of cooperation, concern for the worker, and with a mind to economic realities, is key to their ultimate success.

The final area upon which we have chosen to focus is that of existing Federal programs. What programs exist to deal with worker and business dislocations? Are these programs adequate to meet the specific and varied needs of the affected workers? These are questions most appropriate to the Committee's consideration.

Some of the programs which should be reevaluated in this light include CETA title II-C, the Trade Adjustment Assistance Act and related programs such as Redwood National Park Expansion Act, and new programs designed to address needs arising from airline deregulation; the U.S. Employment Service; targeted jobs tax credits; investment tax credits for rehabilitation of existing structures; EDA and SBA programs; urban development action grants; GSA targeting of procurement contracts; UMTA—to mention a few.

Are these programs too broad in some respects, too narrow in others? Are they too general, limiting our flexibility to assist those workers who are more severely impacted than others or to assist those areas of the country which are more severely impacted than others?

An examination of these three general areas—broad economic policy goals, voluntary private sector agreements and programs, and existing Federal programs—indicates that there are many fertile areas to explore on which we might agree, areas that might provide at least partial solutions, long range and short term, to the worker dislocation problem.

The NAM fully recognizes that there are divergent views on what to do about worker and business dislocation. We recognize that some of the proposals which have been advanced will be considered in adversarial settings. However, this need not be the case in all instances. We are hopeful that we can isolate those areas where agreement is possible and begin the dialog so necessary to success.

Thank you.

The CHAIRMAN. Excellent. You have also asked for the inclusion of the appendix material in the statement here, and we will do that.

[The prepared statement and appendix material of Mrs. Johnson-Smith follow:]



STATEMENT OF THE
NATIONAL ASSOCIATION OF MANUFACTURERS
AT
HEARINGS BEFORE THE
SENATE LABOR AND HUMAN RESOURCES COMMITTEE
ON
THE ROLE OF THE WORKER IN THE EMERGING ECONOMY OF THE 1980's

September 17, 1980

TESTIMONY
BEFORE THE
SENATE LABOR AND HUMAN RESOURCES COMMITTEE

"THE ROLE OF THE WORKER IN THE EMERGING ECONOMY OF THE 1980's"
September 17, 1980

Mr. Chairman, Members of the Senate Labor and Human Resources Committee, I am Kimberly Johnson-Smith, Director of Labor Relations for the National Association of Manufacturers. On behalf of our association, I would like to express our appreciation for the opportunity to participate in this Committee's initial investigative hearings on the role of the worker in the emerging economy of the 1980's.

The NAM is a trade association comprised of approximately 12,300 member companies which produce nearly 75% of the country's manufactured goods and employ approximately three-quarters of the workers in manufacturing. Through our Associations Department, which represents over 100 separate trade associations, and through the National Industrial Council, we are affiliated with an additional 158,000 employers. Almost eighty percent of our members are small and medium-sized enterprises. From our composition, it is obvious that we are deeply interested in the workforce of the 1980's -- the role they will be playing in shaping our economic and social future and the effect this future will have on their individual and collective well-being.

Trends leading into the 1980's indicate that this period will be considerably different from those decades which have preceded it.

There is a growing consensus throughout the private and public sectors that both our domestic and international problems will become more serious, in large measure because the size of the "pie" which we have at our disposal is becoming more compressed. Learning to work within our means, within this country's financial capabilities, will require increasing levels of cooperation among all facets of our economy. It will require much more cooperation in defining priorities, determining goals, and working to accomplish them.

The causes and consequences of the economic situation we presently face are obvious issues of concern to the NAM. One aspect of this socio-economic framework is that of business and worker dislocations. While we have been studying this problem assiduously, even the most casual observer recognizes its many complexities. As a result, the National Association of Manufacturers has reached no consensus on possible solutions to the problem of worker dislocations in particular. We have no position or formal policy to date, although this is certainly one of our objectives.

Consequently, I can merely offer this Committee our observations, our thoughts to the point our current research allows, on the issue of worker dislocations and business dislocations. As such, our testimony will focus on some of the causes of the dislocation problem; some of the programs the business community has initiated to address it; the NAM's broad-based recommendations for the revitalization of our economy; and our concerns over the administration of existing Federal programs which should be better able to deal with the dislocation issue. We hope our observations will open avenues for further discussion on at least one of the troubling issues which will confront us during the decade of the 1980's.

CAUSES OF DISLOCATIONSEconomic Factors

Of all the pressures impacting upon the status of workers and American industry, the most obvious is the world economic situation. At one time, our nation had almost unparalleled supremacy in trade. Our financial and technological capabilities, our level of productivity, were unequalled. Our natural resources were limitless and cheap -- or so we thought. We had little if any difficulty producing our products, marketing our products, and easily outpacing any potential competitor.

Such is no longer the case. An increasing number of nations are challenging our position as the world's technological and marketing leader. Access to world markets and to raw materials has become more restricted; our ability to withstand the pressures of imports has declined. It is obvious that these general but fundamental changes have altered the American economy, and that these changes are now beginning to be felt.

While significant changes have been occurring that affect all industrialized nations to one degree or another, decisions have been made internally which have altered the direction of our economy. Inflation is double-digit and likely to remain so during the foreseeable future. The most serious post-World War II recession is still fresh in our memories, compounded, of course, by today's recession. Government regulations, regardless of their merits, are admittedly costly, upward of \$100 billion per year according to most sources. Government deficit-spending has reduced the amount of capital available to our industrial

base. These basic domestic changes have significantly affected the state of our economy and, in turn, the status of the American worker.

This situation is complicated by what can be termed the "economics of maturity." As Robert A. Leone and John R. Meyer (Wharton Magazine) reported in "Can the Northeast Rise Again?":

Few observers would deny that the northeastern region of this country is economically and demographically mature. The stage of rapid growth has passed to other regions; certain important sectors, notably steel, autos, and consumer durables, may have matured many years ago... the political difficulties are exacerbated by painful economic transitions taking place in an environment of relatively slow growth. Thus, the generally preferred political solution of enlarging the pie to disguise changes in relative size of the pieces is simply not readily viable.

These mature industries are more vulnerable to foreign competitors -- Japan, Korea, and West Germany, among others. Whole product lines and entire plants have simply become uncompetitive in light of world economies. It is these same plants, with limited space, outmoded facilities and obsolete tools and machinery that are least able to adjust to new international and domestic competition, declining rates of productivity, and restrictions on the availability of capital.

These, then, are some of the global reasons why certain types of businesses -- and hence workers -- are suffering dislocations. These are some of the reasons we are no longer as competitive in international and domestic markets as we must be.

There are other, more specific, reasons as well. Here it must be emphasized that there is usually no single factor that gives rise to long-term layoffs or closings. Rather, it is most often the collective consequences of certain circumstances and conditions

which include:

Energy - The price and expected availability of energy to individual manufacturing concerns and plants can have a tremendous impact on the ability of the manufacturing firm to maintain normal levels of operations. Price increases in energy supplies can be offset, to some extent, by increases in energy efficiency in the manufacturing processes. Industry has been able to increase its energy efficiency by 14.1 percent (the net result of a 17 percent increase in production and a negligible increase in usage from 1973 to present). However, there is a point at which, particularly for energy intensive industries, the energy costs become so great that competitive viability is threatened, and if industries cannot compete, they cannot survive.

The most severe impact comes from disruption or potential disruption in energy supply. A glaring example of this was the winter of 1977 when, due to a misallocation of natural gas supplies, as many as 1.1 million workers were idled because their employers did not have sufficient gas supplies to maintain operations.

Capital Shortages - The demands of the 1980's, we believe, will be such that capital must be available to American industry. Not only are our businesses facing increasing costs of compliance with government regulations which, in some instances, lower our competitive posture, but many of our businesses are operated in outmoded facilities, using noncompetitive processes and equipment. Management has not been able to earn enough profit or gain access to new capital at reasonable rates. When these operations become outmoded, energy inefficient, or technologically obsolete, the results are often all too obvious:

declining employment, shrinking domestic sales and exports as imports claim a larger share of the domestic market. Capital is essential, too, for research and development if we are to develop new products, new processes and technologies so necessary to a fluid economy and to increased levels of employment.

Productivity - Our declining productivity (-.9 of 1% in 1979) in relation to our competitors is alarming. Capital, technology, energy, skill and composition of the labor force all figure prominently in the problem.

Other economic factors which can affect our competitive capabilities and hence worker dislocations include tax rates; the unavailability of a skilled workforce; a lack of markets - both foreign and domestic; changes in market locations; transportation costs; new technologies replacing old technologies, etc.

When the effects of these factors are totaled, plant closings and long-term layoffs occur. While management makes the decision to close a plant, it is not because they prefer such action. Rather, management is responding to inexorable economic factors. The pressure of these factors, singly and in concert, lend credence to the Conference Board's finding that "in the long-run, few -- if any -- business decisions are made that run counter to good economic judgment." To do otherwise would result in losses and ultimate collapse. Here, our choice is relatively simple. Business must be competitive or be subsidized by the taxpayer. The British experience clearly demonstrates that taxpayer subsidies can save jobs for a short time, but the total cost to the consumer is so great that society as a whole suffers unacceptably.

Economic conditions such as these are not the only reason for worker dislocations. Political judgments, based upon economic considerations, do have an impact. Without going into great detail, military base closings and cancellations of defense and other government procurement contracts can have -- and have had -- significant effects on workers and their local communities.

State Policies and Programs

States adopt policies which, if not directly causing business and worker dislocations through closings or relocations, at least stymie any entrepreneurial interest in locating or expanding in those specific areas. Any number of studies have sought to assess problems within and among the various states which contribute to either good or bad "business climates". They indicate that changing economic conditions, mixed with governmental policies, do have an effect on decisions by investors to remain, expand, close or relocate a facility. In one such study, "A Study of Business Climates of the Forty-Eight Contiguous States of America", (March 1979) conducted for the Conference of State Manufacturers' Association, the authors assessed the effects of government-imposed taxes and regulations and their costs; workers -- skills, wage rates, adequacy of supply; transportation systems; proximity of markets; adequacy of supply of raw materials and sophisticated suppliers of parts and services; water and energy supplies; attitudes of public officials toward business; economic incentives provided by state and local governments. Their conclusions, summarized in Appendix A, indicate that those states with the most mature industries are often the states with the least favorable economic policies, the most troublesome energy availability problems, and the least attractive

overall economic climates. These factors directly influence a state's ability to retain jobs and expand. These factors seem to determine the vigor of a state's economy and its tax base. We recommend that this study be reviewed by the Committee.

Communications at the Local Level

Community decisions can also have a profound impact on the dislocation of businesses and workers. These decisions need not be conscious public-policy decisions but can just as easily be the decisions of inaction or refusal to heed the needs of the area's employers.

A good illustration of what can happen when the needs of businesses, as well as workers, are not considered, appeared in the Philadelphia Magazine (Vol. 69, Dec. 1978), "Business: 184,000 reasons why your taxes are staggering". As its lead-in said:

Philadelphia is a city on the brink of financial disaster. Once it was one of the largest and most productive textile centers in the East. It was also once the center of electronic component manufacturing, printing and heavy steel production. Today, (it) is staggering under the impact of the loss of more than 184,000 jobs that vanished in a 15-year period -- 1963 to 1978. During the Rizzo administration alone, more than 108 firms moved out taking 62,000 jobs with them.

The reasons for this outmigration were real and compelling. According to local bankers, union leaders, and government officials, Philadelphia, over time, developed a host of problems that undermined both the business climate and quality of life. The problems identified by these individuals included:

- Excessive operating costs
- City corruption - lack of interest in business
- High business taxes
- Overly aggressive union demands and strikes

- oDecaying city areas and structures
- oPoor city services
- oToo many school-related business taxes
- oOld multi-storied buildings unsuitable for use
- oNew technology which "does not fit into" city environment
- oCrime and vandalism
- oLack of sufficient parking for employees and customers
- oLack of communications between city officials and the business community
- oHigh welfare costs burdening city business firms
- oLack of modern highway network in and around Philadelphia
- oLack of modern hotels and meeting rooms
- oPoor transportation facilities
- oSunbelt states offered "better tax deals" without union interference

A significant factor underlying all of these problems was the lack of response by the political subdivision to the business decline. As the author of the article stated: "But most of the experts interviewed for this article indicate that officials who could have stopped a good part of industry movement... never showed alarm or dismay."

As Edward Toohey, president of the AFL-CIO Council in Philadelphia said, "The business community and the city administration did not communicate. They were not talking to each other. We needed better highways, new industrial buildings in area industrial parks... Leadership in all the areas was lacking. It hurt us -- hurt us like hell."

What these studies suggest is that we are all -- citizens, government, labor and business -- responsible for some of the problems that are manifesting themselves in business and worker dislocations. What these studies also indicate is that restrictive economic policies or practices will not improve our economy. Rather, they cause dislocations. Workers lose their jobs as a result of such decisions. Above all, these studies indicate that competitiveness and flexibility must be "the order

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of the day" if we are to create an environment that is conducive to employment -- to the development of new jobs, to the retention of old jobs.

The issue of worker dislocations is an emotional one -- a human one -- as well as one grounded in economics, politics, social values, facts and figures. Awareness that dislocations mean people, not just statistics, is as central to solving the problem as is awareness of the economic realities with which we must contend. With this in mind, it is NAM's hope that meaningful, on-going dialogue among all parties will evolve. We are similarly hopeful that these crucial exchanges will not deteriorate into statistical gamesmanship, accusations and counter-accusations, or dogmatic commitments that lead to policies that will add further constraints to the economy's capabilities. Rhetoric can conclude with only one result: the problems facing employers and their employees will be lost in the shuffle. Workers and the public interest will suffer as a consequence.

What we suggest to this Committee, then, is the desire of NAM's members that we all work together. We are all in the same economic boat, if you will. Our ability to stay afloat will depend largely upon our ability and our willingness to dispense, wherever possible, with the adversarial postures normally characterizing our relationships. It will depend upon our ability to substitute a new posture that is singular in focus: identifying and correcting our collective problems. Cooperation and collaboration must be encouraged if we are to adequately address our position in a worldwide economic community that is increasingly competitive and in the process of rapid change.

THE POLICIES OF REVITALIZATION

The cornerstone of any effort to address the problems of business and worker dislocations will, of necessity, be long-range in nature. The relationship of the nation's economic health to employment opportunities is well-established. So, too, is the fact that our economy is not as vibrant as it should be or as we would prefer. In this regard, we must support programs that will revitalize our industrial base, bringing renewed vitality to business for the benefit of workers and the society as a whole.

The NAM has announced a six-point program to revitalize American industry. In very general terms, we recommend a more sound fiscal policy including the control of Federal spending; making money available for investment; a reexamination of old and new regulations to ensure that they are cost-effective, reasonable and necessary in light of our current problems and capabilities as well as societal needs; using natural resources wisely and effectively; improving our ability to compete effectively in the export arena; and improving the productivity of our people. (A more complete description of the framework of our program to revitalize American industry is included in Appendix B.) The most notable feature of NAM's revitalization program is that its success depends upon the establishment of an environment of cooperation and collaboration. Success will also depend upon the ability to maintain maximum flexibility, the ability to adjust quickly and prudently to changing competitive circumstances.

One specific area of our revitalization program deserves special mention because it directly addresses the concerns of this

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Committee. Job creation -- the development of employment opportunities through natural market forces, not artificial mechanisms -- is the only real answer to the worker/business dislocation problem. If we are truly concerned about the dislocation of American workers and businesses, we must look forward to a new future -- to improved conditions -- for businesses and workers, not toward the maintenance of an uncertain and fleeting present.

Studies corroborate the fact that job growth, not job protection, must be our long-term focus. As David Birch of the Massachusetts Institute of Technology (MIT) Program on Neighborhood and Regional Change noted in Job Generation Process, "Do not try to influence the rate of job loss, since it is practically the same in all states, and worry instead about how to encourage job replacement".

It is not job loss per se that is being felt most severely in the more mature, import-impacted areas of the country, but a slow rate of job expansion. As the Northeast/Midwest Economic Development Coalition pointed out in their study, The State of the Region:

All regions of the country suffered similar percentage losses of employment from deaths and contractions of firms. In contrast, employment growth caused by firm expansions or births varied significantly from region to region. Thus, overall employment growth occurs when firm births and/or expansions can more than compensate for losses from firm deaths and contractions. The EDA study again concurs with the Joint Center's findings and explains... "compared with the North, net expansion of existing firms was more important to the South's growth than employment growth due to new firms. The percent of employment gains in the South attributable to new firms was twice that of the North, but the percent of employment gains due to net expansion of firms was three times that of the North.

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As we mentioned earlier, it is becoming increasingly difficult to enlarge the "pie", particularly in an arbitrary fashion. However, there are steps that can be taken in the context of natural market forces to strengthen our competitive position and hence open new avenues and new opportunities for the American workforce. One area that offers great potential for new job generation -- and in turn "old" job retention -- is our nation's export policy. Our International Economic Affairs Department filed a statement with the House Ways and Means Committee on July 21, 1980 on an "Overview of U.S. Trade Policy". If implemented, the ideas set forth therein would go a long way to creating the vitality and opportunity so necessary to providing new job prospects. We recommend a review of this statement (Appendix C) to the Committee.

PRIVATE SECTOR PROGRAMS

A deep-seated, complex problem such as is manifested in the dislocations issue most assuredly requires broad-based national and international approaches if resolution is to be reached, approaches that will enhance our competitive capabilities, not restrict them. While we are attempting to develop and implement these solutions, however, there are steps that the private sector is developing to ease the transitions.

We suggest that these steps, which are a product of the flexibility of the free enterprise system, constitute industry trends. We further suggest that these trends should be encouraged -- by government, by industry and by labor. It must be recognized that each specific situation which gives rise to worker dislocations is

related to national and international factors, and, as a consequence, that flexibility is the only feasible approach. It must be recognized that what is successful for one company or one industry will not necessarily be within the reach -- or even appropriate -- to another company or industry. These programs cannot be legislated. They must emerge in response to natural market forces.

Part of the NAM's effort to better understand the dislocation issue is our effort to acquire a better understanding of industry programs and policies. We have surveyed a very small portion of our members to identify current practices within the manufacturing community vis a vis dislocations. (We hope to expand this survey in the near future.) The most notable aspect of this study is that a significant number of companies already have worker dislocation programs -- either as a part of a collective bargaining agreement or simply through a voluntary company agreement. Agreements range from those which embrace several provisions to those which provide a full range of services to the displaced worker. The scope and degree of these programs often depend upon the economic conditions of the company or industry involved. Most are tailored to the particular circumstances and conditions of a given plant.

Included among the provisions are prenotification of varying time periods, severance pay, supplemental unemployment benefits, continuation of medical coverage - with and without cost to the worker, early retirement and variations on traditional retirement programs, retraining, relocation, pre-closing counselling and job placement, etc. It is interesting to note that Howard Samuel, President of the Industrial Union Department (IUD) of the AFL-CIO, estimates that 50 to 60 percent of all represented workers are covered for

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dislocation problems by collectively bargained agreements.

Beyond these general agreements, however, there are a number of companies which are actively developing or experimenting with new approaches in the workplace, approaches designed to either improve the overall economic health of the operation or -- when dislocations cannot be averted -- to ease the transition.

One category of programs that is receiving considerable attention today is "quality of work life". Many companies are now experimenting with the program, General Motors being perhaps the best known. Their program, emphasizing union-management cooperation, innovations in the workplace, productivity and measurement, was initiated in 1973 contract negotiations with the United Auto Workers. Their National Committee to Improve the Quality of Work Life constitutes an adjunct to the traditional collective bargaining process through which management and the worker identify and cooperate on issues of mutual concern. The committee reflects a growth in the long-range trend for management and the workers to jointly initiate activities that will improve the work environment.

"The results of this type of cooperation and creativity indicate the steps that can be taken to improve an operation and at the same time give full consideration to the well-being of the workers."

The following passages can be found in a statement by General Motors Corporation on The Changing Work Environment submitted to the Joint Economic Committee on June 28, 1978:

Just two examples will be cited from among the many innovations that have been introduced in General Motors in recent years.

The first involves the GM Assembly Division plant in Tarrytown, New York. Today, the Tarrytown plant has

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an outstanding record of performance, but that was not always the case. In the late 1960's the situation was not good. Absenteeism, grievances and discipline problems were running high and there was an atmosphere of hostility between management and the local union. As one might expect, costs were high and performance poor in this kind of environment.

Local management and the local union recognized that something had to be done. As a first step, they started to talk about their mutual concerns and an atmosphere of trust began to develop. Both sides became determined to institute change.

Management demonstrated a sincere desire to improve the relationship, and the employes responded with an eagerness to participate.

In 1972, a major plant rearrangement was planned prior to new model start-up. Employes were consulted before the change. They were shown diagrams of the proposed rearrangement and solicited for their ideas. Employes made a number of constructive suggestions. As a result of their interest and support, the new model start-up was one of the best ever for the plant.

Following the lead set by the creation of the GM-UAW National Committee, Tarrytown management and the union formalized their relationship on quality of work life and the process has been developing ever since.

Today, management and the union are cooperating on a plant-wide quality of work life project that involves specific training for employes in team problem solving, communications and related subjects. The program is being offered to all employes who want to participate, and 95 percent of employes have said they want to become involved.

...The plant's performance also has improved dramatically. Today, the Tarrytown plant is one of the best performing plants in General Motors Assembly Division. This fact is not only important to the Corporation, it is equally important to the employes whose accomplishments have made it possible.

The following is one other example of the innovations being developed at the work place.

A Fisher Body plant in Grand Rapids, Michigan is applying the same principles as the Tarrytown plant, but in a somewhat different way. To better meet the reasonable aspirations of employes and improve the operation of the plant, the local management has significantly restructured

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the organization over the last four years.

The traditional organizational structure has been modified to accommodate a "business team" approach. The plant now is divided into six business teams. Each has the necessary production and support elements to function independently in a specified area of the plant. Each team has its own personnel who are responsible for maintenance, industrial engineering, production control, quality control and cost analysis, as well as production.

A team operates much like a small business. It sets its own goals within the parameters of the overall business objectives and the members are responsible to one another for the team's success.

Much of the plant organization now is structured horizontally, rather than vertically for those functions delegated to the teams. This means other changes as well. There's less emphasis on authority, more on responsibility; less emphasis on finding fault, more on cooperation and problem solving.

The top management of the plant is no longer primarily concerned with the nuts and bolts of running the business. Many of those decisions now take place lower down in the organization.

Quality problems usually are resolved faster under the team approach. The quality control supervisor has a closer tie with the production supervisor, the maintenance supervisor and the industrial engineer. Their communications are more direct because they are members of the same team.

Currently, management and the local union are focusing jointly on providing the opportunity and means by which hourly employes can become more involved in the business teams...

Quality of work life (QWL) programs are not a panacea for worker dislocation problems. However, when workers and management make a commitment to work together, to contribute, the potential for successes such as have been enjoyed by General Motors and other companies does most certainly exist.

Given the number of variables that can give rise to worker dislocations, however, it must be obvious that the economics of

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some situations are so severe that nothing can be done to avert the closing of a plant or the permanent layoffs of some workers. Under those circumstances, and when it is within a company's ability to do so, other approaches are being tried. These include career continuation services (CCS), used with apparent success in some of Goodyear's facilities as well as by Sears and the American Can Company.

Career continuation services are designed to maximize outplacement capabilities for soon-to-be-displaced workers. They seek to heighten the individual workers' awareness of their own skills -- and hence their self-confidence; assist workers with developing self-marketing techniques; provide liaisons with other area employers; and continually upgrade the reference bank of job targets. The specific framework of these programs must be determined by the individual companies to insure that they are tailored to the financial and managerial abilities of the operation, to the needs of the workers, and to the local environment.

Greater amplification of the career continuation services is provided in Appendix D. We have submitted for the edification of the Committee two articles on the subject which appeared in a recent issue of The Personnel Administrator, "Industrial outplacement at Goodyear Part 1: the company's position", and "Industrial outplacement at Goodyear Part 2: the consultant's viewpoint".

Quality of work life programs and career continuation services are but two of the types of programs with which American firms are experimenting. Many more approaches -- or variations -- are being explored, and as other sectors of American business learn of the

options they can consider, and depending upon their circumstances, more creative innovations will become evident.

These, then, are some of the initiatives of American industry to address worker dislocation problems. Whether private QWL or CCS or other actions, the strength of these programs and policies lies in the fact that they are creations determined by competitive market forces which cannot be ignored. The flexibility provided by these arrangements is critical. The programs are offered in the spirit of cooperation, worker concern and economic realities. They give maximum credence to the problems and capabilities of the particular businesses involved. They are tailored and adjusted to the circumstances of the companies and the individual workers involved. They are individually designed so as to minimize as much as possible adverse consequences to workers directly or indirectly dependent on a particular operation for employment.

These programs are situation-specific and intended to deal with immediate circumstances. Again, only long-term approaches can solve the actual problem -- minimizing business and worker dislocations and generating new job opportunities in the process.

THE ROLE OF FEDERAL PROGRAMS

Beyond the broad-based NAM program to revitalize American industry and beyond specific industry programs and policies, there is one other area to alleviate worker dislocations which must be considered. Your attention is directed to existing Federal programs. While NAM's research is not complete in this area, we can offer some general observations which we would like this Committee to consider.

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The central question is not the standard "Are these programs being properly administered and accomplishing their general objectives?" Rather, it is whether these programs even possess features which can be or are being utilized by individuals who find themselves permanently displaced from their jobs. While the NAM is certainly concerned with the more general question, we urge this Committee to consider the programs as they specifically relate to the issue at hand. Briefly, the following programs must be reevaluated.

First, the Comprehensive Employment and Training Act (CETA) was designed to provide employment and training opportunities to mature and youthful individuals and to specific population groups who are structurally unemployed, or who are unemployed as a result of temporary economic circumstances. From our cursory examination of this program, it appears that Title VI-C is the only section applicable to the permanently dislocated worker at the time of the actual dislocation. This section provides monies for training to individuals who need not meet a specific income test. It is particularly interesting to note that the monies which are available are not even being used. Is there potential for this program in the context of permanent dislocations? How can the impediments to its use be removed?

Foreign competition, as we noted earlier, is one reason for many worker and plant dislocations in this country -- permanent and temporary. The Trade Adjustment Assistance Act has served an estimated 481,476 workers (as of 2/80) at a cost of \$765.4 million. The administration of this program has been criticized of late, particularly given the fact that most workers are already back on their original jobs or reemployed before they receive their first

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check. Beyond this, though, there is the question as to whether the program is properly structured and focused, whether it can adequately respond to the unique problems of individual workers within the dislocated population, and whether the eligibility criteria are so general as to allow the same payments and assistance to individuals with immediately marketable skills as to individuals with more pressing difficulties in reentering the workforce.

As mentioned earlier, some dislocations are a direct result of Congressional action. The Redwood National Park Expansion Act, patterned along the lines of TAA, has assisted 2,197 individuals at a cost of \$12.2 million. Here, criticisms focus on the loose interpretation of the program and the distinct possibility that non-affected workers are quitting their jobs to enjoy the the generous benefits of the Redwood Act. Is this a wise cost-effective allocation of an admittedly limited "pie"? Does this program really provide the flexibility necessary to address the full range of problems that individual workers experience? We should also look at programs for our railway workers. Over 19,000 Amtrak workers have participated at a cost of \$42.5 million; 40,379 individuals under CONRAIL at a cost of \$187.3 million; and we can anticipate comparable assistance to those impacted by airline deregulation.

As we see our national economic capabilities shrinking, we must reevaluate all such programs. Are they too broad in some respects, too narrow in others? Are they too general, limiting our flexibility to assist those workers who are more severely impacted than others? Does the existence of these programs create

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administrative burdens which in turn diminish the capabilities of the administering bodies to deal effectively and efficiently with affected workers? These questions are most assuredly within the proper scope of this and other committees which are concerned with the economic prosperity of workers.

Then, too, we must consider the U.S. Employment Service. So many instructions and additional duties have been handed to this agency that there is real question as to whether it has the time, resources, and capabilities to deal effectively with displaced workers and with the businesses who could use the skills of employees who have been dislocated. A serious and constructive reexamination of the obligations of the USES must be undertaken in light of changing national priorities and needs.

What about the Targeted Jobs Tax Credit? It is our understanding that it is presently restricted to recipients of Supplemental Security Income, handicapped people, disabled veterans, economically disadvantaged young people, and welfare recipients. Should and could this program be adjusted to assist workers facing unique and permanent dislocations?

Limited investment tax credits for rehabilitation of existing structures and equipment is provided. Is there potential here for greater economic vitality and hence greater employment opportunities?

EDA and SBA both offer special programs to assist in economic development. Urban Development Action Grants encourage investment in distressed cities. The General Services Administration (GSA) targets federal procurement to areas of high unemployment. The Urban Mass Transportation Administration helps finance transit-related

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economic development projects that improve cities and provide employment opportunities for people in urban areas. The question is whether these programs are being used to their maximum capability, whether part of their focus is the utility which can ensue in the job generation process.

We make no value judgments on any of the Federal programs we have briefly mentioned. All we are suggesting today is that there are many fertile areas to explore on which we might agree, areas that might provide at least partial solutions -- long-range and short-term -- to the worker dislocation problem.

CONCLUSION

The NAM fully recognizes that there are divergent views on what to do about business and worker dislocations. We recognize that some of the proposals which have been advanced will be considered in adversarial settings. However, we suggest that there are a number of areas in which a mutually meaningful dialogue is at least a possibility.

Hearings such as these not only provide a forum for presenting preconceived positions; they also provide a forum for the exchange of information -- information that exists on various options that are being developed to deal with workplace problems, to help avert dislocations, or at the least to ease the transitions that follow dislocations.

In addition to those creative and flexible agreements which can succeed only in the competitive arena, there are also broad-based national economic and regulatory policies that can best be developed through the political process. The well-being of our national economy

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is inseparable from the well-being of workers and those who employ them. It is imperative that we begin to bring our mutual wisdom and ideas to bear on solving the more fundamental economic problems facing our country.

Finally, we need to explore existing programs which have the capacity to assist workers, communities and businesses who are no longer competitive. We can at least attempt to retaylor these programs, to reallocate the limited "pie", in such a way that they will be responsive to changing needs.

We trust that today's hearings will serve as the genesis of a collaboration on what the dislocation problem really is and what options are available to the nation in this context. The NAM is certainly prepared to cooperate with this Committee and we hope to have an opportunity to appear before you at a later date as our research and recommendations become better developed.

APPENDIX A

COSMA STUDY

COSMA STUDY, MARCH 1979
 STATE BUSINESS CLIMATE RANKINGS
 FORTY-EIGHT CONTIGUOUS STATES

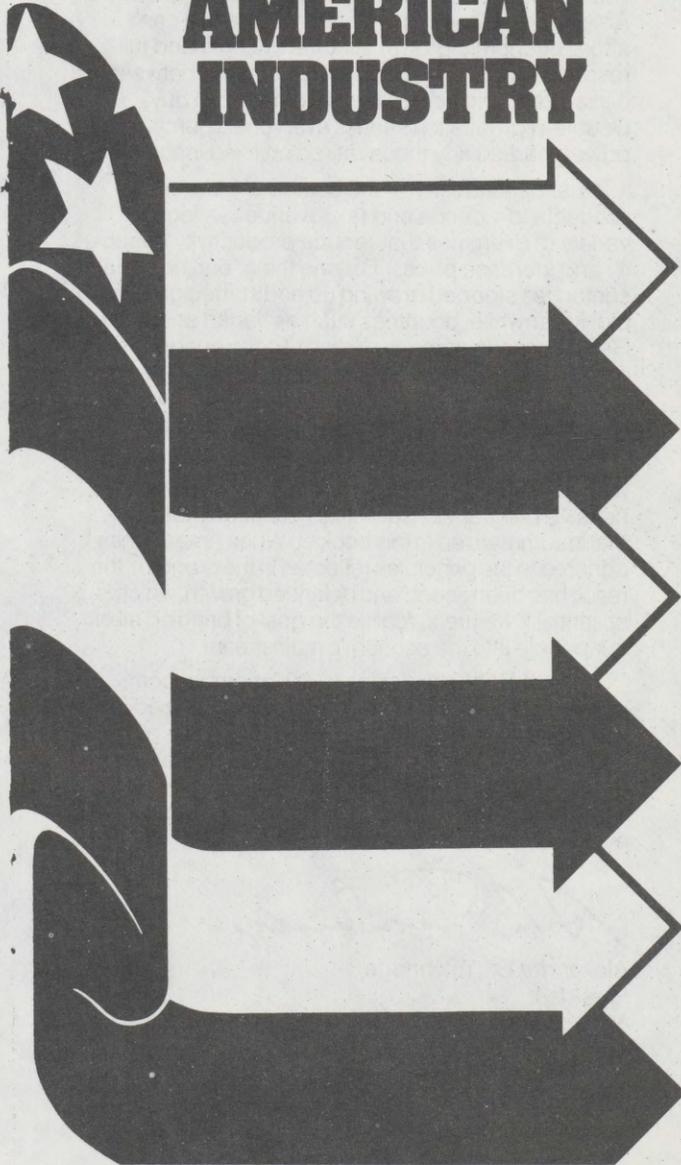
EXHIBIT I

RANK	STATE	BUSINESS CLIMATE SCORE	MANUFACTURING JOBS WON/LOST 1968-1978*	
			WON/(LOST) IN THOUSANDS	RANK
1	Mississippi	18.0	60.3	7
2	North Carolina	21.0	112.3	3
3	South Carolina	21.8	60.5	6
4	Utah	23.3	29.5	20
5	New Mexico	23.5	16.6	25
6	Arkansas	24.5	59.0	8
7	Georgia	24.6	55.2	13
8	Oklahoma	25.6	47.9	17
9	South Dakota	26.2	8.1	30
10	Virginia	27.2	49.4	16
11	Tennessee	28.5	75.1	5
12	Florida	29.4	95.5	4
13	North Dakota	29.4	7.0	32
14	Missouri	29.5	(7.8)	40
15	Maine	29.9	(6.1)	39
16	Kansas	30.5	38.3	18
17	Alabama	30.7	51.5	15
18	Nebraska	32.3	11.3	27
19	Idaho	32.6	22.1	23
20	Colorado	33.1	58.1	9
21	New Hampshire	33.1	7.1	31
22	Texas	34.2	243.6	1
23	Vermont	34.8	4.3	33
24	Louisiana	36.2	27.6	21
25	Iowa	37.5	24.5	22
26	Kentucky	39.1	56.0	12
27	Indiana	39.8	21.4	24
28	Wyoming	39.8	2.2	35
29	Arizona	41.9	38.3	19
30	Wisconsin	42.0	57.8	10
31	Nevada	43.5	10.2	28
32	Minnesota	44.1	57.7	11
33	Montana	44.5	4.2	34
34	Rhode Island	46.5	11.3	26
35	Maryland	47.1	(36.1)	42
36	California	48.8	225.0	2
37	Massachusetts	48.9	(35.9)	41
38	Connecticut	49.3	(58.3)	44
39	Oregon	50.9	53.6	14
40	West Virginia	51.1	(5.2)	38
41	Illinois	52.1	(140.5)	46
42	Delaware	52.4	(2.8)	36
43	Washington	54.6	9.9	29
44	Pennsylvania	54.6	(193.3)	47
45	Ohio	55.0	(45.7)	43
46	New York	58.3	(388.8)	48
47	New Jersey	59.8	(90.4)	45
48	Michigan	60.9	(3.2)	37
U.S. TOTAL WON(LOST)			698.3	

* Source: Establishment Data State and Area Employment, Bureau of Labor Statistics, U.S. Department of Labor

APPENDIX B
REVITALIZATION PROGRAM

NAM's program to
**REVITALIZE
AMERICAN
INDUSTRY**



*National Association
of Manufacturers*

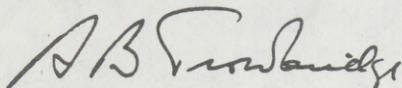
Does this new decade represent our last, best chance to restore America's pride and productivity? Many citizens are convinced that it is; many others feel that it may be. We of the National Association of Manufacturers, whose members account for three-fourths of the country's manufacturing jobs, want to see corrective action now.

It's difficult to be entirely proud of our nation when America is so hooked on foreign oil that we can't afford economic growth at home or command full respect abroad. High interest rates stand between citizens and the homes they had hoped to buy. Double-digit inflation shrinks everyone's purchasing power, particularly those retired on fixed incomes.

American industry — the source of jobs, useful products, dividends and tax revenues — faces a variety of dilemmas that reduce productivity capacity and increase prices. For one thing, our industrial sector has stopped growing up and started growing old. Meanwhile, countries such as Japan and West Germany have come on strong. Today our goods are less competitive in world markets and here at home. Once a nation of savers, we need to save and invest again to remain secure and productive.

These interrelated issues demand solution. This is why NAM has developed the affirmative, comprehensive program to Revitalize American Industry that is summarized in this booklet. When America has adhered to the principles reflected in the program, the result has been sound and balanced growth, which is essential if we are to realize the goal of bringing all of our people into the economic mainstream.

Though NAM speaks for 12,000 member companies, 80 per cent of which are small or medium-sized businesses, we recognize that diverse points of view are being expressed in this urgent national debate. We will listen as well as speak, for the times demand both from every responsible organization, every concerned citizen.



Alexander B. Trowbridge
President
National Association of Manufacturers

1. *Controlling Federal Spending*

Common sense tells us that whatever wealth government consumes puts just that much out of the reach of individuals and businesses.

- More than one-fifth of America's total output of goods and services is consumed by the federal government — a share that has been growing for 20 years.
- Businesses must compete with the government for available dollars to modernize factories, create jobs and improve working conditions.
- The federal government has only balanced its budget once since 1960.

More resources must remain with the private sector if America is to overcome its economic problems. Government spending must be controlled so that the budget can be balanced without resorting to higher taxes to provide offsetting revenues.

But controlling spending will mean a firm review of priorities so that only important programs are funded. Families do this every day: Sending a son or daughter to college may mean giving up more than one vacation. We simply can't afford to have everything — as individuals or as a nation. Despite the claim that three-fourths of the budget is "uncontrollable," Congress can clamp down if its members are urged to do so by taxpayers who understand from their own budgets what it means to make hard choices.

Failure to say "no" to nonessential spending programs means the government must continue to pay for them in one of two ways — higher taxes or deficits. Higher taxes take money from individuals and businesses, money that might be invested to produce better products and provide jobs. Deficits require borrowing from the private sector, which dries up potential investment funds. Or deficits can be covered by creating new money — "printing press money" — which

fuels inflation by adding dollars to the economy without providing a real increase in economic value.

We need teeth in the congressional budget process. We need legislation to limit federal spending to 20 per cent of the economy's output of goods and services (gross national product, or GNP) — the historical ratio before the spending surges of the 1960s and 1970s. If this doesn't do the job, then a spending limit should be written into the Constitution.

Controlling federal spending makes sense if we are to control inflation, improve working conditions, create jobs and reduce the tax burden for the American consumer.

2. Making Money Available For Investment

Millions of Americans are shareholders in corporations, participate in pension and retirement plans that own stock, or own and operate their own businesses. Investing in business is a vital process in our economy.

Investment keeps jobs at home and provides a sound tax base for communities.

It provides better conditions in plants and factories so that products can be produced more efficiently and workers can enjoy a better work environment.

It leads to *real* wage increases for American workers as opposed to increases in inflated dollars.

It helps root out long-term unemployment, opening up jobs for youths and others idled involuntarily.

It improves our opportunities in overseas markets, and strengthens the dollar abroad through improved trade balances.

America can develop a better climate for investment by making it advantageous for people to invest. Existing tax laws don't do this.

Specifically, we need a tax system that would allow business to deduct faster the costs of putting up a new building or buying new machinery.

When these facilities wear out, consume too much energy or become technologically obsolete, a company risks losing business to others with newer equipment. When a whole industry has this problem, there is a risk of growing unemployment, shrinking exports and increased numbers of cheaper imports.

While a business is allowed to deduct most of its costs, such as wages, fuel and raw materials, federal tax law forces deductions for the costs of buildings and equipment to be spread out (or depreciated) over many years.

During those years, conditions change in the real world, and the actual economic life of an item is likely to be shorter than the number of years now allowed.

Depreciation under present law is a complicated system that puts a damper on investments. It needs to be replaced by a system of simple and rapid deductions designed to generate investment funds that lead to new jobs and foster economic growth.

*More money should be
made available for
business investment.
Realistic, modern tax
laws will help.*

3. *Sensible Federal Regulation*

What was the fastest growing industry of the 1970s? It wasn't a consumer product, or energy or high technology. It was federal regulation.

In 1979, federal regulations cost the American people \$103 billion, a sum equal to \$450 for every man, woman and child in the United States.

There is widespread agreement that certain regulatory controls are necessary. But too much regulation can be extremely damaging.

—Regulation contributes to inflation.

When the government requires business and industry to spend money in ways that increase production costs without improving productivity, the price to the consumer goes up.

Federal, state and local regulations add about \$2,000 to the cost of the average new home.

Federal environmental and safety regulations added an average of \$666 to the price of a 1979 automobile, for a total bill to consumers of \$7 billion.

—Regulations hurt productivity.

From 1948 to 1967, American productivity grew at an impressive annual rate of more than 3.2 per cent. From 1967 through 1977, productivity gains averaged only 1.6 per cent per year. In 1979, productivity actually declined — by nearly 1 per cent.

We can begin to control the regulatory process by applying some commonsense ideas.

Sunset legislation requiring Congress to review all spending programs periodi-

cally would help. Programs or agencies not expressly reauthorized would go out of business.

Sunrise legislation would require Congress to state specific goals for all new regulatory programs. This would help government agencies implement them effectively, without distorting the original purpose.

Legislation requiring that agencies state specific objectives for all major regulatory proposals would help everyone evaluate the costs against proposed benefits to ensure that we are getting our money's worth.

A congressional or legislative veto would give Congress authority to stop unnecessary regulations before they take effect. And an overall reform of rule-making procedures would require agencies to estimate the direct and indirect costs of regulatory proposals.

Stronger judicial review of regulatory programs would let the courts serve as a check on agency decisions.

These ideas would move us a long way towards a commonsense regulatory environment.

Federal regulation must be sensible. The public must get its money's worth from this process.

4. Using Natural Resources Effectively

In order to sustain and improve our standard of living, this nation must develop a comprehensive policy for natural resources, including energy, that fosters growth and production.

At the heart of America's energy problems are an excessive dependence on foreign oil and, until recently, unrealistically

low, government-controlled prices for oil and gas. These artificially low prices over the years encouraged energy consumption and discouraged its conservation. They also inhibited exploration for new supplies and the development of alternative energy sources. Moreover, federal regulatory and land policies have restricted access to energy supplies, strategic minerals and other resources.

All of these things have contributed to massive resource problems. Evidence of these problems is close at hand — in on-and-off traffic jams at the gas pumps, and in scattered shortages of heating oil and natural gas that create hardships for families and slow down factory output, affecting jobs.

Americans have come to understand that the supply of fossil fuels like gas, oil and coal eventually will run out. We fail to understand, however, that we are facing a time shortage and a technology shortage as much as a shortage of raw energy resources.

- America has sufficient coal reserves to supply our total energy needs for 120 years while sustaining a 3 per cent annual economic growth rate.
- Used in combination with other fuels, proven and estimated coal reserves could extend this to 500-600 years.
- The development of safe nuclear energy is one of our most important energy options if America is to prosper during the next quarter-century.

Clearly, policy makers must move quickly in the right directions if we are going to work our way through this transitional period without massive dislocations of people, jobs and economic resources.

Development of all domestic energy resources is America's best hope of reducing our dependence on imported oil. Coal, which requires reasonable environmental

precautions, is the most abundant of these resources. Private sector programs that develop alternative energy technologies and put increased emphasis on nuclear power generation are other ways to get the job done, along with conservation efforts to increase energy efficiency by businesses and individuals.

Finally, when it comes to certain strategic raw materials, the United States is a have-not nation, relying on sometimes unstable foreign sources. To reduce dependence on this critical lifeline, we must make every effort to ensure access to essential domestic and offshore minerals.

Effective energy and natural resources policies are required if America is to maintain its current standard of living, ensure national security and control its own economic destiny.

5. America's Ability To Compete

The consequences of poor U.S. trade performance cut across the whole economy: jobs are lost, inflation is accelerated and Americans must accept a lower standard of living.

Conversely, increased exports create jobs, as do increased sales in the U.S. market in competition with imported goods. A stronger trade balance also helps strengthen

the dollar, which in turn helps hold down the rise in foreign oil prices.

The competitive position of American industry has been declining for a number of years, as evidenced by large trade deficits and declining shares of world export markets and rising imports. Efforts to reverse the trend by devaluing the dollar against major world currencies have not been effective.

Until the 1970s, the United States enjoyed an overall positive trade balance, as well as a positive balance in manufactured goods. In 1977-1979, the U.S. overall trade deficit averaged more than \$25 billion per year. Last year, the manufactured goods balance on a global basis was \$59.2 billion for Germany and \$72.0 billion for Japan, in contrast with a new balance of only \$4.5 billion for the United States.

There is no simple solution to the U.S. trade problem, and no one measure will do the trick. The crucial element, however, is to make the manufacturing industries of America more competitive in both foreign and domestic markets. These are the measures to be started — and to be sustained for many years:

- Improve the domestic economy, primarily through improved savings, investment, research and development and other measures designed to enhance the competitiveness of our manufacturing industries;
- Remove unneeded, costly U.S. government impediments or disincentives to exports;
- Open up foreign markets further to U.S. goods, primarily through forceful and effective implementation of the various non-tariff barrier agreements negotiated in recent years;

- Provide export incentives and facilities to make exports more profitable.

American industry must be competitive in world markets if we are to help keep the dollar strong, improve our balance of trade and generate jobs for American workers.

6. Improved Productivity

Productivity is the base on which America's economic and social strength has been built. In economic terms, productivity is the "measure of output per hour of work." Productivity measures how effectively a society uses its people, its natural resources and its tools. Increased productivity does not necessarily mean harder work. It does mean working smarter and caring about our work — making each product or project carry our own personal seal of approval.

- Productivity increases have been a major source of improvements in the standard of living.
- Productivity growth is a key factor in the fight against inflation.
- Productivity gains have enlarged our economic pie.
- Productivity gains can mean bigger paychecks, more stable prices, a healthier economy and thus more jobs and goods.

Changes in productivity can come from changes in production techniques, equipment, the skill of the work force, managerial

ability, the scale of operations, materials, product mix, the state of labor-management relations and the quality of work environment. In the past century, the per-person output of goods and services has increased sixfold, and the standard of living rose sixfold during the same time.

As we produce more efficiently, we live better. But America's high standard of living is not guaranteed. The drop-off in productivity gains is one of the most significant and potentially dangerous problems facing the nation.

American productivity has been harmed by government regulations; declining research, development and innovation; and an investment climate that keeps businesses from getting the money they need to modernize.

Limiting federal spending and changing the tax structure will help make more money available for investment in business. Industry can be made more productive by getting the regulatory process under control.

And each of us can contribute to productivity by *thinking* about it as we work: How can we do our jobs better? What changes can be made to produce more in the same amount of time, to provide better service to others? These are the important personal contributions we can make to revitalize and restore American industry as a potent force that can carry us forward into a secure, prosperous future.

Increased productivity means improvement in America's standard of living, a chance to control inflation, and paychecks that reflect real rather than imaginary gains.

APPENDIX C

EXPORT POLICIES

TESTIMONY
before the
SUBCOMMITTEE ON TRADE
of the
HOUSE WAYS AND MEANS COMMITTEE
July 21, 1980

"OVERVIEW OF U.S. TRADE POLICY"

Mr. Chairman and members of the Subcommittee on Trade, my name is Robert McLellan, Vice President of FMC Corporation, a diversified producer of machinery and chemicals with 1979 sales of \$3.3 billion, including exports of well over a half billion dollars. I am appearing today on behalf of the National Association of Manufacturers as Chairman of NAM's International Trade Committee.

The National Association of Manufacturers is a voluntary, non-profit organization of nearly 13,000 companies, large and small, located in every state of the Union. It represents firms which account for about 75 percent of American manufactured goods and approximately the same percentage of the nation's industrial jobs.

NAM welcomes the initiative taken by this Ways and Means Subcommittee in conducting oversight hearings on U.S. trade policy and the trade competitiveness of U.S. producers. The phrase "export expansion" has become one of the more popular buzz words today in Washington. Yet, in reviewing the progress of the debate during the past year on how to expand our exports, we come away with an uneasy sense that some central issues are being obscured in this debate. In this testimony we would like to address these issues, at least as we see them, regarding the competitive factors affecting U.S. manufacturing industries in world markets.

The first point we would like to make is that the United States has a very serious trade problem that requires us to deal with fundamental economic questions.

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Because the U.S. balance of payments on current account was in balance for 1979, some people have mistakenly assumed that we have overcome our difficulties on the trade front. This just is not the case. The current account improvement was largely achieved by "creative accountancy" -- that is, by changing the accounting ground rules to count retained but unrepatriated overseas earnings of American companies, as well as almost \$4 billion in 1979 of U.S. gold exports, as if these were the equivalent of actual exports.

The basic point that we must realize is that the U.S. trade problem extends beyond the fact that we import too much oil and that foreign economies are growing too slowly to absorb our exports at a quicker pace. These are important issues, but U.S. trade suffers most basically from a major decline in the competitiveness of the U.S. industrial base. I will not go into further detail here, but I would like to refer you to an article in NAM's most recent International Economic Report which provides an incisive review of the U.S. trade position (see attached article).

Four types of considerations affect the basic competitiveness of U.S. industry in the world marketplace:

- 1) The general health of the domestic economy, and specifically, conditions affecting inflation, capital formation, savings, investment in plant and equipment, innovation, research and development, and productivity.
- 2) Export disincentives imposed by the U.S. Government.
- 3) Limitations on access of U.S. goods to foreign markets, including foreign government policies, tariff and non-tariff barriers which reduce U.S. competitive export opportunities.
- 4) U.S. facilities for exporters, including export credit, trade promotion and other governmental aides or incentives to export.

Trade Impediments and Incentives

In examining U.S. trade performance, most attention in the current debate over export expansion has focused on traditional foreign trade "impediments," or "incentives," along the lines of items #2, #3, and #4 above.

The so-called export disincentives are well known, but it is difficult to place quantitative values on lost exports due to these disincentives. In most instances it is equally or perhaps even more difficult to quantify the benefits of such export-limiting policies in terms of U.S. foreign policy, national security, or other policy objectives. Significant examples of export-limiting policies are these:

Export controls for foreign policy reasons -- South Africa, Cuba, Rhodesia, Vietnam

Export controls for national security and foreign policy reasons -- USSR, PRC, North Korea, Eastern Europe

Export controls for reasons of domestic short supply

Export controls to achieve nuclear non-proliferation agreements with foreign countries

Export controls to achieve human rights objectives

Export controls to achieve objectives regarding protection of the environment in foreign countries

Export controls to affect health, safety, and efficacy of the use of pharmaceuticals and drugs in foreign countries

Export controls to prevent or punish American firms doing business with countries boycotting Israel (so-called Arab boycott policy)

Export controls of military and para-military equipment

Export controls to achieve the release of American hostages in Iran

Export controls to punish countries for harboring international terrorists

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Export controls to affect adversely the conduct of the 1980 Moscow Olympics

Criminal penalties for American firms engaging in bribery of foreign government officials

Taxation of income earned by Americans working abroad

Antitrust uncertainty concerning overseas business activities

Few of the controls listed above are paralleled by our major foreign competitors, and those which are followed by foreign countries -- for example, COCOM security export controls or antitrust policies -- are implemented in a less rigorous fashion than in the U.S. The objectives to be achieved by unilateral U.S. export controls may be desirable, but often the objective cannot be achieved by the export control mechanism because comparable goods and services are available from foreign export competitors.

When moving from U.S. export disincentives to incentives, we find a comparatively meager list of policies designed to encourage U.S. companies to sell their goods and services overseas. These incentives appear even weaker when compared to the policies of our major leading competitors:

- 1) DISC is one genuine export incentive enjoyed by U.S. exporters and probably the most important. Yet, even with DISC, a study by the National Planning Association indicates that the United States taxes export income at a rate three times higher than France, twice that of United Kingdom, and about 1 1/2 times higher than Japan. West Germany is the only one of our major competitors with no apparent tax preference for export income, although Germany does favor certain types of foreign-source (mixed investment-trade) income.
- 2) Export financing through Eximbank is another incentive for U.S. business to enter the international markets, but this incentive does not really measure up to what is available abroad.

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In spite of improved and more aggressive management of Eximbank, an April 1980 General Accounting Office study concluded that a number of economic and non-economic constraints limited the Bank's ability to offer competitive export financing consistently. NAM's own study on the subject came to the same conclusion (see attached NAM Special Report - September 4, 1979).

- 3) Export promotion is another example generally cited as government support and encouragement of U.S. exports. This promotional activity undoubtedly has an impact. But when you consider the fact that Japan and France each have more commercial officers in the United States than the U.S. commercial service has in the entire world, this U.S. export incentive appears relatively weak.

U.S. export incentives and disincentives, of course, account for the relatively poor U.S. export performance only to a degree. Foreign government policies and actions favoring their own producers in connection with governmental purchases, subsidies, technical standards, favorable credit terms, etc. are also significant; and to a degree, some of the practices can in time be moderated by the multi-lateral non-tariff agreements concluded last year. Export facilities -- including export credit, government-to-government export-import arrangements, and other institutional arrangements such as export cartels -- also affect the U.S. export competitive position. Each of these matters requires separate and intensive study, and then specific Executive Branch policy action or Congressional action. Foreign government industrial policies are often used to achieve export results, import limitation, and creation of self-sufficient or expanding domestic industries. Reference to these subjects is not meant to suggest that all or any of these techniques or policies should be followed by the U.S. The purpose is to indicate

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that foreign government policies of this nature can affect U.S. exports, and indeed, U.S. imports as well, and careful analysis is required to determine what action, if any, is desirable by the U.S. Government.

U.S. Domestic Economy and International Competitiveness

As stated earlier, in considering U.S. trade performance, most attention in the past has been addressed to traditional foreign trade "impediments," or "incentives." While in no way downgrading the importance of these items, it is our purpose in this testimony to focus attention on an even more fundamental part of the trade problem -- namely, the domestic economy and the reduced strength of the U.S. industrial base.

It is evident that the U.S. has "enjoyed" a high-consumption economy. It should be equally evident, therefore, that a high-consumption economy by definition must be a low savings and low investment economy. In fact, this is true, and at present, savings and investment in the U.S. are a smaller proportion of national income or GNP than in any other major industrialized country. Low investment levels in industry have resulted in aging plant and equipment, with newer technologies, even when available, often being put off for a "better day." Meanwhile, our industrialized foreign competitors have achieved and maintained higher levels of investment. The table below shows the relative rates of investment in non-residential business assets by the United States and our major foreign competitors. The United States is even behind the United Kingdom in the percentage of gross domestic product which is devoted to productive investment.

Real Non-Residential Fixed Investment as a Percentage
of Real Gross Domestic Product, 1965-1975

Country	Per cent of real gross domestic product
Japan	25.4
West Germany	17.4
Canada	17.2
France (1970-75)	15.7
United Kingdom	14.9
United States	13.5

Source: *Economic Report of the President, 1975*, Organization for Economic Cooperation & Development.

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Policies to encourage capital formation and increased productivity are essential to meet our nation's number one goal of defeating inflation. Specific measures designed to stimulate savings, industrial investment, and research and development should be viewed not only as necessary to overcome inflation in the U.S., but also from the standpoint of their essentiality in restoring the international competitiveness of U.S. industry. Investment to create new industrial capacity, in part for export, can reduce unit costs, thus making goods more competitive with imports and providing lower cost goods for the domestic economy.

A second key economic policy area involves research and development as a determinant of U.S. international competitiveness. In the 1950s and 1960s, U.S. government and private R & D spending was particularly strong -- peaking at 3 percent of gross national product in the mid-1960s. While R & D expenditures as a percent of GNP has been declining since then, the U.S. still spends more on R & D than the combined total for all OECD nations. So, the image of the U.S. as some sort of crippled giant in this field is not accurate, but neither is the image of some sort of technological colossus.

Our major trade competitors have been closing the technological "gap." It therefore is logical to expect that the success of European and Japanese firms in displacing American manufactured goods in world markets for low and medium technology goods will also take place in more sophisticated products that are critical to U.S. trade performance, i.e., aircraft, computers, and the general area of capital goods.

The U.S. must examine its policies concerning R & D and stimulate innovation in both private and public sectors of our society. In the past technological innovation has played a key role in productivity growth in the U.S. which in

turn enhances our international competitiveness. If the cutting edge in the U.S. trade balance is the export of advanced technological goods and if many of the goods we will be consuming twenty years from now have not yet been invented, it is incumbent upon us to make sure we provide the leadership in this area.

A third general economic policy subject bearing on international competitiveness and domestic inflation is U.S. balance of payments policy, and specifically, U.S. exchange rate policy. It is rather clear now that a weak dollar has hurt the U.S. standard of living by making imports more expensive, thus contributing to inflation. Poor U.S. export performance has not been generally overcome by lower export prices brought about by devaluation of the dollar. A number of factors help to explain why devaluation has not worked very well to help improve the U.S. trade position, but of particular importance is the lack of price sensitivity with respect to many of the industrial goods we export (especially capital goods) and foreign government intervention in certain capital-intensive, high-technology sectors. On the import side, obviously a weak dollar has further aggravated the rise in oil prices and other imported materials and manufactures, without significantly reducing domestic demand.

Currency devaluation works effectively in any economy primarily through domestic competitive channels affecting first demand and then the allocation of resources to meet the new supply-demand situation. Domestic economic policy changes to affect these production and supply relationships should be encouraged by market forces and general tax and other policies favoring new investment, rather than through further dollar devaluation. Thus, governmental policies to encourage new investment are needed for both domestic and international economic policy reasons.

Respecting general balance of payments strategy and exchange rate policy, the U.S. should choose policies to achieve our goals by means of a stronger and not a weaker dollar. A current account surplus and not just a balance should be a national priority. Only through major improvement in the trade account can this goal be successfully pursued. Efforts to improve U.S. earnings through services and international investment are desirable, but only the trade account offers the prospect of sufficiently large gains to offer hope of achievement of the goal of a stronger dollar over a sustained period of time. Although reduced dependence on foreign oil is absolutely essential to turn our trade account around, very substantial progress is needed in the manufactured goods field.

The low level of investment in modernizing U.S. industry is seen on both the import and export sides of our trade balance. We not only find it increasingly difficult to compete abroad, but also at home.

The U.S. trade balance in capital goods illustrates this point rather clearly. As a leader in innovation and production capability in the capital goods sector, the U.S. might reasonably have expected significant trade gains to be possible in this sector during the 1970s. The results were disappointing.

The \$33 billion trade surplus in 1979 in capital goods is 22 percent more than the 1976 balance of \$27 billion -- not a very spectacular rate of growth (only about 7 percent per year in simple arithmetic terms). But this might not have been too bad a result if import growth in capital goods had been low or moderate. Quite the opposite was the case. Thus, as a percentage of imports (excluding oil imports), U.S. capital goods imports rose dramatically:

1970	10.2%
1979	16.4%

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And as a percentage of total U.S. exports, capital goods exports stagnated:

1970	31.9%
1979	31.7%

What these figures mean, of course, is that we imported more capital goods relative to our production and consumption of capital goods, and our exports were growing too slowly to make up the difference.

Capital goods must lead the way in improving our trade performance in the manufactures field. Domestic investment policy affecting our industrial base has a crucial role to play in achieving this objective. Capital formation proposals, most notably the so-called 10-5-3 accelerated depreciation plan set out in H.R. 4646, introduced by Congressmen Conable and Jones, are vitally necessary.

Conclusion

Mr. Chairman, there seems to be a perception both in this country and abroad that the United States is "over the hill" in terms of its economic power and international competitiveness. Those who make this contention point to a variety of causes in making their case:

- 1) The U.S. is a high-consumption society unwilling to change its habits.
- 2) The U.S. system of governmental checks and balances makes it impossible to make the hard decisions.
- 3) The U.S. has not been able to control inflation and its economic and social consequences.
- 4) The U.S. has lost its military-strategic position in the world and its economic position reflects this fact.
- 5) The U.S. has become an overly-regulated and wastefully taxed society, content with the status quo.

There may be elements of truth in all the above assertions, but the so-called negative case regarding the U.S. future overlooks the strengths in our nation that can turn the present economic situation around. These strengths include:

- 1) Vast national resources within our borders.
- 2) An educated, skilled work force.
- 3) A flexible economic and political system that over time does allow for changes in national priorities.
- 4) An increasingly realistic perception on the part of the public concerning what government can or cannot do well, especially in regard to economic and social policies.
- 5) An economic base with significant technological strengths, management skill, and the world's most important capital markets.
- 6) An agricultural capacity second to none.

Those who believe the U.S. is "over the hill" may be in for a surprise during the 1980s and 1990s. Some of the problems that have caused economic difficulties over the past decade are now behind us:

- 1) We are now addressing some of the basic weaknesses in our economy.
- 2) We seem to be inclined to consider consuming somewhat less of the growth in national production, saving more and investing more.
- 3) Inflation is acknowledged as the nation's number one problem
- 4) The women and young workers who joined our labor force will be mature and productive workers in the 1980s.

- 5) The large capital investment to meet environmental standards will be less burdensome during the 1980s and 1990s.
- 6) Capital can be increasingly directed by market forces toward productive investments.

Success is not going to come easily in restoring U.S. international competitiveness. As we have indicated, the fundamental remedies to our underlying trade problems lie in the domestic economy. We must save more and invest more. High consumption must, to a limited degree, give way to more savings and higher investment and greater technological innovation. And, of course, inflation has to be controlled and then eliminated. Probably two-thirds of the trade problem is in the domestic economy. The remainder of the problem lies in trade impediments, disincentives, and inadequate export facilities.

In order to accomplish what has to be done in the final one-third, I believe the Congress should require a timetable from the Administration for the removal in whole or in part of the export impediments. A policy goal of "international competitive equality," insofar as impediments imposed by the U.S. Government relative to other governments should be established by legislation. Such a policy would parallel the trade negotiations policy of Sec. 2 of the Trade Act of 1974 to assure "...substantially equivalent competitive opportunities for the commerce of the United States."

Improved access to foreign markets through successful implementation of the MTN government procurement code, the standards code, and the subsidy code should also be subjected to the timetable concept of implementation. Additionally, a comprehensive international safeguard code should be negotiated. This important piece of unfinished business left over from the MTN is essential to overcome

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the private or informal arrangements now increasingly limiting trade from the Far East to Europe, and diverting such trade artificially toward the U.S.

And U.S. facilities to expand exports, such as adequate Export-Import Bank funding should be provided.

In conclusion, I urge domestic goals to revitalize our economy generally and the industrial base specifically. I urge a timetable for the removal of U.S. impediments to exports and for the implementation of the MTN agreements. I urge a comprehensive trade policy and an explicit export strategy. In an overall sense NAM favors integrated economic policies at home and abroad to re-establish a strong U.S. trade position.

Achievement of the objective of a truly competitive American economy will take a decade or longer, and will call for fundamental changes to encourage investment in the U.S. industrial base. While the larger range measures are put in place and begin to take hold, immediate steps should be taken to improve our export capability along the lines I have outlined in this statement.

Why Does the U.S. Have a Trade Problem?

by Lawrence A. Fox

Controlling inflation and strengthening the dollar in world exchanges concern us all, and the solutions to these problems have eluded us despite the attention given them. Similarly, the solution to the U.S. trade problem has so far not yielded up its inner secret, although it is evident that improved trade performance would contribute materially to meeting both objectives.

The facts are these: The traditional U.S. trade surplus has disappeared and the record of unbroken trade surpluses in this century came to an end in the 1970s. In seven of the past 10 years we have had a trade deficit, while in the past three years this deficit has averaged \$26.5 billion per year (Census basis). The role of oil in the deficit is well-known, of course—the oil deficit growing from \$1.3 billion in 1970 to \$55 billion in 1979. But less noticed, and of equal or greater significance, has been the decline in U.S. trade performance in the manufactures goods field. Although the United States has had good trade results in agriculture (surplus running at \$10-12 billion per year), clearly only the manufactures goods field offers sufficient scope for major trade balance improvement to offset a good part of the oil deficit.

It is, therefore, not surprising that most countries have viewed manufactured goods as the sector to emphasize to offset their increased oil import bills. The United States has done poorly in manufactured goods trade, having begun the 1970s with a surplus of \$3.3 billion and ended it with a surplus of \$4.4 billion. In comparison, our principal industrial competitors—Japan and Germany—have increased their manufactures trade surplus sufficiently to pay their increased oil import bill, with still something left to spare. The table below is illuminating:

Export of Manufactures (\$Billion)

	1970	1978
U.S.	29.3	94.5
Germany	30.7	125.2
Japan	18.1	94.2

Thus, while the U.S. roughly tripled its manufactured exports, Germany's increased by over four times, and Japan's by more than five times. Germany moved ahead of the United States as a manufactured goods exporter in 1970 and greatly

increased its lead by the end of the decade, while Japan caught up to the United States in that period.

In terms of the global trade balance in manufactures, the figures are even more indicative of poor U.S. trade performance.

Trade Balance - Manufactures (\$Billion)

	1970	1978
U.S.	3.4	-5.8
Germany	13.3	53.5
Japan	12.5	74.2

Of course, it is really in the trade balance that the net or surplus is developed to pay for the oil import bill. The table above shows that Japan and Germany have achieved huge trade surpluses in manufactures, while the United States had a deficit in 1978, and only a small surplus in 1979. German and Japanese export growth has exceeded ours, and they have not lost the foreign exchange earnings through increased import growth. The United States has done just the opposite, i.e., we have not done well on the export side, and we have experienced much stronger import growth than Japan or Germany.

The import side can best be understood in terms of import growth of manufactured goods relative to GNP.

Imports of Manufactured Goods Relative to GNP

	1970	1978
U.S.	2.6%	4.7%
Germany	9.4%	10.2%
Japan	2.7%	1.9%

These figures show that U.S. imports relating to GNP nearly doubled in the 1970s; whereas Germany's imports have gone up only slightly and Japan's have actually declined substantially relative to GNP.

What Do the Trade Figures Mean?

The trade data tell us that the United States—the leading industrial country in the world—has not only been unable to improve its performance in manufacturing trade, but has actually lost huge chunks of

ground to its two principal competitors.

These results can also be seen in measures other than those already cited, i.e., loss of world market shares, and growth of imports and exports relative to industrial goods production.

Manufactured goods are commonly classified as consumer goods, automobiles, industrial supplies and capital goods. In 1979, the United States had very large deficits in consumer goods (\$18 billion) and in automobiles (\$9 billion), while registering surpluses in industrial supplies excluding petroleum (\$5 billion) and capital goods (\$33 billion). From these figures it is evident that capital goods represent the key area where positive trade gains can be registered in the future. The story is disappointing.

The \$33 billion trade surplus in 1979 in capital goods is only 20 per cent more than the 1976 balance of \$27.4 billion—not a very spectacular rate of growth (only about 6.4 per cent per year). This might not be too bad if import growth in capital goods were low or moderate. Unfortunately, as a percentage of imports (excluding oil imports), U.S. capital goods imports rose dramatically:

1970	10.2%
1979	16.4%

And as a percentage of total U.S. exports, capital goods exports stagnated:

1970	31.9%
1979	31.7%

What these figures mean is that we are importing more capital goods relative to our production and consumption of them, and our exports are growing too slowly to make up the difference.

The machine tool area illustrates the problem: the traditional U.S. trade surplus has gradually eroded during the decade. In 1979 we imported 50 per cent more than in 1978, and in 1978, we imported 78 per cent more than in 1977. In 1979, we had a machine tool deficit of \$150 million.

The capital goods story refutes the conventional wisdom of government and academic economists, who generally have looked to devaluation of the U.S. dollar as a means to improve U.S. trade performance. They also have seen the business cycle as the key factor on the demand side, explaining import growth generally, as well as export growth. Although extremely im-

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Continued Article by
Lawrence A. Fox

portant, these factors do not adequately explain the poor U.S. industrial trade performance. U.S. trade is generally not sufficiently price sensitive to be influenced on either the export or import sides by price to elevate the exchange rate to be the determinative trade factor. In the case of capital goods, factors other than price and business cycle conditions often are determinative, i.e., foreign government intervention in industrial policy generally, and government purchasing decisions more specifically.

What Is the Solution?

The remedies that have been tried for the U.S. trade policy have failed. Dollar depreciation has helped only to a limited extent, but we paid a heavy price in terms of the inflationary impact of high oil prices. We also hoped to stimulate demand by inducing Japan and Germany to expand their economies (and hence their imports) more rapidly, but this also failed. They were reluctant to risk inflation by faster growth, and it is also evident they could not stimulate import demand sufficiently to bring about the desired result, even if the United States led the way in growth.

The true remedies to our underlying trade problems lie in the domestic economy. We must save more and invest more. High consumption must, to a limited degree, give way to higher investment and greater technological innovation. And, of course, inflation has to be controlled and then eliminated. Probably two-thirds of the trade problem is in the domestic economy. The balance of the problem is in trade *per se* in three main aspects: First, U.S. government-imposed disincentives to exports, such as export controls for foreign policy or other non-commercial reasons, must be reduced, thereby putting U.S. exporters on the same footing as their foreign competitors. Second, U.S. expects implementation of the non-tariff barrier codes of conduct completed last year in the Multilateral Trade Negotiations (MTN). And, third, U.S. facilities for exporters must be made comparable to those available to our foreign competitors, especially export financing and credit, tax advantages, and increased governmental support in penetrating foreign markets.

Mr. Fox is NAM's vice president for International Affairs. This article is a summary of an address given by Fox before the National Economists Club on April 1, 1980.

APPENDIX D

CAREER CONTINUATION SERVICES

Industrial outplacement at Goodyear Part 1: the company's position

Why Goodyear committed itself to an extensive program for both union and salaried employees

Tom Bailey

Tom Bailey, APM, is
Manager of Salaried
Personnel with The
Goodyear Tire and
Rubber Company. He
received his BS degree
from Texas
Technological
University. He served as
President of the Akron
Ohio Chapter of ASPA
in 1978 and currently is
the District
Representative of
ASPA Region 11.

You've heard about the high cost of dying. The hospital and funeral expenses can be staggering and generally are not prepared for by the survivors.

The high cost of plant closure can be the same, both in financial and human terms. Most people think there are five basic steps in the plant closure procedure: 1) make the decision; 2) make the announcement and say good-bye to the workers; 3) turn off the lights and lock the door; 4) sell the property and machinery; and 5) scratch one up to experience. It's a myth.

In reality the procedure is very complex. To be effective from the humane and financial dynamics standpoints requires a great deal of planning and understanding. Generally, closure will not put an immediate stop to the drain of company assets, primarily because of high unemployment costs that are created by established personnel policies, contractual agreements or government unemployment benefits insurance.

In Goodyear's case of the closure of the Los Angeles and Conshohocken, PA plants, the unemployment costs were estimated to be in the double digit millions of dollars.

It occurred to me that the expenditure of these millions was only hygienic and not really in line with the company's long standing paternalistic attitude toward its employees. We were not only dealing with the harsh cold facts of the economics of rapid change in tire technology and obsolescence, but with a very loyal, well trained and effective human element — our people.

Prior Experience

Previous to these two major plant closures, we had closed Goodyear's original tire plant in Akron in 1975. Three years later, Plant 2 Tires in Akron followed suit. The chemical plant in the same complex and the North Chicago hose plant closed their doors in 1979. All were veteran plants. Rapid changes in rubber and chemical technology, changing market demands, obsolete production methods and equipment and non-competitive labor practices had signalled their doom long before the doors were actually closed. Cost cutting measures were not enough to stem the inevitable.

When Akron's Plant 1 went "down", little was done to assist the employees who had been laid off. At that time other production facilities in Akron were still active and these personnel were eligible for recall. These employees were eligible for and did receive very generous supplemental unemployment benefits which guaranteed them 80 percent of their weekly earnings, when combined with any state or federal unemployment benefits. They also received company-paid hospitalization coverage for up to one year.

Indeed, very generous benefits.

The beginning of the end of Akron's Plant 2 Tires came in late 1977 when reduced demand for bias belted tires and non-competitive labor costs forced a major layoff at the plant. Several months later, this facility was completely closed. With this closure, it became apparent that the chances of laid off employees being recalled were slim, if not non-existent.

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INDUSTRIAL OUTPLACEMENT PART 1

For the first time, we decided to try to help some of these affected employees find work outside of Goodyear. The attempt, although very amateurish, proved to be very educational. Our program was simple. We followed the "Job Fair" approach that had been done on the West Coast in the early '70s by the aerospace industry during its general retrenchment. We decided to work with the affected salaried personnel only.

In preparation of our "Job Fair", we gave the employees a one-hour pitch on interviewing techniques, resume writing and answered general questions about finding work. We then hired a hall, sent resume booklets to everyone in the area who we thought might be interested and ran an ad in the *Wall Street Journal* and several other newspapers in the area announcing that we had qualified employees for hire.

To our surprise, 23 potential employers greeted about 40 of our laid off employees at the "fair". We were pleased, to say the least. We had led the horses to water, now all they had to do was drink.

But we had forgotten some very basic things about veteran Goodyear employees:

1. They were still completely loyal to the company and would stay on layoff rather than seek other employment. The loyalty was reinforced by the generous unemployment benefits. They were certain that some day "Mother" Goodyear would call them back.
2. They attended the "fair" out of loyalty to the company. It was indeed a company sponsored function and, as they had for many, many years, they felt compelled to attend.
3. We had done a very poor job of preparing these employees for outplacement.

Although laced with good intentions, the job fair produced few results. Several of the employees did land excellent jobs with greater responsibilities and pay. But our strictly amateurish efforts had done little for the majority.

Next came the Chicago plant closure. Because the decision to close this facility came very quickly, there was insufficient lead time to organize a program to help these terminated employees find jobs.

But it was the North Chicago closure that really opened our eyes to the high unemployment cost of a plant termination, because the responsibility for the administration of salaried unemployment compensation benefits (SUCB) had been shifted to my department.

I began to see hundreds of SUCB requests flowing through my department for approval and subsequent payment. It occurred to me that:

1. We were paying people for doing nothing.

2. These people were not out seeking new careers because they probably didn't know how, and
 3. We probably should have done something to continue their worklives.
- But what?

A Workable Solution

Concurrent to all of this, we had been studying the feasibility of using outplacement consultants for the purpose of placing professional and managerial employees who had become redundant due to changing economic conditions, changing technological requirements and other reasons.

We attended seminars, reviewed proposals, interviewed firms that had used outplacement consultants or had internal outplacement programs and had read most of the contemporary works of the outplacement gurus. Books like *Moving Up*, *The Professional Job Changing System*, *Guerrilla Tactics in the Job Market*, *What Color Is Your Parachute*, *Twenty-Eight Days to a Better Job* and *The Hidden Job Market* became regular reading.

Almost everything we found on the outplacement consultants or in the publications was geared to helping the more educated, managerial job seeker who wanted to make a job change. Such programs did not answer our needs. What we really needed for plant closures was a proven program that would cost-effectively deal with large numbers of both salaried and hourly employees on a humane basis.

Although we had several proposals from some of the leading outplacement concerns, only one program surfaced. That was a program designed and developed by the Career Development Team, Inc., headed by Tom Jackson, author, career consultant and lecturer. The firm had a successful track record in working with large groups of soon-to-be-terminated employees, principally at Sears and American Can Company.

Before making any commitment to Jackson, we tried to analyze what outplacement—or career continuation as Jackson prefers—could do for Goodyear and its employees.

We were impressed with the list of advantages:

- A good career continuation program is a graphic example of the company's concern for its employees and its commitment to the communities in which it does business.
- The program would help to keep productivity as high as possible until the actual closing.
- It would reduce employee termination costs and future unemployment insurance ratings in addition to eliminating many premature terminations.
- It would offer real support of our employees during particularly difficult times.

Working with Jackson's team, we came up with estimated costs and potential savings.

Using this data, we made a presentation to executive management and showed them that if Jackson's team could produce results at our Los Angeles and Conshohocken plants similar to what they had accomplished at Sears and American Can, we could save \$14.50 in unemployment expense for every dollar invested in the program. Plus, we would be doing a real service for our employees.

Arriving at potential cost savings was fairly simple, although the formula did require some "guessimates". Based on its accomplishments in similar programs, Jackson's team estimated that about 70 percent of the participants reentering the job market would find other jobs in 60 to 180 days after termination.

We then averaged out how much unemployment benefits would cost the company and subtracted the amount that would be saved if 70 percent of the employees found work in that time frame. The figures were impressive.

Top executive management liked what they heard. But the decision to "go" certainly was not based totally on the financial aspect. As one top executive noted... with our complete agreement... "I'll be happy if we even come close to breaking even."

The Los Angeles and Conshohocken plants were given notification in mid-September 1979 of their closure to become effective mid-February 1980... six months. Approval to proceed with the career continuation program was received in mid-October 1979 - giving us five months to prepare and complete an extremely complex program.

We had exactly 45 days to finalize the design of the program, print workbooks, order career information library materials, orient both plant and union management, procure audio visual equipment, arrange for suitable space for the career continuation center and library, secure housing, transportation for career continuation team members and a myriad of other things.

With fantastic support from Tom Jackson's team, plant management, union management and corporate headquarters staff we pulled it off and started right on time.

By the time this article is printed, the career continuation process will be completed for the thousand plus (some 85 percent of those who started the process finished) terminated employees at both locations. We sincerely hope that this corporate commitment to our people has changed this upset to real opportunity for most. Time will tell, because this has never been done on this scale before. □

What we really needed for plant closures was a proven program that would cost-effectively deal with large numbers of both salaried and hourly employees on a humane basis.

Industrial outplacement at Goodyear Part 2: the consultant's viewpoint

A close look at the program's why's and how's from the man who developed it

Tom Jackson



One of the early messages of the '80s is being written in large letters across our nation's basic industries. It is the message of large scale structural change, obsolescence and job decay, brought about by new technology, resource shortages and major realignments in world markets.

Many of the nation's most fundamental industries are feeling deep and troubling economic shock waves which are shaking their very foundations. These changes in the business world are not mere blips on the economic oscilloscope, but seismic readings which signify the ending of the industrial era which has been the foundation of our economy in this century. We are seeing a basic reorganization of steel, automotive, metal manufacturing and energy and their allied industrial partners.

And we are starting to witness, with these changes, some fundamental challenges to the workforce to which these industries are rooted. Plant closings and large scale manpower relocations are the inevitable fall-out of the reshaping which is going on in the American economy.

Industrial workers at all levels are discovering that the day-to-day work tasks in which they have specialized over the past several decades have somehow passed from fashion, or been replaced by more "hard wired" systems. The highly specialized human resources within many troubled firms are discovering that they too are looking at obsolescence. Personal obsolescence.

This phenomenon strikes hardest, perhaps, at the lower-level hourly worker specialists — those who operate the complex machinery of an automobile plant or an open hearth furnace or a bias-ply tire fabricating machine. These are the people who have learned their skills the hard way, rising through the ranks like their fathers before them. These are the workers whose abilities have merged with the machinery, people whose work-life in large part has been dedicated to the needs of one industry, or one employer.

These are the workers — salaried and hourly — who never questioned their employment. Who always trusted that, somehow, the mill would remain, the industry survive, the union prevail. These are the people who have never felt in charge of their own worklives.

Career Continuation

In the past few years, we have witnessed and participated in the development and increased popularity of outplacement or (more descriptively) career continuation services. Although a large part of our work was in the traditional one-on-one executive level counselling, we were always aware of the cost/time limitations inherent in this approach and were concerned that in that format, the service would be necessarily limited to only the uppermost levels of the employment tree. We also felt that by staying with the straight one-on-one form, we were missing some very important areas of support available through the group process (peer relationships, feedback, roleplays, synergistic processes, etc.).

(Continued on page 45)

Tom Jackson is President of the Career Development Team, Inc., New York City. The author of three popular books and over a dozen training programs on career development and job finding, he began his career as a personal manager in the early '60s. He is a frequent consultant to industry and government on manpower and employment. The Career Development Team, Inc., provides individual and group outplacement, spouse employment and career development services to organizations in the U.S. and Europe.

INDUSTRIAL OUTPLACEMENT PART 2 (Continued from page 43)

As the concept of career continuation grew more popular, we discovered greater opportunities to provide structured career continuation programs for people at supervisory and lower management levels— in some cases taking on an entire division phase out or relocation assignment. But almost always, clients would stop short of the upper end of the plant level, not recognizing the applicability of the approach to blue collar workers. That has now changed.

When we were contacted last September by Goodyear Tire and Rubber Company to assist them in two plant closings, we were thrilled to hear that management had decided to provide outplacement counselling to all employees who wanted it, regardless of work classification or seniority. In our experience, this was probably the first major outplacement project which would include, in addition to salaried administrative and supervisory staff, the hourly unionized production workers.

This provided us with an important opportunity to modify and adapt materials and processes from other areas in which we have worked: managers, supervisors, students and unemployed, and to demonstrate at the new level one of our basic

principles: *that knowing the rules of the job game expands people's ability to deal with their work-lives in a way which produces more satisfying and rewarding work for them and more value for the employers and the economy.*

Shown below is an outline of the basic comprehensive Career Continuation program which we designed for Goodyear Tire and Rubber.

- *An orientation meeting* describing the program to employees and spouses showing how the Career Continuation process could work for them.
- *An introductory multi-media presentation* in which Goodyear acknowledges the workers for the contribution they have made, explaining why it was necessary to close the plant and introducing the Career Continuation process and the Career Development Team retained to deliver it.
- *A six hour job strategies workshop* covering the entire job finding process. Using super graphics for reinforcement.
- *A three hour resume clinic* showing each worker how to draft an effective resume and

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cover letters. A special resume format was designed for hourly workers.

- *Resume typing and printing* were provided using Goodyear word processing equipment.
- *A three hour interviewing workshop* with video and other visuals to train participants in most effective self presentation.
- *A 98-page workbook*, planning guide and resume preparation kit.
- *Individual Counselling* using our own counselors and a specially selected cadre of Goodyear employees trained to handle the hourly follow-on counselling.
- *A Job Opportunities Center*—a room for reference materials, job postings and other relevant materials.
- *Job Development*—mailings and phone calls to local area employees to solicit inquiries and interviews.
- *A computerized job targeting vocational information system* to help workers select new job targets.

Career Continuation Process

The Career Continuation program was implemented by two teams of five persons each from the Career Development Team Inc. including highly trained workshop leaders and counselors, plus office staff and strong cooperative local and corporate support from Goodyear. Approximately 1,000 Goodyear employees were scheduled for the program in "career clusters" of 25 to 45 persons each.

The process was designed to take people through the following training phases:

PHASE 1: Agreement to Participate. Attendees are encouraged to examine their feelings about being in the process, to communicate any anger or resentment over the termination which could get in their way and to ask themselves whether they would be willing to get value for themselves personally from the process.

PHASE 2: The Worklife Equation. The leader expands the purpose of the program beyond just "getting another job" and has participants examine the possibility that by knowing "the rules of the game", their next career move could actually enhance the quality of their worklives in terms of personal satisfaction and relatedness. Participants list the specific goals they would like to obtain from the workshop.

PHASE 3: Fantasy Process. Participants are directed in a non-verbal, eyes-closed fantasy process to open up their ability to visualize and experience themselves in new jobs and geographic locations.

PHASE 4: The Building Blocks. Using spe-

cially prepared check lists, grids and self-appraisal forms, candidates develop an extensive inventory of skills, qualities, aptitudes and interests which are used in the job targeting process.

PHASE 5: Job Targeting. In this important part of the process, candidates are shown how to combine both skills and interests in the preparation of job targets (new or updated work directions) which are satisfying and practical. Attention is given to expanding participants' concepts and understandings of the workworld, which tend to be narrowly focused on their own prior experience and to open them up to a greater understanding of the variety of opportunity available in today's job market.

PHASE 6: Communication Exercises. At this point the Career Continuation process moves from a somewhat theoretical level to a highly pragmatic one, with the first of 10 different communication exercises. The exercises are designed to put participants in touch with their ability to project their value to potential employers. Peer acknowledgement and feedback adds enthusiasm to this exercise.

PHASE 7: Barriers. In the next phase of the Career Continuation process we move into an area which, for hourly workers particularly, represents a personal exploration into regions rarely shared openly. Participants discuss the variety of self defeating behaviors (barriers) which get in people's way in their worklives (laziness, low self-confidence, fear of failure, etc.) and then define the ones which would be most likely to get in their own way in their job campaigns and future worklives. For many people this area of awareness is as important as anything they get from the process.

PHASE 8: The Hidden Job Market. Basic job market research techniques are targeted to both hourly and salaried workers to make them less dependent upon traditional avenues of job finding. Networking, information interviews and referral techniques are explained in graphic form and in the workbooks. Actual reference materials are provided in the Job Opportunities Center.

PHASE 9: The Universal Hiring Rule. In this part of the Career Continuation Process we focus on the basic principle that "any employer will hire any individual so long as the employer is convinced that the individual will bring more value than he costs." Through detailed demonstrations and illustrations, we show how this rule is applied in areas of obtaining interviews, preparing resumes and cover letters, taking interviews, salary negotiation and follow up. Communication exercises are used to reinforce this experientially.

PHASE 10: The Perfect Resume. In a special optional clinic, candidates are shown how to translate the accomplishments, qualities and skill:

inventoried earlier in the program into effective one-page resumes, using chronological, functional, targeted and a special simplified resume format we designed for hourly workers. Draft resumes are started and completed in later individual sessions. We have found that the resume process is extremely valuable even for those whose skills or job targets would not normally require a printed resume. The concrete reality of the printed page is a strong reinforcement of the qualities uncovered and focused in earlier phases. Finished resumes are typed and printed by Goodyear.

PHASE 11: Controlling the Interview. This is a separate clinic which focuses on four major areas of employment interviewing. Communications exercises and role plays are used to provide practice and feedback. Participants gain an important ability to articulate their own most positive characteristics and to be reinforced in these communications. Video feedback is used to provide participants direct visual feedback. Most participants get their first actual experience of their physical presentation: where it works for and against them. For many this is an experience of primary significance.

PHASE 12: Completion. The Career Continuation Process was designed to bring the participants to a sense of security and support in their campaigns, with a complete understanding of the logical step by step approach to their next job search and with backup support to help them move through the phases on their own. A major part of the process is also to set in motion within the current work environment a dynamic of acknowledgement and communication, so that those who have been through the course can reinforce the positive experience in their remaining work together.

Individual Counseling and Backup

After completion of the workshops and clinics, all participants are offered individual one-on-one career counselling sessions by counselors and a group of specially selected staff from Goodyear headquarters who have been trained in the techniques of the Career Continuation Process.

A series of periodic small group follow up counselling sessions are scheduled to continue for 60 days after the plant closes as needed to provide ongoing support to those who require it.

Job Development

A job development program is being implemented in both Goodyear locations. This includes mailings to local employers, telephone solicitation of particularly relevant industrial firms in the area, clipping local newspapers and liaison with the state employment service.

The Job Opportunities Center

In both locations, a special area was attractively designed and set aside by Goodyear as the Job Opportunities Center. Contained in this center are copies of major career reference materials, books, posted jobs and a computerized version of the Dictionary of Occupational Titles which is used to assist people in job targeting.

The Job Opportunities Center is manned by Goodyear staff, and the atmosphere is kept warm and open. These centers will stay open beyond the plant closings and the staff member will coordinate the backup counselling and follow-up sessions.

Relations with the Union

From the beginning of the design of this Career Continuation program, Goodyear management wisely sought the cooperation of United Rubber Workers officials. People from our organization met with URW local leaders to establish communication and to obtain input which could be valuable to the program creation and implementation. This support from the union turned out to be very valuable in alleviating initial skepticism.

Employee Response

Faced with the trauma and upset of a plant closing marking the end of the major chapter in most employee's careers (service with Goodyear averaged over 20 years), Career Continuation is not initially embraced by the terminated employees as a long-awaited benefit.

Many initial reactions were suspicious (What is the company getting out of this?) and skeptical ("This is just a PR stunt"). The fact of Career Continuation and our orientation meetings at Goodyear was, for many, the first tangible reality of the actual plant closing; so at times, the sadness was so thick that you could barely cut through it.

In response to this, the opening part of the orientations and workshops were changed to acknowledge and deal with this shared sense of loss.

In one of the locations a strong negative dynamic was initially experienced by some second and third shift hourly groups (the program was run around the clock for several weeks) and some workers were allowed to leave. Workshop leaders are trained to handle these negative beginnings by actually encouraging this communication and not resisting or countering them. Once all the negatives are out on the table, the leader repositions the opening context: "Even if the negatives were true, would you be willing to use this program to get value for yourself?" The outcome of this confrontation, when it occurs, is usually the beginning of an alignment between the interests of the workers and the goals of the

Knowing the rules of the job game expands people's ability to deal with their work/lives in a way which produces more satisfying and rewarding work for them and more value for the employer and the economy.

EMPLOYEE AND LABOR RELATIONS

program. As the program moves along and workers get closer to departure dates, frequent additional negativity and skepticism are experienced and handled by trained counselors.

Since the general idea of self-examination is not a common one, particularly with hourly workers, the earlier experiences related to skill/interest identification often produce some discomfort and blank stares. After initial momentum is obtained and some results produced, the participants become deeply involved in the five different exercises which take close to two hours without a stop. By the time the inventory is complete, almost all workers have defined at least several dozen skill and quality statements. The pride (and surprise) at the range of items on this list is evident in the attitude and communication of the workers in the break which follows this phase.

It is in the succession of communications exercises that one most notices the employee response to the Career Continuation process. In each exercise there is an expansion of ability in the participants to communicate positive information about themselves and to acknowledge one

another. This growth is accompanied by a tangible increase in the degree of participation, self-expression and aliveness. This enhanced ability to communicate positively is, of course, a major contributor to future job campaigns.

In many cases, the difficulty of positive self-expression causes some embarrassment and pain in people who have always been reticent about acknowledging themselves. The ability to deal with this discomfort is an important part of the workshop leader's training.

At the end of each workshop series we have the participants share what they got out of the program. One of the most repeated comments is a good summary of what we feel to be the true value of this type of training to industrial workers: "I never realized I had so much to offer. I wish I'd known about it 10 years ago."

In the '80s, as industrial career development (on the job as well as in outcounseling) becomes a reality, more workers will learn, earlier, how to enhance the contribution they can make to their employers and to themselves in their careers. □



The CHAIRMAN. Very shortly, I will be called over to vote nine times by saying "Yes" once, and that is the kind we like to make. But since we have not been called, let me take a moment of your time to ask some of the questions generated by your fine statement.

Does the National Association of Manufacturers offer advice or assistance to member firms who are facing a worker dislocation?

Mrs. JOHNSON-SMITH. We serve as a liaison for information. We attempt to put our member companies who are undergoing dislocation in contact with those who have already had the experience, or to put member companies who do not have a program or policy into contact with those who do.

The CHAIRMAN. Is Brown & Williamson a member?

Mrs. JOHNSON-SMITH. Yes; they are.

The CHAIRMAN. Good. I think they will be available to be given as a reference for those who do not.

Mrs. JOHNSON-SMITH. An excellent one.

The CHAIRMAN. I notice on page 14 of your testimony, that you are surveying a portion of your members to identify current practices within the manufacturing community regarding worker dislocation. What is the range of prenotification periods that you found among your surveyed members?

Mrs. JOHNSON-SMITH. I would like to qualify our statement in that regard. The survey was conducted of some of our largest members. From their experiences, the range goes from anywhere from 3 months to 18 months, although they are not always able to meet their optimum goal. It depends upon the plant, the facility, and the circumstances that are giving rise to the dislocation.

The CHAIRMAN. What role do you believe the National Association of Manufacturers can serve in assisting particular situations of economic dislocation?

Mrs. JOHNSON-SMITH. I think again, as a conduit for information, as a liaison point to our members so that we can bring the most advanced programs, the best experiments in the area to the attention of members who might otherwise not have access to it—and by that, I mean basically, our small- and medium-sized companies, who do not have the resources that some of our larger members do.

The CHAIRMAN. Earlier today, other witnesses suggested that management and labor, together with Government representatives, work together toward the development of national policies promoting reindustrialization, revitalization, quality of work life, and production. What do you sense the National Association of Manufacturers' attitude with regard to that approach?

Mrs. JOHNSON-SMITH. Well, speaking for our industrial relations department, we are ready, willing, and able to join with our counterparts in labor, industry, and Government to work toward those objectives.

The CHAIRMAN. Is the department of labor relations part of NAM's policy formulation on national program response in the labor areas, and is it your department that expresses the viewpoint of the national association on legislative matters?

Mrs. JOHNSON-SMITH. Yes. Our industrial relations department is comprised of five committees that deal with related issues in this field. The members of those committees with staff formulate those

positions that are in turn advanced to the board of directors; the board, in turn, makes the decision as to whether they will be official NAM policy.

The CHAIRMAN. And when policy is determined in this way and over that route within the association, who comes here to express that to Congress at hearings on legislation?

Mrs. JOHNSON-SMITH. It can be members of the staff or members of the business community who are members of the National Association of Manufacturers.

The CHAIRMAN. I do not believe this committee has had the benefit of your testimony on some of this committee's issues that I know you are familiar with.

Mrs. JOHNSON-SMITH. No; not mine per se. I have successfully avoided that up to date. I am a coward at heart, sir.

The CHAIRMAN. Oh, no. This is the most agreeable committee to be a witness before. Our members, I find, are not prickly or testy—

Mrs. JOHNSON-SMITH. I will not dispute that. They are delightful. I have watched them on many occasions.

The CHAIRMAN. We have next to consider the President's youth initiatives, both in education and in training programs, and we hope that you will receive the assignment—I know that you will not welcome it, perhaps, but I hope you will sometime receive the assignment to be here to be a witness.

Mrs. JOHNSON-SMITH. Thank you.

The CHAIRMAN. Now the bell has rung, and nine votes are facing me.

Thank you very, very much.

[Whereupon, at 1:10 p.m., the committee was adjourned, to reconvene Thursday, September 18, 1980, at 10 a.m.]

The first part of the document is a letter from the Secretary of the State Department to the Secretary of the War Department. The letter is dated 1864 and is addressed to the Secretary of the War Department. The letter discusses the appointment of a new Secretary of the War Department and the resignation of the previous Secretary. The letter is signed by the Secretary of the State Department.

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WORKERS AND THE EVOLVING ECONOMY OF THE EIGHTIES

THURSDAY, SEPTEMBER 18, 1980

U.S. SENATE,
COMMITTEE ON LABOR AND HUMAN RESOURCES,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 4232, Dirksen Senate Office Building, Senator Harrison A. Williams, Jr. (chairman), presiding.

Present: Senators Williams and Riegle.

The CHAIRMAN. I would like to welcome everyone to our second day of hearings on the role of the worker in the evolving economy of the eighties.

These 2 days of hearings are focused on how we can best foster sound national policies in the area of worker dislocation. Worker dislocation means the separation of workers from the tools with which they may earn a livelihood.

Yesterday, we heard testimony on the severity of the worker dislocation problem in the United States, and on the severe emotional trauma that can occur as a result of dislocation. The permanence and scale of worker dislocations gives strong argument to the need to develop a coherent national approach to avoid dislocation where possible and, where not possible, to facilitate the occupational adjustment of workers so that they may be productively employed.

I was very pleased that all of our witnesses yesterday brought with them not only a recognition of the seriousness of the problem of worker dislocations, but also a commitment to work toward solutions to this most serious problem.

I hope that in the course of today's hearings, we can continue the dialog as we explore the development of national policies for the full utilization of our work force potential.

The CHAIRMAN. We welcome Arnold Packer, Assistant Secretary for Policy, Evaluation, and Research, Department of Labor. We welcome you back, Mr. Packer, and know that our understanding of this issue, our approaches to the problem, and our policy development will be greatly enhanced by your thoughtful presentation.

Before you start, I have to say that we have several activities going on before this committee simultaneously. There is a markup on the youth initiatives legislation, and I must go to the subcommittee considering that legislation. However, Senator Riegle will be here and I will be back as soon as I can.

Thank you.

[Whereupon, Senator Riegle assumed the Chair.]

STATEMENT OF ARNOLD PACKER, ASSISTANT SECRETARY FOR POLICY, EVALUATION, AND RESEARCH, U.S. DEPARTMENT OF LABOR, ACCOMPANIED BY JOSEPH TALBERT AND RAYMOND WHALDE, DEPARTMENT OF LABOR STAFF

Mr. PACKER. Thank you, Mr. Chairman. We appreciate the importance of the youth bill and are very glad to have the Senate move so rapidly on that important piece of legislation.

With me today are Joseph Talbert and Raymond Whalde, of the Department. And I do have a prepared testimony that I would like to submit for the record, and with your permission, I would like to summarize that testimony.

Senator RIEGLE. That is fine. It will be included in the record following your oral remarks, and we appreciate your summary.

Mr. PACKER. We share the committee's view that the coming decade will see a rapidly changing economy, both because of energy and international problems and because of changing demographic conditions.

One way or another, the American economy will adjust to structural changes. The policy issue is whether the adjustment will increase our productivity, and therefore, the average wages of American workers, or we will only adjust to a lower standard of living.

We believe that a positive adjustment strategy—one in which new job opportunities, particularly in emerging industries, are made available to workers who are displaced from declining industries—is the right approach.

President Carter's economic renewal program is based upon such an approach. It calls for measures to encourage new investment, both public and private, that will create 1 million new jobs by the end of 1982 and lay the foundation for even more employment growth in the future. It creates a forward looking partnership among Government, business, and labor to deal with structural adaptation that only a cooperative approach can solve.

To reinforce cooperation between Government and the private sector in dealing with these complex economic issues, the President will establish a new, high-level Economic Revitalization Board. We are very pleased that Irving Shapiro of Dupont and Lane Kirkland of the AFL-CIO have agreed to serve on that Board.

The Board will be requested to develop specific recommendations to the President for establishment of an industrial development authority that will provide financial assistance for industrial development and economic revitalization in areas in transition and affected by dislocation or high unemployment.

The authority would mobilize both public and private resources, such as Federal, State, and local moneys, and capital from private markets and even from pension funds. The programs would be coordinated with State and local development functions. The authority would be subject to annual budget control.

In addition, the President will seek the Board's advice on various issues relating to worker adjustment to structural change, including measures to remedy the effects of industrial dislocation on workers and on communities; programs to improve worker skills and provide job training, and means for most productively meeting the goals of health and safety regulations.

Tripartite efforts are underway at the industry level as well. The President has established an Automobile Industry Committee, and there is a Steel Committee. In both cases, we have top industry, labor, and Government representatives dealing with the long-term prospects for the industry and for its employees.

In addition, we will need joint efforts to manage the adjustment process associated with plant closings or mass layoffs.

In the steel industry, a tripartite committee has established a special task force that works on community adjustment and worker dislocation and deals with plant closings, worker retraining, and community assistance. That task force includes the steel companies, the Steelworkers Union, the State employment security agencies, and local CETA prime sponsors to see that laid off workers receive benefits, job training assistance, and retraining due them under Government programs and under the industry's collective bargaining agreements, and to see that the communities receive help in economic diversification and new job creation.

Since 1971, there has been a growing interest in joint consultation in response to economic pressures. The term "labor-management committee" now encompasses a broad diversity of situations and types of relationships. There are industrywide joint committees—in the clothing industry, in the railroad industry, in retail food, in the coal industry.

In addition, we have local groups, especially in the construction industry, in Chicago, and in St. Louis, Indianapolis, Boston, Columbus, Nevada, and Colorado.

There are, of course, communitywide joint committees. Senator Javits was very instrumental in establishing the most successful of these, in Jamestown.

The greatest number are of plant labor-management committees, and they are growing in a number of places. There is a directory available which indicates just how many of them there are. Creation of these new committees is part of the new steel collective bargaining agreement, and each steel firm is to establish at least one in each of their plants.

In addition to these committees, there have been cooperative arrangements for plant dislocation that have been established in the collective bargaining process itself. The steel industry is a notable example. There is an agreement to have at least 90 days' notice of a plant closing in the steel industry. That would give workers time to apply for and be transferred to other plants. The steel agreement provides for a relocation allowance for employees who elect to continue working in the industry but are willing to accept an offer of employment in another location.

Of course, these agreements have been established in private collective bargaining, and the policy issue that your bill, Senator Riegle, addresses is what the Government can do to better assist dislocated workers. Of course, we already have Unemployment Insurance, Trade Adjustment Assistance and Redwood Employee Protection, which generally emphasize income maintenance and not positive adjustment.

Our major program to help in positive adjustment is CETA, but as you well know, that is generally targeted on the disadvantaged is income-tested and has very low wage ceilings, and for many

people, they have to be unemployed for quite some time before CETA is open to them. And while title II-C of CETA has been used in some individual places, it generally has not been the instrument that is adequate to handle the problem.

As a result, permanently displaced workers bear most of the financial burden of structural change. The benefits of increased competitiveness and higher productivity, come to all of us, but the workers who are dislocated, as your bill indicates, bear the largest part of the cost.

We recognize the need for a positive adjustment approach to economic dislocation. Therefore, the Department of Labor is preparing to launch a series of special demonstration projects to assess the merits of different methods and incentives for retraining and relocating displaced workers.

Beginning in fiscal 1981, which starts in just a few weeks, the Department plans to shift about \$10 million in CETA funds into title III to plan the demonstration projects and to finance the start-up phase. In our request for fiscal 1982, we plan to ask for \$50 million to implement the demonstration projects and carry them for the full year.

We have already begun an initial project in the downriver communities of Wayne County, Mich., and that will serve as an operational model for the other demonstration sites. The downriver communities are severely affected by auto and other manufacturing layoffs. Two major employers, one an independent auto supplier and the other a chemical firm, have permanently shut down their plants, idling 1,800 workers. In addition, several auto plants have placed over 4,000 employees on indefinite layoff, and some of those plants may close in the future.

The Downriver Community Conference, a CETA program agent, has responded to this major problem in a very aggressive fashion, by proposing and partially funding an innovative adjustment assistance program. A grant from the Labor Department, which I expect Secretary Marshall to sign this evening in the downriver area, will enable downriver to expand this effort.

The downriver project is providing a flexible mix of services for dislocated workers.

First, the program offers a telephone hotline service, providing crisis counseling and referrals to social services for unemployed workers.

Second, job search training and job search club services are available for those with readily marketable skills.

Third, on-the-job training contracts are being executed with private employers. Downriver recently contracted for 60 on-the-job training positions paying between \$8 and \$9 per hour.

Fourth, classroom training is being provided to those workers with limited or obsolete skills. A local committee consisting of educators, employers, and union representatives reviewed potential training areas to determine whether labor market shortages exist and where they are, locally or nationally. Ten fields were determined to be appropriate for retraining in Michigan, including cable TV technicians, auto body repair, automotive and motorcycle mechanics, heavy equipment and diesel repair, energy conservation technicians, word and data processors, and computer technicians.

Fifth, some workers have been identified as possessing skills that are best marketed outside the State of Michigan. Some of the chemical workers, for example, have expressed an interest in relocating in order to continue working in their same occupation. Downriver is contacting employers in the chemical industry and other State employment agencies concerning direct placements outside the Michigan area. Downriver will pay relocation benefits to those workers who obtain employment. Downriver will also host a job fair, where both local and national employers will have an opportunity to meet and interview program participants.

While this array of services cannot guarantee a rapid return to productive employment for all dislocated workers, the demonstration projects certainly increase the opportunities for success.

I would like to say that we are very proud in the Labor Department that we were able to get this program off the ground in what I think is the shortest period of time between a Presidential announcement and actual action that at least I can remember.

If we as a nation are serious about revitalizing our industrial base to meet the economic challenges of the eighties, we must be equally vigorous in pursuing labor market policies which insure that our experienced work force has the skills to complement this economic renewal and share in its long run benefits.

We are, of course, interested and anxious to look at the bills that you yourself, Senator, and Senator Williams have introduced that deal with this issue. While I do not think we yet have a consensus about how to deal with it, I think general lines of agreement are forming, and I hope that in the near future, we will be able to address this problem.

That concludes my prepared testimony, Mr. Chairman, and I will be glad to try to answer your questions.

[The prepared statement of Mr. Packer follows:]

STATEMENT OF ARNOLD PACKER
ASSISTANT SECRETARY FOR POLICY,
EVALUATION, AND RESEARCH
BEFORE THE
SENATE COMMITTEE ON LABOR
AND HUMAN RESOURCES

September 18, 1980

Mr. Chairman:

I am pleased to be here today to discuss the role of the worker in the evolving economy of the 1980's.

I share the view of the Committee that the coming decade will see a rapidly evolving industrial base to meet the challenges of foreign competition, shifting energy sources, and domestic demographic changes. A major challenge will be to attain a full-employment economy in the face of these changes as well as to improve the quality of employment and raise productivity and living standards.

One way or another, the American economy will adjust to structural changes in the world economy. The policy issue is whether the adjustment will increase U.S. productivity and international competitiveness or only help us to "adjust" to a lower standard of living.

Fundamentally, we have two choices. One is to resist change by protectionist policies and bailouts

of noncompetitive firms. In my judgment, this approach will not solve our long range problems of competitiveness, and will not only result in declining productivity and a loss of foreign markets, but will mean a lower standard of living and fewer employment opportunities for American workers in the future. A much preferred alternative is a positive adjustment strategy--one in which new job opportunities, particularly in emerging industries, are made available to workers who are displaced from declining industries and where workers are given positive incentives to take advantage of these new opportunities.

President Carter's Economic Renewal Program is based upon such a positive adjustment approach. It calls for measures to encourage new investment--both public and private--that will create a million new jobs by the end of 1982 and lay the foundation for even more employment growth in the future. It creates a forward-looking partnership among government, business, and labor to deal with those aspects of structural adaptation that only a cooperative approach can solve. And finally, it contains a new program to help people and communities affected by industrial dislocation to make positive adjustments to economic change.

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In my testimony today, I will focus on these latter two aspects: cooperative approaches to adapting to structural change and the Administration's new Positive Adjustment Demonstration Program.

To reinforce cooperation between Government and the private sector in dealing with these complex issues, the President will establish a new, high-level Economic Revitalization Board, comprised of representatives of industry, labor and the public. The Board, to be co-chaired by Irving Shapiro, chief executive officer of Dupont and Lane Kirkland, President of the AFL-CIO, will advise the President on the broad range of issues involved in the ongoing process of revitalization.

The Board will be requested to develop specific recommendations to the President for establishment of an industrial development authority to provide financial assistance for industrial development and economic revitalization in areas in transition and affected by industrial dislocation or high unemployment, or if needed to remove industrial bottlenecks. The Board's recommendations are to cover the authority's form of organization, responsibilities, activities and funding levels. The Board will also consider

the extent to which relevant economic development activities now carried out within various government agencies should be encompassed within the new authority.

The authority would mobilize both public and private resources, such as Federal, State and local monies and capital from private markets and pension funds. Its programs would be coordinated with State and local development functions. The authority would be subject to annual budget control.

The President will seek the Board's advice on various issues relating to worker adjustment to structural change, including:

- o Measures to remedy the effects of industrial dislocation on workers and communities
- o Programs to improve worker skills and provide job training, and
- o Means for most productively meeting the goals of health and safety regulations.

Tripartite efforts are underway at the industry level as well. The President has established an Automobile Industry Committee to deal with the problems

of the industry and worker dislocation on a continuing basis. Coordinated efforts will be needed at two levels. First, the top industry, labor, and government representatives will need to jointly discuss the long term prospects for the industry and for its employees. Second, joint efforts will be needed to manage the adjustment process associated with plant closings or mass layoffs that have a significant impact on specific communities.

In the steel industry, a tripartite committee has established a special task force on worker dislocation and community adjustment to deal with the specific problems of plant closings, worker retraining, and community assistance. The task force has adopted a five-point action plan that provides for the steel companies, the United Steelworkers of America, the State Employment Security Agencies and local CETA prime sponsors to cooperate locally to see that laid off workers receive benefits, job training assistance and retraining due them under government programs and the industry's collective bargaining agreement, and to see that the communities receive help in economic diversification and new job creation.

While tripartite committees are a relatively new approach to resolving the problems facing many of our industries today, there is a history of cooperative efforts in the labor-management area which points to the desirability of moving in such a direction.

Some form of joint consultation on problems not usually covered in collective bargaining has long been advocated as a mechanism for creating a favorable setting for improving communication and labor-management relations. The basic premise is that both labor and management have a mutual interest in improving the competitiveness of the enterprise or industry and enhancing worker security and satisfaction. It assumes that the worker often knows a great deal about how the job can be improved and if asked, is willing to offer recommendations. Joint committees meeting regularly between negotiating periods provide a forum for exchanging information about the enterprise and for drawing more fully on the ideas of employees and unions on improving the operation.

Since 1971, there has been growing interest in joint consultation in response to economic pressures. The term "labor-management committee" now encompasses a broad diversity of situations and types of relationships.

Some labor-management committees have been organized on the industry level, some at the community level, and some at the plant level. Each type addresses different and appropriate sets of problems. The following examples illustrate these different approaches.

Industry-wide Joint Committees

In a few industries, the parties to collective bargaining have organized joint committees of labor and industry leaders to deal with mutual problems not usually discussed during negotiations or effectively handled on an individual firm basis. Some were created to deal with the impact of imports, government regulation, and similar developments affecting the climate of negotiations. Others were organized because of mutual concern about an industry's lagging productivity and declining competitiveness.

- o In the men's clothing industry, the Amalgamated Clothing and Textile Workers and the Clothing Manufacturers' Association jointly, faced with rising imports, decided in 1977 to develop programs of research, education and training to improve the competitiveness of their fragmented industry.

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- o In the railroad industry, a joint labor-management committee of industry leaders has been operating for a number of years to deal with common problems such as rail safety, terminal efficiency and government regulation.

- o In the retail food industry, a joint labor-management committee, organized in 1974 in connection with the termination of wage-price controls, has concentrated on improving collective bargaining between the food chains and the unions. It has also dealt with problems of technological change and health and safety. The entire project has been wholly financed by the companies and unions in the retail food industry.

- o In the coal industry, the United Mine Workers of America - Industry Development Committee was created under the 1978 collective bargaining agreement to consider better ways to train, settle grievances, improve health and safety and increase productivity. Since the program

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has been started, wildcat strikes have greatly diminished.

A variation of the industry-wide approach is the industry-wide joint committee in a locality. Several examples of this type are found in the construction industry.

- o The Chicago Construction Coordinating Committee, involving the various trades, contractor associations and government procurement agencies, was established in 1973 with Department of Labor funding for staff support to help improve productivity by reducing seasonality, to better train and to provide wider exchange of information about government policies. Similar coordinating committees have been established in San Francisco and Kansas City.

- o Construction unions and contractor associations in six areas (St. Louis, Indianapolis, Boston, Columbus, Nevada and Colorado) have established under their collective bargaining agreements, local labor-management councils to deal

with work practices and other problems affecting their productivity and competitiveness.

Community-Wide Joint Committees

In several localities, local union leaders and businessmen have formed committees to promote their common interest in the economic health of their communities. Most of these are older industrialized cities and towns, mainly in the Northeast and Midwest, which have lost jobs to other regions and to foreign competitors.

Community-based joint committees are concerned with problems of industrial peace, skill training, economic development, and retention of jobs by improving productivity and competitiveness of local firms.

Many area-wide committees that have been organized since 1974, follow the model of Jamestown, New York and encourage and assist local unions and employers to form joint committees at the plant level.

Plant Labor-Management Committees

Joint committees at the plant or office level are the most numerous type. They involve regular meetings of employees, union officers, managers and supervisors to take up specific workplace problems that are not usually covered in collective bargaining negotiations or by the grievance procedure.

Joint committee meetings usually concentrate on particular problems such as improving communication, the business outlook, absenteeism, employee training and health and safety. A few joint committees have been involved in bidding on new work and organizing the layout of machinery in a new plant for greater efficiency and employee satisfaction. Others have been organized to plan measures to assist workers displaced by technological changes or a plant shutdown.

Some labor-management committees have been assisted, at the start up by the Federal Mediation and Conciliation Service. Others have been formed with the help of the professional staffs of community labor-management committees and state centers.

Each of these types of cooperative arrangements is conducive to dealing with the problems currently confronting many of our industries today. A process of consensus building is obviously far preferable to one of conflict and antagonism.

Aside from these types of cooperative arrangements is the actual collective bargaining process itself. There are instances, the steel industry being a notable example, in which the parties have negotiated provisions designed to cushion the blow of economic dislocation.

Information on employee benefits such as supplemental unemployment benefits and severance pay provisions is common knowledge. But there are other provisions which in the future may have an increasingly significant impact in dealing with economic dislocation. For example, workers whose employment is severed due to permanent plant shutdown may apply for and be transferred to other plants and receive preferential job assignments over new employees. Relocation allowances are paid to employees who elect to continue working in the industry by accepting an offer of suitable employment at another location. The 1980 agreement in the steel industry, negotiated earlier this spring, provides that before a company finally decides to permanently close a plant or permanently discontinue a department, it will give the union advance written notice of its intention. The notice must be as far in advance as possible but in any event within 90 days of the proposed course of action. The company must then meet with the union to discuss the shutdown, and thereafter furnish the union notice of the company's final decision.

Apart from these cooperative efforts, what can government do to facilitate the adjustment process? The current array of government programs designed

to aid dislocated workers--such as Unemployment Insurance (UI), Trade Adjustment Assistance (TAA), and Redwoods Employee Protection--have emphasized income maintenance during the period of unemployment and provide little in the way of employment services, training, or other adjustment assistance. For those for whom the adjustment process is particularly slow and difficult there are available employment and training services under CETA. But, since CETA is generally targeted on the disadvantaged, is income-tested, and has low wage ceilings, many dislocated workers will become eligible for CETA only when they have experienced an extensive period of unemployment.

While workers do adjust in the long run to economic dislocations, this process may be slow and inefficient. A considerable body of research finds that permanently displaced workers suffer significant earnings losses over the long run. These result in part from market imperfections such as lack of labor market information and limited access (especially when unemployed) to capital markets to finance training and relocation. Consequently permanently displaced workers bear most of the financial burdens of structural change--the benefits from which, such as improved productivity

and competitiveness in the international market, are widely distributed.

Current programs for workers dislocated as a result of trade impacts and certain government actions emphasize income maintenance as partial compensation for these losses. Although training and relocation are often available for these workers, there are insufficient incentives for workers to move to or apply for training. A positive adjustment approach could tie compensation to adjustment, with workers receiving special benefits only if they undertake an action like training or relocation.

Recognizing the need for a positive adjustment approach to economic dislocation, the Department of Labor will launch a series of special demonstration projects to assess the merits of different methods and incentives for retraining and relocating displaced workers. A pilot project is already underway in Michigan.

The demonstration projects will offer benefits, training, job search assistance, and relocation assistance to experienced workers facing permanent layoffs, so that they can better meet the new demands of an economy undergoing major structural changes. The projects will be operated in about ten communities,

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beginning in fiscal year 1981, by CETA prime sponsors and State Employment Security Agencies (SESA's). The Department plans to shift about \$10 million in FY 1981 CETA funds into title III to plan the demonstration projects and for limited phase in during 1981. The Department plans to include approximately \$50 million in its FY 1982 budget request to implement the demonstration projects.

The initial project in the Downriver communities of Wayne County, Michigan will serve as an operational model for the other demonstration sites. The Downriver communities are severely affected by auto and other manufacturing layoffs. Two major employers, one an independent auto supplier and the other a chemical firm, have permanently shutdown their plants, idling 1800 workers. In addition, several auto plants have placed over 4000 employees on indefinite layoff.

The Downriver Community Conference, a CETA program agent, has responded to this major problem by proposing and partially funding an innovative adjustment assistance program. A grant from the Labor Department will enable Downriver to expand this effort.

The Downriver project is providing a flexible mix of services for dislocated workers:

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- o First, the program offers a telephone hotline service, providing crisis counseling and referrals to social services for unemployed workers.

- o Second, job search training and job search club services are available for those with readily marketable skills.

- o Third, on-the-job training contracts are being executed with private employers. Downriver recently contracted for 60 on-the-job training (OJT) positions paying between \$8 and \$9 per hour.

- o Fourth, classroom training is being provided to those workers with limited or obsolete skills. A local committee consisting of educators, employers, and union representatives reviewed potential training areas to determine whether labor market shortages exist either locally or nationally. Ten fields were determined to be appropriate for retraining in Michigan, including cable TV technicians,

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auto body repair, automotive and motorcycle mechanics, heavy equipment and diesel repair, energy conservation technicians, word and data processors, and computer technicians.

- o Fifth, some workers have been identified as possessing skills that are best marketed outside the state of Michigan. Some of the chemical workers, for example, have expressed an interest in relocating in order to continue working in their same occupation. Consequently, Downriver is contracting employers in the chemical industry and other state employment agencies concerning direct placements outside the Michigan area. Downriver will pay relocation benefits to those workers who obtain employment. Downriver will also host a Job Fair where both local and national employers will have an opportunity to meet and interview program participants.

While this wide array of services cannot guarantee a rapid return to productive employment for all dislocated workers, the demonstration projects certainly increase

the opportunities for success. And if we, as a nation, are serious about revitalizing our industrial base to meet the economic challenges of the 80's and beyond, we must be equally vigorous in pursuing labor market policies which ensure that our experienced workforce has the skills to complement this economic renewal and shares in its long run benefits.

Mr. Chairman, that concludes my prepared testimony.

I will be glad to answer any questions the Committee may have.

Senator RIEGLE. Well, thank you very much.

Obviously, the Downriver project is one that I have a great interest in and where I think the Department deserves congratulations for a quick start for moving on that opportunity in that severe unemployment situation.

I think one of the things that helped us so much there was not only a good cooperative relationship between the Department and those of us who were interested in wanting to put the package together, but also the fact that there was the indigenous local strength, leadership and infrastructure upon which to put in place a more far-reaching program of this kind.

I do not know how many other places that are in distress have an equivalent local capacity that is as far along. I think that factor was a critical thing here.

But let me ask you this. We still are not, as you suggest, together on the issue of what can we do before a plant closing or major dislocations occur, either site by site, company by company, or in a broad-based of regional dislocation. If you take the part of the country where I come from, and you expand your scope to think of the older industrial areas, across the upper Midwest and Northeast, it is easy to see a continuing trend of movement of the industrial base out of those areas, some to other parts of the country and some abroad. What can we do, what are your own personal thoughts gained from your experience of having worked in this area, about what we might start doing ahead of time, when a developing problem manifests itself? What can be done before those plants close, before major disruptions occur, to take action ahead of time. What is appropriate, I would like to hear you think aloud about the problem.

Now, you are familiar with our bill, and you know how we have a prenotification part and it is something that so far, at least, the

administration has not been willing to accept. If we are not going to go that route, how do we anticipate, how do we get ahead of the problem? It seems to me if we are always mopping up, that can be and has been a very expensive way to cope with the problem, probably the more expensive way. It certainly is both in human terms, and in dollar terms.

What are your thoughts: How can we get ahead of these things?

Mr. PACKER. Well, I think you are quite right, Senator. We have to anticipate the problem. I think the question that we have to address is do we want to require anticipation by legislation—which may very well be the case—or do we want to rely primarily on a voluntary approach to it. In many cases, there are voluntary agreements, collectively bargained, that allow us to anticipate, but frequently, that does not get into the governmental mechanism. And somehow, what we have to have is a program in place. I think ultimately, perhaps we are going to have to have another title of CETA that recognizes the fact that, unlike most CETA programs, the dislocation problem is focused in different areas. The CETA program is uniform, depending on the formula, across the country, for things that are easily foreseen, that there will be so many structurally unemployed. But we have to be able to anticipate these sporadic problems and shift money to the places where the problem arises. And that means some sort of prenotification.

And as I said, I think the question is, do you mandate that prenotification, or do you look for some voluntary approach to it.

Then, I think we have to have a mechanism in which we can bring to bear the resources in some coordinated fashion, in which we learn from one experience to another. You are quite right about the Downriver community. That community took our breath away. They came to us before we finished talking about the program, with an idea about how to go forward. And you are quite right that that is not uniform around the country, and we have to be able to begin to build that structure so we do not have to wait for a happy circumstance.

And we have to have some arrangements in the industry, so that labor and management can get together, as they have gotten together under some forward-looking collective bargaining agreements, and deal with the problem.

Senator RIEGLE. How would you feel, unless and until we get something enacted that has an anticipation mechanism in it, about a voluntary prenotification idea that might be established within the Department of Labor, where you would have a team, presumably of specialists, who could gain experience from other situations, particularly situations that were salvaged? At times it may mean renegotiating labor contracts, at other times it may mean a change in local tax burdens. It may involve some other kind of direct Federal help. There may be some way, as negotiated through contracts, that we could do something to augment a situation and stabilize it in order to keep a plant from either closing or moving cross-country.

There are a lot of responsible companies that have felt they were being squeezed into shutting down a major facility. Do we have any mechanism to provide middle-person services in an effort to sit down and help sort out what the possibilities might be?

Now, I think there is an argument for doing just that which effectively counters any concern about whether this is government interference into the private sector. If you keep it voluntary, that meets such a contention anyway. But the problem is that there are always extra expenditures of public money when these things happen. When you have a damage situation, and whether it is in terms of food stamps, or unemployment compensation, or lost tax revenues, or whatever, the public ends up paying a bigger bill when these things happen if they could have been avoided.

I am just wondering if there might not be a way, short of a bill—which some of us are pushing for—to set up a mechanism and to advertise it we want to say, "Look, we want to come into these distressed situations and see if we can, one by one, tailor any way of solving it so that we can perhaps keep this company intact, keep this operation intact, and try to stabilize it for this community. We are available to help, and we will bring specialists in if necessary, and we will sit down to get the parties together. We could then advertise that as a service on the theory that it is better to spend less money in a consultative capacity than it is to wait until the bomb goes off and then come in and try to clean up the wreckage.

What would you think about that idea? Would this be something that could be tried, or would the bureaucratic innards of the way the structure is now set up eliminate the possibility of this kind of suggestion?

Mr. PACKER. Well, we do have this CLAC organization, and we have published a guide for communities facing major layoffs or plant shutdowns. Now, that deals more with results of the problem than trying to avoid the problem, but it has some implications for trying to avoid the problem, too.

Now, in the sort of things you are talking about, I imagine the Labor Department would not be the major participant in that game, and I hesitate to talk for other departments in the Government, but it certainly seems like an idea worth investigating and worth discussing.

Senator RIEGLE. It just seems to me that the initiative has to come from somewhere. The Labor Department obviously has a worker interest that would place them as the primary initiator. But you know, we have so many people—we have the Commerce Department and the economic development activity—that we have any number of parallel efforts going on to try and stimulate economic improvement and activity. We need to develop—whether it is four or five different departments, or one or two—an ability to intervene ahead of time on a voluntary basis. If this kind of preliminary intervention got some takers, I think we might be able to work some things out. This effort might then provide some models on how best to stabilize some of this disruption.

Plant closings and relocations are very expensive. We are seeing trade adjustment assistance and many other programs attempting to deal with this. It is not cheap, and in human terms I think it is more costly than even its dollar costs. But why can't we try this idea on some people? I know it is late in the game, but this is where I think a person like yourself could perhaps provide an extra measure of leadership and maybe get something going that otherwise would not happen or would take years to happen.

Mr. PACKER. Thank you, Senator. And there is the President's proposal for the Revitalization Board, and the people in charge of that do not have to worry about being reelected.

Senator RIEGLE. Well, that is all well and good, but the problem there may be that to set up a new entity, sort of a top-down entity, that by the time that gets staffed and rolling, it may be too late. I sincerely hope it is highly successful and that it happens in a hurry. But I do not think we should wait for that. We have companies and towns and workers right now that are facing decisions that could profoundly influence all of them in adverse ways. If you could start making your department available to intervene constructively and to even start collecting the information as to what has happened in the other places where plant closings or relocations have been worked out, we could begin to make it available to people. Even if you acted only as a broker of information for other situations that have come to an equitable solution, that would be a big help. But I do not think we are geared up for such an effort at this time. I think the problem and the thrust of what you have said here is still a response to the aftermath. And I think we have got to go back in time about a year and try to meet this problem up at an earlier stage.

Mr. PACKER. I think it is a departure for the Government to get involved in those private business decisions, but I think your suggestion deserves careful study and has merit, and I will talk to my colleagues in the Commerce Department and see what they think about it.

Senator RIEGLE. Well, the voluntary aspect is important. Maybe nobody comes and knocks on the door, and maybe you get a long line at the door. I have a feeling that a lot of companies today would like to see if there is a better answer than a shutdown. And even if the companies will not come, the workers could come and say, "Look, tell us what is happening in other places. What are some of the possibilities here that we might pursue." Mayors could come in, or county commissioners. Sometimes, it is not until you get that whole thing cooking that you start finding possibilities.

Let me just raise a couple of questions with you, and then I will ask you to respond to some more for the record, if you will. On page 12, you spoke of a representative, collectively bargained contract providing for 90 days' advance notice. Aside from the sheer fact that workers have 3 months to look for new work, what other actions are typically taken by a business in that time period, and what can the Department of Labor do to assist in relocating or retraining workers?

Mr. PACKER. Well, I should mention first that in addition to that contract, the new rubber agreement provides 6 months of advance notice, and it apparently had good effects in the Goodyear shutdown, and Firestone, and Uniroyal's shutdowns.

The Labor Department, of course, in cases where trade adjustment assistance is available, can make sure that there is no interruption in the payments that are due to workers. There is title II-C of the CETA program, which is limited to 6½ percent of the title II-B moneys going to that community, and that has been used in one or two places to provide retraining and relocation.

In addition, in some cases, the collective bargaining agreement provides for a substantial amount of severance pay and relocation money; and in some cases, it has provided money for retraining done completely in the private sector. We hope that these demonstration programs we are having will answer your questions in a very specific way. We think that is the wave of the future, is to go the way the downriver project directs us.

Senator RIEGLE. Senator Williams was wondering what your response would be to this. The committee here has heard estimates of the scale of worker dislocation in the United States as ranging anywhere from 400,000 to 2,500,000 workers annually, a very wide range. What would be your best estimate of worker dislocation in the United States, and what thoughts do you have for us as to how we can really pin this down better?

Mr. PACKER. We think that 5 to 10 percent of the unemployment that exists at any time is permanently laid off persons, so that if we have got 7,500,000 people, that would be 750,000. We have made some estimates. A full program that would handle everybody might be as expensive as a billion dollars.

Senator RIEGLE. But can't we collect some national data here that really lets us get a handle on this? It sounds to me like we are left with a gross percentage figure, nationwide, and I am not sure how useful that is for us.

Mr. PACKER. I think you are right. We can collect better data and get a better fix on that. The Department is funding research to measure the magnitude of the plant closing problem, for example, through the UI data system. What we also need to know is how many of these persons take care of these problems themselves. We find that if you make retraining available, perhaps only 15 percent of the workers laid off will avail themselves of those services.

Senator RIEGLE. I am going to give you a number of other questions, both of mine and Senator Williams, to respond to for the record, if I may, and say that I think that this area will really be one of the key issues for the country in the 1980's to understand and respond to. Unfortunately, I think the Presidential campaign this year has not gotten as focused on issues as maybe one would like. There are a lot of aspects to it, but in terms of laying out a clear sense of four or five issues for the future that have to be worked through, I think this is one that should be at the top of that short list. And yet, we have not seen discussion of it yet.

We are getting some proposals. The administration has put forward a proposal, and I think that is constructive, but it is coming late this year. I would hope that we could manage to have an elevated debate on how important it is that we find ways to lift the public consciousness on these issues and why they are vital. This issue very much affects our country's future; we need to begin sorting these things out without necessarily causing new growth in our Federal bureaucracy or invading the free enterprise system. I do not want to see either of those things. But we must try to find a way to have a better partnership arrangement where we can begin to resolve some of these things in a way that can help both workers and companies while costing the public less.

I think if we come at it this way, we can push ideology to the side and think in terms of practical implications and net dollar

impacts. We can try to anticipate and respond intelligently, ahead of time, rather than always reacting after the fact. I think it is possible to build a very strong public consensus for doing this. I think the public senses the problem and is uneasy about the limited knowledge we have about this. World market conditions do affect us, and living standards are sliding backward for a lot of people. I think people want to see the country respond to this more quickly and more intelligently.

So I would hope that the members of the committee and yourself and others in the Government could really try to pull these issues out and make them more visible. We need to start getting the country focused on a serious agenda for the future in this area. And I think when we accomplish that, we are going to move a lot faster, and I think we can resolve these things. I do not think that the business community need be fearful of legislative ideas such as the plant closing bill we have drafted and put forward here. It is not anybody's desire to pass a bill that is going to be counterproductive to business needs. That is not what we are after here. I want to help both companies and workers. I know you share this view.

I hope that if we can continue to increase our efforts here that perhaps we will be able to get the country united behind a desire to break some new ground here and begin to move on this issue.

Mr. PACKER. I think this committee and you, yourself, Senator, have raised the issue to the point where the window is almost upon us to deal with the issue, and I think public attention is becoming focused. In this area, as in some other areas, the United States lags behind what our other trading partners who have an open economy have done for some time, and I think we are almost ready to move forcefully on the issue.

Senator RIEGLE. Well, let us stay at it. We certainly have gotten a good start with the downriver project, and I hope we make the most of that.

Mr. PACKER. Thank you, Senator.

Senator RIEGLE. Thank you for your testimony.

Let me next call to the witness table Prof. Louis Ferman and also Prof. Robert McKersie, and ask them to come forward, if they would.

While you are getting situated, let me just step out for a minute and take a phone call. I will be right back in. We are in a situation at the present time, with the windup of this session of Congress, as you know, where a lot of things are happening simultaneously, and there is a need to be different places at exactly the same moment. We have a Department of Transportation appropriation on the floor today, right now, where a major amendment that I have to be involved in shortly is involved, and at some point I will have to recess the committee long enough to go over and handle that and come back, and I will have to ask the indulgence of the witnesses during that period of time. That is the nature of the life here. I wish it were different.

In any event, let me recess the committee for 2 or 3 minutes now while I step out on a matter, and I will be right back in, and then we will commence.

[Brief recess.]

Senator RIEGLE. Let us resume.

Let me say to you first, Professor Ferman, how much I appreciate the help that you have provided us previously on the Chrysler issue and other studies you have done about impact on workers, and just the general leadership that you have given in this area. I know that those of us from Michigan who have a deep feeling about these problems are indebted to the initiative that you have made. I just want to acknowledge that, and also, welcome your colleague from MIT. We are delighted to have both of you.

So, Dr. Ferman, why don't you begin. We will make your full statements a part of the record, and to the extent that you can summarize as much as possible, I think that would be helpful. But the full statement will be included in the record following your oral remarks.

STATEMENT OF PROF. LOUIS A. FERMAN, PROFESSOR OF SOCIAL WORK AND RESEARCH DIRECTOR OF THE INSTITUTE OF LABOR AND INDUSTRIAL RELATIONS, THE UNIVERSITY OF MICHIGAN; AND ROBERT B. MCKERSIE, PROFESSOR OF LABOR RELATIONS, SLOAN SCHOOL OF MANAGEMENT, MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Dr. FERMAN. I am Louis A. Ferman, professor of social work and research director of the Institute of Labor and Industrial Relations of the University of Michigan and Wayne State University.

In a sense, I feel doubly fortunate in my life, in that I was born, raised and educated in Massachusetts and have spent most of my adult working life in the State of Michigan. In both States, we have a considerable number of cities that have experienced the problem of runaway factories and plant shutdowns is a very real tragic experience. In Massachusetts, cities like Fall River, New Bedford, Lynn, Lowell, and Haverhill, and in Michigan, Detroit, your own city of Flint, Grand Rapids, Lansing have had extensive plant shutdowns. All of these cities read almost like a lexicon of plant shutdown.

During the last 25 years, I have worked in the State of Michigan. I have been associated with an institute that has been a leader in studying plant shutdowns and their consequences.

Let me just briefly mention the studies that we have been engaged in. In 1954, there was the study of the Murray Body Co., an auto supplier firm in Detroit. In 1956, the study of the Packard Motor Car Co. (automobiles) also in Detroit. In 1958, the study of the Bridgeport Brass Co., in Adrian, Mich. In 1960, the study of the Detroit Times in Detroit. In 1962, the study of the Studebaker Corp. in South Bend, Ind. And in 1963, there was a review and analysis of 17 plant shutdowns that occurred between 1929 and 1963.

In the current year, we are redoing this analysis of an additional 25 plant shutdowns that have occurred between 1963 and 1980. And in 1980, we have also undertaken an intensive study of obsolescent plants and their reconditioning, plants left in the wake of a considerable number of plant shutdowns.

I have made a number of points in the paper, and I would like to briefly touch on them. I would like to draw on something you said before, which really points to the failings of current research.

We still face an enormous problem in providing policy people with good research information. Most of the research in the area is, of course, of the case study variety, a case here and a case there. These case studies are probably useful to plan operational programs for a particular community, but in terms of developing national policy, they leave a lot to be desired.

We need desperately to develop aggregate national statistics that will tell us something about patterns of shutdown, by industry, by occupation, and something about a characterization of the workers who are most affected. Without such national data, I think you will find that national policy initiatives are going to fall short.

In spite of continuous requests by the United Autoworkers and by myself that some agency, either public or private, undertake such work, nothing to date has been done on this problem. Most of the data that has been gathered on plant shutdowns is of the short-term variety. We know what happens to the workers maybe 6 months or maybe 2 years later. The data are deficient in not telling us what the longrun consequences are—what happens over 5 years, over 10 years, over 20 years? We know in general that some unemployment can be really a lifetime, crippling event. But we have no such comparable data about the unemployment caused by plant shutdowns.

There is also still a lack of data on how a shutdown impacts on a community or on the institutions of the community, like the family. We are piling up a lot of data on individual effects, but we have to go back to the 1930's and the 1940's to get probably the two prototype studies, the erosion of the shoe factories in Newburyport, Mass., in the thirties; and in the 1940's, the erosion of the whistle-stop communities in the Midwest with the advent of diesel locomotives. We have nothing in the current scene that really goes into the detail of community impact as these two studies have done.

Again, I think most of the studies that we talk about are one-shot affairs. They capture the workers at a single point in time. Everybody talks about longitudinal research, but nobody does it. It is terribly important to understand that following a shutdown, there is a period of time when we have to analyze the workers needs at different points in time. Probably the only study that has done this is the study of Cobb and Kasl, at the University of Michigan, the study of the Baker Plant in Detroit, in 1962.

There is a strong need to develop some new research initiatives.

There are three themes which I wanted to touch on very, briefly, that occur as you take a look at plant shutdowns over the last 50 years. One of them, of course, is exactly the point that Senator Riegle made before. The research on plant shutdowns emphasizes policymaking to deal with consequences of the shutdown rather than policies to intervene in the decisionmaking to relocate a plant or policies that might prevent the shutdown.

In other words, we initiate action after the horse has been stolen, and we do very little to try and safeguard the barn in the first place. I personally am convinced that there are a number of strategies that can be developed in this area that have not really been taken and used to advantage.

I think that we also have to come to understand that over the last two or three decades, we have studied the consequences of

plant closings on individuals and communities, but that today, we are coping with these consequences in roughly the same ways that were common 30, 40, or 50 years ago. We are doing more of it, but we are not really substantially changing to new kinds of strategies. We have not really capitalized on the European experiences of innovation. We have for the most part continued to do the same thing, putting, perhaps, new wine into some very old bottles.

I think that we have to come to grips with another point that Senator Riegle raised; there are different audiences involved in the shutdown scenario. There are the workers, the unions, the management itself and various levels of government. I think we have to begin orienting policy which begins taking some of the concerns of these groups into account, rather than try to focus on one of these groups to the complete exclusion of the others.

I would like to say a few words about providing for the continuity of employment for displaced workers; a central concern of this committee. I wanted to take up four very different policy initiatives.

First of all, the whole notion of prenotification of shutdown which is getting a considerable amount of interest today. Failure to prenotify workers of shutdown is reprehensible. There are initiatives now in 18 States, either legislation that has been enacted or is in the process of being enacted and there is the belief that it is morally correct and economically feasible to do this. I remember the case, as you may, of the shutdown of the Detroit Times in November 1960, where telegrams were dispatched to the work force at 2 a.m. in the morning and received by the workers at 3 a.m., notifying them not to report for work at 8 a.m., and announcing the closing of the newspaper. I think actions like that are obviously unconscionable.

Let us take a look at that option. I think there are some pros and cons. First, I think advance notice is a necessary but not a sufficient condition to soften the effects of a plant closing. Too many State legislatures, and legislators here in Washington have been concentrating on getting the company to do something; getting the company to prenotify and levying penalties on the company if it fails to do so. I think that it is terribly important to get this leadtime, but what has not been spelled out by anyone to my satisfaction is, What is to be done with the leadtime? What do we do in that period? Granted, we have received a year or 2 years of leadtime. What do we do that makes it possible to soften the impact of a plant shutdown in that leadtime period?

Second, I am convinced there should be national legislative policy of prenotification rather than State laws. It is terribly unfair to a State like Michigan, that is wasting prenotification legislature. If other States do not have it, such legislation will deter new industry from coming to Michigan. Setting up these kinds of differentials does not really make a lot of sense to me. It is absolutely necessary that we get Federal legislation with uniform standards for all 50 States.

Finally, it may be important to recognize employer fears that prenotification might lead to a period of sabotage and low productivity. It may be possible to alleviate these fears with a Federal

policy of tax credits or some Federal insurance guarantees, protecting the employer against these perceived losses.

Another option that has received a great deal of attention is the relocation of displaced workers; both unassisted relocation where the worker decides to relocate on his own, or assisted relocation where the worker is encouraged by official sources to relocate.

The conclusion that I have come to after reviewing a wide variety of studies is that most displaced workers have a strong attachment to their communities and little or no inclination toward looking for new jobs which would require them to move.

We have to take into account that there is a strong attachment to community, and it is probably the main barrier to relocation. I have included for your interest a paper which I did some time ago on relocation; talking about some of the problems of trying to relocate individuals from distressed economic communities to communities where there are jobs.

The overall impression that one is left with after taking a look at studies going from 1929 to 1980 is that home ownership, psychological and social investments in a community, family and friends, and age in particular, all have a considerable amount of deterrence toward predisposing the individual to relocate, even when there is considerable unemployment in the community.

In all of these studies, community involvement proved to be a stronger influence than perceived job opportunities in the displaced workers' plans and strongly circumscribes geographical mobility.

However, some workers do relocate. But it is very selective, and I think we have to recognize this. The people who relocate are of high occupational status. They are professionals, technicians, skilled workers. They are of higher educational status. They are of younger age. They are of nonmarried status, and male rather than female.

Workers who move generally do better in finding jobs than workers who stay put. But successful moves require that there have to be some very definite job offers in the new community.

Motivation to relocate is enhanced if there are offers of the continuation of past seniority rights and benefits in the new job; and if there is the availability of flowback rights—that is, the worker can return to the old community with some bidding rights for jobs in other units of the company.

It is generally easier to relocate professional and technical workers than it is to relocate many of the unwanted workers and the unskilled workers. Sometimes, simply moving them from one community to another simply moves the problem from one community to another, without essentially doing anything for the workers themselves.

There is a series of things that such workers need. They need training and counseling. There needs to be some kind of team effort between the sending community and the receiving community. The move should be monitored and followed up to provide some level of eventual stability to the relocatees.

As popular as the notion is to relocate the unemployed, the experience and the research do not show this to be a very viable option.

Another option, of course, is collective bargaining agreements. There is a considerable belief that somehow, we should stimulate the collective bargaining process to develop provisions in the contracts between union and management that would take care of plant shutdowns.

There was an analysis done by Mr. Mick of BLS data—1,923 collective bargaining contracts. A third of them contained transfer provisions for workers to relocate to other units. Another third contained provisions for severance or layoff pay. One percent of the contracts contained provisions for relocation allowances. As far as severance pay is concerned, a fourth of all union contracts make provision for this. When you get this down to the size of the labor force, we find that any collective bargaining provision affects at most only about 6 to 7 percent of the whole work force.

The notion of trying to solve plant shutdown problems through the collective bargaining process really offers some problems.

I think we also have to take into account that simply having a severance payment scheme on the books does not mean that it gets funded. Audrey Freedman has estimated that in a firm of 500 workers earning \$5 an hour with an average seniority of 9 years, the company would have a liability of over \$1 million. This is very hard for any company to take, particularly at the point where it is in the process of shutting down.

I just want to very briefly touch on two other things, and that is the training and retraining. Looking over the past studies of plant shutdown, we see that only a relatively small number of individuals take advantage of either assisted or unassisted training. As a matter of fact, my guess is that only about 15 percent of the work force of any plant shutdown is affected by training.

When we take a look at the results of the training, they are somewhat disappointing. Relatively small numbers of individuals seem to go into training and relatively small numbers of individuals either stay with the training or actually move into training-related jobs.

Finally, what I wanted to mention in terms of training is that training in a vacuum generally does not work out very well. It generally has to be in a framework of creating jobs, of doing counseling of workers, and of doing a considerable amount of job development.

The last thought that I wanted to leave with you was some notions on a framework for policy development. A great deal that has happened in developing options after plant shutdown for displaced workers does not take into account that the process we are talking about is not at one period in time—the period of the job loss—but it is over an extended time period. And this failure to view the problem over an extended time period frequently creates some very simplified solutions.

There are four events following the plant shutdown that have to become basic reference points. The first is the job loss period itself. Generally, the community mobilizes most of its resources when the plant shuts down most of its helping resources. This lasts at most a period of 6 weeks.

The second period, and a terribly important one, is when there is the exhaustion of the benefits. Some workers can replace income

for the first year by SUB and by TRA. But the real problem that becomes a family crisis, is when these benefits are exhausted. It is at that point that you have the spouse going into the labor force, frequently at substandard work. You have the tragedy of pulling children out of school or deferring their educational careers, in order to become wage earners to support the family.

There is a period, too, of intensive jobseeking, where the individual has to come face to face with the notion that his experience and his past training is not going to satisfactorily help him on to a new job.

Let me finish with one or two quick sentences. We have to begin looking at the development of policy over an extended time period, where there is a series of important events. The event of job separation is important, but so is the event of the exhaustion of job benefits, and so is the event of intensive jobseeking, and finally, for those fortunate workers who go on to other employment, there is the event of adjusting to the new job.

Most of what we know in plant shutdown research is that the new job is a substandard job relative to the job that they have lost—less wages, less status. So it becomes necessary to deal with adjustment to reduced circumstances as well as to a whole new work scene.

It seems to me that we have to begin by looking at this process and moving toward policy, and not starting with policy and moving toward events in this process.

Thank you.

[The prepared statement of Mr. Ferman follows:]

REMARKS DELIVERED BEFORE THE COMMITTEE
ON LABOR AND HUMAN RESOURCES ON
THE ROLE OF THE WORKER IN THE EVOLVING ECONOMY OF THE EIGHTIES

by

Louis A. Ferman
The University of Michigan

Thursday, September 18, 1980
Washington, D.C.

I am Louis A. Ferman, Professor of Social Work and Research Director of The Institute of Labor and Industrial Relations of the University of Michigan and Wayne State University. No one who was born and raised in southeastern Massachusetts, like I was, can be a stranger to the tragedies of plant shutdowns. Cities like Fall River, New Bedford, Lynn, Lowell, and Haverhill all experienced early and frequent instances of plant shutdowns and runaway factories.

During the last 25 years, I have worked in the state of Michigan and have been associated with an Institute that has been a leader in studying plant shutdowns and their consequences. Over the last 25 years, the Institute has been involved in the following research studies on plant shutdowns:

- In 1954, the study of the Murray Body Company (auto supplier firm) in Detroit by Harold Sheppard and James Stern.
- In 1956, the study of the Packard Motor Car Company (automobiles) in Detroit by Harold Sheppard and Louis A. Ferman.
- In 1958, the study of the Bridgeport Brass Company (aluminum production) in Adrian, Michigan by Louis A. Ferman.
- In 1960, the study of the Detroit Times (newspaper) in Detroit by Louis A. Ferman.
- In 1962, the study of the Studebaker Corporation in South Bend, Indiana by Harold Sheppard.

*This testimony is based on data contained in a forthcoming monograph and the remarks reflect inputs from all of the authors. Louis A. Ferman, Jeanne P. Gordus and Paul Jarley: Plant Shutdown and Industrial Relocation, (Kalamazoo, Michigan: W.E. Upjohn Institute for Employment Research) 1980 (forthcoming).

- In 1963, the review and analysis of 17 plant shutdowns between 1929 and 1963 by William Haber and Louis A. Ferman.
- In 1980, the review and analysis of 25 plant shutdowns between 1963 and 1980 by Louis A. Ferman and Jeanne P. Gordus.
- In 1980 the study of plant renovation for industrial development by Jeanne P. Gordus and Louis A. Ferman.

In addition to these research undertakings, the staff has been involved in numerous consultations, conferences and workshops on plant shutdown and worker displacement. Given this background, I should like to address myself to a number of topic areas on the subject that hopefully can be used by this Committee in its policy deliberations.

I will begin with some general remarks about research and policy development on plant shutdowns and then move to a consideration of a number of options that are being advanced to alleviate the problems of displaced workers.

Issues in Research and Policy Development

Until the last decade, plant closings have been a neglected research area. While there are case studies dating back to the Great Depression, and a sprinkling of case studies in the 1950's, it is only in the past decade that we have seen the beginnings of a large scale effort to study the problem. But even in the last decade, we confined ourselves to case studies, separated by time and geography, with no real attempt to integrate this research into policy analysis. It seems to me that the increased interest in the problem stems from four causes: (1) employment structures are changing at a faster rate due to product change and technological innovation and this is reflected in a growing concern among workers and unions that represent them in issues

of job security; (2) more and more production is being transferred abroad, reducing the total number of these jobs in the United States; (3) there is an increasing shift of industry geographically from the northeast and midwest to the sun belt states, leaving an eroded and denuded industrial base in many communities; and (4) an increasing variety of workers (white collar and professional) are now subject to displacement whereas in the past the bulk of displaced workers were blue collar.

An additional factor continues to arouse interest in plant closing research. The United States lags behind the other industrialized nations of the world in the development of a national employment policy and particularly of a policy directed toward the orderly management of the investment and disinvestment policy. However, various proposals have been brought before Congress and legislative initiatives are proceeding on the state and local level. Eighteen states have now enacted legislation requiring pre-notification by the company of a shutdown. For the most part, these legislative initiatives have proceeded without adequate knowledge of the plant shutdown process, the long-term effects of shutdowns, and appropriate strategies for reducing the costs associated with industrial and economic dislocation. The need for information policy development has been a strong impetus for research.

The failings of current research.

There are four failings in current research, particularly as it relates to policy development. Let me comment on each one of these:

1. Most research is of the case study variety; a closing here and a closing there. These case studies may be useful to plan operational programs for a particular community but are of limited value in developing national policy and programs. We need desperately aggregate national statistics that will give us knowledge of national shutdown patterns, particularly data on

the characteristics of workers displaced, their industrial and occupational attachments, and their location. Without such national data, national policy initiatives will fall short. In spite of continuous requests by the United Automobile Workers and myself that such data be collected, no research initiatives on this problem have been begun by any public or private agency.

2. Most of the data that have been gathered on plant shutdown victims confine themselves to short-term effects (two years or less). Our information on the psychological and health impact of shutdown victims does not extend to long-term "scarring effects" which must be a crucial input into policy development. If the situation looks bad considering short-term effects, it may be disastrous if we look at the long-term; but such information is not available at this time. Harvey Brenner¹ has indicated in his research that long-term psychological and medical effects are associated with general unemployment rates and Ferman and Gardner² have talked of a long-term scarring effect of unemployment but we still do not know if this applies to plant shutdown victims.

3. There is still a dearth of good research information on how a shutdown impacts on a community or on institutions of the community (e.g., family). We are piling up considerable data on individual effects. The only two in-depth studies of community impact date back to the 1930's and the 1940's; the study of community impact of shutdowns of shoe factories in Newburyport, Massachusetts and the decline and erosion of whistle stop communities with the advent of diesel locomotives ("death by dieselization!")³ These are classic, detailed studies that need to be replicated in other shutdown situations but this has not been the case as yet.

4. Most shutdown studies are "one-shot" (a single point in time) and thus reveal only the needs and effects in a single frame snapshot. It is

obvious that different scenarios can be written depending on when the information is gathered. What is needed is a longitudinal study design where effects are investigated at different points in time. Surely, social policy must take into account that different services are needed at different points in time. In this respect, a longitudinal design should be coupled with a control group to pinpoint effects associated with the shutdown vis a vis random effects. Only the Cobb and Kasl study of the Baker Plant in 1962 meet both the requirements of a longitudinal design and control group.⁴

Themes in plant shutdown research.

A number of themes run through plant shutdown research and they are important for policy development.

Theme 1: The research on plant shutdowns emphasizes policy-making to deal with consequences of the shutdown rather than policies to intervene in the decision-making to relocate or policies that might prevent the shutdown. In other words, action is initiated after the horse has been stolen rather than to secure the barn against theft. There is little in the literature on early warning systems to alert authorities who can then take measures to prevent the shutdown. Nor is there an emphasis on community planning systems before the shutdown. Policy-makers must be alerted to these possibilities and encourage research in this direction.

Theme 2: While we have come to understand some of the consequences of plant closings for individuals and communities better than nearly two decades ago, we are coping with these consequences in roughly the same ways that were common then.

Research on plant closings has always been undertaken with a strong orientation toward policy and program development. In fact, many pieces of the literature are evaluative research of programs. It is, therefore, particularly

striking that in the period between 1963, when the first series of plant closing studies were analyzed and 1980, nothing really new has been tried. Benefits paid are higher, more attention is paid to various provisions of collective bargaining agreements which are either designed to assist with plant closing problems or which can 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 '60's. The past two decades have seen program amplification but not program change. Despite the fact that these measures were never designed to attack a problem as its root, but to ease the difficulties in a transition period, they were not particularly effective in achieving the 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 and measures designed to ameliorate the negative impact of plant closures become more and more maladaptive.

Theme 3: There are different audiences involved in the shutdown scenario (the individual worker, the management, the union, the local community and various units of state and federal government) and each one has a specific set of concerns that makes a single unified solution difficult to achieve.

After the shutdown decision, the management, the unions, the individuals, communities, local agencies, and elements of the government all have particular interests and priorities and the degree to which any plant closing is managed with minimal trouble is directly related to how similar these parties view their problems to be and how much they agree about strategies for coping with the problems. Yet, even in the best of circumstances, it is clear that all parties perceive a different part of the problem, or even a different

problem, and that no single framework for understanding the implications of plant shutdown currently exists. It is scarcely surprising that no coherent policies or programs have been developed. If in fact, such policies and programs are to be developed (i.e., a national policy) we must begin to oppose the notion that a capital market operates perfectly and that to intervene in this process risks serious disturbance of the market. To feel that these multiple audiences can work out their concerns without outside assistance is to reduce national options to the enlargement of income maintenance programs. Finally, the question of whether a new set of economic realities calls for reconsideration of old assumptions should at least be raised.

What I am suggesting here, and it is of crucial importance, is that policy must take into account the legitimate concerns of all involved audiences. Failure to do this risks the development of non-relevant and unworkable policy. Let me list some of these legitimate concerns:

Management -- A major management concern is to keep productivity as high as possible from the time of decision to the time of actual closing. Another concern is to maintain the physical plant facility and equipment; a major concern if the firm plans to sell the facility and equipment. Still another concern is to maintain good public relations with the larger public and the local community. Another major priority of management is the smooth transfer to the new location for those plants which are relocating. A smooth transfer is obviously less costly and it is at this point that encouragement to certain key personnel to transfer is offered while inducements are made available to less valued workers to remain behind.

The Union -- A major priority of the affected labor union(s) 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, although most if not all other concerns are directed toward the affected workers. First, the unions attempt, when and where it is possible, to delay closings or even to avoid them. Failing this first normally futile action, the unions then move to maintain job security for members through transfer. In the cases where such transfers are possible, and even when they are not, labor also wishes to maintain the income level of members as far as possible. Labor also is concerned about the trauma to both the unemployed and employed members of the union and attempts to assist with the 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.

The Community -- Local communities faced with the prospect of a closing plant hope to maintain the population and industrial base of the local area. In one sense, this concern is closely tied to the concern to maintain the tax base at its pre-closing decision level. Often communities wish to delay the closing to insure a smooth change because, like management, local communities wish to avoid conflict and open hostility which may endanger life and property. Local communities also wish to see the physical plant and its equipment remain intact so that possibilities for a quick sale of the facility are enhanced. Communities 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 role that good services, roads, public safety, and schools play in attracting and retaining industry.

Individual Worker -- The first priority for individuals during the phase-out is the maintenance of economic and social security. Associated with this priority are the needs for information about a whole range of issues regarding job security and income maintenance as well as a sense of certainty about

what are not feasible plans in the circumstances.

The Government -- Concerns of local, state, and federal government and the several agencies specifically mandated to respond to employment-related crises are roughly similar although different levels of government and different government agencies would undoubtedly have different priorities among the several concerns depending upon the specific situation. However, in the early stages, most levels of government would agree that, if possible, the ideal would be to prevent, delay or minimize layoffs and closings. Failing that, the focus of concern shifts to replacing income lost to workers, at the same time that the reemployment of laid-off workers becomes an important issue and concern. Closely related to that concern is the form and substance of retraining or training. More recently, local, state and federal agencies have become aware that it is necessary to be concerned about more than income maintenance. Reemployment, and the entire area of physical, emotional, and social consequences of unemployment and a changing industrial environment, have become matters for serious discussion. Finally, a continuing concern is the problem of rebuilding the economic base of the community affected by the plant shutdown, a problem which touches the fundamental economic assumptions held at all levels of society.

Each major group affected by a plant closing has at hand a repertoire of responses. How the responses are selected by each group depends in part upon the choices made by other groups. The selection of these responses and the interaction of the responses of the different groups determine the nature of the plant closing experience.

Providing for the Continuity of
Employment of Displaced Workers

One of the major concerns of this Committee is providing for the continuity of employment of displaced workers. I will consider four options that have been advanced to accomplish this and to critically evaluate them.

- 1) pre-notification of plant shutdown
- 2) relocation of displaced workers to new labor markets
- 3) collective bargaining agreements to provide benefits and services to displaced workers and
- 4) training and retraining of displaced workers.

Pre-notification of Plant Shutdowns

There has been a growing concern that sudden and unexpected plant shutdowns are particularly disruptive of worker employment by making it difficult to provide continuity of employment for displaced workers. There is considerable impetus for enacting some pre-notification legislation mandating the employer to give notice of closure some time before the actual shutdown. Failure to do so would levy penalties on the company with compensation going either to the community or to displaced workers. There is no doubt that the sudden and unexpected shutdown can be a destructive experience for all involved. In my own experience, I remember the case of the shutdown of the Detroit Times in November, 1960 where telegrams were dispatched to the workforce at 2:00 a.m. and received by the workers at 3:00 a.m., notifying them not to report for work at 8:00 a.m. and announcing the closing of the newspaper.

Eighteen states have enacted pre-notification legislation and most provide severe penalties for failure to notify the workers sufficiently in advance.

Let me make several comments on this option. First, advance notice is a necessary but not a sufficient condition to soften the effects of plant closing. Granted that lead time is important, but what is more important is what is done with the lead time. There must be some provision of services, coordination of the services, and information gathering if the time is to be put to good use. All too often pre-notification time periods are wasted because programs are not available to develop job-finding campaigns, to develop employment alternatives, to develop the human resources of the workers and to develop income alternatives. Pre-notification options must combine with services and service delivery, otherwise pre-notification legislation has little effect.

Second, there should be a national legislative policy of pre-notification rather than state laws. Pre-notification in some states and not in others sets up differentials in attracting new industry. It is the large industrial states that have such legislation to protect their displaced workers but in doing this they may become unattractive as locations for new companies and industries. The legislation in the state could deter new industry from locating there. Federal legislation with uniform standards for all fifty states would remedy this problem.

Finally, it may be important to recognize employer fears that pre-notification might lead to a period of sabotage and low productivity on the part of workers who might blame the company for its plight. Such fears might be alleviated by a system of tax credits or federal insurance guaranteeing the employer against these perceived losses.

Relocation of displaced workers

Another option that is appealing is to relocate displaced workers from a surplus labor market to another market where there are opportunities of relocation: (1) unassisted relocation where the displaced worker decides to go to another labor market without any official encouragement and finances the job search and move from his own resources and (2) assisted relocation where the worker is encouraged by official sources to relocate and is given various incentives to make the move (moving expenses, training subsidies, job finding and assistance in adjusting to the new community). The question of worker relocation, and the possible benefits from it were studied by our staff in a review of twenty-five studies of plant shutdowns. Only in eight was there assisted relocation.

In the studies of shutdowns reviewed there was the strong conclusion that most displaced workers have a strong attachment to their communities and little or no inclination toward looking for new jobs which would require them to move.

Attachment to community is probably the main barrier to relocation. Strong community attachment may result from home ownership, number of friends, length of residence in the community and the presence of school age children. Displaced workers may weigh the educational and social advantages of the community for their children against such advantages elsewhere. Very often even in a depressed labor market, they may decide to remain in the community for the sake of the children.

In their studies of two plant shutdowns in New Haven and Hartford in 1929, Clague, Couper, and Bakke⁵ reported that home ownership was a factor influencing continued residence in the community in spite of

the paucity of job opportunities. In the Mt. Vernon study, the most frequent reasons given by the unemployed workers for remaining in the depressed community were: family and friends, attachment to the hometown, and ownership of home or farm property. In the study of ex-Packard Motor Company workers in Detroit, only six percent of the sample had left the Detroit area by 1958. It is significant that over two-thirds of the sample either owned or were buying their homes. In this group, age and length of residence in the community were undoubtedly factors influencing geographical immobility; over 50 percent of the sample were 55 years of age or older, and the median length of residence in the community was about 32 years.

In their study of ex-Ford workers in Buffalo, New York, Fowler⁶ and Smith made an extensive analysis of the characteristics of workers who remained in the community despite the company's standing offer of jobs at the new plant location in Lorain, Ohio. When interviewed, the ex-Ford workers gave the following reasons for not moving: social ties in Buffalo, 58 percent; lower standards of living in Lorain, 25 percent; the cost and trouble of moving, 19 percent; jobs and other economic resources in Buffalo, 17 percent; and no job security in Lorain, 14 percent.

In these studies community involvement proves to be a stronger influence than perceived job opportunities in the displaced workers' plans and circumscribes geographical mobility. Whether the decision to remain in a community where there are few jobs is rational depends on one's viewpoint. The adjustment of the displaced worker to job loss apparently involves more than just finding a job. Whether to remain in or leave the community is a decision affecting his wife, his

children, and his relationships with people in the community. Will he remain with the pleasant and familiar or try the unknown? He may feel that the social support which he derives from his present community situation is worth the price of delayed reemployment. In his present community, he knows the social resources and agencies that are available to him. If he moves, these resources may not be available to support him if he should need them again.

However, some workers do relocate and we can specify some of the worker characteristics and conditions under which relocation occurs.

1. The workers most likely to relocate are

- of high occupational status (professionals, technicians, skilled workers)
- of higher educational status
- of younger age
- of non-married status
- male rather than female.

2. Workers who move generally

- do better in finding jobs and better wages than workers who stay put in the local labor market
- are assured of very definite job offers in the new community.

3. Motivation to move is enhanced by

- offers of the continuation of past seniority rights and benefits in the new job
- the availability of "flow back" rights (i.e., the worker can return to the old community with some bidding rights for jobs in other units of the company).

There are, thus, factors that predispose workers to relocate and

others that predispose them to stay put. Interplant transfers can be of considerable help but they end up usually helping those workers who need the least help. Relocation policy for the so-called "unwanted workers" in any community offers innumerable problems and difficulties that have been explored in past demonstration projects on worker relocation. These workers, usually the least trained, the least educated, the most vulnerable and the least able to make the adjustment easily need specially tailored programs. I have detailed the problems of geographical relocations for these workers in another paper that I have made available to the committee, "Regional Unemployment, Poverty and Relocation: A Social Service View." Let me detail some of the problems and program needs of efforts to relocate "unwanted workers" from plant shutdowns.

1. Such workers need special training and counseling together with relocation subsidies. Transferring the unskilled worker to another labor market solves nothing.

2. Relocation should not be undertaken unless a definite job is found with adequate social amenities (housing, medical care, schooling).

3. There must be a "team effort" between the "sending community" and the "receiving community" to provide an orderly process of relocation and to provide supportive services to the relocatees.

4. The move should be monitored and followed up to provide some level of eventual stability to the relocated.

5. There must be an integration of social services between the sending and receiving communities. The problem is more than simply providing relocation allowances.

Relocation is a strategy that needs to be worked out in detail

programatically before it can be applied to the geographical mobility of so-called unwanted workers.

Collective bargaining agreements

A third option is to build job security and reemployment provisions in the collective bargaining contracts that are negotiated between management and the union. An incisive analysis has been made of collective bargaining agreements and the prevalence of provisions covering plant shutdown situations based on the Bureau of Labor Statistics. The BLS analysis was of 1923 collective bargaining contracts, each one of which covered 100 employees or more. The following findings were noted:⁷

- 32.6 percent of the contracts contained transfer provisions for workers to other units of the company in the event of job displacement

- 29.6 percent of the contracts contained provision for severance or layoff pay in event of shutdown

- 1.0 percent of the contracts contained provision for relocation allowances

- 9.9 percent of the contracts provided for the transfer for all or part of the seniority to another plant of the company

- 5.0 percent of the contracts provided for income maintenance measures of various kinds

- 3.7 percent of the contracts provided for advance notice of shutdown to employees

- 3.3 percent of the contracts provided for advance notice to the union or union participation in the decision to relocate.

All that these data tell us is that the provisions are there; not whether they work. How many workers are really covered is not known because these work populations are volatile and always changing. Mick

has estimated that one fourth of all organized workers are covered by different kinds of these provisions. This would suggest that only between six and seven percent of all workers in the labor force are covered by any of these provisions.

We reviewed 25 shutdown studies that were done between 1963 and 1980. What did they show about collective bargaining and severance pay?

- in only four studies had there been a collective bargaining agreement on severance pay

- in twelve studies altogether, some sort of severance pay was available; workers participated in severance pay programs in eight of these shutdown situations

- the average severance payment ranged between \$1500 and \$2000.

A few remarks about severance pay are in order. It is usually associated with compensation for displacement by technological innovation and not plant shutdown. The money in such funds, if the program is funded at all, is rarely adequate to cover an entire plant workforce. The major problem in severance payments is not whether there is a contract provision for it but whether the severance pay program has been previously funded. The liability for a company may be extensive at the very time when cash flow is a real problem. Audrey Freedman has estimated that in a firm where 500 workers are earning \$5.00/hour with an average seniority of nine years, the company would have a liability of over one million dollars.⁸ The problem remains of seeing that worker relocation programs are regularly funded. To this end unions are seeking a more active role in stewardship and administration of the severance pay funds.

Overall, collective bargaining agreements, and the role of unions in securing provisions to protect displaced workers had not been effective in reducing worker problems after plant shutdown.

Training and retraining

An option that appeals to almost everyone is to provide the displaced worker with new skills and make him/her more saleable in the labor market. There are several important questions about retraining displaced workers.

- Will displaced workers take advantage of training when it is offered?
- Does the training do any good? Does it result in training-related jobs?
- Does the training improve workers' performance and earnings?
- Can training stand alone or does it have to be linked to other employment programs (e.g., job development and geographical relocation?)

Participation in training

In our review of 24 plant shutdown studies we found that in seven cases the terminated workers were given an opportunity to undertake training. Such training did not necessarily mean a career change, it was intended to provide additional saleable job skills. Plant closing research has not examined who seeks training and why. In the few studies available we observe that the trainees tend to be younger, slightly more highly educated, and more often female than the total group of displaced workers (Shultz and Weber).⁹

Foltman in his study of Wickwire displaced workers suggests that older workers do not usually seek retraining because they do not see new skills as helpful in overcoming their unemployment difficulties.¹⁰ These

same older workers did see training as beneficial for younger workers. In another work, Chesler presents four explanations of why older workers do not seek retraining: (1) they do not have a long enough time frame to maximize benefits of training; (2) they see their new skills as likely to be cancelled out by age discrimination; (3) they may be psychologically wed to their present occupations; and (4) they are reluctant to forego earnings for training.¹¹

Not surprisingly, workers who have had favorable past experiences with education remain partial to training opportunities while those that have had unfavorable experiences resist training. Women seem to be disproportionately drawn to training situations possibly because many more training opportunities exist in the female-oriented service fields.

While there is a belief that the married resist training more than the single, the available evidence does not show that being married is a deterrent to enrollment in training opportunities.

The main conclusion to be drawn here is that not all displaced workers will be motivated to participate in training programs. Probably the workers who need training most to succeed in the labor market would be most resistant to participation. Another factor that may be difficult to measure is that some displaced workers seek training not to acquire new skills but to make use of the training subsidies that go with the program. Thus, a training program may become an income subsidy program in disguise and function as worker maintenance rather than as worker retooling. This is problematical since we do not have data at present to support or deny this possibility.

We can distinguish between worker participation in unsponsored,

general training programs and sponsored training. The former are part of the education/training network of any community while the latter is set up specifically to aid displaced workers. Participation rates for displaced workers in both training programs is low. Regarding unsponsored training Foltman reported that only five percent of the blue collar workers from the closed Wickwire plant undertook any kind of training in spite of difficulties that they had in finding jobs without a high school diploma.¹² Only 6 percent of the white collar workers at the plant sought training. Nor was the story much better in sponsored training programs where participation ranged from 16.4 percent at Fort Worth to 6.0 percent at Kansas City.¹³ This suggests that even sponsored training programs for the displaced may not be a viable option.

Effectiveness of training

Granted that only a small number of displaced workers seek and get job re-training, how effective is it? The evidence is very limited. Since the training recruits are usually younger and more educated, it becomes difficult to ascertain whether favorable outcomes are related to the new skills or to the characteristics of the trainees. While Schultz and Weber do break down the employment-unemployment rates by age to show higher employment rates for retrainees in all but the 41 to 50 age category, other demographic characteristics need to be isolated and studied. Until then, we can only state that retrainees do have better employment rates than non-trainees, but the causes are still uncertain.

In partial defense of the proposition that retraining improves the employment opportunities of retrainees, it can be noted that a high proportion of the employed retrainees did find work in training related

occupations. In describing the Omaha retraining experience, Stern notes that 88 percent of the employed trainees found work directly or indirectly related to training!⁴ The results, while slightly less in magnitude, are almost equally impressive at Fort Worth, where Shultz and Weber note that 77 percent of the trainees found work in a training related field!⁵ And Conant notes that for Sioux City retrainees 55 percent of the retrainees experienced the same result!⁶ Such results, while pointing to the advantages of occupational mobility in finding the best available job, does not imply that the trainee would not have found a job anyway, only that he would not have found a training related job. Nor does it imply that the training related job was the job with the greatest potential the worker could obtain. Any maybe most important, it does not imply that the worker may not have entered a training related job without the training. In the light of these questions such a defense is weak indeed.

In terms of income gains, how trainees have fared is up for debate. Although neither trainees or nontrainees have been able to retain the level of income they received at Armour, Shultz and Weber!⁷ note that the average Sioux City retrainee gained \$2/week over terminated nontrainees. However, even this modest \$2/week income gain was not present at Kansas City, where Stern notes, through the use of a regression analysis, that holding all other factors constant, retrainees had an income loss of \$303 per year compared to workers who chose the market option. Such a result Stern notes:

"...raises the suspicion that short-term training may lead more of these individuals into low-paying occupations than would have occurred without retraining."⁸

However, it must also be noted that retraining outcomes are very responsive to local labor market conditions. Without an adequate demand for workers, retraining programs may simply withhold people from entering the workforce as soon as possible and prevent them from competing for the few higher paying jobs that are available. Therefore it can be theorized that while the Sioux City trainees benefited from an improving, and expanding economy at the end of their training, the trainees at Kansas City were released into the job market at a time when the local economy was getting worse. While this may not explain all of the variations in income between trainees and nontrainees in the two studies, it is a plausible, partial explanation.

Such a scenario suggests that retraining programs often lack a firm grasp on local labor market needs. While the literature describes attempts by local retraining administrators to analyze the labor needs of the local community, such attempts, hampered by a severe lack of time, often take the form of scanning the want ads to determine present needs. Such activities lack foresight into future needs and put the retraining program into the precarious situation of training workers in areas where jobs may not exist by the time the training program ends. The mismatching of training programs to local needs may also have an effect on the income disparities seen between trainees and nontrainees in a given program.

It is also worth noting that retraining programs have not overcome the classic income differentials experienced by distinct demographic groups. Therefore, as Shultz and Weber note,¹⁹ men undergoing retraining experience higher incomes than females and that whites experienced higher incomes than minorities:

"There was also considerable variation in the experience of different elements in the retrainee group. As indicated above, women fared considerably worse than men. Moreover, for the minority groups at Fort Worth, the decrease in earnings was more precipitous than retrainees who did not face discriminatory barriers. Thus, the average hourly earnings of Negroes and Latin Americans were consistently below those of white trainees. Some of these may reflect differences in education and in the nature of the retraining program selected." 20

Such a statement also opens up the issue of whether certain demographic groups are steered into lower paying training related courses while others are steered to higher income fields.

The retraining strategy provides those relatively younger and slightly more educated and financially able workers the opportunity to receive additional skills that can be used to secure a new job in the labor market. However, despite the attractive provisions included in the most worker-responsive of training programs, training remains a viable alternative to only 15 percent of the displaced workforce at best. Such a limited response by workers is further reduced by the amount of resources available to administrators and the conditions of the local labor market. Without an adequate demand for workers and an organization which can define and train workers to meet local labor market needs where they exist, the economic payoff of retraining to the displaced worker will be small at best. With such limitations, the modest income gains accruing to workers at Sioux City is all that can be reasonably expected from, a retraining program designed to aid displaced workers. Under such limitations as described in the literature and with such limited payoffs, retraining, we must conclude can only be considered, from a policy perspective, a very limited response to the plight of the displaced worker.

Training linked to other programs.

Although participation in sponsored training is low and the labor market outcomes are meager, our review of the literature suggests that sponsored training programs are incrementally more effective if linked to other program elements.

1. Training subsidies seem to be a required necessity. Linking training to unemployment insurance payments is a step in the right direction but this may be forbidden in some states where the worker must be available for work. Subsistence allowances paid by the Armour Foundation to trainees was credited by Schultz and Weber as a powerful incentive for training.

2. Tuition payments, traveling expenses and loan guarantee programs have been implemented in various training situations to make the training more appealing.

3. Reducing the duration of the training seems to make the system more appealing. One must always keep in mind that training time is at the expense of income gathering activities.

4. Job placement, job development and predisplacement counseling seem to be indispensable program elements to be associated with training. The realistic prospect of a job; availability of a job that is training related; the worker awareness of how the training relates to performance in the labor market--these are essential elements that must go hand-in-hand with training.

A Framework for Policy Development

A central difficulty in developing plant shutdown policies is the tendency to view worker problems in piecemeal fashion rather than as part of a total process following shutdown. The failure to view the displaced worker as an individual with decisions to make over an extended time period breeds simplified solutions that are time bound and not geared to the complexities of the adjustments that he/she is required to make. We do not know all there is to know about this adjustment process but knowledge of this process is crucial if relevant policies and programs are to be developed.

I would like to briefly review what I have seen to be a fairly standard scenario in the individual adjustment process to plant shutdown. There are four stages in this process and different programs and services are needed at each stage.

The job loss period.

This is the period in which job separation takes place. For some workers, usually the young marrieds with children under six, it is a period of considerable stress. These young workers are vulnerable on a number of counts -- low seniority; little experience and training; high level of needs in the family. For other workers, there may be the possibility of temporary replacement of income through SUB or TRA payments. Medical insurance for the unemployed is repeatedly stated as a top priority need. During this period, there may be a mobilization of community resources to help the displaced worker but this effort lasts at the most for six weeks. There is a need for some workers for counseling, job seeking services and possibly mental health therapy. We are also beginning to understand that worker anxieties and depression may begin even before separation when there is anticipation of job

loss. Thus, it would be desirable to make services available even before the actual separation from work.

The exhaustion of benefits period.

The real crisis for the displaced worker may begin with the exhaustion of benefits. The family is affected in the first stage but the crisis really comes home with the end of transfer payments. There may have to be a realignment of family income gathering roles. The spouse may go to work. One or more children may have to leave school, or defer educational opportunities, to help support the family. It may take more family members to produce the same income than a single wage earner brought in before. This is a period characterized by great interpersonal stress within the family. Divorce and separation are frequent outcomes.

The intensive job seeking period.

Whereas job seeking may be casual during the first period, it becomes intensive in this period. We have found this period frequently to be the most traumatic in the post-employment period. The worker is now forced to come to grips with the fact that a good job is hard to find and that his human capital assets (education, training and experience) mean very little. In a sense, he faces a moment of truth that may be hard to take. Frequently, the result is emotional distress of a high order.

The adjustment to the new job.

Where the worker does find a new job, there is the need to adjust to a new work situation with new work companions and new bosses. We know that in at least one-half of the cases these jobs pay less and are of lower status with less benefits. Thus there is not only the need to adjust to a new work situation but also to a new life style.

Any programmatic and policy decisions need to keep this scenario in mind. The workers needs should dictate the program and not the program dictate the needs. Without such a framework for reference, programs and policies surely would miss the mark.

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[Whereupon, the chairman resumed the chair.]

The CHAIRMAN. Thank you very much, Professor Ferman.

Senator Riegle had to go over to the floor on an important amendment on the transportation appropriations and regrets that and hopes to be back.

We now go to Professor McKersie, and we will then get into our general discussion.

Dr. McKERSIE. Thank you, Senator Williams.

My name is Robert McKersie. I am a professor of industrial relations at the Sloan School, MIT.

My involvement in this area goes back several years. While I was at the New York State School of Industrial and Labor Relations as dean, I chaired a committee in New York State, called the Continuity of Employment Committee, which was a creation of the State of New York and its major union in the public sector, the Civil Service Employees' Association, which is now a local of AFSCME. I will say a little bit more about that committee in my testimony.

Also while there in New York State, I did a study for the State Department of Labor on the impact of three plant shutdowns in upstate New York.

More recently, I have done some work overseas, looking at some of the public and private policies in Europe that are used to deal with economic dislocation. I did that this past spring, under a grant from the Ford Foundation.

I start from the premise that a plant shutdown usually represents a very severe blow for the workers involved. In a study that Professor Aronson and I did for the New York State Department of Labor, we found that a majority of the workers involved in these plant shutdowns were unemployed for more than 26 weeks, and that when they regained employment, more than a third experienced a drop in income, which is corroboration for what Lou Ferman has been saying.

I do not need to dwell on the wide range of economic and psychological consequences that are associated with job loss. They are elaborated in some documents I have attached from our studies. They are well understood, and there are people such as Lou Ferman who have come before this committee who have much more experience with research on these impacts.

What I would like to do, based on my work, is outline what I see as the need for a minimal legislative package, then talk about some voluntary efforts by the business community that I think are in order, and then touch on a theme that Arnold Packer and the administration are very much involved in, reindustrialization, and then go to what I think is really the heart of the political problem that we face, the lack of fairness and the lack of equity, as economic change is often played out.

Without going into all the reasons, let me outline at this stage what I see as elements of a legislative package that I think would be appropriate for this important area of economic and social policy.

First, there should be a requirement that any mass dismissal—and that has to be defined, perhaps, as more than 100 employees—only take place after a limited period of notice, perhaps of the order of 3 months.

Second, during this notice period, the firm would be required to consult with employee and community representatives, so that arrangements could be worked out to deal with readjustment, and in some instances, forces might be set in motion that would produce a turnaround decision as a result of such things as productivity bargaining, or even possibly, a buyout by a community or employee group.

Third, the principles of the Trade Adjustment Act should be extended to all displacees regardless of the cause of the economic dislocation. You are familiar with the elements of this program, and I think it is important that we have comparability across displacees.

Now let me move to some voluntary efforts that are underway and some models of good corporate performance.

I believe that the important opportunity for minimizing or indeed, even preventing economic dislocation is in voluntary efforts by business and through programs of labor-management cooperation. For example, IBM has not separated one employee for economic reasons on an involuntary basis. This program of full employment has stood the test of several severe recessions, wherein thousands of workers have been retrained, relocated, and given other opportunities when the work being performed was phased out. Using some of the latest human resource planning techniques, IBM has been able to avoid job loss, thereby gaining substantial benefits and improved morale and productivity.

I can cite a comparable example from the public sector where I have been intimately involved with the Continuity of Employment Committee. Appendix B is a report of the work of this committee, but let me highlight some of our procedures and findings.

Over a 3-year period from 1976 to 1979, this joint labor-management committee conducted a series of demonstration projects, work force planning studies, and special counseling and referral programs, making it possible for New York State to implement needed changes, such as shutting down outmoded health facilities, while at the same time providing displaced employees with employment alternatives. With enough leadtime, attrition can absorb excess numbers, and with the cooperation of the workers and the union, the redeployment that is essential in any enterprise can take place. The State's current program to cut between 3,000 and 5,000 jobs will be largely accomplished without any layoffs.

It takes money to run these demonstration projects, and the budget for that 3-year period was \$1 million dollars.

Both of the examples mentioned, that of IBM and the New York State experience, exist within environments where it is possible to achieve full employment because work force changes can be phased and planned over a reasonably long period of time.

Many companies find themselves in situations where loss of market or other changes require employment shifts on a much tighter timetable. In these instances, it is inevitable that workers will need to be terminated. The experience of Brown & Williamson is illustrative of what a well-managed and enlightened company can do to space the changes so that the impact is cushioned and workers are able to reengage with new careers in the labor market. I understand that you heard yesterday from Carroll Teague of that

company, and I am sure that you were as impressed as I have been with the concern and effective manner in which they have been managing the shutdown of their large facility in Louisville, Ky.

Next, I want to go to the subject of reindustrialization. Based on my exposure to what is going on in England and Europe, I would like to make a few comments in closing about a better way of revitalizing American industry.

It is easy to describe the strategies that are not successful. On the one hand, there is the strategy of what I would call propping up lousy jobs, which was followed in the early and mid-1970's in England, wherein the Government bailed out a number of failing companies and industries and also supported the employment of a large number of workers who would otherwise be declared redundant. The drawback of this approach is that it prevents a shifting of capital and labor from the declining to the growing industries. It helps in the short run, but it prevents getting on with long run adjustment.

At the other extreme, we find some companies—and this is pretty much the approach in North America—who close down operations over the weekend. Lou gave an example of one in Detroit, where they closed it down early in the morning. One of the plants that we studied in New York State did this with the justification that “stock market considerations required that our intentions be kept close to the chest.” I am convinced that there has to be a better way to shift capital than to do it precipitously and to place severe pressures and to create incredible adjustment problems for the workers and the communities involved.

As a country, we are painfully aware that some of our competitors in the international economic arena are doing a much better job when it comes to growth, productivity, full employment and price stability. I am referring to countries like Germany and Japan.

We are not as knowledgeable about the reason for this good performance of their economic systems and the way in which business and labor considerations are harmonized through a variety of institutional and cultural forces.

Let me give one example which illustrates a type of integration of business and labor interests. Several years ago, the Volkswagen Co. decided to institute production and assembly of automobiles in the United States. The plan as initially devised would have displaced a number of German workers, thereby creating additional unemployment in Germany. The German unions involved, through their representation on the supervisory board—what is called co-determination—secured agreement by German management at Volkswagen to slow down the start of the operations in the United States until attrition and other redeployment programs could take care of the workers who would no longer be needed with the shift of production.

We need to learn a lot more about the way in which the German and Japanese management and unions proceed to bring about economic change without having it be so devastating for large groups of workers. The time has come for us to learn and to borrow concepts from those who have made a practice of doing the same from our technology and institutions.

Finally, let me talk about values and where we are in a political economy sense.

It is fashionable these days to refer to the economic system that we are all a part of as a large game, wherein there are winners and losers. The most important norm that underlies our economic system, indeed for that matter, our approach to sports, is the idea of fairness. The reason that plant shutdowns and other forms of economic change have become so politically volatile is that our deep sense of fairness is violated when a company closes down overnight and does not inform the workers with any leadtime. The workers are treated as insignificant factors in a large matrix of multinational firms and international capital movements.

It also strikes workers and their representatives as unfair for them not to be given a chance to correct the problems that have brought about the demise of a facility. There are many instances of where situations, that were assumed to be irretrievable, have been turned around as a result of such things as productivity bargaining and employee ownership. But people need to be given a chance.

Now, turning this one on its head, it also hits people as unfair to be given that chance—to make a substantial contribution—and then to have the operation close down anyway because management did not hold up its side of the bargain, perhaps by failing to modernize or otherwise putting the operation on a competitive basis. This scenario of working our butts off only to be sold down the river explains a good deal of the resentment that has occurred over the closedown of the United States Steel operations in Youngstown, Ohio and the Ford Motor assembly plant in Mahwah, N.J.

Everyone has a stake in improving the performance of the economy. Labor leaders are very much aware of the need for U.S. industry to remain competitive. Minimal legislative standards would help insure that necessary change takes place in an effective and humane fashion. More importantly, a joint consideration of the business and labor dimensions of economic change should enable all of us once again to be winners.

Thank you, Senator.

[The prepared statement and appendix material of Dr. McKersie follow:]

TESTIMONY PREPARED FOR THE SENATE COMMITTEE ON LABOR AND HUMAN RESOURCES

September 18, 1980

Presented by Robert B. McKersie, Professor of Labor Relations,
Sloan Management, Massachusetts Institute of Technology

Severity of the Problem

I start from the premise that a plant shut down usually represents a very severe blow for the workers involved. In a study that Professor Aronson of Cornell University and I recently completed for the New York State Dept. of Labor we found that a majority of the workers involved in three plant shut downs were unemployed for more than 26 weeks, when they regained employment more than a third experienced a drop in incomes (compared to the pre-layoff level) of over 20%. I do not need to dwell on the wide range of economic and psychological consequences that are associated with job loss. They are elaborated in an attached document (See Appendix A), they are well understood and there are other people who are coming before this Committee (such as Professor Lewis Ferman) who can document the wide range of consequences that are involved.

Legislation

Without going into all kinds of reasons, let me outline at this stage the elements of a legislative package that I would see as appropriate for this important area of economic and social policy.

First, the requirement that any mass dismissal (defined as, say more than 100 workers) only take place after a limited notice period, of the order of three months. Secondly, during this notice period, the firm would be required to consult with employee and community representatives, so that arrangement could be worked out to deal with re-adjustment; and in some instances forces might be set in motion that would produce a turnaround decision as a result of productivity

bargaining or even possibly some type of employee or community take-over of the about-to-be closed facility. Third, the principles of the Trade Adjustment Act should be extended to all displacees regardless of the cause of the economic dislocation. This program, which is now limited to those losing their jobs as a result of imports, provides 52 weeks compensation equal to 70 percent of previous take-home pay plus additional benefits for retraining and relocation.¹

Voluntary Programs

I believe that the important opportunity for minimizing or indeed even preventing economic dislocation is in voluntary efforts by business and by programs of labor-management cooperation. For example, IBM has not separated an employee for economic reasons on an involuntary basis. This program of full employment has stood the test of several severe recessions, wherein thousands of workers have been retrained, relocated and given other opportunities when the work being performed was phased out. Using some of the latest human resource planning techniques IBM has been able to avoid job loss, thereby gaining substantial benefits and improved morale and productivity.

I can cite a comparable example from the public sector where I have been intimately involved with working for job security of Civil Service workers. I refer to the Continuity of Employment Committee between the State of New York and the Civil Service Employees Association. Appendix B is a report on the work of this Committee between 1976 and 1979. Let me highlight some of its work.

Over the past three years this joint labor-management committee has conducted a series of demonstration projects, workforce planning studies, and special counseling and referral programs, making it possible for the state to implement needed changes (such as the

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¹This material and several other sections of my testimony will appear in the forthcoming issue of ACROSS THE BOARD, published by the Conference Board.

shutting down of outmoded health facilities,) while at the same time providing displaced employees with employment alternatives. With enough lead time, attrition can absorb excess numbers, and with the cooperation of workers and the union, the redeployment that is essential in any enterprise can take place. That state's current plan to cut 3,000 jobs will be accomplished without any layoffs.

Both examples mentioned, that of IBM and the New York State experience, exist within environments where it is possible to achieve full employment because workforce changes can be phased and planned over a reasonably long period of time. Many companies find themselves in situations where loss of market or other changes require employment shifts on a much tighter timetable. In these instances it is inevitable that workers will need to be terminated. The experience of Brown & Williamson is illustrative of what a well managed and enlightened company can do to space the changes so that the impact is cushioned and workers are able to re-engage with new careers in the labor market. I understand that you heard from Carroll Teague and I am sure that you are as impressed as I have been with the concern and effective manner in which they have been managing the shut down of their large facility in Louisville, Kentucky.

Harmonizing the Business and Labor Interests in Reindustrialization

Based on my exposure to what is going on in England and Europe I would like to make a few comments in closing about a better way of revitalizing American Industry. It is easy to describe the strategies that are not successful. One strategy that I would call "propping up lousy jobs" was followed in the early and mid 1970's in England, wherein the government bailed out a number of failing companies and industries and also supported the employment of a large number of workers who would otherwise be declared redundant.

The draw back of this approach is that it prevents a shifting of capital and labor from the declining to the growing industries. While it appears to be a short run remedy, it prevents getting on with the long run adjustment.

At the other extreme, we find companies (and this approach is usually confined to North America) who close down operations "over the weekend." One of the plants that we studied in New York State did this with the justification that "stock market considerations required that plans to be kept close to the chest." I am convinced that there has to be a better way to shift capital than to do it precipitously and to place severe pressures and to create incredible adjustment problems for the workers and these communities involved.

As a country we are painfully aware that some of our competitors in the international economic arena are doing a much better job when it comes to growth, productivity, full-employment and price stability. I am referring to countries like Germany and Japan.

We are not as knowledgeable about the reason for this good performance of their economic systems and the way in which business and labor considerations are harmonized through a variety of institutional and cultural forces.

Let me give one example which illustrates a type of integration that is very rare in this country. Several years ago the Volkswagen Company decided to institute the production and assembly of automobiles in the United States. The initial plan would have displaced a number of German workers, thereby creating additional unemployment in Germany. The German unions involved, through their representation on the supervisory board, secured agreement by German management at Volkswagen to slow down the start up in the United States until

attrition and other redeployment programs could take care of the workers who would no longer be needed with the shift of production.

We need to learn alot more about the way in which the German and Japanese management and labor proceed to bring about economic change without having it be devastating for large groups of workers. The time has come for us to learn and to borrow concepts from those who have made a practice of doing the same from our technology and institutions.

The Economic Game

It is fashionable these days to refer to the economic system that we all find ourselves a part of as a large game, wherein there are winners and losers. The most important norm that underlies/our economic system, or for that matter our approach to sports, is the idea of fairness. The reason that plant shut downs and other forms of economic change have become so politically volatile is that our deep sense of fairness is violated when a company closes down over night and does not inform the workers with any lead time. The workers are treated as insignificant factors in a large matrix of multi-national firms and international capital movements.

It also strikes workers and their representatives as unfair for them not to be given a chance to correct the problems that have brought about the demise of a facility. There are many instances of where situations that were assumed to be irretrievable have been turned around as a result of productivity bargaining and employee ownership. But people need to be given a chance

Turning the subject around it also hits people as unfair to be given a chance to improve economic performance of an enterprise, and then to make a substantial

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contribution and then to have the operation close down anyway, use management did not hold up its side of the bargain and failed to modernize and otherwise put the operations on a competitive basis. This scenario of "working our butts off only to be sold down the river" explains a good deal of the resentment that has occurred over the close down of the U.S. Steel operations in Youngstown, Ohio and the Ford Motor Assembly in Mahwah, New Jersey.

Everyone has a stake in improving the performance of the economy. Labor leaders are very much aware of the need for U.S. industries to remain competitive. Minimal legislative standards would help insure that necessary change takes place in an effective and humane fashion. More importantly a joint consideration of the business and labor dimensions of economic change should enable all of us once again to be winners.

APPENDIX A: Material taken from "The Economic Consequences of Plant Shut Downs in New York State" by Robert Aronson, Robert B. McKersie. A report prepared for the New York State Dept. of Labor, May 1980.

FINDINGS AND RECOMMENDATIONS

This chapter summarizes the main findings of the study and outlines a series of recommendations, some of which can be considered for implementation at the state level. Since the main body of the report has been organized around three topics, the impacts on the individual, community impacts, and the role of agencies, the principal findings are presented here in the same order. Although the particular circumstances of time, place and the individuals involved cannot be reproduced, we offer these findings and our recommendations with some confidence that they will have a wider applicability.

I. PRINCIPAL FINDINGS

Impacts on the Individual

Perhaps the most serious consequence of job loss was the long period of unemployment experienced by most individuals. Although a majority of those included in this study are now employed, almost 60 percent were unemployed for more than 26 weeks. Difficulty in finding other employment must be attributed to such factors as age, experience not marketable to other jobs, the state of the local labor market, and in one instance black listing. Specifically, a number of employers in Cortland allegedly refused to hire displaced Brockway workers because they had come from a union plant and had high wage expectations.

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For some groups of workers, however, a longer period of unemployment apparently reflected a conscious decision to continue searching until a satisfactory job was found. Those individuals who had the support of another wage earner in the home, and in Binghamton and Elmira those workers who had the extended support of the Trade Readjustment Assistance program, very likely held out longer against jobs paying below their usual wage.

When employment was found, often it was in a marginal or unstable situation. At the time of our survey, over half of those who were employed had worked at least one other post-layoff job. Occupationally, a majority of the new jobs reflected downward movement. This is consistent with the findings of other studies; namely, a plant shutdown forces workers from the stable primary section of the labor market to the secondary and unstable part of the labor market where jobs are temporary and poorly paid.

Not all workers experienced the same economic stress. Managerial and many professional employees quickly found other employment, often in another labor market. We were not able to study this group directly but considerable circumstantial evidence suggests that the upper regions of white-collar employment fared quite well. The special efforts made by the firms for this group, including transfer to other locations, and their wider industrial marketability probably contributed to this difference in post-layoff experiences.

With respect to differences across the three communities,

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Brockway workers in Cortland had the roughest time. In addition to the "black listing" problem mentioned above, and the small scale of the labor market, there were no other divisions of Brockway in the area to which displaced workers could be recalled. By contrast, for workers displaced from Westinghouse and GAF, between one-quarter and one-third were recalled as openings developed in the remaining divisions.

The net effect of long unemployment and the movement to lower paying jobs can be seen in the devastating drop in family incomes before and after the plant shutdowns. Although Brockway workers suffered from relatively larger declines in rates of pay on their new jobs, extended periods of unemployment also reduced family incomes in the other two groups. For all of those studied, more than a third experienced a drop well in excess of 20 percent of their pre-layoff incomes.

Another manifestation of the economic pressure on the family unit can be seen in the statistic that almost a third of the families indicated the entrance of another member into the labor market since the plant shutdown. At least half of our sample relied in part on other family earners to sustain income after the layoff.

Another impact for the individual, and an area that is often neglected in evaluation studies, is the loss of benefits during the long period of unemployment. By far the most serious problem is in the loss of health coverage, which for workers in the U.S. economy is tied to employment. Precisely at a time when the individual and individual's family are undergoing severe stress, the normal coverage of Blue Cross/Blue Shield or the equivalent is often not available. One employer,

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Westinghouse, provided for continuation of benefits for a full year following layoff; the coverage was much shorter for GAF and nonexistent for Brockway workers.

And this leads to the final area of impact, health and emotional problems. Many workers indicated that they individually and their families collectively had experienced a variety of health, stress, and other emotional problems as a result of the layoffs. Such distress appeared to be more frequent among higher-paid and skilled employees than among the average blue-collar worker. Perhaps the latter's greater familiarity with unemployment accounts for this difference. Changes in family roles as well as the threat to accustomed living standards appear to have been the main factors underlying this phenomenon.

Overall we conclude that accidents of timing and location more than personal characteristics - though these were significant in themselves - helped to cushion the impacts of dislocation on workers. The contrasting experiences of the Brockway employees and their counterparts in the other two locations are instructive. Had the GAF and Westinghouse shutdowns been complete rather than partial and had eligibility for TRA benefits not been possible, it is doubtful that these groups would have fared relatively as well as they did, even in their particular labor markets.

Impact on the Community

By contrast to the sharp impact of the shutdowns on the individuals directly involved, the consequences for the communities were not very

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serious, at least at the point in time, two years after the fact when we made our assessments. Indeed, contrary to our expectations, communities appeared to be "back on track" and in the case of one community, Binghamton, it appeared that the community was better off as a result of the challenge created by the plant shutdown and the mobilization of community resources to meet the challenge than if nothing had happened.

On the debit side several community-wide effects can be enumerated, most of them short lived. Shortly after the shutdown, each community experienced a surge in unemployment, although due to out-migration and retirement from the labor market the growth in unemployment was not as large as the number displaced by the shutdown. We had expected the number to be even larger than the primary layoffs due to the spillover or secondary effects on the business infrastructure. However, this was not the case.

It is true that some suppliers and small retailers were hit, and in the case of each shutdown, several metal fabricators, trucking firms and the like could be identified as having experienced a jolt to their businesses, but these firms gradually were able to bring their operations back up to previous levels. Again, the effect of accident must be noticed, since none of the firms in the three cases relied substantially on local suppliers for raw materials, sub-assemblies, or similar requirements.

Several small stores, restaurants, and the like were forced out of

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business in areas adjoining the plants or the residential areas where workers were concentrated. However, the demise of these small businesses was not that much different from the "coming and going" of small businesses that occurs on a regular basis.

By far the biggest system-wide effect was the loss of momentum or the fracturing of community pride. As mentioned above, this effect did not describe Binghamton, and indeed the reverse occurred with the development of a task force and the successful completion of a grant for EDA funds. In Elmira, the negative feelings persisted for a year or two and because of some previous traumatic events (such as the serious flood of 1972) it took the community a little longer to "turn the corner." In the case of Cortland, defeatism lasted even longer, and it took until 1979, some three years later, when the Brockway close-down began to recede into history, and the expansion of several local firms gave the local labor market a better balance between demand and supply.

We investigated one other system-wide or externality from the close-down, the side effects on other employment centers in the community, especially other divisions of the same company. Surprisingly, there were no negative spillovers, and if anything productivity and other measures of employee commitment are better now for Westinghouse and GAF than they were before the close-down. Repercussions for other places of employment have been minimal; about the only effect we could discern was some softening of the ardor of union negotiators in the next round or two of bargaining after the shutdowns -- primarily out of fear that there might be more shutdowns in the offing. But this dip in militancy has been eliminated by time and the course of economic events.

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Although we have no direct measures of such a relationship, public income maintenance programs must be credited for cushioning the impact of job loss on consumer income and spending. None of the three communities experienced marked declines in sales tax receipts, increases in property tax delinquencies, or increases in personal debt and defaults on installment loans. Our interviews with workers tend to support this finding. In some instances, families pulled in their collective belts, though general price increases played a larger role than income shortfall in such cases.

Role of Social and Community Agencies

By far the most impressive response within the communities came from the makeshift task forces and other community responses tailored to meet the challenge posed by the shutdowns. As indicated several times, the most impressive version took place in Binghamton, where a community-wide task force made up of representatives from all quarters was quickly formed and moved ahead actively on several fronts. In Elmira, a task force was also formed, and while it was not as successful, it did convey to all concerned that the leaders were doing "everything possible."

If one were to ask the question: "What agencies did the typical individual use and find helpful during the transition period?" the answer would be, "the employment service and other labor market agencies," although the question about the effectiveness of these formal agencies is unclear. Certainly, the vast majority of the individuals affected

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by the shutdowns contacted the local employment service (of course, they all contacted the unemployment insurance office to set in motion the payment of benefits). But while there was this quantitative effect, it is not clear what the qualitative effect was for most individuals. As a matter of fact, most individuals secured employment via the informal network of friends and their own contacts.

The employment service for two of the groups did play a crucial function. It served as the "gatekeeper" for the administration of training and relocation benefits under the Trade Readjustment Act. Virtually no takers came forward for the relocation benefits (this is surprising, given the fact that some mobility out of Elmira and Binghamton did occur, and people presumably were eligible for benefits). By contrast, about half of the Westinghouse and one quarter of the GAF employees availed themselves of benefits under the training title of the TRA program. This in turn called into play a number of the local educational institutions, primarily at the junior college level, which engaged in screening, training, and eventually placement activities for the individuals enrolled in their programs. At the time of our survey, most of the individuals were still enrolled in training, and it was unclear what the eventual placement rate would be. Most of the counselors at the educational institutions, however, asserted that there would be no problem finding employment for the graduates of their programs.

In terms of other market intermediaries, a little more can be said. The unions involved played some role but generally it was indirect in helping their members locate new jobs after the shutdowns. The unions

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representing the GAF and Westinghouse groups were instrumental, however, in activating the TRA program, which assisted some workers in the job market later on. The respective employers, especially Westinghouse and GAF, developed job rosters and did help to some extent, although in the last analysis the individuals were pretty much on their own.

Given the extent of the health and emotional problems experienced by the displacees and their families, we expected that the human and social service agencies would have received many more requests for their services. However, this did not happen, and time and time again as we talked to agency officials they remarked that only the handful of the layoff workers came through their agencies - an observation confirmed in our interviews with workers. The explanation usually given was that the workers typically involved were independent and proud that they could take care of themselves and did not need the help of any of the "welfare outfits."

We are also struck by the limited role of CETA in any of the three communities. In large measure this may be attributable to the absence of assistance to particular groups of displaced workers as a legislatively mandated program objective. But it is also clear that only a relatively small number of these workers could have qualified for CETA, even under the relatively liberal eligibility criteria of the public service employment titles.

II. General Objectives for a Comprehensive Readjustment Program

The findings of our research lead us to consider a number of objectives that policy makers might contemplate for guiding the development and implementation of programs aimed at cushioning the impact of plant shutdowns. In the following section of this chapter we outline a number of specific steps that might be taken to further these objectives.

Targeting of Jobs

We view job development as the natural starting point for any discussion of an optimum readjustment program. The length of unemployment for most individuals was a function of the fact that few desirable jobs were open in the local labor market. It must be remembered that relatively speaking the displacees had enjoyed employment in what would be called "good jobs." Many of them eventually took "lousy jobs" but this was only after a long period of search and agonizing reappraisal of their labor market chances.

Bringing new jobs into the community helps in general, but it does not help the individuals who are displaced, who tend to be older than workers that new industries typically recruit, that is, those coming out of vocational schools and technical programs. The best shot for displacees is recall to other operations of the same employer, or transfer to other sections of the country with the same employer. One objective then would be to underscore the importance of transfer and recall rights, on the basis of seniority, for workers displaced as a result of plant shutdown.

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Nevertheless, except for those special cases where firms operate in more than one locality, it must be recognized that geographic mobility generally cannot serve as the first line of defense against the impact of a plant shutdown. Some of the factors that militate against re-employment in the local labor market - age, limited education and skill, and poor health, for example - also reduce willingness to change location, even when such changes are publicly subsidized.

A second objective would involve placement with other primary employers in the local labor market through the good offices of the first employer and other agencies that can provide a type of broker function. Under the present concept of PICs (Private Industry Council) it should be possible for a CETA program to be developed wherein training slots would be earmarked within the local labor market, primarily in the manufacturing sector, that would represent the targeting of good jobs for many of the displaced workers. Of course, such an effort would be feasible only if the prime sponsor has sufficient advance notice to plan and allocate its resources accordingly, or alternatively have access to additional resources earmarked for use in cases of large-scale displacement.

Community-wide Efforts

As has been mentioned several times, a key objective of any readjustment program is the mobilization on a coordinated and comprehensive basis of all of the forces and agencies within a community that can help in the redeployment of the individuals and the cushioning of the impact more generally on the community. A community-wide task force would be indispensable for the notion mentioned above of brokering displacees into other major employers in the community. As we have seen in the case of Binghamton, the task force can set in motion a program that brings more resources and jobs into the area over the long run. It also is in a position to mobilize technical assistance in behalf of small businesses that are the most sensitive part of the local economy to plant shutdowns.

A community task force can develop better linkages between the displacees and the relevant human service agencies that can play an important role in cushioning the pain of a shutdown for the individuals and their families. We recognize that many individuals do not want help, but we would conclude that this phenomenon is as much because the agencies have become stereotyped as it is because of the pride and self-reliance of the displacees. Special intake centers may be needed so as to separate the services rendered to the displacees from those rendered to the hard core clients that most of these agencies serve.

Focused Labor-Market Services

The provision of labor-market services is the single most important factor during the readjustment period. Given the various steps of mobilizing job listings, establishing eligibility for unemployment insurance, qualification for training benefits, and enrollment for vocational programs, it would seem essential to have these various services coordinated in some type of task force (the one mentioned in the previous section) or a special labor-market coordination committee.

In addition, the program needs to reach out to the displacees and not wait for them to seek out the labor-market services that are available. In several instances, the employment service went out to the plant location but such an arrangement is only useful until the time of closing. Beyond that, matters tended to be "business as usual." Thus, an objective would be to establish a "one-stop" center for the displacees, possibly in the local union hall, where all of the services would be presented in a coordinated and tailored way for the displacees. This is not unlike the GAMOT program now provided by the public employment service to new employers, under which the employment service provides on-site screening and related services for such employers. Perhaps a special mobile unit prepared to operate on a State-wide basis, at short notice, to supplement the efforts of local office staff would be worth consideration.

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Maintenance of Minimum Income

The objective can be stated quite directly: the provision of adequate and timely cash allowances to all displacees. The cash benefits received for trade readjustment assistance by displaced Westinghouse and GAF workers made a substantial difference in the readjustment experience of these individuals. Thus, an objective would be payment of such benefits to all workers affected by plant shutdowns regardless of the reason for the shutdown. It strikes us as arbitrary that workers at Brockway did not receive these benefits, while workers at the other two plants were entitled to benefits that went a long way toward maintaining a minimum standard of living for a one-year period. Because the Brockway workers were cut back to the benefit level established by unemployment insurance, which for most of them was well under 50 percent of their normal take-home pay, many of them were forced prematurely to take poor jobs, in some instances to drive long distances to Syracuse each day for employment.

A key requirement for financial assistance is the establishment of eligibility on a timely basis. In the case of Westinghouse, where the application was made almost instantly upon the news of the impending shutdown, benefits flowed relatively quickly, within seven weeks. However, at GAF the process bogged down and benefits were delayed for eight months. This resulted in the payment of retroactive benefits, in some cases amounting to almost \$2,000 (which does not have a very salutary effect for planning and achieving the concept of

income maintenance). Another objective for the program of social compensation should be the provision of continuing coverage for health benefits.

Adequate compensation to the displacees also goes a long way toward maintaining the purchasing power base of the local community. It is not coincidental that the only community (Cortland) where we noted failures of small business was the one case where the trade readjustment benefits were not available. By contrast, in Elmira and Binghamton, no such consequences developed.

Since most plant closings offer few opportunities for relocating workers (a closing of one site does not usually involve expansion elsewhere) and since many older, long service workers are reluctant to undertake such moves, practical alternatives should be considered. One would be to provide equivalent opportunities for workers displaced for reasons other than foreign competition, but modeled along the lines of the Trade Adjustment Assistance legislation. Educational and training opportunities and extended income maintenance, perhaps triggered only if the unemployment rate in the local labor market exceeds a specified threshold value, might be considered.

The Delivery of Useful Social and Family Services

Given the special needs of displacees, and given the reluctance on the part of many displacees to avail themselves of standard social services, some imagination needs to be shown in the packaging and dissemination of the type of services that would go a long way toward helping with the transition. One page that can be taken out of the

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Cortland experience would be the provision of seminars and booklets that would deal with personal finances. For most of the displacees, accustomed to holding regular jobs, budgeting under financial adversity is quite a difficult assignment. The program that was operated by cooperative extension made a distinct contribution to the coping response of Brockway workers and such a module could be standard fare following a plant shutdown. The agencies themselves have the ideas; in some cases it is a shortage of resources and staff to develop the special service and to offer these at special outreach locations. But this tailoring is very important if the services are going to connect with the needs of displacees. Perhaps the State labor department should institute workshops or similar training devices for representatives of the public and private social agencies to acquaint them with the nature of the problems likely to develop from large-scale layoffs and plant shutdowns in local communities.

None of the foregoing is likely to be very attainable, or at least not cost-effective, unless all interested parties have sufficient advance notice of an impending permanent layoff. Time is needed both by individuals and by community agencies to marshal their respective resources to cope with the problems of job loss.

III. Specific Implementation Steps

In this final section, we offer a number of ideas in addition to those already suggested, that can be considered by the state and by other key institutions such as employers and unions. Not all of these ideas will be feasible, but they merit consideration. We have not spelled out the specific steps in any great detail; this should be left to the agencies themselves.

State Department of Labor

Given the workload that is involved in handling workers affected by a plant shutdown, more resources are needed on a spot basis to help the state employment and unemployment insurance services. This is especially the case if they are to engage in the provision of tailored services as well as delivering them on an outreach basis.

The provision of additional resources should alleviate some of the long backlogs that may develop in enrolling workers for UI and TRA benefits, where they are provided, especially under the training title. The provision of this service requires close coordination with local training centers, and ideally a special coordinator who is very conversant with the offerings of the local community colleges and the like should be detailed to the state employment office.

For a variety of reasons, the displacees did not fit into the standard CETA programs. Some of this was caused by the stigma that goes with CETA employment, and some of it was caused by the eligibility requirement. We would suggest that more attention be paid to ways of

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using the CETA framework for the re-employment of individuals affected by plant shutdowns. Private sector employment via CETA and PICs would seem to be especially appropriate.

Finally, some type of strike force might be readied on a regional basis within the state that could be deployed to a particular municipality when a large shutdown occurs. The foregoing points about resources are important, but money may not produce the skilled professionals who can deal with the special labor market problems that are faced by a large group of experienced workers becoming employed precipitously -- what may be needed is a mobile squad of trained staff that can move into the breach.

State Department of Commerce

Given the success of community task force groups, the main emphasis for the State Department of Commerce could be the facilitation of these groups once it is clear that a shutdown is in the offing. Funds and technical assistance could be provided to communities to get them started in the formation of these very important problem-solving groups. In the same vein, it would seem to be advisable for some type of booklet or checklist to be made available through communities that are in the throes of a plant shutdown. The U.S. Department of Labor is in the process of developing such a handbook, and the State Department of Commerce might adapt such a volume for use in New York State.

Requirements for the Terminating Employer

The terminating employer is in the best position to help and to broker employment for the workers about to be displaced. If Brockway had been able to run interference for its workers in the local labor market, then some of the stigma and difficulty that the workers experienced would not have occurred. Specific steps could be taken by employers that would go a long way toward meeting this objective. Specifically, advance notice of at least one month would seem to be in order, perhaps with a sliding scale based on either plant size or relative employment impact of the layoff. During this period of time, workers would have an opportunity to look for other employment, and the employer could play an active role in this process. Such a period of time would also give the union involved a chance to consult with the employer about special needs of the members and special arrangements that might make the transition much more efficient.

Certainly, recall and transfer rights, when they can be obtained through collective bargaining, make a good deal of sense for the workers involved. Interestingly, the recall rights for Westinghouse and GAF displacees were limited, yet anywhere from 25-35 percent of these respectively were recalled within two years following layoffs. It would seem imperative that these rights be formalized and to the extent practical, displacees be re-employed on the basis of seniority.

Finally, collective bargaining has a role to play with respect to severance pay. (Of course, our point of view on this is tempered by

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the possibility of Trade Readjustment assistance being expanded to cover all situations of plant shutdowns.) Severance pay serves an additional cushion and is especially important where the only benefits available during the transition period are from the unemployment insurance system. We might note that in Europe a displaced worker typically receives anywhere from one and a half to two weeks of pay for every year of service.

Opportunity for the Union

When a shutdown hits, a union finds itself in a very tough position. Immediately, its source of revenue, dues, is cut off, yet the members need considerable assistance. Also, local union leadership tends to be inexperienced when it comes to the matter of shutdowns. After all, they are knowledgeable about ongoing operations and collective bargaining assumes a relationship; consequently, it is not something that they can handle -- the termination of a relationship. Local unions, however, should review the provisions of local agreements with respect to the problems occasioned by permanent layoff.

The level of the union that would appear best able to help is the national headquarters. We were surprised that a union as large and sophisticated as U.A.W. was of so little help to Brockway workers. We would urge that unions have on their staffs specialists who can relate to a situation like Brockway and help with the mobilization of community resources and agencies in behalf of the laid-off workers.

APPENDIX B: Report of the Continuity of Employment. Committee created by the State of New York and the CIVIL SERVICE EMPLOYEES ASSOCIATION for the period 1976-79. Prepared by Robert B. McKersie, M.I.T., Leonard Greenhalgh, Dartmouth University, and Todd Jick, York University, Canada.

CHANGE AND CONTINUITY

Introduction

The twin themes of change and continuity are likely to be the dominant subjects of labor-management relations in the 1980s. On the one hand, change is required, whether to meet the pressures of foreign competition, to reduce costs to match declining revenues, or to take advantage of the benefits of new technology. At the same time, continuity of employment is a goal that workers and their union representatives have embraced with increasing fervor. A variety of social and economic forces have underscored the importance of job security. To mention several: the primary segment of the workforce (20-45) has never experienced a major recession such as the 1930s and employment security has come to be assumed as a given; workers are more likely to oppose job loss, because the alternative of moving to another section of the country is not as available when, increasingly, other members of the family are employed; and more and more members of our society feel that minimal social standards means continuation of employment -- and the old maxim that job loss is "one of the breaks of the game" is no longer acceptable.

The purpose of this paper is to outline the experience of one program that has made it possible for both change and continuity to occur in a mutually reinforcing way. Starting in 1976, the State of New York and its major public sector union, The Civil Service Employees

Association (CSEA), inaugurated a joint labor-management committee to explore methods for achieving continuity of employment for the more than 150,000 state employees (most of them represented by CSEA) who faced important program changes and shifts of employment that the State needed to undertake. Over a three-year period, this committee spent slightly under a half million dollars to study the impact of layoffs that had occurred during the early and mid 1970s, institute a number of readjustment programs for those on layoff, advance a number of key policy recommendations to the legislature and the executive branch of New York state, operate several demonstration projects (including workforce planning and redeployment to avoid layoff), and do all of this under the auspices of a joint labor-management committee. The committee has been reconstituted this fall. Based on the success of its work, the principle of labor-management cooperation has been extended to two other areas: performance appraisal and productivity/quality of work.

Origin of the Committee

During the negotiations of 1976, CSEA demanded that the state prohibit all future layoffs. Given the fact that almost 10,000 state workers had been laid off in several waves during the early and mid 1970s, the union was under considerable pressure from the membership to end the disruption and the anguish caused by mass layoff. The chief negotiator for the state, Donald Wollett, responded that it was not feasible for the state to "tie its hands" with a guarantee of no layoff; but he advanced a counter proposal, the concept of advance notice, and the establishment of a continuity of employment committee. Wollett was familiar with work of the Armour Automation Committee¹

and its success in making it possible for a large meat-packing company to shift operations out of the large urban centers to the sources of supply in the smaller cities in the midwest, while at the same time these changes were cushioned through a variety of techniques, such as counseling, re-location and training. Ultimately, Wollett's concept was accepted by the union, and the following two clauses describing the function of a Continuity of Employment committee were incorporated into the collective bargaining agreement.

- (a) Study worker displacement problems arising from economy RIFs, programmatic reductions and curtailments, close-downs, relocations, consolidations, technological changes, and contracting out; and
- (b) Make recommendations for the solution of these problems, including but not limited to the use of normal and induced attrition (e.g., early retirements), sharing of available State job opportunities (e.g., transfers), indemnification (e.g., severance pay), and transition to work in the labor market beyond State employment (e.g., retraining).

To indicate that it meant business, the state agreed to appropriate \$1 million for the work of the committee. As will be seen subsequently, this money became a key factor for success, for it enabled the committee to buy its way into demonstration projects and the establishment of special programs within existing agencies. Since the rank and file quickly dubbed the committee "the million dollar operation," the money also put pressure on the committee to develop programs that would benefit workers who had been on layoff and to initiate visible preventative programs for those who might be subject to layoff in the future.

¹For a report of this project see G.P. Shultz and A.R. Weber, Strategies for Displaced Workers (New York: Harper, 1966).

Formation of the Committee

The committee began operations in the fall of 1976, with the appointment of representatives from both sides. The president of CSEA nominated five regional presidents of the union. These individuals brought status from the union side as well as an independence, since each of them were elected officials in their respective regions. The individuals from the management side were from the middle ranks and included representation from the civil service department, the office of employee relations, the division of the budget, one of the mental health agencies, and the department of education. One of the authors of this article was selected by the committee members as a neutral chairman, and the other two authors came on board as full-time staff members soon after the program began.

Early in its operation, the committee agreed upon a number of ground rules, which stood the test of time over the three-year period and are worth summarizing at this point. First, all decisions would be taken only after full discussion and after consensus by all members of the committee. This meant that each member was in a position to stop a decision until the individual felt comfortable with the proposal. Second, the work of the committee was viewed as parallel to collective bargaining. While the mandate to the committee had come from collective bargaining (and indeed had been incorporated into the language of the agreement), the work of the committee was adjunct to the adversary process of collective bargaining. Recommendations that might be forthcoming would be submitted to the principals, that is, the director of the office of employee relations and the president of the Civil Service

Employees Association, who in turn might bring the recommendations to the bargaining table or, in the case of management, might be implemented through executive orders.

The most important ground rule involved what the committee members came to call the "black box" understanding; namely, the committee would concern itself with the impact of program changes on workers and not with the rationale for the program change itself. Accordingly, the committee was not to be used as a forum to change the direction of state policies and program changes. For example, shortly prior to commencement of the committee's work, the policy of deinstitutionalization (i.e., moving patients from 24-hour mental health facilities to outpatient community facilities) had begun to be implemented. The union had taken a strong stance in opposition to this program, but the committee agreed that the union's concern with the policy itself would not affect the design and implementation of programs to help those workers displaced by deinstitutionalization. Presumably, the union would fight the policy in forums such as within the legislature, at the collective bargaining table, and through representations to the office of the governor. At times it became difficult to hold to this separation of the policy rationale from the consequences of the policy, since by dealing with the consequences it appeared to some rank and file that the committee was assenting to the policy itself. Nevertheless, this principle remained salient in the thinking of the committee and made it possible for the committee to move ahead with its program of assistance and prevention and released it from the

conflict that would have been inherent in discussing the reasons for the changes sought by the state.

Finally, the committee agreed that, to the extent possible, it would utilize existing state agencies and would work toward the incorporation of its ideas and programs within the existing agencies of the state, rather than establishing a new and separate office. This meant that funds appropriated to the committee could be husbanded and used with greater leverage. Also, the committee imposed a ceiling on research and administration expenses and directed the staff to keep these under 25 percent of the total funds available to the committee. Given the economic losses for those on layoff, and given the publicity attendant to the formation of the committee, it was important that the majority of the funds be spent so that services and dollars would flow to the clientele group.

Impact of Layoffs

The first task undertaken by the staff to the committee was an analysis of the layoffs that had occurred over the preceding six years. With a combination of data from the civil service department (this agency operated the preferred list recall system for those on layoff) and from special questionnaires and telephone surveys, the following general picture emerged. About 10,000 individuals had been laid off with heavy concentrations occurring in the drug abuse agency and in the several mental health agencies. The heaviest hit area of the state was New York City. Females were underrepresented in the layoff group; whereas they comprised 44 percent of state employment, they accounted for 32 percent of those laid off. The reverse picture

occurred for minorities; whereas they represented approximately 10 percent of state employment, they accounted for almost 20 percent of those laid off.

The impact of the layoff on the individuals involved ranged over the spectrum. Some employees took the layoffs in stride: in fact, approximately 35 percent of those affected experienced virtually no layoff, leaving one agency or title of work to be quickly reemployed by the state in another position. Another 45 percent were recalled back to state employment, usually to the same or better pay grade than they had prior to the layoff. At the other end of the spectrum, those who experienced more than a "technical layoff," they remained unemployed for an average of 24 weeks. Most of this group indicated that they had experienced a savings reduction, which averaged about \$2500 and represented almost one quarter of their total savings. A smaller group, about 20 percent of the total (10,000) said that they had been forced as a result of the layoffs to increase their debts by \$3000.

Several other consequences could be traced to the predicament of being unemployed for almost half a year. In about a fifth of the situations another member of the family was forced to look for work. And in a limited number of cases (about 10 percent of the total), the individual engaged in a geographical move, usually to another part of the state in order to accept recall to state employment.

The research work also concentrated on assessing the noneconomic consequences of layoff for state workers. Through questionnaires and a large number of face-to-face interviews, it became clear that many individuals had experienced considerable stress as a result of the layoff experience. Many workers remarked that prior to the layoffs they had assumed that working for government meant that their jobs were secure -- consequently, they were not prepared for the shock of layoff and the ensuing uncertainty of whether they would be recalled or whether they could find alternate employment. A group of semi-professional employees in the drug abuse agency were especially hard hit, and two suicides occurred. This agency had come into being in the 1960s and had expanded rapidly, making it possible for individuals with associate degrees in counseling and narcotic control to advance rapidly into important positions of responsibility. Many of these individuals earned in the range of \$15-20,000 and had just started to buy homes and to enjoy the other appurtenances of middle-class living when the cutbacks occurred.

The correlational analysis demonstrated a strong relationship between loss of savings and increased stress and other emotional problems. It is the American dream to have a "nest egg," but it is not the American dream to see these savings deplete and to remain unemployed. The accompanying anxiety led 20 percent of our sample to a heavy use of alcohol.

Readjustment Programs

In tabulating the statistics for those laid off, it was determined that approximately 500 (or 5% of the total) remained unemployed and another 700 had regained employment with the state at classifications lower than those held prior to layoff. This combined group of approximately 1200 individuals served as the target clientele for the development of a number of readjustment programs operated by the committee during the first year of its work.

The first step taken was to establish within the civil service department a special Continuity of Employment Center that would operate services aimed at the displacees who were still unemployed or underutilized. The advantage of the civil service department was that it had the best picture of openings elsewhere in state employment, and given the strong desire of workers on layoff to return to work with the state (primarily because of fringe benefits), it seemed appropriate to locate the counseling and referral center in the civil service department. All members of the target group were contacted and asked to complete a skills inventory profile that recorded information on special capabilities developed through training programs or work experience elsewhere (state civil service data included only previous job titles), with the possibility that these individuals might be matched into openings that they would not qualify for via the normal recall program.

Members of the target group were then contacted by circular when openings developed, and many came to the center to be interviewed and counselled about opportunities for reinstatement. In addition, several

retraining programs were instituted to allow for reemployment via new careers. To give one example, with funds from the committee, a training program was established in the Agriculture and Markets agency to retrain a group of laid-off meat inspectors to become fruit inspectors. Approximately half a dozen such programs serving about 100 individuals were instituted on a pilot basis by the center, with funding and evaluation from the continuity of employment committee.

The committee also instituted, in cooperation with the state department of labor, an "out-placement program," which sought to open up opportunities in the private sector for those still unemployed. Money was set aside to make it possible for individuals to enter training programs, to search for employment elsewhere within the state or even outside of the state, and to subsidize private industry for a break-in period for the new workers. Only a handful availed themselves of the program, and it became clear to the committee that very few individuals were interested in working in the private sector. Indeed, out of the 10,000, only about 5 percent had found employment in the private sector. Thus, the efforts of the readjustment center were refocused almost exclusively on finding employment for the job losers with the state system.

Overall, the work of the center and the readjustment activities more generally must be viewed as only minimally effective. Only about 10 percent of the target group were benefited in any measurable way. One reason for the low yield involved the fact that the target group, after all, was "residual" and in this sense a hard-core clientele. Also, many individuals who remained unemployed were middle-aged and

not receptive or adaptable to new careers. For example, the committee tried one program that was a complete failure. Some 300 laid-off narcotic correction officers were encouraged to take an exam to qualify as environmental control officers. Many declined to do this, and of those who went ahead, only three passed. (The committee later realized that it had erred in setting the stage for so much disappointment.

Impact of Layoffs on the Agencies Involved

Agencies also experienced adverse impacts of layoffs, according to a series of research studies conducted by committee staff. Based on interviews, questionnaire surveys, and observations, researchers found that the functioning of agencies suffered greatly as a result of layoffs. Specifically, research findings indicated that the actual or rumored utilization of layoffs left remaining employees with feelings of job insecurity that affected their work, morale, and health as well as their commitment to continue working for the organization. In the face of layoffs, threatened employees were led to feel and behave in ways that were detrimental to themselves as well as to the organization. Psychologically discontent and anxious, many employees tended to become dispirited and withdrawn while experiencing deterioration in their health. Some reported not working as hard causing a decline in their productivity and in organizational performance.

Also associated with the layoffs was a significant rise in the turnover rate. Strikingly, research showed that there was a higher rate of voluntary quits among the better workers and that the better workers tended to leave first. The loss of good employees resulted in costly retraining and frequently left a residual pool of less effective

employees to deliver the organization's services. Subsequent understaffing led to greater costs of overtime as well as disruptions in teamwork.

Overall, the findings indicated a strong and significant pattern between perceived job insecurity and both individual and organizational costs. The shock to the system generated a series of "ripple effects" that reduced organizational effectiveness, as the residual work force was likely to be of lower average quality (than before the layoffs) and severely demoralized. Thus, the research demonstrated that layoffs could not only be costly to the individuals actually laid off, but also to the organizations which had been cut back.

Cost Effectiveness of Alternative Work Force Reduction Strategies

Field research in agencies that had used layoffs to trim their work forces suggested that layoffs created costs for the state that might offset much of their apparent savings. More systematic research was undertaken to estimate these costs, and to draw some conclusions about the relative cost effectiveness of the two principal alternatives for reducing a work force -- layoffs versus attritions.

It was found that most layoff situations involved the need to reduce an organization's work force by only a small percentage. As a result, it was found that natural attrition (e.g., using a selective hiring freeze) was usually feasible, and, after a transition period (usually no longer than a year), would actually save the same payroll dollars that would be saved by cutting the work force immediately through layoff. Natural attrition also tends

to avoid the rather substantial costs of unemployment compensation chargebacks (which do not normally accrue to an employer when workers leave voluntarily).

The layoff strategy tends to traumatize the residual workers. Though not laid off themselves, the rest of the workers in an agency experience job insecurity for an extended period. Job insecurity has costly consequences. Productivity drops measurably as workers initially become preoccupied with rumors and later become psychologically withdrawn from their jobs. Turnover increases, especially among the better and most scarce workers. Agencies experience increased alcoholism, grievances, and law suits contesting layoffs. Perhaps worst of all, job insecurity engenders resistance to change; thus ironically, the hoped-for changes that gave rise to the layoffs become much more difficult to introduce successfully.

When costs are attached to each of these factors, the costs and benefits of layoffs and attritions can be compared. For the typical state agency, layoffs do not prove to be cost effective. In fact, there is a difference in favor of attritions sufficiently large to justify an investment of almost \$1,000 per redundant worker for programs to manage attritions through retraining and relocation.

Policy Development and Recommendations

Given the difficulty encountered in reemploying those who remained laid off for some time after their jobs ended, and given the substantial organizational costs stemming from layoffs, the committee turned its attention to the formulations of several proposals that would make it possible to manage a workforce reduction without resorting to layoff. Initially, the union members on the committee advocated the principle of no layoff, while management underscored the importance of needing the layoff option in certain situations. The compromise that developed involved the concept of the employment alternative. The alternative would be reasonable, in

the sense that the alternative would be located in the same geographic area and would be for work within several labor grades of that being performed prior to the displacement. Entry into a training program could constitute such an offer. The option would be above and beyond the operation of the layoff system and any worker would be free to refuse the option, thereby proceeding to layoff on a voluntary basis.¹

Since the fall of 1978, when the committee submitted its unanimous recommendation for the avoidance of layoffs through the employment alternative concept, the state has laid off only a handful of employees on an involuntary basis. While the state has not adopted the policy in any formal sense (the executive branch has said that it did not want to tie its hands to the commitment of an employment alternative on a 100 percent basis), nevertheless, this guideline has been followed in the closing down of a number of programs and establishments involving several thousand workers.

The committee also advanced several accompanying recommendations that would be needed for the successful implementation of an employment alternative program. First, it would be essential for workforce planning to take place so that workers who were scheduled for displacement could be matched to openings that were available or projected to develop. Consequently, the committee recommended that a center be developed to carry forward human resource planning that would parallel financial and program planning conducted by the division of the budget.

¹A worker proceeding to layoff would be eligible to draw unemployment insurance.

A second concomitant is lead time, and based on several research studies the committee recommended that the state provide advance notice of three months before individuals would be displaced. Such a period would allow sufficient time for the fashioning of the employment alternative but would not be excessively long, as was the case with the six months' advance notice, wherein a loss of tempo took place while in other instances pilferage and other counterproductive behavior developed.

The Gouverneur Demonstration Project

The committee realized that it was important to show by a demonstration effect that with sufficient lead time, cooperation of the agencies involved, and with local labor-management cooperation, it should be possible to close down a facility and redeploy all the workers involved to other positions within state employment. The site that was chosen for the test was the Gouverneur Unit, operated by the Office of Mental Retardation in lower Manhattan. This small facility had been slated to close for some time (since the building had been condemned); and as part of the overall program of deinstitutionalization, the state desired to move the patients to other care arrangements. However, the union, opposed in principle to deinstitutionalization, indicated that it would fight the decision to close the facility with every means at its disposal. Into this "crunch" walked the committee.

Starting first at the level of the state-wide committee, meetings were held with key representatives from the agency, the governor's office, the top staff of CSEA, and the Division of the Budget.

A document was prepared by the committee that outlined the principles mentioned above for continuity of employment and the various parties indicated their willingness to cooperate with the demonstration project. For the Division of the Budget this meant agreeing to a phase-out timetable that would incur additional labor costs. For the Office of Mental Retardation it meant exerting internal influence to convince other hospitals to accept displaced employees on a transfer basis. For the union, it meant "holding its fire" on the question of deinstitutionalization and giving the project a chance, in order to see if it would be possible for the workers involved to continue employment without being subjected to layoff.

To make a long story short, the project succeeded. All 300 workers were redeployed, many of them to other units in Manhattan operated by the Office of Mental Retardation. A labor-management committee functioned very effectively at the local level and ironed out many of the wrinkles and settled individual complaints that are inevitably involved in establishing seniority lists and transfer options. A staff member from the state-wide committee chaired the local committee and provided the impetus for moving the project ahead.

Two previously laid-off employees who had worked as counselors for the drug abuse agency were recalled and put into place as counselors for the project. In effect, they served as the outreach arm for the Continuity of Employment Center. They performed the invaluable function of meeting regularly with the displacees, outlining options and helping them make intelligent choices. If anything, the project was too successful in that people at the local level developed an esprit de corps and committed themselves to avoiding layoffs on any basis. Thus,

employees received more than one offer of alternative employment; when offers were refused the employees were not subjected to layoff. A few workers took advantage of the goodwill, and did not look at the alternatives seriously, preferring to remain at the nearby facility to which they had been transferred when Gouverneur closed. This piece of experience led the committee, in refining its recommendations, to emphasize the offering of one alternative and to securing the full cooperation of the union and the workers affected. Thus, management would be asked to provide the alternative, but the worker would be urged to cooperate if continuity of employment were to be achieved.

In an effort to evaluate the effectiveness of the Gouverneur redeployment program, the staff conducted research to determine whether the program had successfully avoided the dysfunctional consequences of job insecurity that had been measured at agencies where the layoff strategy had been used. The results were very encouraging. Job security was significantly higher among Gouverneur employees who were guaranteed an opportunity of continued employment. Likewise, their productivity was higher, and their propensity to quit the organization lower. Since the effects on productivity and turnover were the major costs associated with layoff-induced job insecurity, the Gouverneur redeployment program was judged a success.

Workforce Planning

During the third year of its work, the committee undertook a major piece of analysis under request from the state legislature to examine workforce prospects for the mental health agencies of the state. CSEA found itself ready to modify its opposition

to deinstitutionalization if it could be assured that the program changes would take place without layoffs or forced transfer of employees to non-state employment. As a result, CSEA was successful in convincing the legislature of the need for a comprehensive study of the supply and demand for staff in the mental health agencies. The continuity of employment committee agreed to undertake the study and two staff members worked on this project full time for several months. A special advisory committee was formed, incorporating relevant agency personnel, as well as additional representation from CSEA and the committee.

The study concluded that over a projected five-year period, depending upon different rates of change in the program of deinstitutionalization, anywhere from 5000 to 15,000 state workers might be displaced. However, by instituting an attrition program, the number of workers who would be in excess could be reduced to well under 1000, and if a geographical transfer program were utilized, all displacees could be accommodated. While the overall conclusion was encouraging, a number of sticky points remained. For example, attrition rates in the Adirondack counties were far lower than those in the New York City-Metropolitan area. Consequently, to achieve overall system balance it would be necessary to induce some employees from upstate counties to transfer to downstate counties -- some might challenge the feasibility of achieving this shift. Further, the attrition program, with its attendant hiring freeze, would have to be modified for some occupations where turnover would be higher than required and where it would be impossible to retrain people within the system to fill these openings: for example, doctors. While a number of ramifications

remained to be worked out in implementing program changes without layoffs, the workforce planning exercise demonstrated to the legislature and to the executive branch that, with sufficient lead time and with proper staff work, it should be possible to achieve program changes as well as a successful redeployment of the personnel involved.

Overall Results

From the inception of the committee in 1976, through the end of its first phase of work (summer 1979), no massive layoffs of New York State employees took place. Moreover, in the fall of 1979, the state indicated that a plan to reduce the overall work force by some 3000 employees (due to budgetary restrictions) would be handled on the basis of attrition, rather than through layoffs. Thus, in a very important sense, the work and thinking of the committee had been adopted by the decision makers within the executive branch of the state.

At the level of individual agencies, the concept of bringing about change without layoff had also been institutionalized to some extent. For example, during the summer of 1979, the remaining institutions of the drug abuse agency in Manhattan and Buffalo were phased out -- this program change taking place with virtually no involuntary layoffs. Moreover, this redeployment of personnel took place under the auspices of the industrial relations personnel in the agency -- without the presence of staff or members of the continuity of employment committee. While the transition program did not run as smoothly as Gouverneur, where a local labor-management committee solved implementation issues, nevertheless, the agency did consult with the representatives of the union, and the handling of the phase-out emphasized a concern for the job security of the workers involved that was far different from that present in the early and mid 1970s.

During the period 1976-1979, at least half a dozen other program changes took place within state agencies that involved the redeployment of several hundred personnel. For most of these program changes the Employment Center within the Civil Service Department provided important support services. Staff counselors were dispatched to the sites to assist in the readjustment efforts and the data bank capabilities of the central office in Albany were utilized to help match individuals to openings in other state agencies.

A further regularization, and even institutionalization, of the concept of employment continuity occurred as a result of seminars and a monthly newsletter sponsored by the committee. The purpose of these communications was to disseminate information about best practice as well as the research results from the score of studies undertaken by the staff.

Lessons from the Continuity of Employment Committee

Several points stand out in retrospect. First, it is extremely important in bringing about a fundamental change in the thinking and approach of any large organization for the intervention entity to have "buying power." Part of this was supplied by the \$1 million allocation, which enabled the committee to encourage agencies to undertake new functions by supplementing budgets with seed money. The presumption was that after the test period the agency would carry forward on its own out of existing funds or seek additional funds from the legislature for the new activities. Support from the executive branch also became extremely important in securing the cooperation of agencies with a

program of employment continuity for state workers. This was illustrated during the Gouverneur project, when it became necessary to invoke the prestige of the Governor's Office to encourage agencies to accept displaced employees on a voluntary basis.

Another lesson is that civil service departments do not think of themselves as personnel agencies -- on the contrary, they emphasize the standard functions of classifications and appeal. Hence, it took considerable time and effort to reorient the thinking of key people in the state to the need for a "hands on" personnel function that would view the workforce as more than a static factor but would view it as a human resource to be counseled and effectively redeployed. Finally, this project illustrates the important positive interaction between demonstration projects, research analyses, policy recommendations and basic changes in the thinking and practice of governmental agencies.

The CHAIRMAN. Thank you very much, Dr. McKersie.

In your ending here, this question of notice makes so much sense; that cavalier approach that the stock market considerations dictated no notice, is just appalling. There are other situations, however—I think the Mahwah was one; I never did understand why that decision to close was so precipitous. I see you mentioned that the workers there had tried hard to improve their performance, and notwithstanding that, got that short notice on shutdown.

Dr. MCKERSIE. I am not sure in the case of Mahwah, there was short—

The CHAIRMAN. Yes. Although Mahwah employees were informed in April of the impending shutdown on June 26, it is my understanding that the possibility of a shutdown did not change attitudes. But, I can see the point that if there is a notice of possibility of shutdown, and then all hands turn to, to improve their product and still get shut down, why of course, that is a very demoralizing factor.

Dr. MCKERSIE. My point, Senator, is that in most situations, the deterioration process is taking place over a long period of time. There are instances, of course, where markets shift very rapidly. But in most situations, people on the inside know what is going on. They see that the firm is not reinvesting; they know what the order books are like. I mean, people inside enterprise are savvy, and this deterioration process is taking place over an extended period of time. That certainly was the case with United States Steel in Youngstown, and was certainly the case with Mahwah, where the workers knew about some of the quality problems, some of the absenteeism.

Now, what is happening during this deterioration process? Sometimes, nothing happens. In other instances, management will throw down the challenge and will say, "If we get these things corrected, if we turn the corner, we are going to be able, in a sense, to keep this plant going." That is what I am getting to, and I think that it is important for workers to be given that chance. But the other part of it is, if they make that response, then there is an obligation on the part of management, in a sense, to join that bargain.

In a lot of instances, the notice period, as with the case of Ford, was implicitly there. They were in effect saying, "We have got to get things shaped up to keep this plant going." And then, when you get a response, I think there needs to be this equality of commitment.

The CHAIRMAN. This suggests to me the importance of trying to create a community of understanding. It seems as though, in so many situations, there is an isolation of management of a company in its situation without any appreciation of experience of others in similar situations.

Now, you mentioned Brown & Williamson. This was the most striking and promising report of what a major company and its unions through collective bargaining can do in anticipation of the whole range of problems where there are changes. That experience—I use the word "model"—I would hope would be known and could be looked at by intelligent management as a model of response, again, coming back to a community. And that is one of the things that got us started on this, trying to find ways to bring the

community, business, labor, and with a partnership of governments, together to try to understand the changes that our economy is going through, dislocations that result in change, and try to put together a coherent policy in response, not only macro, at the Dupont AFL-CIO, Sixteenth Street level, but down where the people are, too. And we are suggesting that kind of task force approach both at the Federal level and in the field does make some sense—does it?

Dr. MCKERSIE. Yes, I would just like to—and I think Lou would have some comments on this, too—with respect to Brown & Williamson, I would agree that that is a model, and there needs to be substantially more publicity about what they are up to. And people who were not here yesterday to hear the presentation would like to know how they are doing this phaseout of a plant that employs approximately 3,000 workers over a 3-year period. They gave formal notice of 18 months with an additional 18 months for retraining and relocation—really, a very impressive array of programs, that they developed, and then hammered them out through collective bargaining. They used labor-management negotiations to really flesh out this program.

When you talk about voluntary efforts, I think one of the most important instruments—and Bill Batt, who is here, can attest to this—is that at the community level, some kind of task force, some kind of indigenous group, emerge. And I think this is where business people can begin to share experiences at the local level, or even on a regional or industry basis. There are forums by which the kind of Brown & Williamson experiences can be fed in, and other businesspeople can learn about them and can use that model practice to stimulate their own policies and programs.

The CHAIRMAN. Is there experience at the community level that can be studied, that fits this kind of community pattern of response?

Dr. FERMAN. Yes, there really are. In some communities, we already have labor-management committees, and frequently, these committees are broadened to include this kind of function.

I really second the motion that there is only so much you can do in terms of mandating from the Washington scene here. For the most part, you have got to talk about community mobilization of resources.

I guess the point that Senator Riegle made before, I would also second that, that some attention really has to be given to intervening before the plant is shut down. What you were saying is essentially correct that you did not know what happened there at Mahwah. The truth of the matter is we have had no research at all as to how these decisions are made, whether these decisions can be reversed. There have been at least two small research efforts that I know of which showed that frequently these decisions are not well thought-out decisions, and they can be reversed. But I think that we have been operating for the most part in the United States with a crisis psychology. What do we do after the crisis? I think we have to begin giving some thought, legislatively, policy-wise, to this whole notion of what can we do to prevent the crisis. And there are some really interesting examples of how this has been done, cer-

tainly in the Midwest, and one or two I know of in the Northeast section of the country.

The CHAIRMAN. Do you think that, if we could initiate a mandate for prenotification, that this would force more thoughtful consideration toward decisionmaking, and would alleviate those precipitous and whimsical approaches to dislocation situations?

Dr. FERMAN. Yes. There is legislation pending or in existence in 18 States on prenotification, and what I have against it is that we get lead time, but the legislation does not spell out what you do with the leadtime. To simply sit on your duff and do nothing, you might as well not even get into the politics of getting prenotification. I think that is exactly the area that has to be developed, the spelling out of what we do with that leadtime, in terms of either reversing a decision or exploring other alternatives for employment or whatever.

Dr. MCKERSIE. Excuse me, Senator. I wanted to come back and give a specific instance of where, at a community level, a task force made a substantial difference. This is Binghamton, N.Y., where there was, several years ago, a shutdown of a large facility, a division of GAF. As soon as that announcement came—and it was not an announcement with very much leadtime—the county executive for Broome County swung right in and formed the task force, that included members of all the important groups in the community—the business community, the labor unions, CETA, the employment service, representatives from Albany—they set up a whole variety of subcommittees. Some subcommittees were worrying about retraining and making sure TAA benefits accrued to these workers, because it was shown that it was impacted by foreign competition; other committees went after EDA grants. And I think the lesson of that experience is that they mobilized that community to an extent that it had never been mobilized before. And while the shutdown was painful for the 1,200 to 1,500 workers involved, they developed a momentum that brought industry to the extent that they have ended up better off than they were before. Now, that is a kind of ironic twist, but the positive part of the story is the task force and what a local, grassroots organization can do. And, as Arnold Packer was saying, that is the same thing that is happening in Downriver, in Wayne County, Mich., where they have come forward and said, “We have got some energy here. You meet us with some resources.”

The CHAIRMAN. Has that Binghamton experience been written up?

Dr. MCKERSIE. Yes; it is included in the full report, and I have a summary with my testimony.

The CHAIRMAN. Has Youngstown had any comparable response to its problem of a major shutdown of the steel industry?

Dr. MCKERSIE. Oh, it has been very active. The Mahoning Valley Committee has been extremely active. But I think that industry and that particular set of facilities had deteriorated to the point where there was not any way to retrieve it. I mean, there was a very active effort to turn that one around and bring Federal funds into Youngstown.

The CHAIRMAN. And am I right or wrong, have they not broadened their industrial base?

Dr. MCKERSIE. Right, with industrial parks, that is right.

The CHAIRMAN. I think our prepared questions for today's hearing have been pretty much answered.

Dr. Ferman, your statement suggests that there is a need for new approaches dealing with the area of worker dislocation, beyond wage subsidies, retraining or relocation. As we search for new approaches to the problem of work force dislocation, what areas would you recommend that we explore?

Dr. FERMAN. Certainly, one of them has to do with our recent discussion; the whole notion of intervening before the shutdown occurs. I am of the opinion that many of these shutdowns are not really irretrievable. They can be turned around.

In Sioux City, Iowa, they have a rather interesting intervention, patterned after the civil defense community committees. Long before any plant has shut down they have a plan to mobilize the community. They have put together an ongoing committee of labor, management, the local community, professional organizations, civic organizations. They have developed, just as civil defense did contingency plans. With civil defense, the notion was to anticipate what happens if a bomb drops on M Street. What resources would be needed?

What the counterpart economic crisis committee would ask is: what resources would be needed if the Ajax plant closed? This question is asked years before any shutdown. Thus, there is a set program in place that can be mobilized before the crisis occurs. Such committees can add considerable stability to a community as well as have the potential to reduce crisis.

It is interesting that the two plant shutdowns that have occurred in Sioux City have been handled extremely well. They had other alternatives on line. I think this kind of early intervention, with this kind of preplanning strategy, is something that really has to be given a lot of thought. We just have not moved in that direction at all. Certainly, I would recommend that strategy.

We have to begin thinking about what Bob McKersie has talked about; in terms of the prenotification period. Sometimes, there are career development programs that have mostly been used with professionals and technical people. There is an attempt to really give them some high, intensive spot training to make them adaptable to new kinds of jobs in the prenotification period. I think we have to begin moving in that kind of direction.

What has basically been wrong with the training programs that we have used is that at most, only 15 percent of the people get the training, but it has not been coupled with industrial development and job development. In other words, the factors that are shutting down a plant in a particular region are probably operative to keep new economic opportunities from coming into that region; and no training by itself would cure this.

We have to begin working on that front—that is, training for what, training in conjunction with what. I do not think that we have gone in that direction very much. We tend to set up training programs in isolation, and then we are very disappointed that after the people are trained, there are not the necessary jobs. I would think that this would be another kind of intervention that I would strongly recommend.

The CHAIRMAN. Now, my feeling is exactly the same. We create here many of the training programs, or at least create the resources and design training and retraining, but it disturbs me that this training does not seem to relate to any thoughtful analysis of skill needs out there for the future. Where do we look to for leadership and guidance in an analysis of useful training, that will produce the skilled workforce that will be needed as we approach a more technologically-oriented industrial future?

Dr. FERMAN. I think you have put your finger on the key problem, that for the most part, there has not been the relationship of the training to meaningful job opportunities. There are a number of private organizations that have gone in the direction of career development for blue collar workers. They have tried to work with the trainers, and the counselors, actually going out in the community, even if the jobs do not exist, and to develop specific jobs for graduates, working with employers either through OJT programs or direct job subsidies.

I am depressed, by the fragmentation of the helping process that goes on here. The trainers train. The job counselors counsel. The industrial developers develop. And there is no way of integrating and orchestrating this process for the mutual benefit of the worker.

Maybe it is deeply ingrained in our laissez-faire economy that we carry over into a laissez-faire helping network. But it is discouraging that we do not get that kind of integration. These people do not talk to each other, and as a result, I think that is one of the reasons that the training just has not been very effective at all.

The CHAIRMAN. Now, just this morning, the Subcommittee on Education—next week, it will be the Subcommittee on Employment—moved what is described as the President's youth initiative effort. Into our education component we added, at my suggestion, an effort to draw local educational resources into a comprehensive review of opportunities. A community college is a good place to have a center of communication, research of the community, and growth potentials in industry. This is one solution that would relate to the education component that is coming along, which contains both the vocational element as well as a basic element in education for young people.

Dr. FERMAN. That would be an excellent step in the right direction. This idea of pulling together just has not been done, and it has not been done over the last 30 years anywhere that I have seen.

The CHAIRMAN. I'm certain you're aware that higher education is in an enrollment decline in general. It impresses me that they might accept an opportunity for new responsibility with enthusiasm. You come from education communities—does this proposal strike you as something that will be received with, first, enthusiasm, and then perhaps would spark the creative lines of thought and development?

Dr. McKERSE. Well, there is quite a bit of it taking place already. Mention was made earlier, I think it was by Arnold Packer, of Jamestown, N.Y., where there has been a very active labor-management committee. What is not as well known is that Jamestown Community College has served as a brokering function, almost like an employment service, where they identify the needs

that industry has by going out and talking with industrialists as to what their needs are currently and what they are in the future. They then look at the supply side of the labor market, and then fashion programs—not all of them, do they offer themselves—but they roster up and provide this clearinghouse role. It has been very successful, and it has a labor-management committee overlay.

So that community colleges are already involved and, as you imply, it is their bread and butter to be engaged in vocational training.

I think the other point here is that employers need to be intimately involved in these efforts, because we should not lose sight of the fact that most training still takes place on the job, whether it is formal OJT, or whether it is classroom training within the enterprise, or whether it is just learning. This is the way people learn skills in our kind of economy.

So that employers have got to be linked in, so that their needs and the minimal skill prerequisites that are required are known, so that a person can cross the threshold into a job and then begin to learn the skills of a particular company or a particular industry.

Some of the things that the employment service is doing with PIC's—private industry councils—where they are bringing employers together, I think, is a step in the right direction.

The CHAIRMAN. I think that does it for this meeting. I hope we can stay in communication with you. This has been very productive for me, for our record, for our committee, and our part in the changing and evolving economy.

Thank you.

[Material supplied for the record follows:]



REGIONAL UNEMPLOYMENT, POVERTY, AND RELOCATION: A SOCIAL SERVICE VIEW

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Dr. Ferman was born in 1926 in Fall River, Massachusetts. He received his AB at Brown University (1952), his MA at Boston (1953), and his Ph.D. in Sociology and Industrial Relations at Cornell (1961). He has taught at Wayne State University and is currently Professor of Social Work at the University of Michigan and Director of Research at the Institute of Labor and Industrial Relations of the University of Michigan-Wayne State University. He has co-authored a number of books (Poverty in America; Economic Failure, Alienation and Extremism) and he has authored The Negro and Equal Opportunities. He is currently editor of Policy Papers in Human Resources and Industrial Relations and contributing editor of Poverty and Human Resources Abstracts.

the purpose of this paper is to review some of the factors that affect the decision to stress migration as a strategy for the relief of unemployment and underemployment in depressed rural areas. To what extent should unemployed people be encouraged to move from or to stay in depressed labor areas? How successful are such movements when they are made? What service delivery components are necessary to ensure satisfactory adjustments to migration? What viable policy and program alternatives are there to migration? These are the questions to which this paper is addressed.

It is obvious that relocation—the planned and sponsored movement of unemployed workers from areas of high unemployment to areas of high job opportunities—has ranked low on the scale of policy and program alternatives in the American manpower scene. Of the three r's of unemployment, retraining and redevelopment of depressed areas have received far more attention than relocation. There are several good reasons advanced for this differential emphasis. The first is political. No political unit likes to lose population, since to do so is to reduce political power on the regional and national scene. To enlist the local support of community leaders for a policy of relocation might be difficult indeed. The second is economic. Since the persons most likely to migrate are the young, skilled, and educated, relocation policy may become a death warrant for the industrial life of the area. The third involves considerations of social and personal welfare. Relocation is viewed as being potentially harmful to the "sending area," in that it can be disruptive of a whole range of family and neighborhood relationships, seriously weakening the social life of "the people left behind." Frequently, such relocations are viewed as harmful to the "receiving area" because it may overtax and thus seriously compromise some of the major facilities (hospitals, schools, social service agencies) by the sudden shift in population. Finally, there is the view that individuals and families moving from rural to urban areas suffer undue personal and social strain from the cultural discontinuities that can characterize such shifts. This last view assumes that rural life is sufficiently different from urban environments as to pose a major threat to value orientations and family structure of rural families on the move. These considerations have relegated relocation policy to the role of "measure of last resort."

Reviewing manpower legislation in the last two decades in the United States, one notes that only a few measures made provision for relocation assistance.

(1) Since the early 1950s, the Bureau of Indian Affairs of the Department of the Interior has operated an employment assistance

program for Indian Americans who wish to move from reservations into urban areas. The major components of this program provide for relocation expenses, stipends while finding employment in the new area of residence, help in locating permanent housing, and other forms of assistance necessary to social adjustment in the new community. Approximately 53,000 individuals have received assistance through this program, but no assessment of its effects has been made to date.

(2) *Title III of the Trade Expansion Act of 1962* and *Title III of the Automotive Products Act of 1965* provided for adjustment assistance benefits for workers suffering loss of employment due to competition from foreign imports. Both acts regarded affected workers as eligible for cash readjustment allowances while unemployed or enrolled in approved training courses and for cash relocation allowances when moving from one area to another in response to firm job offers. The provisions in both acts were contingency measures to protect against possible adverse effects of U.S. foreign trade policy, but at the close of the decade, it had not become necessary to utilize the adjustment provisions of either act.

(3) *The most comprehensive* (though still quite limited) set of manpower programs directly concerned with job relocation assistance was brought about by the 1963 amendments to the Manpower Development and Training Act of 1962 (MDTA). These amendments authorized funds for experimental and demonstration programs and strategies for job relocation assistance. An earlier attempt to provide relocation allowances as a regular component of MDTA programs had been soundly defeated, and the 1963 amendments permitted only the initiation of pilot projects in a limited number of geographical areas. Although program authorization was received in 1963, the first of these projects did not get under way until 1965. To date, 61 mobility assistance projects have been conducted by 35 private and public agencies, with the majority operated by state employment service agencies. Between 1965 and 1969, relocation aid was provided to some 14,000 unemployed or underemployed workers and their families, most of them from depressed rural areas and small towns. The various projects differ with respect to certain experimental components, but all provide such basic services as (a) advance job information and subsequent placement services with regard to the proposed destination, (b) financial assistance to cover moving and settling-in expenses, and (c) additional supportive services to deal with related social adjustments to changes in job and residence.

Although manpower legislation has largely excluded relocation policy as a viable alternative or supplement to training and redevelopment, a considerable amount of population interchange has occurred and con-

tinues to occur between rural and urban areas (during the 1950-1960 period, the annual out-migration exceeded one million; see Manpower Report to the President, n.d.). Such geographical movements rely typically on individual initiative and resources to make response to "push factors" (high unemployment, low wage and opportunity structures) and "pull factors" (attractions of wage and job opportunity). These movements are largely unplanned and unsponsored, reflecting job information leads from friends and relatives as well as the blind following of pathways originally staked out by significant reference groups. In this context, economists view migration as a market mechanism to geographically reallocate labor from surplus markets to markets of high demand.

In the following discussion, the author has attempted to set forth some of the problems and issues that loom large in the development of relocation policy in the United States. Beyond this, there has been an attempt to present some ideal elements that must necessarily be built into relocation programs. Our emphasis is focused on the social service needs of displaced rural workers as well as the structures to make these services effective.

Problems and Issues in Relocation Policies

In recent thinking on the relocation of low-income groups from depressed rural areas, two central concerns have emerged. The first is whether sponsored migration is a solution to the problems of unemployment and wage poverty in depressed areas or whether the problems are simply transferred to an urban setting. Central to this is the question of whether adjustment to urbanism does not impose an added set of problems that increases the social difficulties of the relocatees. In this view, the cure may make the disease quite unmanageable. The second concern is whether relocation policy requires special sponsorship measures outside the context of the labor market. In this sense, relocation might be managed simply by influencing the supply or demand sides of the market. The quality of the supply might be modified through retraining, and the demand might be influenced by a better dissemination of job vacancy information. What is at issue here is an understanding of the human condition of low-income groups in rural areas and what this means to relocation policy. For such groups, it is frequently the nonlabor market factors that are crucial in relocation. These would encompass a variety of sponsorships that go beyond the operation of supply and demand in the labor market. These might include any or all of the following: moving allowances; job counseling; job development (through altering the employment structure of firms in the receiving area); assistance in cultural integration into the new community; and supportive services in health,

transportation, and housing. The question here becomes how extensive the intervention has to be rather than whether such intervention should occur.

Relocation policy-making poses a number of questions. These involve considerations of motivation, service delivery, and measurement of program effectiveness. Specifically, there are five major problems and issues that are at the core of relocation policy.

(1) How is the problem to be defined?

Is relocation a measure to influence the structure of the "sending" labor market, the "receiving" labor market, or the social welfare of the population being relocated? Which of these objectives is primary or do all receive some attention?

(2) What is the political economy of relocation?

What is the network of political and economic interests that influence relocation policy in the "sending" and "receiving" areas?

(3) What patterns of sponsorship and supportive services are necessary for relocatees?

What is the most effective administrative structure to house these services?

(4) What are the factors that influence the decision to move?

What is the relative influence of economic and psychological factors?

(5) How are the effects of relocation measured?

What are the effects to be studied and for what time period?

DEFINING THE PROBLEMS OF RELOCATION

An essential element in relocation is a definition of the problems in terms of some specific perspective. European relocation policies have a clear and definite objective in relocation—to enrich and improve the manpower supply of some specific labor market. The clear criterion for relocation is to find workers with skills that can be utilized to fill the labor needs of the area. Consequently, relocation policy rarely encompasses the hard-to-employ. By way of contrast, relocation policy in the United States has become synonymous with the relief of economic problems and helping the disadvantaged in depressed areas by improving the labor profile of the area and improving the job opportunities of low-wage or unemployed workers. In the American perspective, relocation is viewed more as a "fire-fighting" measure than as an instrument of the national manpower policy.

The immediate consequence of this perspective is to neglect important elements of the relocation process. The actual skill needs of the receiving area may be bypassed in favor of the urgent need to relocate the

unemployed away from the depressed area. The result may well be to relegate these workers to a marginal role in the economy of the receiving area. Again, there may be little attention given to the operation of the labor market or community in the receiving area with a consequent overload of the job market and community facilities. The most obvious case is where large numbers of relocatees in the receiving area depress the price of labor or modify worker demand, thus limiting not only their opportunities but also those of the regular work force in the area.

People-Processing and People-Changing Choices

Another problem of perspective involves the relationship between the social service facility and relocatees. Is the essential problem in relocation one of "people-processing" (i.e., matching job applicants and job opportunities) or does relocation involve "people-changing?" In people-processing, the main thrust would be in soliciting job applicants and matching them with jobs in a wider geographical market. In people-changing operations, the emphasis would be on delivery of services to effect changes both in perspectives and personal skills. The choice of either approach dictates a range of social service considerations—technology, staff skills, expertise, and administrative considerations. People-processing may require no great expertise and a relatively simple administrative structure, while people-changing operations may involve a wide variety of supportive services ranging from training and counseling to medical and legal aid. A key factor in selecting either a people-processing or a people-changing emphasis is the perceived state of disadvantage of potential relocatees. Thus, workers with salable personal resources (skill, education, youth) may not need much help beyond being matched to an available job, while workers who lack such resources may indeed need extensive services.

The essential problem that is faced by this dilemma of choice is where to intervene. In people-processing, the tendency is to limit intervention to the market framework by developing a more effective matching of jobs and applicants. It is assumed that such jobs exist and only a more viable job information system is necessary to yield results. In people-changing, intervention tends to be diffused through many dimensions of the relocatee's life. The primary emphasis is on his adjustment to the new community and work environment. Finding a new job is viewed as only one dimension of the total problem field in relocation.

Job Placement and Job Development Choices

Still another dilemma of choice is presented in job-finding. What kinds of jobs should be sought for relocatees? Should this employment be within

the framework of normal hiring practices or should some effort be made to modify the work environment to facilitate the transition process? One of the pitfalls of straight job placement without job development (modifying the work environment to fit the needs of the job holder) is that many of the relocatees continue to be exposed to labor market conditions that have disadvantaged them in the past. Thus, credentialism, hiring and promotion practices, discrimination, and organized labor restrictiveness would continue to act as barriers to the labor market adjustment of low-skilled relocatees. The clear need would be to intervene on the demand side of the labor market.

Job development begins in the prehiring period and continues to some indeterminate point after job placement. Ideally, it involves supportive services for both the relocatee and personnel in the business organization. For the relocatee, it can mean counseling, further training (institutional or on the job), coaching services that link him to agency resources and mediate between him and employer-community relationships, and access to community resources (e.g., financial) to meet the problems of adjustment. For the company personnel, it can involve counseling, technical assistance in job training and job design, and management development training. This network of services is designed to ensure a more receptive work environment for the relocatee and to mitigate some of the barriers to employment that have been a problem in the past.

What is suggested here is that posthiring service delivery must be an important component of relocation policy. Finding a job for the relocatee is the initial step, but the main point of reference must be the development of an environment in which the job holder can *retain* the job and build a meaningful work career. To do this, a series of sponsorships become necessary. The relocation process for the hard-to-employ must be seen as involving a considerable degree of sponsored mobility. In sponsored mobility, we exempt the job seeker from the traditional requirements of the contest for jobs. Formal credentials and work experience are relegated to secondary concerns in favor of modifying the work environment to develop the potential of the relocatee. It is obvious that the use of a competitive mobility framework in relocation would favor those with credentials and work experience, thus sharply limiting job opportunities for the low-skilled unemployed in receiving areas.

The search for receiving areas for the underdogs from rural depressed areas must go beyond merely locating areas of brisk labor demand. Attention must be given to the location of labor markets where firms are available that will be amenable to job development. Obviously, job development programs are costly in the short run to the company and rarely can firms be induced to participate without an extensive program of subsidies and supportive services. We know little, as yet, about the

conditions under which job development would be welcomed as a tool of corporate manpower policy, but a viable relocation policy for underskilled workers would find it an indispensable element.

Selectivity and Universalism

A third consideration involves the criteria by which the unemployed are chosen for relocation. The criteria can be framed in either one of two ways. First, only certain categories may be selected for relocation. This selection may emphasize high potential for job placement of workers who are redundant as far as local labor needs are concerned; in either case, the selectivity principle closes the opportunity for relocation for some groups. Second, the choice of relocation may be open-ended, with implicit agreement to take all who apply for relocation. In cases where the emphasis is on an open-ended policy (universalism), an extensive service delivery system must be developed to deal with the wide variety of life situations that are represented. Some relocatees will only need processing; others will need counseling and training; still others may require counseling, training, and job development. Furthermore, it is unlikely that only one receiving area can accommodate this variety of relocatees, so that an attempt must be made to broaden the number of receiving areas. Universalism invariably means a considerable number of coordination problems among agency, receiving areas, and sending areas.

The most typical case in relocation is to utilize selectivity as a principle of recruitment. The criteria for selectivity may be imposed from a variety of considerations. The first is the utilization of clients already registered for service with the agency. The United States Training and Employment Service frequently utilizes the list of registered unemployed—either unemployment insurance recipients or those unemployed registered for manpower programs—in the recruitment of candidates for relocation programs. The graduates of manpower training courses again become primary prospects for program recruitment. The second is the utilization of local company recall lists or, in some cases, the lists of displaced workers from the company. A third referral source is from private and public agencies, or local opinion leaders, who are aware of some target groups. In all of these cases, the opportunity for relocation is restricted to those who have had some linkage to formal organizations of the community. Those unemployed or underemployed who have no linkages find themselves eliminated from consideration.

Other constraints on the criteria for selection may be imposed by the employment policies of firms in the receiving areas or by the needs of employers in the local labor area. In the latter case, corporate farmers or low-wage employers may have a vested interest in retaining certain

categories of workers even if they are currently surplus in the local labor area. An obvious example is the need for low-wage, unskilled farm workers who can be utilized at harvest time. The result of these constraints is that relocation assistance is not uniformly offered to all who would take advantage of it; thus, the relocation policy may come to reflect the needs of various interest groups rather than the needs of the unemployed in the area.

The Political Economy of Relocation

In his review of experimentation and demonstration projects on geographical mobility, Mangum (1968: 160) notes that political problems loomed large in both the sending and receiving areas serviced by the programs. Economic interest groups in the sending area, particularly farmers and the owners of low-wage operations, resented the loss of potential workers in any program to relocate low-income and unemployed workers. In the receiving areas, there was a tendency for economic interest groups and political leaders to set limiting conditions for the relocation of workers to jobs in their areas. Some of these conditions were set to restrict and guarantee the better job opportunities for native workers, while other conditions were designed to be selective of relocated workers, favoring those with skills. In some states of the Deep South, relocation has, in the past, been a political measure designed to "thin out" predominantly black areas to ensure white control.

The politics of relocation can obviously pose a formidable barrier to the development of relocation policy. The dilemma is that such political units must be included within the structure of relocation policies, yet not reduce the policy to a mere expression of local interest groups. Three major theses emerge from this consideration. First, administrative responsibility for relocation must be vested in a political authority other than that of the sending and receiving areas. A relocation authority reflecting the power and interests of the two areas may be totally ineffective in furthering the interests and meeting the needs of the low-skilled unemployed in depressed rural areas. A solution that has been used to solve similar political problems of area development is the creation of a program authority that is different from the political authority of the two areas. Since 1965, the Economic Development Administration of the U.S. Department of Commerce has combined two or more counties into redevelopment areas with resources and authority for program administration. The U.S. Department of Labor created six regional commissions in 1967, whose program powers in area redevelopment go beyond those of local constituent units. Second, and equally important, there is a need to create welfare agency structures that can reach out to poverty groups that

may be isolated from the institutional life of the community. In many instances, this will preclude traditional agencies that limit themselves to their own client groups or narrowly represent local interests. The community action programs of the Office of Economic Opportunity, the offices of the U.S. Employment Service, and local authorities of the Department of Agriculture have been relatively ineffective in reaching the isolated, underdog populations because in many instances program authority was strongly tied to the vested interests of the area. Finally, there is an urgent need to reconcile conflicting interests in relocation that may exist between the sending and receiving areas. It is quite apparent that the skills required by one area may not necessarily be those that another area wants to lose. Somewhere in the relocation process, there must be a program authority that can resolve such conflicts. The failure to see relocation in these terms raises the danger of moving people from areas where they may be needed to labor areas where their existence can be at best marginal.

It is also obvious that relocation policy can result in a complex service delivery program, requiring the expertise and professional manpower of a number of agencies. The resulting confederation of services may bring forth a program structure where authority is diffuse and conflicting rivalries must be resolved. The interagency communication and coordination problems may result from: (1) differing types of activity and expertise; (2) differing organizational styles; or (3) conflicting patterns of loyalties to local interest groups. The need to create interagency linkages to overcome these problems is generally difficult even when not exacerbated by problems of geography. The need again is for some unit of organization that utilizes local talents but melds them into a structure that extends beyond the community.

The Motivation to Relocate

Friendship and family influences exert themselves in the decision not only to move but also where to move. These reference groups supply job information and frequently provide emotional and resource sustenance to support the move. It is interesting to note that these same factors may act as a deterrent to geographical mobility. A number of researchers are in substantial agreement that the decision *not* to move frequently results from ties to friends and relatives in the depressed area (Lansing and Mueller, 1967). What these ties represent is still open to question and subject to speculation, but they are undoubtedly linked to a personal or family reliance on an interactive network that provides both emotional support and functional resources (money and services). In this context, it may seem that geographical mobility and immobility are both subject to

nonrational or irrational forces that would make relocation policy difficult to formulate. What must be raised here is the question of whether such ties are rational or nonrational in defining and implementing realistic life interests. There may be a high degree of rationality in deciding to remain in a depressed labor market if one can rely on friends and relatives for job leads, transportation to seek jobs, child care, or emotional support. These resources are lost by moving. The economist sees no difficulty with this problem in formulating the rational economic man of migration theory. Such a man is moved by the rational calculation of costs: economic and psychological. Ties to friends and relatives become psychological costs that must be discounted against other costs in making a decision to move. The major difficulty with psychological costs is that they tend to be intangible and not readily reducible by economic incentives alone. We know very little as yet about how to influence these dimensions of motivation to move.

Another aspect of the motivation to move deserves mention. Geographical movement might be stimulated by fiscal and manpower policies in potential receiving areas that would attract the unemployed from rural depressed areas. The availability of sponsored training, the creation of new jobs, and the availability of housing in receiving areas might be powerful attractions inducing voluntary mobility. In economic migration theory, this tends to be the most attractive policy, since it minimizes economic costs and fits the model of economic rationality. A second motivational model focuses on making relocation allowances and transfer payments available in addition to training and counseling in order to induce mobility. In this latter case, the decision to move would be largely involuntary and reflect the need to move from a situation that had little to offer. This motivation model assumes a system of rewards for willingness to move. Again the question that is posed here is where to intervene with relocation policy.

Measuring the Impact of Relocation

The problem of assessing the impact of relocation policy is indeed a difficult one. The initial consideration is in the designation of a unit for assessment. Is such a unit the sending area, the receiving area, or the relocatees themselves? It would seem reasonable that some attention should be given to all three. The receiving area might be studied in terms of diminished labor shortages, growth of the labor force, or increase in the net value in production. The sending area might be assessed in terms of reductions in unemployment, decrease of unemployment insurance and welfare recipients, or changes in the community dependency ratios. It is, however, the measurement of impact on the relocatees that offers the greatest challenge.

A measurement of impact requires some definition of success. A standardized definition of success is difficult because a number of status changes are possible after relocation. After relocation to a job, the worker may remain in that job (which may be counted as a "success"); move to another area and take another job (which probably should be counted as another "success"); move to another area and obtain a job; move back home and obtain a job; or become unemployed. Audrey Freedman (1968) has developed a logical typology of possible status changes of relocatees. All possibilities are shown below:

Possible Status After Relocation

Employed ^a	Unemployed ^a
Remained in relocation area (A) on original job (B) on another job	Remained in relocation area
Moved to another area	Moved to another area
Returned to original home	Returned to original home

a. Or became hospitalized or imprisoned, was drafted, or died.

A number of questions are posed by this range of outcomes of relocation. First, is an employment outcome the only practical measure of success or should some value be given for exposure of the relocatee to different labor markets? Having relocated once, one could argue, there is a potential for further geographical changes which in the long run could make the relocatee more flexible in terms of job opportunities. Second, what weight should be given to labor market factors in defining a success or failure of relocation? Relocation decisions are made in the context of a particular state of the labor market. Obviously all things do not remain equal, and many relocatees become the victim of labor market changes. The lack of success may be a reflection of labor market changes rather than job performance or the adequacy of the relocation program. The converse can also be true—a worker may have poor job performance but have a "success" because demand changes favor his employment. Finally, success may only partially be equated in employment terms. What remains unknown is the success of a wide range of adjustments in home, neighborhood, and community that are noneconomic in character. In assessing the life situation of the relocatee, these successes may be more salient than success in jobs.

Another important measurement problem focuses on time span after relocation. Obviously, the longer the period after relocation, the more successes or failures that have to be taken into account. The question of time span is obviously linked to perspectives on the relocation process. If relocation is viewed only in terms of job placement, then a relatively short

period has to be taken into account. If the relocation perspective favors job development and extensive posthiring services, then a considerably longer time span must be used. The measurement of impact and success will, in the last analysis, be determined by relocation objectives.

SPONSORSHIP AND SUPPORTIVE SERVICES IN RELOCATION

Enhancing the worker's mobility may operate at several different levels. First, there may be an attempt to secure resources for him to improve his mobility. This may take the form of loans for cars or vouchsafing a loan for transportation. Second, there may be an attempt to arrange transportation in a car pool or to reschedule bus routes to provide more favorable transportation opportunities over a broader geographical area. Third, some arrangement may be made to board workers at a facility near employment during the week and arrange transportation home on weekends. Finally, there is the alternative of subsidizing the relocation of the worker and his family to a labor area of considerable shortage.

In rural areas, locational changes require a system of supportive services both at the exit and receiving ends. It involves more than the furnishing of a bus ticket. Supporting services at the receiving end may involve: prelocation search and assurance of housing; an appraisal of school and community facilities; and location of indigenous leaders who can serve as a community link in the transition. Such relocations should involve the readiness of an agency in the new community to meet the worker on arrival and provide the necessary psychological and functional services to aid in his adjustment. This means that the sending agency must have information on structures and processes in the new community as well as an acquaintance with agency structure providing these services.

We have already indicated the desirability of sponsorship for the hard-to-employ moving from rural to urban areas. In rural areas, there is generally an insufficiency of services to prepare the worker for relocation. Agencies in rural areas rarely have the expertise in their own ranks to fill this gap and inevitably such expertise must be imported from outside the area. This makes it imperative that funding for relocation from rural areas allow for the necessity of outside expertise.

The relocation process for the hard-to-employ requires a variety of services and expertise. Even more important is the question of coordination and authority relationships among agencies that are involved in this service delivery program. Whether it is possible to coordinate a relocation program with agencies separated both by geography and function is open to question. This raises the possibility that an effective program would require a new organization, divorced from local interests in the receiving

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and sending areas, that has the technology and staff to monitor and administer the total relocation process. The current state of service delivery in manpower where programs have to be stitched together in a patchwork fashion from the operations of existing agencies suggests again the need for a single agency for relocation programs.

Options for Action

Policy makers who have considered relocation as a tool of manpower policy are generally presented with three logical options for action. The first of these emphasizes the importance of preserving the organic life of distressed rural communities by discouraging extensive out-migration and retaining the worker in a familiar environment with a continuity of old life patterns and social ties. The solution proposed here is one of encouraging new industrial development through low-interest loans, low tax rates, and other incentives (e.g., retraining of the existing labor force). The second option stresses a system of supportive services for actual relocation of the worker and his family to large urban metropolitan centers where employment opportunities are increasing. The third option is a solution that incorporates parts of the two options above. An attempt is made to create an urban growth center within commuting distance of his current residence, so that urban work opportunities become available to him without actual residential relocation. Each option has positive as well as negative aspects. Let us briefly review them:

Option 1: Preserving the organic unity of the distressed community through area redevelopment programs. Rebuilding the economic base of the depressed rural area is an appealing solution since it permits the workers and their families a large degree of cultural continuity in familiar surroundings. The problems are formidable, however. First, the very factors that led to the decline of the area may continue to operate, making it difficult to attract new industry. Some of these factors can be manipulated—workers can be trained or retrained—but some of them (poor markets, inadequate transportation, poor access to raw materials) would require prohibitive investments. Second, the inducements to attract industry may be so extensive as to offset the presence of new jobs. Exaggerated tax relief coupled with pledges to develop local facilities to serve new companies (sewage treatment, highways) may overextend the community's capacity to give social services to residents. Finally, numerous rural areas, particularly those that are isolated, lack the social and cultural amenities to attract industry that is characterized by high proportions of technical and professional workers. The end result is that frequently low-wage industries (e.g., textiles) are attracted. Such firms

seek to exploit the local labor supply by low wages, lack of fringe benefits, and lack of union protection. Such firms lack real opportunity structures and become "runaways" when economic conditions become unfavorable. As Hansen (1969: 330) indicates, area redevelopment as a total societal strategy has not been very successful in either the United States or Europe.

Area redevelopment is not necessarily synonymous with new industrial development. Even if private industry cannot be attracted, there is a need for a variety of skills to service the needs of area residents (medical, educational, and vocational). Areas require new constructions, repair of existing facilities, services to support agricultural units, land reclamation, and land conservation. The relative lack of licensed or credentialed skills opens the door to employment, using local, indigenous training to build a base of new skills in the community. This is a strategy particularly applicable to small, closed communities (e.g., Indian reservations), where the values may be strong to retain a certain life style. The training component can often be stitched together by combination of MDTA and other eligible training monies.

Area redevelopment may also take the form of developing new forms of social organization to remedy faulty patterns of production and consumption. The rural cooperative is one such unit. The members of such cooperatives seek to pool resources for the production and marketing of goods. Such organizations seem to favor isolated rural communities and operate on an economy of scale that limits their operations to smaller units.

The last two solutions are of limited scope and reflect strong values of an agrarian-based society. At best, they can only affect small numbers of people and lack the range of broad-based industrial redevelopment.

Option 2: Relocating people to large, urban metropolitan areas. Three facts favor the relocation of willing rural migrants to large urban areas: (1) rural in-migrants do adjust *in time* to urban labor markets; (2) urban metropolitan areas are the source of the highest wage and best potential jobs; and (3) the return of relocation programs is far greater than either training or area redevelopment. While it would probably not be possible to induce all surplus rural workers to relocate, particular relocation allowances and services should and must be given to those who do relocate to ease the problems of geographical movement. The three most persistent problems in such relocations are: (1) rural migrants tend to tread well-worn Indian pathways to a limited number of locations that soon become overloaded; (2) they engage in little planning to make the move or assure themselves of training opportunities once they are located; and (3) they lack clear information about housing, job opportunities, and community facilities that are crucial in urban adjustment. None of these

problems is insolvable and all can be handled by a well-developed relocation program.

Option 3: Developing growth communities within depressed areas. The third option assumes that uniform and widespread economic renewal in the depressed areas is neither feasible nor desirable, yet there is a clear value in letting residents remain in an area in which they have strong roots. One or two communities are selected for extensive job creation or job development efforts, while the remaining communities become commuter areas serving as residences for the work force. The logic is that an intensive effort can be made on a select community target to develop it into a regional growth center, while efforts to aid a large variety of communities would be too little and too diffuse. The growth center permits urban job opportunities to displaced rural workers without relocation of families. The logic is quite appealing. The growth center may be an already established growing community (e.g., Winston-Salem, North Carolina) or a community that has potential for growth. The growth center philosophy has been seen as a desirable alternative to relocation and total area development.

Three difficulties are often associated with the growth center concept. First, such communities, particularly in the South, act to attract nonunionized, low-wage industries (e.g., textiles) that offer few economic rewards to the community or to residents from nearby communities. Such industries have "runaway" inclinations and will move suddenly in response to changing economic conditions. Second, a frequent problem—also found in area development—is that such growth centers frequently take over cultural patterns of employment opportunity in the area. Thus, black and other minority groups may find that such growth communities frequently have biases against their employment, so that such centers offer them few opportunities. Third, the concentration of the bulk of economic activity in one location poses the possibility that adverse economic conditions may cripple the one source of jobs that services a large hinterland, and thus adversely affect a large area.

As we have indicated, each option poses assets and deficits. These options should not be seen as being antagonistic to each other, but rather they represent alternative pathways to improve the opportunities of the rural poor. In one sense, these options may represent a scale of priorities ranging from revitalizing the organic life of distressed communities to the relocation of population to areas of greater opportunity; thus relocation becomes necessary only when area redevelopment and growth center strategies have failed.

Relocation and Social Services

From our discussion, a number of reference points have emerged for the development of a social service package for the hard-to-employ in rural areas. A number of these considerations deserve discussion.

(1) *The population in a rural depressed area* is quite varied, representing a range of life situations and problems. The same solution cannot uniformly be applied to all individuals or all families. It is also quite evident that the services given to one or more persons in a family will have an impact on other family members. In a like fashion, changing opportunities for one or more groups in the community will have an influence on the life chances of others. Thus, the relocation of a family member may pose problems—resource or social—for the family members left behind. The migration of young, skilled workers from the community generally leaves the remaining residents in a less favorable situation to acquire desired services. Service planning for such areas must develop solutions that take the *total* community into account.

What is being said is that effective service delivery systems must have the capabilities to intervene on a number of levels in the community. There may be a need for community redevelopment in the form of industrial renewal, or a need for family counseling, or a need for individual job training. There must be the realization that problems in depressed areas require some attention, usually concurrently, to community institutions, family structure, and individual needs. Some individuals should be encouraged to migrate while others may be best served by fitting them into some secure role in the community either through subsidized economic activity or through programs of income maintenance.

(2) *It would be desirable and feasible* to establish an independent agency at the national level to coordinate and watch over relocation assistance programs. Although local involvement in such programs is desirable and necessary, control of the program by local interests, both in the sending and receiving areas, poses serious problems as we have already noted. An effective agency would have to fulfill three criteria. First, it would have to rise above and be divorced from local interest groups to be able to explore various options for action. Second, it would have to command extensive resources and prestige to coordinate agencies at both ends of the migration pipeline, if relocation were desirable. Finally, it would need to assure itself of a sufficient skill mix to deal with the problems of relocation on community, family, and individual levels. This would require a cadre of community developers, family counselors, and personal counselors. The local offices of the United States Training and

Employment Service (USTES) are too closely identified with local interest groups to fulfill such an assignment. Furthermore, USTES has a limited technology, emphasizing individual services (training, assessment, and testing) rather than family and community services.

(3) *A relocation assistance program must be planned.* The initial consideration must be one of *problem definition* (i.e., delineating and describing the situation that makes relocation a desirable solution). Defining the problem also must involve some reference to the perspectives, attitudes, and values of the clients themselves. Do they share the "official" definition or do they view the situation quite differently? Problem definition must also specify the capabilities and resources of local agencies to handle the sequenced activities required in relocation. All too frequently, the problem is defined in terms of the incapacities of the individual, and not enough is said about the inability of local resources to handle the job. A second consideration is one of *establishing an agency-client relationship* whereby information can be exchanged through formal and informal mechanisms. A frequent problem in rural areas is the inability of the agency to locate and maintain contact with clients. The location of formal and informal groupings to which the client relates himself is of prime importance. The identification of the extended family and friendship networks are cases in point. Where such groupings do not exist, they must be created through discussion groups or the development of membership organizations. A third consideration is the development of a sequenced activity plan that (1) specifies the resources and decisions necessary to relocate the individual and his family, (2) involves the client in the development of the plan, and (3) specifies the work tasks and obligations of agency personnel in both the sending and receiving areas. Such a plan inevitably comes after the objectives for the activity are clear-cut and should specify contingencies for dealing with problems that develop because the projected change means a loss of family or community resources. A final component of planning is to specify the types of information to be collected in monitoring the relocation of the individual or his family. These data must be analyzed over time and the plan revised if this is indicated. Merely specifying the information to be collected is not enough; relevant machinery must be set up to collect the data. This may involve in turn lengthy and detailed negotiations with a number of agencies.

As we have described it, the agency must be involved with the client in both the sending and receiving areas. Regularized or periodic contacts are probably not as important as contact during crises. The system of supportive services must take this into account. Separation from the old community involves difficulties, and so does adjustment to the new

community. A well-developed service package would seek to deal with both sets of difficulties.

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The CHAIRMAN. We invite Mr. John Sartori, from the United Steelworkers of America, Wallingford, Conn., and Mr. Gerald Newmin, president of the International Silver Co., Meriden, Conn.

Gentlemen, we are very grateful that you are with us today to give us your thoughts.

STATEMENT OF JOHN SARTORI, SUBDISTRICT DIRECTOR, UNITED STEELWORKERS OF AMERICA, WALLINGFORD, CONN., ACCOMPANIED BY HELEN ZELENSKI, LOCAL 7770 UNION PRESIDENT; AND W. GERALD NEWMIN, PRESIDENT, INTERNATIONAL SILVER CO., MERIDEN, CONN.

Mr. SARTORI. Senator, my name is John Sartori, subdistrict director in Connecticut of the United Steelworkers of America. I have with me here Mrs. Helen Zelenski, who is the local union president of the members who are employees of International Silver Co. in Meriden, Conn.

We are pleased to be here with you today to relate to you how the joint efforts of the Steelworkers, International Silver, and both the Federal and State Governments were able to accomplish something which, in our experience, is very unusual.

The workers of International Silver Co., a subsidiary of INSILCO Corp., voted to affiliate with the United Steelworkers of America during 1970. At that time, there were approximately 1,750 employees working in the flatware division and another 1,000 working in the hollow ware division.

We almost immediately became aware of the adverse effect that imported products were having on employment in both divisions, particularly in the flatware area. We applied for trade readjustment assistance, which was granted on January 27, 1971. Since that time, additional certifications have kept the workers eligible for TRA almost continuously.

The first collective bargaining agreements between our organization and the company became effective in March of 1973. In that agreement, provisions were made for semiannual meetings to be held between union and management in a nonadversary setting in an attempt to resolve matters of mutual concern. Joint productivity committees were also established with the goal of increasing productivity. Achieving such a goal was recognized by both parties as being essential to combating the everincreasing intrusion of foreign products into the domestic market.

Let me point out that the flatware division, housed in factory C, was operating from the largest, most modern facility of its type in the world. None of these efforts had any impact on the everincreasing inroads on the domestic market that imports were attaining, with the concurrent loss of American workers' jobs.

By the time we entered into contract negotiations with the company in 1978, the flatware division was virtually at the point of being shut down. Fortunately, we experienced the unusual situation of a corporation where top management, particularly Donald Blatz, president of INSILCO Corp., felt a responsibility and obligation to the community in general and its workers specifically who, at the time, had an average employment in excess of 20 years.

Management was committed to keeping factory C a viable business by introducing a new product into the plant which would be

compatible with existing equipment. They found they had the capability of producing and plating tubing for the aerospace industry and also that a market existed within Connecticut for such a product. With the commitment of management and the cooperation of the office of Gov. Ella Grasso, contracts for tubing were obtained and the company instituted a program of retraining its flatware employees. The tubing project currently employs 30 people, and it is projected that between 60 and 70 will be employed by the end of 1981.

The company also found that it had a pool of employees who had gained skills in the area of machine design and rebuilding. They found that there also existed a market for such service. International Silver Co., the Steelworkers and the State of Connecticut Labor Department entered into an agreement dated June 27, 1979, whereby the State would supply classroom instructors, machinery, and a \$2.50 per hour per training payment toward the training of tool and die makers. The company and the steelworkers have also entered into an apprentice agreement whereby an on-the-job apprentice training program has been instituted. There are currently 31 tool and die makers and apprentices who have completed their classroom training and are employed in the machine design and repairing department. Each one of these skilled workers generates approximately two production jobs in the assembly and repair of machinery. Thus, there are close to 100 employees working in this area.

The company expended \$1 million in the institution and implementation of this program and has been reimbursed \$164,832.80, which is, by the way, Trade Readjustment money. It seems like that, if additional Federal aid had been available in situations of this nature, that a greater amount of training and the creation of more jobs would have been possible.

The other problem we encountered with the program at International Silver was the adverse impact on the wages of individual workers. Such workers, who choose to enter the program rather than being laid off eventually, took pay cuts of as much as \$3 per hour. Let me remind you that these employees are eligible for TRA payments for up to 52 weeks, and in some cases, would have actually received more money if they had been laid off rather than what they had received as trainees.

Although TRA has been of vast help to the employees of affected industries, it is nothing more than a short-term financial easing of the trauma of a lost job. The vast majority of our members want to retain their jobs, with their company, not receive charity.

The amount of \$3,260,037 has been paid to the employees of International Silver under TRA since 1971. It is not very difficult to conceive how much more of a long-lasting benefit this money could have accomplished if it had been used to preserve such employees' jobs, thereby giving them the ability to continue to use and be paid for the skills they had acquired over many years of service to their company. Our members want the privilege of receiving an honest day's pay for an honest day's work, not the indignity of waiting in an unemployment line for a handout.

The current employment in the company's flatware division is 225 and in its hollow ware division, it is 300. The new programs

have created 140 jobs to date, which might not seem significant to some, but is certainly significant to 140 human beings who have been enabled to remain productive members of our society, and it is certainly significant to their families, who have some degree of financial security.

It has been particularly gratifying to experience a large, diversified corporation making what is essentially a moral commitment in effort and money to the community and its employees.

I would like to give you a brief description of our experience at another Connecticut plant which is also owned by a large, diversified corporation. The workers at this plant were represented by an independent union when the last collective bargaining agreement was negotiated in 1977. Under the threat of a plant shutdown, the union entered into an agreement at that time which is referred to as "the survival pact." The terms of the "pact" provided for an 87 cents per hour wage cut, elimination of a dental care plan, and a 3-year wage freeze.

During February 1980, members of the independent union voted to affiliate with the Steelworkers. We, shortly afterward, approached the company in an attempt to ascertain their intentions and to propose labor-management meetings and the creation of a joint productivity committee. They responded that they had no intention of closing the plant, and that the labor-management meetings and productivity committee would not be necessary. Approximately 2 months ago, we were called into a meeting by the company and informed that the plant would be completely shut down by October 1, 1980. We were told at that time that they would listen to any suggestions we might have, but that they could not conceive of any possible scenario under which the plant would remain open. We tried anyway and made suggestions for increasing efficiency within that plant. We also contacted Governor Grasso and the Labor Department, who put together a proposed package of aid and presented it to the company. It was to no avail—the plant shutdown is currently in progress and proceeding on schedule. The plant employed 650 people.

This is a normal example of top management of a large conglomerate corporation exhibiting absolutely no concern or sense of responsibility to either the community or its own employees.

We have petitioned for TRA for the displaced workers at this plant, but even if it is granted, it is only going to put a few extra dollars into the pockets of the workers for a short period of time. The profile of an average worker at this plant is an individual of between 45 and 50 years of age who has worked between 15 and 25 years for the company. Such workers have a very poor probability of attaining any employment, let alone a job where he or she will be able to utilize the specialized skills they have acquired.

In closing, what was accomplished at International Silver could not have been accomplished without the cooperation of government, a corporation that was committed to preserving and creating jobs and, if I may be allowed to compliment my own organization, a union that is truly concerned with productivity and the financial viability of the company where we represent the workers, and a union that recognizes that ultimately, the welfare of our members depends upon working with management in a spirit of cooperation

and mutual respect. When all three elements come together, as they have in this case, success is virtually inevitable.

Thank you very much.

[The prepared statement of Mr. Sartori follows:]

PREPARED STATEMENT OF JOHN SARTORI, SUBDISTRICT DIRECTOR, UNITED STEELWORKERS OF AMERICA, WALLINGFORD, CONN.

Chairman Williams and Members of the Senate Committee, my name is John Sartori, Sub-District Director in Connecticut of the United Steelworkers of America. We represent the members of Local Union 7770 who are employees of the International Silver Company in Meriden, Conn. I am pleased to be here with you today to relate to you how the joint efforts of the Steelworkers, International Silver and both the Federal and State Governments were able to accomplish something which, in our experience, is very unusual.

The workers of the International Silver Company, a subsidiary of INSILCO Corporation, voted to affiliate with the United Steelworkers of America during 1970. At that time there were approximately 1,750 employees working in the flatware division and another 1,000 working in the holloware division. We almost immediately became aware of the adverse affect that imported products were having on employment in both divisions, particularly in the flatware area. We applied for Trade Readjustment Assistance which was granted on January 27, 1971. Since that time additional certifications have kept the workers eligible for T.R.A. almost continuously.

The first collective bargaining agreement between our Organization and the Company became effective March, 1973. In that Agreement provisions were made for semi-annual meetings to be held between Union and Management in a non-adversary setting in an attempt to resolve matters of mutual concern. Joint productivity Committees were also established with the goal of increasing productivity. Achieving such a goal was recognized by both parties as being essential to combating the ever-increasing intrusion of foreign products into the domestic market. Let me point out that the flatware division, housed in Factory "C" was operating from the largest, most modern facility of its type in the world. None of these efforts had any impact on the ever-increasing inroads on the domestic market that imports were attaining, with the concurrent loss of American workers' jobs.

By the time we entered into contract negotiations with the Company in 1978, the flatware division was virtually at the point of being shut down. Fortunately, we experienced the unusual situation of a corporation where top management, particularly Donald Blatz, President of INSILCO Corporation, felt a responsibility and obligation to the community in general and its workers specifically, who, at the time, had an average employment in excess of 20 years.

Management was committed to keeping Factory "C" a viable business by introducing a new product into the plant which would be compatible with existing equipment. They found that they had the capability of producing and plating tubing for the aerospace industry and also that a market existed within Connecticut for such a product. With the commitment of management and the cooperation of the office of Governor Ella Grasso, contracts for tubing were obtained and the Company instituted a program of retraining its flatware employees. The tubing project currently employs 30 people and it is projected that between 60 and 70 will be employed by the end of 1981.

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The Company expended \$1,000,000 in the institution and implementation of this program and has been reimbursed \$164,832.80. It seems likely that, if additional Federal aid had been available in situations of this nature, that a greater amount of training and the creation of more jobs would have been possible. The other problem

we encountered with the program at International Silver was the adverse impact on the wages of individual workers. Such workers, who choose to enter the program rather than being laid off eventually, took pay cuts of as much as \$3.00 per hour. Let me remind you that these employees are eligible for T.R.A. payments for up to 52 weeks and, in some cases, would have actually received more money if they had been laid off rather than what they received as trainees. Although T.R.A. has been of vast help to the employees of affected industries, it is nothing more than a short term financial easing of the trauma of a lost job. The vast majority of our members want to retain their jobs, with their Company, not receive charity. \$3,260,037.00 has been paid to the employees of International Silver under T.R.A. since 1971. It isn't very difficult to conceive how much more of a long lasting benefit this money could have accomplished if it had been used to preserve such employees jobs, thereby giving them the ability to continue to use and be paid for the skills they had acquired over many years of service to their Company. Our members want the privilege of receiving an honest day's pay for an honest day's work, not the indignity of waiting in an unemployment line for a handout.

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In closing, what was accomplished at International Silver could not have been accomplished without the cooperation of government, a corporation that was committed to preserving and creating jobs and, if I may be allowed to compliment my own organization, a Union that is truly concerned with productivity and the financial viability of the Company where we represent the workers, and a Union that recognizes that ultimately the welfare of our members depends upon working with management in a spirit of cooperation and mutual respect. When all three elements come together, as they have in this case, success is virtually inevitable.

The CHAIRMAN. Thank you very much, Mr. Sartori.

You did not mention the product in that last company that has gone to the shutdown.

Mr. SARTORI. Brass, rolled brass.

The CHAIRMAN. What company and what conglomerate is that?
Mr. SARTORI. National Distilleries, Bridgeport Brass. Bridgeport Brass is owned by National Distilleries.

The CHAIRMAN. How long has Bridgeport Brass been part of the conglomerate of National Distilleries?

Mr. SARTORI. I believe they purchased them in 1968.

The CHAIRMAN. National Distilleries, what other products do they handle?

Mr. SARTORI. Well, they are in the liquor business.

The CHAIRMAN. I do not happen to know what National Distilleries products are, but maybe some of my staff do. Now, yesterday, we had Brown & Williams here, and I knew their products, if you get the point. We had a success story there. And do you know what happened? When you have a good feeling about a company, you try their products. So I got Raleigh Lights which they manufacture, and by gosh, they are good.

All right. We will hold further questions and go to Mr. Newmin.

Mr. NEWMIN. Thank you, Senator.

My name is Jerry Newmin, and I am president of the International Silver Co., which is a wholly owned subsidiary of INSILCO Corp., a Fortune 500 company.

It is a pleasure to be here today to tell how International Silver in a small way has responded to rapidly changing economic conditions and discuss the role that our employees have played in this evolving environment.

First, I would like to give you a brief background on the company and its origins. It is no accident that the community where we are located, Meriden, Conn., is called the Silver City. Our company's roots go back to the 1700's in this community, and we have employees whose ancestors began work with us over a century ago. This is significant, because we have long been the largest employer in the community, and our concern for our people reaches far beyond just providing them with a job.

For more than 100 years, a natural thing for a local young man or woman to do was to aspire to a job at the silver company. And fortunately, we were able to provide jobs for them as the silver company grew and prospered.

The company was the mainstay of the community until our stainless steel flatware business came under severe and devastating attack from low-priced imports of foreign goods during the 1960's and 1970's. Over these two decades, the Government's answer to growing unemployment in our industry was to impose tariff-rate quotas. In fact, tariff-rate quotas were in effect for most of this period. With the benefit of hindsight, however, we were able to see that these solutions were both ineffective as well as costly to the American consumer.

At the same time that consumers were paying tens of millions of dollars to reimburse importers' duty expenses, imports increased to more than 80 percent of total domestic consumption and employment in the industry dropped sharply. Our own flatware employment, for example, dropped from 1,750 people in 1970 to about 250 people today.

By 1976, International Silver had realized that the tariff-rate quotas had been a costly mistake, and the company argued strenu-

ously at the International Trade Commission level for an effective adjustment assistance program. Adjustment assistance programs were promised to the industry in 1976 and again in 1978, and in fact, the 1978 promise was backed with \$500,000 of Federal funding. These dollars have now largely been spent on studies and consultants, and I would be surprised if any jobs in the industry will be created as a result, certainly not in Meriden, Conn.

The result has been that we have had to solve our own declining employment problem with only marginal Government help. Let me explain.

In 1968, when the flatware facility which we call factory C was constructed at a cost of \$18 million, it was the largest, most modern facility of its type in the world, designed specifically for the manufacture of flatware.

Despite these advantages, the company's efforts to compete in the stainless steel flatware business were unsuccessful, and market share declined from over 40 percent to almost zero by the end of the 1970's.

As losses in the flatware operation mounted, the easy decision would have been to close the factory and sell the equipment and the real estate. There were three important reasons, however, why the company chose not to do so.

First, recovery of our investment in machinery and equipment would have been difficult because the processes and operations involved in the making of flatware are peculiar to the product and could not easily be transferred from one industry to another.

Second, the mobility of our employees was severely limited. By the mid-1970's, the average age of the flatware work force passed 50 years, and average length of service exceeded 20 years. Today, as a matter of interest, the average age in our flatware factory is 56, and they have 26 years of service on the average.

In addition, like the equipment itself, the work force possessed unique skills indigenous to the flatware business. For these reasons, the employees were "locked" to our industry, our company, and the community, and they looked to the company and the union for help.

And third, for each worker employed in our facilities today, we support two retired employees and their families who reside in the community. The company's moral commitment to this group was paramount.

Despite declining sales, we continued to manufacture stainless steel flatware in this facility until 1979. By that time, it was clear that the domestic stainless steel flatware business was doomed and that the company could no longer survive the tremendous financial drain it was incurring.

During 1979, the decision was made to discontinue the remaining domestic production of stainless steel flatware. A three-phase program was outlined which provided for the foreign production of all stainless steel flatware, the consolidation of the remaining silver-plated flatware business into approximately one-third of this facility, and the redirection of the other two-thirds of the facility to new businesses.

To be successful, this diversification program would require a smooth transition of our flatware work force to newly created jobs and the development of entirely new technologies.

In seeking new business opportunities, management outlined the following set of criteria to guide its diversification efforts.

First, due to the relatively high fixed cost of this facility, we would look for businesses which had low selling, distribution and administrative costs so that we could compete on a total cost basis.

Second, because the flatware business is seasonal in nature and is hit hard during recessionary periods, we would seek products which were anticyclical and recession insulated.

Third, since stainless steel flatware had become a commodity business with little value added in the manufacturing process, we would seek products with high technology and high value-added components.

Fourth, since our employees possessed unique skills such as hand-buffing, plating and metal-forming, we would attempt to utilize these skills wherever possible.

And fifth, rather than competing in shrinking markets such as flatware, we would seek expanding markets where competition would be less keen and a new venture would have a greater probability of success.

After extensive market research and a careful analysis of our existing skills, we concluded that the aerospace industry and the U.S. automotive retooling markets provided excellent opportunities for us.

The first market identified was fuel and lubricant transfer lines for turbine aircraft engines. These products are made primarily of stainless steel and required plating which would enable us to use some of the skills of our flatware employees. Further, we would be answering the need of a nearby Connecticut aerospace company, the Pratt & Whitney division of United Technologies, who was seeking new subcontractors.

The company proposed to Pratt & Whitney that we would equip and staff a facility capable of complete fabrication of tubing from raw tube stock to finished pieces on a competitive basis. Pratt & Whitney management was receptive to our proposal and we became a qualified vendor to them by September of 1979.

Today, International Silver is an established supplier of tubing to Pratt & Whitney for the TF-30 U.S. Phantom Navy carrier jet and the JT9D engine, which powers the Boeing 747. During 1980, we have received an "excellent" rating on quality from Pratt & Whitney for our performance. This is the highest quality rating a vendor can receive.

In the near future, the company will be supplying tubing to other aerospace companies, including Sikorsky Aircraft, for its helicopter engines.

The training program for this new department was entirely on-the-job and was developed by us with the assistance of Pratt & Whitney and financed by the company with no outside help.

In training our tubing employees in new skills, we were successful in 80 percent of the individual cases with a 20-percent dropout rate. All of these employees are former flatware workers who would have been laid off were it not for this program. It should be

kept in mind that the average age of employees who went through this 1-year training program was 53 and that they had never made tubing assemblies previously.

In addition, the company invested in automated equipment to shorten the learning period for employees as well as to reduce costs. This program currently employs 30 direct labor employees plus related support personnel. We are optimistic that this department will employ at least 60 workers by the end of next year.

As the tubing program progressed, an opportunity to enter into the related precision machining components business also developed. A special machining area to support the tubing operation was established which generated additional employment for 20 direct labor personnel, broadened the skills of our employees and added significantly to our new capabilities.

The objective of the precision machining department is the employment of 40 direct labor employees plus the usual peripheral jobs. This department also services the same market as the tubing operation, and the training program was developed and financed by the company.

Lastly, it was determined that the company possessed a reservoir of skilled toolmakers and mechanical maintenance personnel who for years had designed and manufactured tooling and equipment to support the flatware business.

The existence of these basic worker's skills enabled us to enter the business of designing and rebuilding of tooling equipment under contract for other companies.

However, the machinery and equipment we were going to design and build for new markets would require more advanced skills on the part of existing toolmakers as well as the training of additional skilled personnel.

A training program for existing flatware employees was developed which would require 4 years of classroom and shop apprenticeship instruction. This program was endorsed by the United Steelworkers of America, AFL-CIO, whose local 7700 represents our employees in Meriden through subdistrict director John Sartori.

The union assured the company of their complete cooperation and has given their active support to this program. In addition, the union and the company went jointly to the Connecticut State Department of Labor for necessary financial assistance, since this program would represent a substantial investment of time and money.

International Silver applied for and received a grant in the amount of \$164,000 from the U.S. Department of Labor's Trade Adjustment Assistance program which assists workers who lose their jobs because of imports. This grant was administered through the Connecticut State Department of Labor and covered instructor costs, partial wage reimbursement, supplies and 75 percent of the used machinery needed to set up the vestibule training.

This training program received the enthusiastic cooperation of the State Administration, including Governor Grasso, who personally came and observed the progress of the program in our plant.

Trainees in the program received \$5.87 per hour during training of which the State grant reimbursed \$2.50. International Silver

covered the balance, as well as fringe benefits, and will pay full wages for the remaining 3 years of the apprenticeship program.

The training equipment has now been returned to the State, and the classroom work has been completed. Remaining training will be done on the shop floor, supplemented by additional classroom work at a local technical school. At the end of the first year, all 31 trainees were contributing to production.

In addition, necessary support personnel such as assemblers, hydraulic technicians and electricians have been trained in a separate on-the-job program funded by the company.

In total, this program has created 80 new direct labor jobs to date plus support positions.

A good example of an employee who has completed the initial phase of the apprenticeship program is Bernie Cerretta. Bernie's father, mother, and three brothers have been International Silver Co. employees, and he has been with us since 1942. He has 38 years of service with the company and has not been to school for 40 years. The toughest part for him was tackling geometry and trigonometry. But Bernie has made a successful transition from a flatware worker to an apprentice toolmaker, and he is looking forward to becoming a journeyman toolmaker at the conclusion of the program.

In summary, International Silver Co. has invested \$3.7 million to date in this diversification program. Of this amount, \$2.7 million was for new capital assets, and approximately \$1 million was devoted to retraining its former flatware employees.

Considering the \$164,000 reimbursement from the State, the \$1 million remaining expense, which is a direct charge to profits, was as large a cost as the company could underwrite and still achieve its profit objectives.

Additional financial assistance such as low-interest loans or larger retraining grants would have permitted us to retrain more employees. Nonetheless, this has been a successful program for the company and its work force.

On January 1, 1970, the company employed 1,750 people in its flatware operation. Today, 250 workers are employed in flatware, and 140 are employed in the new ventures just described. The balance, 700, have retired, of which 400 voluntarily retired on an early basis at company expense, and 660 have been displaced.

The number of people displaced during the seventies is certainly disturbing. But today, in 1980, our recall list has been exhausted, and the International Silver Co. hiring office is open for the first time in 20 years. Further, the 140 new direct labor jobs are supported by 46 new salaried positions. These numbers will grow in the future as these new ventures prosper.

The success of this diversification effort can, however, be measured in more than numbers. We are no longer reeling from the impact of imports. We have saved Factory C which in all probability would have been closed without this program. The morale of our people has been substantially restored. We are upgrading the skills and earning power of our employees and their productivity is increasing. We are saving the jobs and the personal dignity of our older employees.

And finally, our efforts have been rewarded with improved earnings, and our confidence in the future has been restored.

I thank you for asking me to appear before you today.

[The prepared statement of Mr. Newmin follows:]

PREPARED TESTIMONY OF
W. GERALD NEWMIN, PRESIDENT
INTERNATIONAL SILVER COMPANY
MERIDEN, CONNECTICUT

BEFORE THE
COMMITTEE ON LABOR AND HUMAN RESOURCES
UNITED STATES SENATE

THURSDAY, SEPTEMBER 18, 1980

SEPTEMBER 15, 1980

My name is W. Gerald Newmin. I am President of the International Silver Company, a subsidiary of INSILCO CORPORATION, a Fortune 500 Company.

It is a pleasure to be here today to discuss how International Silver has responded to rapidly changing economic conditions and the role our employees have played in this evolving environment.

HISTORICAL BACKGROUND

I would like to first give you some brief background information about our company and its origins. It is no accident that the community where we are located -- Meriden, Connecticut -- is called the "Silver City". Our company's roots go back to the 1700's in this community, and we have employees whose ancestors began work in our plants over a century ago. This is significant because we have long been the largest employer in the community and our concern for the people reaches far beyond just providing them with a job.

For more than 100 years, a natural thing for a local young man or woman to do was to aspire to a job at "the Silver Company". And fortunately, we were able to provide jobs ^{for them} ~~for them~~ as International grew and prospered.

The Company was the mainstay of the community until our stainless steel flatware business came under severe and devastating attack from low-priced imports of foreign goods during the 1960's and 1970's.

Over these two decades, the Federal government's answer to growing unemployment in our industry was to impose tariff-rate quotas. In fact, tariff-rate quotas were in effect for most of this period. With the benefit of hindsight, however, we are able to say that these solutions were both ineffective as well as costly to the American consumer.

At the same time that consumers were paying tens of millions of dollars to reimburse importer's duty expenses, imports increased to more than 80% of total domestic consumption and employment in the industry dropped sharply. Our own flatware employment for example dropped from 1,750 people in 1970 to about 250 people today.

By 1976, International Silver had realized that the tariff-rate quotas had been a costly mistake, and the company argued strenuously at the International Trade Commission level for an effective Adjustment Assistance program. Adjustment Assistance programs were promised to the industry in 1976 and again in 1978 and, in fact, the 1978 promise was backed with \$500,000 of Federal funding. These dollars have now largely been spent on studies and consultants and I would be surprised if any jobs will be created as a result. Certainly not in Meriden, Connecticut.

The result has been that we have had to do the job ourselves with only marginal government help. Let me explain.

In 1968, when the flatware facility which we call Factory C was constructed at a cost of \$18 million, it was the largest and most modern facility of its type in the world designed specifically for the manufacture of flatware.

Despite the advantages of this modern plant, the company's efforts to compete in the stainless steel flatware business were unsuccessful, and market share declined from over 40% to almost zero by the end of the 1970's.

As losses in the flatware operation mounted, the easy decision would have been to close the factory and sell the equipment and real estate. There were three important reasons, however, why the company chose not to do so.

First, recovery of our investment in machinery and equipment would have been difficult because processes and operations involved in the making of flatware are peculiar to the product and could not easily be transferred from one industry to another.

Secondly, the mobility of our employees was severely limited. By the mid-1970's, the average age of the flatware work force passed 50 years and average length of service exceeded 20 years. In addition, like the equipment itself, the work force possessed unique skills indigenous to the flatware business. For these reasons, employees were "locked" to our industry, our company, and the community, and they looked to International Silver and their union for help.

And thirdly, for each worker employed in our facilities, we support two retired employees and their families who reside in the community. The company's moral commitment to this group was paramount.

Despite declining sales, we continued to manufacture stainless steel flatware in this facility until 1979. By that time it was clear that the domestic stainless steel flatware business was doomed and that the company could no longer survive the tremendous financial drain it was incurring.

During 1979, the decision was made to discontinue the remaining domestic production of stainless steel flatware. A three-phase program was outlined which provided for the foreign production of stainless flatware, the consolidation of the remaining silverplated flatware business into approximately one-third of the facility, and the redirection of the other two-thirds of the facility into new businesses. To be successful, this diversification program would require a smooth transition of our flatware work force to newly created jobs and the development of entirely new technologies.

NEW BUSINESS DEVELOPMENT

In seeking new business opportunities, management outlined the following set of criteria to guide its diversification efforts:

1. Due to the relatively high fixed facility cost of Factory C, we would look for businesses which had low selling, distribution and administrative costs so that we could compete on a total cost basis.
2. Because the flatware business is seasonal in nature and is hit hard during recessionary periods, we would seek products which were anticyclical and recession-insulated.

3. Since stainless flatware had become a commodity business with little value added in the manufacturing process, we would seek products with high technology and high value added components.
4. Since our employees possessed unique skills such as hand buffing, plating and metal forming we would attempt to utilize these skills wherever possible.
5. Rather than competing in shrinking markets such as flatware, we would seek expanding markets where competition would be less keen and a new venture would have a greater probability of success.

After extensive market research and a careful analysis of our existing skills, we concluded that the aerospace industry and the U. S. automotive retooling markets provided excellent opportunities for us.

AIRCRAFT TUBING

The first market identified was fuel and lubricant transfer lines for turbine aircraft engines. These products are made primarily of stainless steel and required plating which would enable us to use some of the skills of our flatware employees. Further, we would be answering the need of a nearby Connecticut aerospace company, the Pratt & Whitney division of United Technologies who was seeking new sub-contractors.

The company proposed to Pratt & Whitney that it would equip and staff a facility capable of complete fabrication of tubing from raw tube stock to finished pieces on a competitive basis. Pratt & Whitney management was receptive to our proposal and we became a qualified vendor by September, 1979.

Today International Silver is an established supplier of tubing to Pratt & Whitney for the TF 30 U. S. Navy Phantom carrier jet and the JT9D engine, which powers the Boeing 747. During 1980 we have received an "excellent" rating on quality from Pratt & Whitney for our performance. In the near future, the company will be supplying tubing to other aerospace companies, including Sikorsky Aircraft for its helicopter engines.

The training program for this new department was entirely on-the-job and was developed by us with the valuable assistance of Pratt & Whitney and financed by the company with no outside help.

In training our tubing employees in new skills, we were successful in 80% of the individual cases with a 20% drop out rate. All of these employees are former flatware workers who would have been laid off were it not for this program. It should be kept in mind that the average age of employees who went through this one-year training program was 53, and that they had never made tubing assemblies previously.

In addition, the company invested in automated equipment to shorten the learning period for employees as well as to reduce costs. This program currently employs 30 direct labor employees plus related support personnel. We are optimistic that this department will employ at least 60 workers by the end of next year.

PRECISION MACHINING

As the tubing program progressed, an opportunity for entry into the precision machining components business also developed. A special machining area to support the tubing operation was established which generated additional employment for 20 direct labor personnel, broadened the skills of our employees, and added significantly to our new capabilities.

The objective in the precision machining department is the employment of 40 direct labor employees plus the usual peripheral jobs which this will create. This department services the same market as the tubing operation and was developed and financed by the company.

MACHINE DESIGN AND REBUILD

Lastly, it was determined that the Company possessed a reservoir of skilled toolmakers and mechanical maintenance personnel who for years had designed and manufactured tooling and equipment to support the flatware business.

The existence of these basic flatware worker's skills encouraged us to enter the business of designing and rebuilding tooling and equipment under contract for other companies.

However, the machinery and equipment we were going to design and build for new markets would require more advanced skills on the part of existing toolmakers as well as the training of additional skilled personnel.

A training program for existing flatware employees was developed which would require four years of classroom and shop apprenticeship instruction.

This program was endorsed by the United Steelworkers of America, AFL-CIO, whose Local 7700 represents our employees in Meriden through Sub-District Director John Sartori. The union assured the company of their complete cooperation and has given their active support to this program. In addition, the union and the company went jointly to the Connecticut State Department of Labor for necessary financial assistance since this program would represent a substantial investment of time and money.

International Silver applied for and received a grant in the amount of \$164,000 from the U.S. Department of Labor's Trade Adjustment Assistance program which assists workers who lose jobs because of imports. This grant was administered through the Connecticut State Department of Labor and covered instructor costs, partial wage reimbursement, supplies and 75% of the used machinery needed to set up the vestibule training.

This training program received the enthusiastic cooperation of the State Administration, including Governor Grasso who personally observed the progress of the program in the factory.

Trainees earned \$5.87 per hour during training of which the State grant reimbursed \$2.50 per trainee hour. International Silver covered the balance as well as fringe benefits and will pay full wages for the remaining three years of the apprenticeship program.

The training equipment has now been returned to the State, and the classroom work has been completed. Remaining training will be done on the shop floor supplemented by additional classroom work at a local technical school. At the end of the first year, all 31 trainees are contributing to production.

In addition, necessary support personnel such as assemblers, hydraulic technicians and electricians have been trained in a separate on-the-job program funded by the company.

In total, this program has created 80 new direct labor jobs to date plus support positions.

A good example of an employee who has completed the initial phase of this apprenticeship program is Bernie Cerretta. Bernie's father, mother and three brothers have been International Silver Company employees, and he has been with us since 1942. He has 38 years of service with the company and has not been to school for 40 years. The toughest part for him was tackling geometry and trigonometry. Bernie has made a successful transition from a flatware worker to an apprentice toolmaker and is looking forward to becoming a journeyman toolmaker at the conclusion of the program.

SUMMARY AND CONCLUSIONS

In summary, International Silver has invested \$3.7 million to date in this diversification program. Of this amount, \$2.7 million was for new capital assets and approximately \$1.0 million was devoted to retraining former flatware employees.

Considering the \$164,000 reimbursement from the State of Connecticut, the \$1.0 million retraining expense (which is a direct charge to profits) was as large a cost as the company could underwrite and still achieve its profit objectives.

Additional financial assistance such as low interest loans or larger retraining grants would have permitted us to retrain more employees. None-the-less, this has been a successful program for the company and its work force.

On January 1, 19~~80~~⁷⁰, the company employed 1,750 people in its flatware operation. Today, 250 workers are employed in flatware and 140 are employed in the new ventures described above. Of the balance, 700 have retired, of which 400 voluntarily retired on an early basis at company expense, and 660 have been displaced.

The number of people displaced during the 1970's is certainly disturbing, but today -- in 1980 -- our recall list has been exhausted and the International Silver Company hiring office is open for the first time in 20 years. Further, the 140 new direct labor jobs are supported by 46 new salaried positions. These numbers will grow in the future as the new ventures prosper.

The success of this diversification effort can, however, be measured in more than numbers. We are no longer reeling from the impact of imports. We have saved Factory C which in all probability would have been closed without this program. The morale of our people has been substantially

restored. We are upgrading the skills and earning power of our employees and their productivity is increasing. We are saving the jobs -- and the personal dignity -- of our older employees. And finally, our efforts have been rewarded with improved earnings and our confidence in the future has been restored.

Thank you for asking me to appear before you today.

The CHAIRMAN. An excellent statement. They were both excellent and very helpful. Let us take a bit of time here to get some more benefit from your knowledge and background of experience.

Let me ask you about your physical plant. Factory C was saved, you say. As someone not completely familiar with the community, I would just guess that it is an old building.

Mr. NEWMIN. No; it is a new building, constructed in 1968, with 325,000 square feet.

The CHAIRMAN. Are your operations basically in new buildings?

Mr. NEWMIN. Yes.

The CHAIRMAN. Is that a pattern that has developed in the older, industrialized areas of our country? We get the feeling that in cities, particularly, the old loft buildings are one of our problems.

Mr. NEWMIN. No; the company has for many years continued to consolidate out of antiquated facilities into modern facilities, so that I think by 1968, that represented the last consolidation out of obsolete facilities into modern plants.

The CHAIRMAN. And that was in 1968, but that was the beginning of problems, however, with your lead product line; is that right?

Mr. NEWMIN. That is absolutely right.

The CHAIRMAN. Certainly, you have described a very harmonious relationship between company and union; I gather that is the situation.

Mr. NEWMIN. I think that is true.

The CHAIRMAN. When did the Steelworkers come to International Silver, Mr. Sartori?

Mr. SARTORI. The first labor agreement was in 1973.

The CHAIRMAN. What was your union situation before that, Mr. Newmin?

Mr. NEWMIN. None.

The CHAIRMAN. So you opened your doors and welcomed the Steelworkers?

Mr. SARTORI. Not really.

The CHAIRMAN. Certainly, you have described, Mr. Newmin, the cooperation that you have enjoyed with the Steelworkers' union in developing the retraining program for your new machine design and rebuild venture.

I wonder if you could tell us what other ways that the union might have participated in this very, very enlightened, as described, clearly successful, operation of diversification. How did you weave the union into these decisions?

Mr. NEWMIN. I think that obviously, the union had been concerned for 10 years because of constantly declining employment; on almost a month-to-month basis, employment declined since the day the factory opened. And there was an enormous concern on the part of the union of the ultimate destiny of that facility.

The company continued to operate, as I explained, probably long beyond what normal, prudent business judgment would have dictated, for various reasons. We did get to a point, however, where we made a decision that we had to bite the bullet, and at that point, we sat down with the State government, the local government, the union, and explained our problem and laid out a program that we thought would avoid the layoff of a number of jobs.

The most difficult part of what we have accomplished has been that almost exactly to the day when a flatware worker's job was eliminated, we had created within a matter of hours another job that he could be moved into, so there was no layoff or break in employment during this whole transition process. I think that has gone a long way to help this thing succeed.

The CHAIRMAN. Was this cooperative approach worked into the bargaining agreement? Did that agreement in any way describe the company's responsibility to notify inform, or consult with the union regarding any of the changes?

Mr. NEWMIN. We have had to make minor amendments to the bargaining agreement to be able to cope with some situations that have arisen as a result of what we have done, and the union has been very receptive to those minor amendments.

Mr. SARTORI. Senator, we applied for TRA, which is helpful and so forth, but the 2 years go by, and you have workers go back for a short period of time, and then they go on layoff again, and it is very helpful—we found that the training program that is in the TRA, since 1971, I cannot give you the number of members who have collected TRA, but there were only two who took advantage of the training program outside of the company. And I think the question that we found—and I think only one is working at what he was trained for—what do you train for on the outside? Is there going to be a job for you there? And this is one of the areas, through our semiannual meetings, and naturally, the company was concerned here, because I think Jerry will admit that in 1978, the plant did not know whether it was going to close or not. We figured that we had to get into a new product and do the training in-house, and that is when you start training the people, and there is work there. But the training under the TRA program, in our experience, has not worked.

The CHAIRMAN. Now, you referred to, I think, \$500,000 TRA training money?

Mr. NEWMIN. That was the last grant in 1978, at the time that the quotas were eliminated.

The CHAIRMAN. And that was an ineffective expenditure, as I recall your statement?

Mr. NEWMIN. Yes; from the silver company's point of view, we have not seen any result of those funds. We provided information, but I do not really think we will get any benefit from it.

The CHAIRMAN. What activity was done under that grant of money?

Mr. NEWMIN. I believe that was funded through the University of Kansas, who studied all companies in the industry in terms of their processes, operations and problems, and attempted to feed back to the industry solutions that they thought were appropriate in terms of modification of manufacturing process and whatever. There now is an ongoing study relative to the marketing aspects of the product. I think, however, that the nature of the problem is such that no amount of research or study is going to solve the problem, because basically, we can buy today our stainless steel flatware products out of the Orient for what we pay for just the metal content locally. So there is no way that we could ever compete in that business the way the economics are structured today.

The CHAIRMAN. This study was broader than the Connecticut situation, is that right?

Mr. NEWMIN. Yes; it was industrywide.

The CHAIRMAN. Your company is clearly directed and managed locally—are you personally located there?

Mr. NEWMIN. Yes.

The CHAIRMAN. That presents, I would think, a situation of greater opportunity to deal with this localized problem that is within your industry. If the decision is made from New York, at the top of the pyramid of a conglomerate, it is a little different, isn't it, than being right there with the people that you are working with. You are there on the scene and very close to the human factor, as well as the production.

Mr. NEWMIN. I think that is a key to the success. A year ago in June, I moved myself and my executive staff into the factory, and we have been resident there since, and I think that helps.

The CHAIRMAN. Into the factory?

Mr. NEWMIN. Yes.

The CHAIRMAN. And you had been separated geographically, what, downtown?

Mr. NEWMIN. Five miles into a different factory, yes.

The CHAIRMAN. Very interesting.

Now, perhaps you mentioned, but I might have missed it, what kinds of additional assistance could you have used, would you have wanted, during this period of transition to other lines of diversification?

Mr. NEWMIN. I think in our case, the State grant, which reimbursed us \$2.50 an hour, just about covers the hourly cost of our prior service benefits under our pension plan. And our average wage rate in the plant is \$6.50, and on top of that, we have about \$3.50 worth of benefits. So \$2.50 an hour is virtually a very small part of our out-of-pocket cost for each worker. Anything that could have been greater than that in the way of reimbursement would have encouraged us to do more.

We are not particularly interested in the State or the Federal Government providing us instructors. We think we are prepared to do that ourselves. We are not interested in free equipment. We are prepared to buy our own equipment. But anything in the way of additional reimbursement, low-interest loans, or things of that financial nature, would have probably encouraged us to do more than we did do. And again, because we are a public company, we do have to maintain some kind of minimum profit expectation, and that governs to a large extent what we can afford to do. And anything that would alleviate some of that bite in our earnings would encourage us to do more.

The CHAIRMAN. You have two retirees for each employed worker?

Mr. NEWMIN. Yes, that is correct.

The CHAIRMAN. That is a burden, I would think.

Mr. NEWMIN. That is true.

The CHAIRMAN. This, of course—you were not under a national pension demand for funding over the years of most of the employment of those who are now retired. Do you find now our system of pension funding is a burden that is wise?

Mr. NEWMIN. I do not know how to answer that. We spend over \$2 million a year funding our pension obligations. And a key part, I think, of our success, at least in the way we treated our workers, has been that we have encouraged people to retire early—not that that is a solution, but the average retirement date of our workers in the factory is now 62. So about half of the 1,500 people who have left since 1970 have opted for retirement, a lot of them early retirement, and we do provide economic incentives for people to retire early.

The CHAIRMAN. In the collective bargaining agreement, is there a provision for prenotification of a shutdown?

Mr. SARTORI. In the agreement, no.

The CHAIRMAN. I think that does it. We are very, very appreciative of your coming here to give us this background. A good story, a good way to end today's hearings, and very upbeat.

[Additional material supplied for the record follows:]

INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

MACHINISTS BUILDING, 1300 CONNECTICUT AVENUE, WASHINGTON, D. C. 20036
Area Code 202—857-5200



October 22, 1980

The Honorable Harrison A. Williams, Jr.
Chairman
Senate Committee on Labor and
Human Resources
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On September 17, Mr. Carroll H. Teague, Vice President, Personnel and Labor Relations, of the Brown and Williamson Tobacco Corporation, testified before your full committee on the subject of plant closing legislation.

Mr. Teague's testimony was self-serving, less than accurate in several instances, and certainly misleading with respect to what actually happened during events leading up to the phase-out and shutdown of the Brown and Williamson plant in Louisville, Kentucky.

Frankly, we were shocked to read Mr. Teague's glib testimony. We were dismayed that apparently no member of your Committee pressed Mr. Teague with hard questions to test veracity of his claims.

Nor were any affected workers or trade union representatives impacted by the closure asked to testify or to corroborate Mr. Teague's testimony.

For these reasons, we asked the IAM Grand Lodge Representative, who was assigned to the Brown and Williamson shutdown negotiations, to review Mr. Teague's testimony and report back to our Grand Lodge headquarters. Attached is a copy of Grand Lodge Representative Robert Brown's report on what actually took place, as Brown and Williamson began transferring operations from Louisville to Macon, Georgia.

You will note in reading GLR Brown's report that it contradicts Mr. Teague's testimony in several major and significant instances.

PRIORITY **I** ORGANIZE

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For example, on page 5 of his testimony, Mr. Teague states that the collective bargaining contract called for 18 months advance notice of any shutdown or phase-out. He then stated, "For our Company, advance notification, although proposed by the unions, was not resisted. To the contrary, we felt it both proper and beneficial to all concerned."

The clear inference is that Brown and Williamson willingly complied with the 18-month advance notification requirement.

The company did not comply with that provision.

To the contrary, the company not only violated the advance notification agreement, it spent that time persistently denying that the closing or phase-out of Louisville operations were imminent. GLR Brown's report, page 2, states factually that during 1977 contract negotiations, IAM negotiators, in response to widespread rumors and fears, questioned company officials "in-depth" about an impending shutdown. The company response was it had "...absolutely no intentions and/or plans to close down or reduce operations at either the Louisville, Kentucky, Petersburg, Virginia, or Winston-Salem, North Carolina Plants, and that the Macon, Georgia plant was only built to take care of anticipated present and future manufacturing needs..."

That response certainly cannot be construed as advance notification.

During 1978, rumors continued to persist that Louisville and Petersburg operations were going to be moved, shutdown, or cutback. Local union officials, including GLR Brown, again pressed the Company for an answer in October of that year. Again, the company said there were absolutely no plans to close any of their manufacturing facilities.

In November, 1978, the President of the Company issued a statement to the Louisville press (copy attached) reassuring all concerned that there were no plans to close the plant.

Less than two months later, the other shoe dropped. Without advance notice, the company announced, on January 18, 1979, it was closing the Louisville plant and reducing Petersburg employment by 30 percent. (Press release attached).

Contrary to Mr. Teague's testimony on page 8, to your Committee, Mr. Chairman, prior to the January 18, 1979 announcement, not one IAM representative or Local Lodge official or committee member had any discussions or input into the company's decision.

Further, directly contrary to Mr. Teague's testimony on page 9 of his prepared statement, the IAM did, in fact, challenge and opposed the company's decision.

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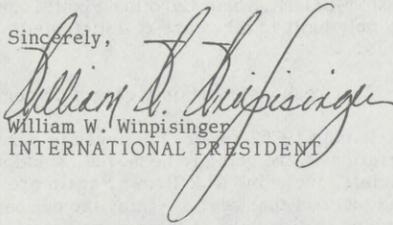
What is more, contract negotiations for a plant closing settlement began in February, 1979, at the insistence of the unions. Mr. Teague would have you believe that negotiations did not begin until April and were quickly and amicably settled, with the company beneficently granting economic, transfer and retraining rights. Brown and Williamson gave nothing easily or freely and the cushions that were negotiated were produced by five months hard bargaining.

Mr. Chairman, the IAM submits that Mr. Teague's testimony in behalf of his company before your committee, can be defined as only slightly less than perjurious, if not perjury outright.

We ask, Mr. Chairman, that copies of this letter, GLR Brown's report, and the Settlement Agreement be included in the record of the proceedings of your September 17 hearings, so as to correct the inaccuracies and misleading statements made by Mr. Teague.

Please feel free to call on this office if you desire further information or have questions.

Sincerely,


William W. Winpisinger
INTERNATIONAL PRESIDENT

Attachments

cc: GVP Pryor
GLR Brown
Labor and Human Resources
Committee Members

Report by Grand Lodge Representative Robert H. Brown

ANSWER TO CARROLL TEAGUE, VICE PRESIDENT, BROWN & WILLIAMSON
TESTIMONY BEFORE SENATE PLANT CLOSURE AND HUMAN
RESOURCES COMMITTEE

I was assigned to the Tobacco Industry in 1977 and participated in the negotiations with the Brown and Williamson Tobacco Company and International Association of Machinists and Aerospace Workers, Local Lodges 641 of Winston-Salem, North Carolina, 681 of Louisville, Kentucky, 802 of Petersburg, Virginia and 2590 of Macon, Georgia.

During the year of 1977.

During the 1977 negotiations, Grand Lodge Representative, Desford Smith was the Chief Spokesman for the International Association of Machinists as I was in the process of relieving him of the assignment in the Tobacco Industry. Grand Lodge Representative Desford Smith had also negotiated the 1974 contracts with the Brown & Williamson Tobacco Company.

At the outset of the 1977 contract negotiations, the Brown and Williamson Company informed the International Association of Machinists and Aerospace Workers that there existed an overage of employees represented by the IAM of 44 in the Louisville, Kentucky Plant and 44 in the Petersburg, Virginia Plant, with almost all the overages being employees classified as Maintenance Machinists. Further, at the same time, the Petersburg, Virginia plant had some 25 workers on layoff status who were apprentices represented by Local Lodge 802 of the IAM.

At the time the 1977 negotiations were conducted, the Company employed approximately 475 skilled craftsmen in its Louisville, Kentucky plant, approximately 495 skilled craftsmen in its Petersburg, Virginia plant, approximately 45 skilled craftsmen in its Macon, Georgia plant and approximately 22 skilled craftsmen in its Winston-Salem, North Carolina plant, all of whom were represented by the IAM. One of the main concerns of the IAM negotiators during the 1977 negotiations was to save the 88 jobs which the Company had projections of laying off and did in fact save the 88 jobs by negotiating special provisions for transferring those affected employees to other classifications represented by the IAM and retraining them; i.e. welders, electricians, etc.

During the 1977 negotiations the Union negotiators insisted upon and obtained rights for our members to transfer to the Macon, Georgia plant in the event they were laid off at either the Louisville, Kentucky, the Petersburg, Virginia or the Winston-Salem, North Carolina plant, taking with them their seniority and other benefit rights.

During the 1977 negotiations, while the Company informed the Union that sales had declined somewhat, the Company insisted that in their judgement the decline was hopefully of a temporary nature and they were rather confident they could turn that picture around.

During the 1977 negotiations, upon in-depth questioning by the IAM negotiators, the Brown & Williamson Company insisted that there was

absolutely no intentions and/or plans to close down or reduce operations at either the Louisville, Kentucky, Petersburg, Virginia or Winston-Salem, North Carolina Plants, and that the Macon, Georgia plant was only built to take care of anticipated present and future manufacturing needs of the corporation.

During the year 1978, rumors were prevalent in both Louisville, Kentucky and Petersburg, Virginia that major revisions were going to occur in the manufacturing requirements and operations of the Brown and Williamson Corporation. However, upon in-depth questioning of Corporate officials by the undersigned along with the local committees as late as October 1978 the Corporation again assured us that there were absolutely no plans to close any of their manufacturing facilities, as a matter of fact, the rumors were so strong in Louisville, Kentucky that in November 1978, Mr. C.J. McCarty issued a news release which appeared in the Louisville Newspapers (enclosed news release) reassuring the city of Louisville, Kentucky, its Citizens, the Community and the Brown and Williamson employees, that there were no plans to close the plant.

Then without advanced notice worth mentioning, on January 18, 1979, the Brown and Williamson Company made an announcement and public news release to the effect that they were closing the Louisville, Kentucky plant and reducing employment at the Petersburg, Virginia plant by approximately 30%.

It must be said at this time, that contrary to the Senate testimony of

Mr. Carroll Teague, Vice President of Brown & Williamson, on page 8 of his testimony, that the IAM Representatives nor any of its Local Lodge officials or committee members had theretofore had any input or discussions with the Brown & Williamson Company with regard to plant closure, or plant reductions planning. At this point in time, we had not even been consulted in any way relative to a possible reduction and/or plant closure.

It must also be pointed out at this time, that contrary to the testimony of Mr. Teague on page 9 of his statement, the IAM did in fact challenge and strongly oppose the Company's stated intentions, (not Company proposal) to close the Louisville, Kentucky plant. However, the Corporate officials with whom we were dealing at that time would only respond with a statement to the effect that the decision had already been made and there was no possibility of changing that decision.

In February, 1979, the IAM as well as all other Unions who had contracts with the Brown & Williamson Company did in fact enter negotiations relative to the economic benefits, as well as other issues involved in the plant closure and plant reductions.

After many days and weeks of negotiations the IAM did reach tentative agreement with the Brown and Williamson Company relative to issues involved in the stated Company intentions of Louisville, Kentucky plant closure and Petersburg, Virginia plant reductions of approximately 30% of the work force.

The economic benefits, transfer and retraining rights alluded to by Mr. Teague in his testimony before the Senate Committee; are in fact benefits and rights of employees which were insisted upon and negotiated by the Union and not freely proposed and given by the Company as one might believe to be the case in simply reading Mr. Teague's testimony before the Senate committee.

It is also a fact that the IAM negotiators had many other proposals and suggested benefits and changes which they advanced to the Brown and Williamson Company but were unsuccessful in obtaining on behalf of its members in the effected locations.

The IAM was the last of the Unions involved to reach agreement with the Company on the closure and reduction issues, with our agreements finally being ratified by the respective memberships of the Local Lodges in late May and early June of 1979.

At this time our bargaining membership in Louisville has been reduced from its original numbers of 475 to approximately 216, with final phase-out to take place sometime during the year 1981 or early 1982. Thus far, there has been no reduction at the Petersburg, Virginia plant. The Company informs our Union that the Petersburg, Virginia reduction will probably start in late 1981 or early 1982, following the completion of the Louisville, Kentucky plant closure.

In January, 1979, at the time the Company announced its plans to close the Louisville, Kentucky plant and reduce employment at its Petersburg, Virginia plant, total bargaining unit employment at the Louisville, Kentucky plant was approximately 3000 and total bargaining employment at its Petersburg, Virginia plant was approximately 2700, total bargaining unit employment at its Winston-Salem, North Carolina plant was approximately 80 and finally total bargaining unit employment at its Macon, Georgia plant was approximately 450, thus a total overall bargaining unit employment at these effected plants of approximately 6230.

While as of this time the total bargaining unit employment at the Louisville, Kentucky plant is approximately 1500, Petersburg, Virginia is approximately 2700, Winston-Salem, North Carolina is approximately 82 and Macon, Georgia is approximately 900 for an overall total bargaining unit employment of 5182.

This of course reveals an overall reduction of bargaining employees of approximately 1048 with more to come in the near future.

Construction of the Macon, Georgia Plant was started during the year of 1972. However, there was a halt to the construction for a period of six months in 1974, supposedly to allow the Corporation to further consider the real needs for the Macon, Georgia Plant since sales were then in a declining posture. However, the construction of the Macon, Georgia Plant was again resumed, with the Macon, Georgia Plant starting production in January 1977.

The events which occurred prior to 1977 are not within my first hand knowledge, and therefore it would only be hearsay for me to comment upon such events. However, some of the Union officials who would no doubt be good sources for such information are, Grand Lodge Representative, Desford Smith, Lodge #802 Chairman, Dan LaBlanc, and Lodge #681 Chairman, Pat Maloney.

As the result of persistent rumors in the community, C. I. McCarty has felt it appropriate to comment on the Company's contingency planning with regard to cigarette production. He has granted an interview with The Louisville Times and, in the context of that interview, presented the following statement:

"There are presently rumors circulating to the effect that Brown & Williamson Tobacco Corporation has made a decision to close its Louisville-based manufacturing operations. These rumors are not true; however, as a part of the overall planning process, studies are being conducted to determine the most effective means of balancing our marketing needs with our manufacturing capacity.

"Over the last several years, there has been a slight decline in B&W sales, and, at the same time, technological developments have increased the capabilities of our manufacturing plants. Obviously, the planning of the future of our manufacturing operations depends, in part, on what happens in the marketplace.

"Brown & Williamson has three major cigarette manufacturing plants: one in Louisville, one in Petersburg, Va., and a new one in Macon, Ga. The Macon factory, being new and modern, is a most efficient place to produce high-quality cigarettes, and we plan to continue this operation as our major production facility.

"We have been studying and analyzing a variety of possible alternatives regarding how best to balance capacity with demand. Among these various alternatives, we have looked at a possibility that would include the eventual phasing out of the Louisville manufacturing operation. No conclusions have been reached on this or any of the other alternatives we are considering.

"Planning is a complicated process, requiring us to continually reassess the viability of many different alternatives. If, in this process, we reach conclusions which would affect employment, we will give timely and appropriate notice to all employees and all union representatives. Even if circumstances should dictate the need for eventually phasing out older manufacturing facilities, this course of action would require gradual reductions over a period of time. In any event, our planning has not proceeded that far.

"Brown & Williamson has a long tradition in Kentucky and, whatever the outcome of the contingency planning, it will continue to be a significant employment and economic factor in this community and in the state of Kentucky. Our headquarters operations, including the newly formed and rapidly expanding International Tobacco Division, are located here. In addition, our parent company, Brown & Williamson Industries, Inc., has its operations in the city. These combined corporate offices employ approximately 2,000 people, resulting in a multi-million dollar annual payroll and a substantial contribution to the local economy."

NEWS RELEASE

Louisville, Kentucky, January 18, 1979 -- Brown & Williamson Tobacco Corporation confirmed today its plans to phase out and eventually close its manufacturing facilities in Louisville, Ky., and to reduce production at its factory in Petersburg, Va., by approximately one-third. Concurrent with these plans, the Company intends to continue expanding its modern, new Macon, Ga., factory, which will serve as the major production facility.

In commenting on the announcement, B&W Chairman C. I. McCarty said: "There will be no immediate work force reduction in Louisville or Petersburg. We foresee a gradual phasing out of the Louisville operation over a period of some time."

Mr. McCarty stressed that B&W will continue to be a significant employment and economic factor in Louisville and Kentucky. The Company intends to keep its headquarters operations in the city. This includes its newly formed and rapidly expanding International Tobacco Division. In addition, the headquarters operations of Brown & Williamson Industries, Inc., the parent company for tobacco and diversified interests, plans to stay in Louisville. These combined corporate offices employ approximately 2,000 people, representing a multi-million dollar annual payroll and a substantial contribution to the local economy.

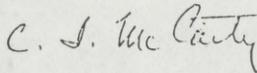
(more)

As you know, the Company has been analyzing various alternatives regarding how best to balance our manufacturing capabilities with developing market requirements. It is now clear to us that the most efficient use of our manufacturing resources indicates the phasing out of some of our facilities.

Consequently, the Company is announcing today that it plans to phase out and eventually close the Louisville plant and reduce production at the Petersburg factory by approximately one-third. Consistent with these plans, we will continue to expand the new Macon plant as our major production facility.

Since we foresee a gradual phasing out of the Louisville operation over a period of some time, there will be no work force reduction in the immediate future. Every attempt will be made to seek equitable arrangements for all affected employees.

We recognize that this announcement will stimulate many serious and legitimate questions from employees and the community at large. However, because of our historical relationship with the bargaining representatives and other factors, all the details regarding these plans must await full discussion with the appropriate unions.



C. I. McCarty

January 18, 1979

SETTLEMENT AGREEMENT

This is a Settlement Agreement effective as of April , 1979, between BROWN & WILLIAMSON TOBACCO CORPORATION ("Company") and the INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS, A.F.L.-C.I.O., and its Local Unions 681 and 802 ("Union") concerning the plans of the Company to restructure its manufacturing operations and the effect of such plans on the employees. This Settlement Agreement has three parts: The first part contains general conditions applicable to this settlement. The second part covers relocated employees. The third part provides for the circumstances under which employees will be terminated.

PART ONE
GENERAL CONDITIONS

1. All parties to this Settlement Agreement have fulfilled their statutory and contractual duties to bargain, and the provisions of this Settlement Agreement are the result of such good-faith bargaining.
2. This Settlement Agreement resolves all issues raised by the plans of the Company to restructure its manufacturing operations and the effect of such plans on the employees. The parties agree that, except upon written approval of the other, they will not attempt either directly or indirectly to negotiate changes in the terms of this Settlement Agreement, and in this regard specifically waive any rights now or in the future to bargain over the plans of the Company to restructure its manufacturing operations or the effect of such plans on the employees.
3. The terms of this Settlement Agreement shall apply only with respect to the plans of the Company to restructure its manufacturing operations, as defined herein, and shall terminate upon the complete effectuation of such plans. Current plans indicate that this will be approximately July, 1983, for the Louisville Branch and July, 1984, for the Petersburg Branch. The Company will notify the Union of any major changes in these forecasts as soon as practicable.
4. The terms of this Settlement Agreement shall not become part of the collective bargaining agreements.
5. If there is an inconsistency between the provisions of this Agreement and the provisions of any of the collective bargaining agreements, the provisions of this Agreement shall prevail.

6. Definition of terms used in this Settlement Agreement:
- a. "Collective bargaining agreements" means (1) the collective bargaining agreement between the Company and the International Association of Machinists and Aerospace Workers, A.F.L.-C.I.O., for itself and in behalf of its affiliated Local Lodge 681, dated September 13, 1977, and (2) the collective bargaining agreement between the Company and the International Association of Machinists and Aerospace Workers, A.F.L.-C.I.O., for itself and in behalf of its affiliated Local Lodge 802, dated August 31, 1977.
 - b. "Employees" means the employees of the Company at its Louisville Branch and its Petersburg Branch who are members of the bargaining units covered by the collective bargaining agreements.
 - c. "Plans of the Company to restructure its manufacturing operations" means the phaseout of the Louisville Branch, the cutback of production at the Petersburg Branch, and the consequent expansion of production at the Macon Branch.
7. The wages and working conditions of employees who remain employed at the Louisville Branch in the residual work force shall be as per the collective bargaining agreement applicable to that unit.

PART TWO
RELOCATED EMPLOYEES

The parties have agreed that employees at the Louisville Branch and the Petersburg Branch will be offered the opportunity to relocate to other Branches under the following terms and conditions.

1. From time to time there will be a number of job openings available for relocation at the Macon Branch in the bargaining unit represented by Local Lodge 2590, I.A.M.&A.W., and at the Winston-Salem Branch in the bargaining unit represented by Local Lodge 641, I.A.M.&A.W., for employees possessing certain skills. Present forecasts indicate that the following numbers of such openings will be available in the following classifications but the actual number may be more or less depending upon many variables such as sales levels, equipment, product mix, etc.:

- 3 -

In Macon

a. Maintenance Mechanic - Electrical	20 to 26
b. Maintenance Mechanic - Instrument	5 to 7
c. Maintenance Mechanic - Machinist	10 to 15
d. Maintenance Mechanic - Pipe Fitter	8 to 12
e. Maintenance Mechanic - Sheet Metal Worker	4 to 7

In Winston-Salem

a. General Machinist	1
b. Maintenance Machinist	1

2. Relocation opportunities shall be offered to employees as follows:
 - a. With respect to Electrical and Instrument openings, relocation opportunities shall be offered on a seniority basis to those employees at the Petersburg Branch possessing those skills.
 - b. With respect to the remaining openings, opportunities for relocation will be offered at times determined by the Company and will be apportioned between the Branches based upon the manpower needs of the Company at each Branch during the phaseout and cutback periods. Thus, opportunities offered during the phaseout of the Louisville Branch but before the start of the cutback at the Petersburg Branch will be offered (on a seniority basis) to employees at the Louisville Branch only. Opportunities offered to employees at one Branch only which are not subscribed to shall not be counted against the total to be offered. Relocation opportunities offered at a time when both Branches are being affected by a reduction in force will be offered on a combined basis to employees at both Branches using joint Company service. Opportunities offered to both Branches which are not subscribed to shall be counted against the total to be offered.
3. Employees subscribing to relocation opportunities will waive their rights to participate in any separation benefits provided for in Part Three of this Settlement Agreement.
4. Employees offered the option of subscribing to a relocation opportunity shall be provided with a copy of the current collective bargaining agreement between the Company and Union representing the bargaining unit in

the new location along with such other information as the Company deems appropriate to enable the employee to make an informed choice.

5. Financial arrangements for the relocation shall be handled as in the past. Procedural details consistent with the provisions of this Part will be as agreed upon by the parties.
6. Accumulated Company service will be used for calculating benefits for relocating employees. For all other purposes, relocating employees will be considered new employees as of the date they report to work at the new Branch.

PART THREE
TERMINATED EMPLOYEES

The parties have agreed that the phaseout of the Louisville Branch and the cutback of the Petersburg Branch shall be accomplished pursuant to a timetable determined solely by the Company based upon several factors including market conditions for the products it manufactures and distributes. As these conditions are in a constant state of change, it is understood that any timetable will be subject to amendments from time to time either increasing or decreasing the speed with which the restructuring of manufacturing operations is effectuated. Notwithstanding anything in the collective bargaining agreements to the contrary, excess employees not relocated in accordance with Part Two of this Settlement Agreement will be terminated at times and in numbers as determined by the Company and will receive applicable benefits as provided for in this Part.

1. Insurance Continuation

Current life and medical insurance will continue after the date of termination of employment for a period of six months or until the employee is covered by insurance plans of his or her new employer, whichever comes first.

2. Special Settlement Option

The Special Settlement Option of the Income Maintenance Plan will be improved to provide for the following payments:

- 5 -

<u>For Employees with Completed Years of Service of</u>	<u>The Normal Weekly Rate of Pay for</u>
6 or less	26 weeks
7, 8, or 9	26 weeks plus one week for every completed year of service over six
10 or more	26 weeks plus one week for every completed year of service

Employees eligible to receive the Special Settlement Option will receive it in a single sum unless prior to the date of the offer the employee irrevocably elects in writing on a form supplied by the Company to receive such amount in equal monthly installments over a period not exceeding 20 months. Employees receiving a lump sum payment shall be paid not later than 60 days after the close of the year in which employment is terminated. The Company may offer Special Settlement Options at times and in numbers deemed appropriate by it and these offers may or may not be linked directly with the announcement of a layoff. The offer of such Special Settlement Options shall be by job classification. Employees desiring to exercise the Special Settlement Option must do so within fifteen (15) days from the date the options are offered by the Company. Employees who are laid off will have the option of taking Supplemental Unemployment Benefit as provided for in the collective bargaining agreement or the improved Special Settlement Option.

3. Deferred Early Retirement Benefit

- A. The Company will provide a Deferred Early Retirement Benefit to terminated employees, not afforded the option of continuing employment with the Company at their present location, who are not yet age fifty-five (55) on the date of termination but who have a combination of actual completed years of service and age at last birthday totalling at least seventy (70).
- B. The Deferred Early Retirement Benefit will be payable beginning at age fifty-five (55) and will be in accordance with the following schedule:

<u>An Employee with the Following Full Years of Service</u>	<u>Will Receive a Monthly Benefit which Together with the Vested Benefit Payable at Age 55 will be Equal To</u>
26 Years or Less	60% of Normal Benefit in Effect on Date of Termination

- 6 -

<u>An Employee with the Following Full Years of Service</u>	<u>Will Receive a Monthly Benefit which Together with the Vested Benefit Payable at Age 55 will be Equal To</u>
27 Years	70% of Normal Benefit in Effect on Date of Termination
28 Years	80% of Normal Benefit in Effect on Date of Termination
29 Years	90% of Normal Benefit in Effect on Date of Termination
30 Years or More	100% of Normal Benefit in Effect on Date of Termination

This Deferred Early Retirement Benefit shall be paid in addition to any applicable Special Settlement Option.

- C. Employees qualifying for the Deferred Early Retirement Benefit shall not qualify for the coverage afforded retirees for life insurance and medical insurance. Employees will have the option of providing a continuing benefit to his/her surviving spouse. This option will be explained to the employee at the appropriate time.

D. Example:

John was 52 years old at his last birthday. He has 28 full years of service with the Company at the Louisville Branch on the date he is terminated. He did not have the option of continuing his employment with the Company in Louisville. While he was offered a right to relocate to Macon, he chose not to accept it, and instead opted to take his Special Settlement Option. John's average yearly wages over the last five years was \$19,000.00. In accordance with the schedule, John would begin receiving his supplementary early retirement benefit at age 55 of an amount that together with the benefit he has vested under the Pension Plan will bring his total retirement benefit to 80% of the normal benefit.

John's normal benefit (assuming he was 65 on the date of termination) would have been \$551.60 per month. Eighty percent of \$551.60 is \$441.28 per month.

The vested benefit payable to John at age 55 would have been \$180.32*. The supplementary early retirement benefit is the difference between \$441.28 and \$180.32 or \$260.96 per month.

*This is merely an estimate figure for illustration purposes. The actual figure is determined by a precise actuarial calculation.

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NOTE: An employee who is not yet 55 on the date of termination is not required to request that his or her vested pension begin at age 55, but the supplemental early retirement benefit will be figured as if the vested pension had begun at 55.

4. Supplemental Early Retirement Benefit

- A. The Company will provide a Supplemental Early Retirement Benefit to terminated employees who are age fifty-five (55) or older on the date of termination and who have a combination of actual completed years of service and age at last birthday totalling at least seventy (70).
- B. The Supplemental Early Retirement Benefit will be payable beginning with the first day of the month following termination and will be in accordance with the schedule set forth in Paragraph 3B above. This Supplemental Early Retirement Benefit shall be paid in addition to any applicable Special Settlement Option.
- C. Employees will have the option of providing a continuing benefit to his/her surviving spouse. This option will be explained to the employee at the appropriate time.

5. Profit Sharing

The Profit Sharing account of each employee terminated under the terms of this Settlement Agreement shall be credited with a share of Company profits for the year in which the employee is terminated, in accordance with the Profit Sharing formula, to the extent of his or her eligible earnings in that year. (Payments under the Income Maintenance Plan are not "eligible earnings".) Such employees may elect to receive profit sharing in annual installments over a period not exceeding 15 years.

6. Training

- A. The Company agrees to assist in the training of employees classified as Maintenance Machinists in accordance with the Maintenance Machinist Training Guidelines attached hereto as an Exhibit. Employees in other job classifications who desire to participate in the training opportunities provided above for the purpose of acquiring marketable skills in their respective areas will be permitted to do so. This assistance shall be provided at no cost to the employees, provided however that the maximum expenditure required to be made by the Company will be \$200,000.00.

EMPLOYEE COUNSELING

Employee counseling will be offered to all employees affected by the plant closure or shift reduction. Such counseling shall provide each such employee with the basic information regarding the schedule of plant closure or shift reduction as is known at the time, the various benefit options available to them, the opportunities for relocation or remaining on the residual work force and the disposition of insurances and other benefits upon separation so that the employees may make informed decisions concerning their future.

In addition opportunities for individual or small group counseling will be offered to discuss matters better handled on an individual basis or in small groups of interested parties. For meetings of this nature employee spouses will be permitted to attend.

Counseling will be handled by teams made up of both hourly and salaried employees and in special cases, such as pre-retirement counseling, qualified members of Corporate staff may be added. External individuals of specific expertise in matters of concern to groups of employees may also be used.

A schedule of counseling sessions will be established to provide for the orderly processing of employees through counseling with the minimum of interference with production.

JOB PLACEMENT ASSISTANCE

The Company will provide Job Placement Assistance to those employees in this bargaining unit affected by the plant closure or shift reduction.

In conjunction with the respective State Employment Services coordinated effort will be made to place employees in available openings listed through this service. For this the Company will provide each employee, who requests, a brief job history resume and letter of separation for each employee to take to prospective employers. For those who need or desire aptitude testing, special guidance on preparing job applications, or coaching on handling a job interview special assistance will be given.

To cover job opportunities not handled through State Employment Services or that exist, or will exist, outside of the respective plant locales, mailings will be made to industries, state wide, to acquaint each of the pool of skills that will be available to them for immediate consideration or to meet future needs. Accompanying the letter will be descriptions of the various classifications and skills in the pool and an approximate number of employees in each. The letter will encourage prospective employers to review their needs and contact the Branch Placement Office for further information. Employers will be invited to utilize Company facilities to review resumes and interview prospective employees.

A follow-up letter will be sent to the prospective employers approximately three to six months later again reminding them of the available skills pool and encouraging them to review this pool in light of both current and future needs, and again extending the invitation to utilize Company facilities to review resumes and conduct interviews.

MEMORANDUM OF UNDERSTANDING

Effective with the date of this Memorandum, Section 6, Article IX of the collective bargaining agreements is hereby deleted.

BROWN & WILLIAMSON TOBACCO CORPORATION

INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

By: _____

By: _____

LOCAL LODGE 681

By: _____

LOCAL LODGE 802

By: _____

LOCAL LODGE 641

By: _____

DATE

MAINTENANCE MACHINIST TRAINING

In recognition of the special circumstances surrounding the job separation of Maintenance Machinists, and the needs of individual employees in other classifications in this bargaining unit, the Company and the Union agree to the following general guidelines in providing appropriate and reasonable training to enhance the future employability of such employees.

1. Assistance in securing the necessary program of study and instruction leading to and achieving the G.E.D. high school equivalency certification.
2. Vocational Education training for those Maintenance Machinists whose interests and aptitudes are outside of the industrial mechanics field.
3. Special training for those whose aptitudes and interests are to expand their skills and experience to a general level required for employment within the industrial mechanical field.

In furtherance of No. 3 above, the parties will seek to determine the kinds of industrial mechanical job opportunities that may be available in the area, the kinds of experience and training generally required for such jobs and the kinds and depth of training that will be necessary to prepare Maintenance Machinists for such jobs.

Having determined what is generally required in the areas of specialized training the parties agree to determine the most suitable manner with which to provide such training taking into consideration constraints of time, scheduling, production demands and facilities for such training.

The parties agree that in order to preserve the continuity of training programs every effort will be made to provide for the continuous joint administration and follow-up of such programs until their eventual conclusions.

Any training offered under this agreement shall be of such reasonable duration as to afford employees a fair opportunity to decide their individual need for training and upon entering to complete such training as is established in their selected course.

The Company agrees to underwrite the expenses for retraining and reemployment purposes to a maximum of \$ 200,000 . This, however, does not foreclose the parties from securing financial assistance from external sources such as CETA and HRDI/AFL-CIO which can be used in addition to the commitment of the Company in order to provide the quality of necessary training. All expenses directly relating to the training programs established under this special agreement such as registration, examination, instruction, supplies and certificates shall be at no cost to the employee.

It is agreed that nothing contained in this agreement shall conflict with any provision of the current collective bargaining agreement between the parties.

EARLY RETIREMENT SUPPLEMENT
 EXAMPLES OF MONTHLY PENSIONS
 (ESTIMATE BASED ON 1979 SOCIAL SECURITY)

II. EMPLOYEES WHO ARE AT LEAST AGE 55 AND WHOSE AGE
 (AT LAST BIRTHDAY) AND SERVICE (IN COMPLETED WHOLE YEARS) TOTAL 70
 AT DATE OF LAYOFF

Completed Years of Service at Layoff			Pension at Retirement-All Sources		Completed Years of Service at Layoff		Pension at Retirement-All Sources				
Age	Service	Yrs.	Pension Plan	Supp.	Total	Age	Service	Yrs.	Pension Plan	Supp.	Total
A. Assume Salary of \$15,000											
Age 55	Service	26 yrs.	\$242.32	-	\$242.32	Age 56	Service	26 yrs.	\$274.56	-	\$274.56
"	"	27 "	251.64	41.85	293.49	"	"	27 "	285.12	8.37	293.49
"	"	28 "	260.96	86.80	347.76	"	"	28 "	295.68	52.08	347.76
"	"	29 "	270.28	135.14	405.42	"	"	29 "	306.24	99.18	405.42
"	"	30 "	465.90	-	465.90	"	"	30 "	465.90	-	465.90
Age 57	Service	26 yrs.	306.80	-	306.80	Age 58	Service	26 yrs.	339.30	-	339.30
"	"	27 "	318.60	-	318.60	"	"	27 "	352.35	-	352.35
"	"	28 "	330.40	17.36	347.76	"	"	28 "	365.40	-	365.40
"	"	29 "	342.20	63.22	405.42	"	"	29 "	378.45	26.97	405.42
"	"	30 "	465.90	-	465.90	"	"	30 "	465.90	-	465.90
B. Assume Salary of \$17,000											
Age 55	Service	26 yrs.	274.82	-	274.82	Age 55	Service	26 yrs.	311.22	-	311.22
"	"	27 "	285.39	47.52	332.91	"	"	27 "	323.19	9.72	332.91
"	"	28 "	295.96	98.56	394.52	"	"	28 "	335.16	59.36	394.52
"	"	29 "	306.53	153.12	459.65	"	"	29 "	347.13	112.52	459.65
"	"	30 "	528.30	-	528.30	"	"	30 "	528.30	-	528.30
Age 57	Service	26 yrs.	347.88	-	347.88	Age 58	Service	26 yrs.	384.54	-	384.54
"	"	27 "	361.26	-	361.26	"	"	27 "	399.33	-	399.33
"	"	28 "	374.64	19.88	394.52	"	"	28 "	414.12	-	414.12
"	"	29 "	388.02	71.63	459.65	"	"	29 "	428.91	30.74	459.65
"	"	30 "	528.30	-	528.30	"	"	30 "	528.30	-	528.30

EARLY RETIREMENT SUPPLEMENT
EXAMPLES OF MONTHLY PENSIONS
(ESTIMATE BASED ON 1979 SOCIAL SECURITY)

II. (Cont'd) EMPLOYEES WHO ARE AT LEAST AGE 55 AND WHOSE AGE
(AT LAST BIRTHDAY) AND SERVICE (IN COMPLETED WHOLE YEARS) TOTAL 70
AT DATE OF LAYOFF

Completed Years of Service at Layoff	Pension at Retirement-All Sources			Completed Years of Service at Layoff	Pension at Retirement-All Sources		
	Pension Plan	Early Ret. Supp.	Total		Pension Plan	Early Ret. Supp.	Total
C. Assume Salary of \$19,000							
Age 55							
Service 26 yrs.	\$307.32	-	\$307.32	Service 26 yrs.	\$348.40	-	\$348.40
" 27 "	319.14	53.19	372.33	" 27 "	361.80	10.53	372.33
" 28 "	330.96	110.32	441.28	" 28 "	375.20	66.08	441.28
" 29 "	342.78	171.39	514.17	" 29 "	388.60	123.57	514.17
" 30 "	591.00	-	591.00	" 30 "	591.00	-	591.00

Age 57							
Service 26 yrs.	389.22	-	389.22	Service 26 yrs.	430.30	-	430.30
" 27 "	404.19	-	404.19	" 27 "	446.85	-	446.85
" 28 "	419.16	22.12	441.28	" 28 "	463.40	-	463.40
" 29 "	434.13	80.04	514.17	" 29 "	479.95	34.22	514.17
" 30 "	591.00	-	591.00	" 30 "	591.00	-	591.00

D. Assume Salary of \$21,000							
Age 55							
Service 26 yrs.	339.82	-	339.82	Service 26 yrs.	385.06	-	385.06
" 27 "	352.89	58.86	411.75	" 27 "	399.87	11.88	411.75
" 28 "	365.96	121.80	487.76	" 28 "	414.68	73.08	487.76
" 29 "	379.03	189.37	568.40	" 29 "	429.49	138.91	568.40
" 30 "	653.40	-	653.40	" 30 "	653.40	-	653.40

Age 57							
Service 26 yrs.	430.30	-	430.30	Service 26 yrs.	475.80	-	475.80
" 27 "	446.85	-	446.85	" 27 "	494.10	-	494.10
" 28 "	463.40	24.36	487.76	" 28 "	512.10	-	512.10
" 29 "	479.95	88.45	568.40	" 29 "	530.70	37.70	568.40
" 30 "	653.40	-	653.40	" 30 "	653.40	-	653.40

DEFERRED EARLY RETIREMENT PROGRAM
EXAMPLES OF MONTHLY PENSIONS
(ESTIMATE BASED ON 1979 SOCIAL SECURITY)

I. EMPLOYEES WHOSE AGE (AT LAST BIRTHDAY) AND SERVICE
(IN COMPLETED WHOLE YEARS) EQUAL 70, BUT ARE UNDER AGE 55
AT DATE OF LAY OFF

Completed Years of Service at Layoff	Pension at 55 From All Sources		Completed Years of Service at Layoff	Pension at 55 From All Sources		Total
	Plan	Early Ret. Priv.		Plan	Early Ret. Priv.	
A. Assume Salary of \$15,000						
Service 16 yrs.	\$ 81.12	\$ 68.00	\$149.12	Service 26 yrs.	\$131.82	\$110.50
" 18 "	91.26	76.50	167.76	" 27 "	136.89	156.60
" 20 "	101.40	85.00	186.40	" 28 "	141.96	205.80
" 22 "	111.54	93.50	205.04	" 29 "	147.03	258.39
" 24 "	121.68	102.00	223.68	" 30 "	152.10	313.80
B. Assume Salary of \$17,000						
Service 16 yrs.	92.00	77.12	169.12	Service 26 yrs.	149.50	125.32
" 18 "	103.50	86.76	190.26	" 27 "	155.25	177.66
" 20 "	115.00	96.40	211.40	" 28 "	161.00	233.52
" 22 "	126.50	106.04	232.54	" 29 "	166.75	292.90
" 24 "	138.00	115.68	253.68	" 30 "	172.50	355.80
C. Assume Salary of \$19,000						
Service 16 yrs.	103.04	86.08	189.12	Service 26 yrs.	167.44	139.88
" 18 "	115.92	96.84	212.76	" 27 "	173.88	198.45
" 20 "	128.80	107.60	236.40	" 28 "	180.32	260.96
" 22 "	141.68	118.36	260.04	" 29 "	186.76	327.41
" 24 "	154.56	129.12	283.68	" 30 "	193.20	397.80
D. Assume Salary of \$21,000						
Service 16 yrs.	113.92	95.20	209.12	Service 26 yrs.	185.12	154.70
" 18 "	128.16	107.10	235.26	" 27 "	192.24	219.51
" 20 "	142.40	119.00	261.40	" 28 "	199.36	288.40
" 22 "	156.64	130.90	287.54	" 29 "	206.48	361.92
" 24 "	170.88	142.80	313.68	" 30 "	213.60	439.80

Note: The employee is not required to request the vested pension start at age 55, but DERP will be figured as if it had started at age 55.

I. A. M.
 TABLE OF APPROXIMATE DOLLAR VALUE OF THE SPECIAL SETTLEMENT OPTION
 AS OF APRIL 15, 1979

Years of Service	D o l l a r V a l u e			Years of Service	Weeks of Pay	D o l l a r V a l u e		
	1st Shift*	2nd Shift*	3rd Shift*			1st Shift*	2nd Shift*	3rd Shift*
1 - 6	10,228	10,520	10,598	28	54	21,243	21,850	22,012
7	10,621	10,925	11,006	29	55	21,636	22,255	22,420
8	11,015	11,330	11,414	30	56	22,029	22,659	22,827
9	11,408	11,734	11,821	31	57	22,423	23,064	23,235
10	14,162	14,567	14,675	32	58	22,816	23,469	23,643
11	14,555	14,971	15,082	33	59	23,209	23,873	24,050
12	14,948	15,376	15,490	34	60	23,603	24,278	24,458
13	15,342	15,781	15,898	35	61	23,996	24,682	24,865
14	15,735	16,185	16,305	36	62	24,390	25,087	25,273
15	16,129	16,590	16,713	37	63	24,783	25,492	25,681
16	16,522	16,994	17,120	38	64	25,176	25,896	26,088
17	16,915	17,399	17,528	39	65	25,570	26,301	26,496
18	17,309	17,804	17,936	40	66	25,963	26,706	26,904
19	17,702	18,208	18,343	41	67	26,356	27,110	27,311
20	18,095	18,613	18,751	42	68	26,750	27,515	27,719
21	18,489	19,018	19,159					
22	18,882	19,422	19,566					
23	19,276	19,827	19,974					
24	19,669	20,231	20,381					
25	20,062	20,636	20,789					
26	20,456	21,041	21,197					
27	20,849	21,445	21,604					

Hourly Rate	Shift Diff.	Card Rate	Hours	Weekly Rate
\$9.71	+.78	\$10.49	37.5	\$393.38
2nd 9.71	+.30	10.79	37.5	404.63
3rd 9.71	+.38	10.87	37.5	407.63

FACT SHEETGROUP LIFE INSURANCE

- Question: When I am laid off, how long does my life insurance remain in effect?
- Answer: Your Group Life Insurance Plan will be extended for six months from the date your employment is terminated, or coverage under another employer's group, whichever is earlier. However, you have a 31 day "grace period" from the date of plan termination to convert to an individual policy with Metropolitan Life Insurance Company. If you should die before the 31 day period expires, the Brown & Williamson group will pay the claim in accordance with your union contract (20,000, 22,000, or 23,000).
- Question: How do I convert to an individual policy?
- Answer: When you terminate, you will receive a Group Life Conversion Notice giving you the details of the conversion. That form can be presented to any Metropolitan Life Insurance Company Agent who will handle the conversion from that point.
- Question: What type of policy can I convert to?
- Answer: You may apply for any type of Plan issued by Metropolitan Life Insurance Company, except Term Insurance.
- Question: How much insurance can I convert to an individual policy?
- Answer: You may convert any amount up to the amount for which you were covered under the Brown & Williamson Group Plan.
- Question: Do I have to take a physical examination before Metropolitan will cover me?
- Answer: No, medical examinations are not required. You are guaranteed the conversion rights.
- Question: What is the cost of an individual policy?
- Answer: Premiums depend on several things, i.e., age and sex of the individual, and the type of Plan the individual wants. Listed below are the monthly rates appropriate to each \$1,000 of insurance:

<u>Type of Plan</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
Whole Life Plan	30	\$1.75	\$1.60
	35	2.07	1.87
	40	2.46	2.21
	45	2.96	2.65
	50	3.61	3.19
	55	4.47	3.92

Question: Is there any way I could apply for Term Insurance rather than a Permanent Whole Life Plan?

Answer : Yes, if you will submit to, and can pass, the medical examination, Metropolitan will issue you a Term Policy.

Question: If I can qualify for Term Insurance, what would it cost?

Answer : As in Whole Life Insurance, premiums are based on age, sex and type of Plan. The following is an example of the monthly cost appropriate to each \$1,000 of Term Insurance:

<u>Type of Plan</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
10 Year Term Policy	30	\$.55	\$.50
	35	.67	.59
	40	.89	.75
	45	\$1.25	\$1.02
	50	\$1.83	\$1.44
	55	\$2.59	\$2.10

Question: Why won't Metropolitan allow me to convert to a Term Insurance Plan?

Answer : All Insurance Companies, not just Metropolitan, feel it is too risky to offer Term Insurance on a conversion basis, because under a conversion Plan the Insurance Company must accept an individual regardless of health.

Question: What is the difference between a Whole Life Insurance and a Term Insurance Plan?

Answer : Under a Whole Life Insurance Plan you continue paying the rate appropriate to your sex, and age, when you first purchased the policy. The policy remains in effect until your death. The Plans do have cash or loan value.

Term Insurance is cheaper, and is issued for a specific period of time, usually 5-10-20 years, and is then renewed. Under this Plan you pay the premium appropriate to your sex and age at the time of each renewal. These type of policies are usually canceled at age 65. At each renewal, you must submit to a medical examination. Term Insurance has no cash or loan value.

Fact Sheet
Health Insurance
Kentucky Blue Cross/Blue Shield

Question: If I am laid off, when does my health insurance coverage terminate?

Answer : Coverage under the Kentucky Blue Cross/Blue Shield Plan terminates at the end of the sixth month following termination, or coverage under another employer's group, whichever is earlier.

Question: Can I purchase an individual health insurance policy?

Answer : Yes, coverage can be continued on an individual basis with Blue Cross, and without waiting periods for pre-existing conditions. You will be billed direct by Blue Cross/Blue Shield after you are terminated from the Brown & Williamson Group Plan.

BENEFIT RANGES

OPTIONS

Kentucky Blue Cross/Blue Shield

	<u>Low</u>	<u>High</u>
Daily Room Allowance	\$40.00	\$60.00
Maximum Benefit Period	70 Days	70 Days
Miscellaneous Hospital Expenses	100%	100%
Surgical Allowance	\$405.00	\$1,600.00
Major Medical Plan	NO	YES

Type of Coverage

Quarterly Premium*

Single Coverage	\$ 65.65	\$106.45
Family Coverage	\$138.25	\$229.30

*(Current rates - subject to change)

Question: What if I am in the hospital when my coverage is cancelled?

Answer : Laid off employees who are in the hospital at the time their group coverage is terminated will continue to be covered by the Blue Cross/Blue Shield Plan, for most expenses, until released from the hospital. For details, refer to "notice" on page 3 of "Status of Group Insurance Benefits".

Question: If an employee or a spouse is pregnant at the time coverage is cancelled, will the Blue Cross/Blue Shield Plan cover the charges when the baby is born?

Answer : No, the employee must convert to a direct pay plan and the claim will be paid in accordance with the provisions of the coverage in effect at the time the child is born.

Question: Can all laid off employees join together and form a group under Blue Cross/Blue Shield in order to get a better premium rate?

Answer : No, there must be an employer, or organization, involved before Blue Cross would write a group plan.

**BROWN & WILLIAMSON TOBACCO CORPORATION**

1600 West Hill Street • P. O. Box 35090 • Louisville, Kentucky 40232

May 2, 1979

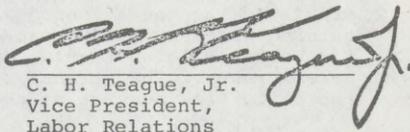
Mr. Robert H. Brown
Grand Lodge Representative
International Association of Machinists
and Aerospace Workers
Ft. Branch, Indiana

Dear Mr. Brown:

In a meeting with the Union on May 2, 1979, to clarify and answer questions on the Settlement Agreement the following clarification was made:

In the event a member of this bargaining unit is laid off during the term of the Settlement Agreement and a relocation offer subsequently is made to members of this bargaining unit, the laid off employee shall have the right only to the first relocation offer to which his Company service would entitle him.

Very truly yours,



C. H. Teague, Jr.
Vice President,
Labor Relations

CHT/jal

**BROWN & WILLIAMSON TOBACCO CORPORATION**

1600 West Hill Street • P. O. Box 35090 • Louisville, Kentucky 40222

May 2, 1979

Mr. Robert H. Brown
Grand Lodge Representative
International Association of Machinists
and Aerospace Workers
Ft. Branch, Indiana

Dear Mr. Brown:

In a meeting with the Union on May 2, 1979, to clarify and answer questions on the Settlement Agreement the following clarifications were made:

1. Paragraph 3 of Part 1 of the Settlement Agreement states that "current plans indicate" that the restructuring of the Company's manufacturing operations will be completed by "approximately July, 1983, for the Louisville Branch and July, 1984, for the Petersburg Branch." The proper interpretation of this language is that the terms of the Settlement Agreement shall terminate no later than those stated dates.
2. Paragraph 6c of Part 1 of the Settlement Agreement defines the "plans of the Company to restructure its manufacturing operations." As the result of the bargaining process, the Company agreed to transfer the Sir Walter Raleigh Regular operation to the Winston-Salem Branch. That transfer should be included in the definition as part of the Company's plan.
3. It is understood that if during the term of the Settlement Agreement the Company increases the total number of jobs in the bargaining unit represented by I.A.M., Local 802, and if those jobs are not filled pursuant to the recall or return provisions of the collective bargaining agreement, the Company will offer relocation rights to such jobs to excess employees in the Louisville Branch represented by I.A.M., Local 681, on the same basis as other relocation rights are offered under the terms of the Settlement Agreement.

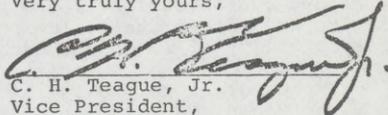
Mr. Robert H. Brown
Page Two
May 2, 1979

4. The specific waiver of bargaining rights included in Paragraph 3 of Part 1 of the Settlement Agreement means that during the term of the Agreement the Union cannot negotiate with respect to the provisions contained in the Agreement including the terms and benefits of the retirement plan, the life insurance plan, and the medical plan. It would not foreclose bargaining over wages, working conditions, or other benefits (such as vacations, and holidays) not included in the terms of the Settlement Agreement.

The reason for this is that the Company offer is based upon the current level of benefits and while it recognizes that there will be a roll up effect as wages are increased, the Company is not prepared to have the settlement benefits as such changed during the term of the Settlement Agreement.

Nothing in the Settlement Agreement precludes the parties from negotiating at proper times the wages, benefits, and working conditions of employees in the residual work force (i.e. those employees remaining in the work force after the completion of the phase out of the Louisville factory and the reduction in force in Petersburg).

Very truly yours,



C. H. Teague, Jr.
Vice President,
Labor Relations



BROWN & WILLIAMSON TOBACCO CORPORATION

1600 West Hill Street • P. O. Box 35090 • Louisville, Kentucky 40232

May 4, 1979

Mr. Robert H. Brown
 Grand Lodge Representative
 International Association of Machinists
 and Aerospace Workers
 708 Kennedy Drive
 Ft. Branch, Indiana 47648

Dear Mr. Brown:

The Settlement Agreement between Brown & Williamson Tobacco Corporation and your bargaining unit does not address the question of what, if any, benefit accrues to an employee who relocates to the Macon, Georgia, or Winston-Salem, North Carolina, plant and fails or is unable to perform successfully through the course of his/her probationary period at the new plant.

After due consideration of the plight of such an employee, the Company offers the following provision to cover such an eventuality if it should occur.

Employees in this bargaining unit who relocate to the Macon, Georgia, or Winston-Salem, North Carolina, factories, under the provisions of this Settlement Agreement and who, because of their inability to meet the performance requirements of the job or training to which assigned during their probationary period are terminated for this specific cause, shall receive seventy-five percent (75%) of the Special Settlement Option they otherwise would have received at their former factory location. Relocated employees terminated for violation of Company rules or regulations, absenteeism or tardiness, or other misconduct during their probationary period shall not receive any portion of the Special Settlement Option.

Very truly yours,

Vice President,
 Labor Relations

C. H. Teague, Jr./jal

**Chamber of Commerce of the United States**HILTON DAVIS, VICE PRESIDENT
LEGISLATIVE AND POLITICAL AFFAIRS

202-659-6140

1615 H STREET, N.W.
WASHINGTON, D.C. 20062

September 30, 1980

The Honorable Harrison A. Williams, Jr.
Chairman
Labor and Human Resources Committee
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On behalf of over 101,000 members of the Chamber of Commerce of the United States, I wish to express opposition to proposals currently before this committee that would penalize businesses which, for economic reasons, are forced to close or relocate operations.

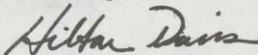
The Committee is to be commended for addressing the issue of the federal government's role, if any, in easing the economic dislocation which results from a plant closing or relocation. This issue is of interest to our members who are concerned with, and affected by, any economic downturn. However, the business community also recognizes that the proposed remedies can be dangerous in the absence of a thorough diagnosis of the illness. Before instituting major modifications in a system which is the foundation of this nation's strength, deep study is required.

The competitive economy of the United States is essential to our political and social freedom and to the continuing improvement of our living standard. The proposals before the committee present a short-sighted approach which focuses on the symptoms, rather than causes, of business closings or relocations. Further, it may be politically expedient to suggest ad hominem short-term solutions to what is at least perceived to be a troubling problem. However, in the long run, legislation which proposes to punish businesses through use of economic disincentives and paralyzing regulations will lead to additional business failures, thereby exacerbating the problems of economic dislocation.

The American public will benefit by a thoughtful and thorough analysis of the causes of business shutdowns and relocations, including factors such as declining productivity, outdated equipment and plants, insufficient investment incentives, shifting markets, and crippling government regulation. I encourage the Committee to focus its attention on identifying these causes as it continues its investigation.

I will appreciate your consideration of our views, and I request that this letter be made a part of the hearings record.

Cordially,



Hilton Davis
Vice President
Legislative and Political Affairs

cc: Members of the Committee
Steve Sacher
John Casciotti



**Associated
Builders and
Contractors, Inc.**

444 N. Capitol Street, N.W.
Suite 409
Washington, D.C. 20001
(202) 637-8800

September 26, 1980

The Honorable Harrison A. Williams, Jr.
Chairman, Senate Committee on Labor and Human Resources
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

The Associated Builders and Contractors, Inc. (ABC), a 16,000 member construction trade association, requests that this letter be included in the record of the hearings held on September 17 and 18, 1980 by the Senate Committee on Labor and Human Resources concerning the Role of the Worker in the Evolving Economy of the Eighties during which witnesses addressed the subject of plant closings.

There is no question but that the closing of a plant causes serious problems for employees, the community and the employer. We do believe there is a proper role for government to play in assisting employees to readjust. Training or retraining are good examples of useful programs. Likewise, community leaders should be provided advice and counsel on how to cope with varying degrees of economic disruption. We also agree that management should provide as much advance notification of a plant shut-down as possible to workers and communities.

However, we strongly believe that government should not establish arbitrary requirements in regard to the closing or relocating of plants. To interfere in a management decision on plant movement is to destroy a basic tenet of the free enterprise system. The forces of the market place often dictate that these decisions must be made in a timely manner. The very survival of a business could depend upon a management decision to relocate. Government should not force businesses to go bankrupt or to lose opportunities for greater success. Embarking on such an ill-advised course as interfering with a basic management decision is to invite the same disastrous results which have beset British industry in recent years.

As President of the Associated Builders and Contractors, I strongly urge the Senate Labor and Human Resources Committee and the Congress to oppose any attempt to legislate restrictions upon management in an area of such profound importance as plant location.

Respectfully yours,

Ted C. Kennedy
Ted C. Kennedy
President

Merit Shop Builds Best

cc: Members, Committee on
Labor and Human Resources

STATEMENT OF
MARC STEPP, VICE PRESIDENT
UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL
IMPLEMENT WORKERS OF AMERICA (UAW)

TO THE UNITED STATES SENATE
COMMITTEE ON LABOR AND HUMAN RESOURCES
HEARINGS ON
"ROLE OF THE WORKER IN THE EVOLVING ECONOMY OF THE 80s"

September 18, 1980

I appreciate the opportunity to present the UAW's views on some of the many pressing issues which the call for these hearings raised.

Many workers today are wondering if they have a role in the "Evolving Economy of the 80s." Auto workers, in particular, are in the midst of the worst economic crisis since the Great Depression. Unemployment rates have reached depression levels in much of the industrial Midwest. In Detroit, the unemployment rate is 18.3 percent. It hasn't been higher since the Great Depression, even at the trough of the last severe auto slump in 1975. The unemployment rate in certain other towns is even higher. In Pontiac, it's 24.3 percent. In Flint, Michigan — home of the famous Sitdown Strikes that gave birth to the UAW — 23 percent are out of work. In Saginaw, the figure is 19.3 percent. The Indiana towns of Anderson and Kokomo have unemployment rates of 22 percent and 20.1 percent, respectively.

During the week of September 15 — nearly a year and a half after the current auto slump began — 230,000 auto workers at General Motors, American Motors, Chrysler and Ford are on indefinite layoff. Thousands have exhausted all benefits, including unemployment compensation, collectively bargained supplemental unemployment benefits, and TRA. Including supplier companies, the DOT has estimated total auto industry job loss at around 700,000. Many supplier workers have long since been forced onto the relief rolls, having never been covered by supplemental unemployment benefit plans. Nor, due to a cruel inequity in TRA, are the supplier industry workers eligible for benefits under that program. Try explaining to a room full

-2-

of angry supplier workers, who produce the same product as their TRA-eligible brothers and sisters at the Big Three, that under present law they cannot qualify for TRA. As Director of the UAW's Independents, Parts and Suppliers Department, it's an inequity I have had to explain far too many times.

In addition to the massive unemployment caused by the auto slump, the impact on city finances and services has been devastating. For details, I refer you to the statement of Detroit Mayor Coleman Young before the House Auto Task Force the week before last. Detroit's fiscal crisis is currently forcing the layoff of some 700 police, at a time when crime in our city, as a direct result of the unemployment crisis, is once again on the rise, after several years of decline. Worse yet, the police layoffs will have a serious effect on an affirmative action program that is essential to preserve the effectiveness of law enforcement and prevent further unraveling of the social fabric. Hundreds of teachers have also been laid off. City services, already pared to the bone, face further cutbacks. A similar situation prevails in all of the other previously-mentioned cities, and many other cities as well.

At the state level in Michigan, finances are so strapped that the governor has made a shocking proposal to slash the welfare rolls — at a time when welfare is the only remaining source of income for thousands of unfortunate workers.

Certainly, this is not the first auto industry downturn, despite its unprecedented length and severity. What's new and especially disturbing about the current crisis is the unprecedented number of plant closings and permanent job cutbacks, in contrast to the cyclical unemployment of past crises. In the last year roughly, the Chrysler Corporation alone has permanently closed its Lyons Trim plant (Lyons, Michigan); the Fostoria Foundry (Fostoria, Ohio); Hamtramck Assembly (Hamtramck, Michigan); Windsor Engine (Windsor, Ontario); Missouri Truck (Fenton, Missouri); and Eight Mile-Outer Drive Stamping (Detroit). The Huber Foundry (also Detroit) is scheduled to permanently close in November. Other Chrysler closings and permanent cutbacks

are widely expected, mostly in Detroit. The cost of these closings in numbers of jobs lost is difficult to measure, but is largely responsible for the decline in Chrysler's city of Detroit employment from 52,000 in August 1977 to 37,000 today — a drop of 15,000 jobs. When you realize that Chrysler's 1977 employment figure accounted for more than one of every four city of Detroit manufacturing jobs, the consequences of that corporation's retrenchment cannot be escaped.

Ford and General Motors have also announced major permanent closings in the last year, with more announcements probably in store. Among the suppliers, including such large and prosperous firms as Dana and Ex-Cell-O, there has been an epidemic of permanent closings and relocations. We are in the midst of a special internal survey to collect data on the gravity of the problem. Among the 40 percent of our units which have responded to the survey so far, 30 units have closed in the last few months alone and an additional 17 are projected to close in the very near future. If this pattern of responses holds up, our Research Department estimates that as many as 125 UAW plants will permanently close this year.

Already as of May, at least 90 supplier plants were known to have closed during the current crisis, including both UAW and non-UAW plants.

What does all this mean? No matter how strong the recovery from the present deep slump, an awful lot of plants won't be recalling any workers. We are extremely fearful that we are witnessing, for the first time in the auto industry's history, massive, structural, permanent dislocation. The long-lasting consequences for countless thousands of workers and hundreds of communities could be horrendous.

Therefore, while we hope and pray for the industry's speedy recovery from the onslaught of Japanese vehicles and the many other problems which beset it, the sad truth is that the industry's recovery is not going to help all of those workers and communities. The very steps which the industry will be taking to re-establish its profitability and international competitive position, will cause further massive permanent

dislocations. For the auto worker, the present is characterized by grim retrenchment; the future, by painful restructuring.

That restructuring will entail massive changes in both product and process, at a capital cost estimated at \$80 billion by the Big Four alone over the next five years. The industry that emerges may be radically different from the industry today. We already know that cars will be far smaller and lighter. This could involve massive changes in sourcing: cars will have a lot less iron and steel, and a lot more aluminum, plastics and electronic components. The dawn of the "world car" may bring an internationalization of production on a hitherto unknown scale, with uncertain but possibly major impact on the job security of American workers. How many more plants will be permanently closed, as car makers substitute plastic for steel, and industrial robots for live labor, in the years ahead? We in the UAW have always welcomed new technology and the higher productivity it brings. But what of the impact on workers? Radically new manufacturing technologies are projected to be introduced into the auto industry at a rapid rate.

A recent survey of auto industry and supplier executives, by the firm of Arthur Andersen, confirms this view. According to that survey, much of the industry's planned capital spending spree will go for new plants. As the survey makes clear, the industry will be looking increasingly outside its traditional geographic home for much of this new plant construction, particularly among suppliers. The increased capacity of plastics, light metal, and electronic automotive suppliers is unlikely to be sited close to existing supplier capacity which is being cut back. The same Arthur Andersen study concludes that foreign sourcing will increase, as will corporate runaways and relocations to avoid unions and to obtain lower wage labor.

In auto assembly, it has been predicted that, with anticipated strides in productivity, annual capacity of a typical new assembly plant will be roughly twice the current level -- 400,000 cars per year, as against 200,000 today. Given probable growth

rates of auto production, it's a safe bet that there will be more assembly plant closings than new openings in the years ahead. Nor is there any guarantee that the new plants will be located near the old.

All of this adds up to some pretty rough sledding for the members of our Union. Little wonder, then, that auto workers are showing increasing signs of frustration and despair.

Little wonder, too, that of all the issues considered by our recent UAW Convention in June, none was of greater concern to the delegates than the issue of plant closings and economic dislocations. It was a highly emotional issue, filled with the realization, among the many delegates whose plants had closed, that this Convention would be their last.

We pledged at that Convention to redouble our efforts on behalf of every aspect of our Union's program which deals with economic dislocation. This is a pledge and a commitment which we will not forget.

Presently in the United States, corporate decisions to close or move a plant are made and carried out in a way that can only be called barbaric. There are exceptions, but in our experience barbarism has been the rule.

And, more often than not, it's barbarism by design. Corporations planning a shutdown or relocation often go out of their way to deceive their workers and the community in which their plant is located. They are experts at sowing deception as to their true intentions. One typical practice is to "milk" a once-viable plant, using profits to finance runaway expansion, acquisitions, or diversification to other product lines at distant locations. Corporations desiring an "orderly" phaseout of production often deny until the last possible minute their intent to close or move, even though plans to close were probably made months or years earlier. At university-sponsored management seminars, corporate shutdown planners are advised to extend the veil of

secrecy even within corporate management so far as possible, except for individuals with a clear "need to know."

When the closure is finally about to occur, the corporation engages in "surface bargaining" with its union, if there is one. The "duty to bargain" in shutdown and relocation situations can usually be discharged with "a handshake and a smile" if the company has a smart lawyer; it's a "duty" which rarely imposes any substantive obligation on the corporation.

The best we can do for our members in such situations is to win a token amount of severance pay and fringe benefit continuation, and often not even that. Transfer rights, unless already provided in the pre-existing collective bargaining agreement, are usually out of the question. In nearly every case, corporations which close or move a plant are extremely reluctant to grant even "preferential hiring rights" to their former employees. Workers from a closed plant can even find themselves blacklisted, unable to obtain work in their local community.

Perhaps most cynical of all are plant closures which result from corporate decisions to "socialize" the costs associated with an aging workforce. Though it's extremely difficult to prove, this reprehensible practice is far from uncommon. This problem is reaching a scale where, it is fair to say, unrestricted corporate freedom to close and move plants threatens to undermine the protection of older workers which the seniority system was intended to provide. We find, for example, that no sooner do we negotiate a new early retirement program, than a company will close a plant shortly before large numbers of workers become eligible to receive benefits thereunder. A pending instance is the plant of A.O. Smith Corporation at Granite City, Illinois where a plant employing over 1,000 UAW members is about to be permanently closed. That same corporation, ironically, has been diversifying into non-automotive products by reconverting a former textile plant to home water heater production. Needless to say, A.O. Smith has no plans to reconvert the Granite City plant.

The pattern we've observed is almost unbelievably shocking: hundreds or even thousands of loyal, long-service workers unceremoniously dumped on short or no notice, after being fed systematic "disinformation," denied transfer rights and even preferential hiring consideration, no opportunities for retraining or assistance in job placement, possibly "blacklisted" by other local employers on account of their age or union activism, and stripped of medical insurance, life insurance and the chance to retire with dignity. The corporation which has profited from its workers' labor down through the years, has virtually no obligations. They reap only the rewards from an astute, albeit cynical, business decision. That decision, in all likelihood, was doubtless made even more lucrative by all manner of tax incentives and other public subsidies.

As somebody once said of Royal Little, the corporate wheeler-dealer who founded Textron by buying old plants cheap, milking them to finance other acquisitions, then closing them down: "I don't know whether Mr. Little has broken any laws. But if not, the laws should be changed."

What kind of social jungle would we be living in today, if we relied on corporate "voluntarism" to prevent child labor; to protect the public against impure food and drugs; to protect investors against stock market fraud; to protect workers' rights to organize; to protect the quality of the environment; and to protect the civil rights of women and minorities? How then can anybody possibly think that corporate "voluntarism" would suffice to protect workers and the public against abuse in plant closing situations? There are, without question, a few "socially responsible" corporations which adhere to decent standards. Control Data Corporation, for example, claims to prepare a "social impact statement" before deciding whether to go through with any proposed merger or acquisition. If the merger would result in a consolidation of operations leading to a plant closing, reportedly that is grounds for CDC's board to reject the proposed merger. In the long run, without legislation which subjects everybody

to the same rules, a "socially responsible" corporation faces an insurmountable disadvantage compared with its more greedy competitors.

Union influence can also lead to adoption of more "enlightened" corporate behavior. At Chrysler, the UAW is represented on the Board of Directors, in the able person of our Union's President Doug Fraser. He was recently able to persuade the corporation to establish a board level committee on plant closings, a new first for a U.S. manufacturing corporation. How many corporations would establish such committees, with substantive authority and union representation, in the absence of mandatory legislation?

We are encouraged that President Carter's recently-announced anti-recession program contains steps which are in the right direction. His proposal to establish an Economic Revitalization Board should give labor a stronger role in future economic decisions. We especially welcome the charge to that board to develop proposals dealing with the impact of industrial dislocations on workers and their communities. We are hopeful that the board will conclude, and recommend to the President, that enactment of comprehensive new economic dislocation legislation is a matter of urgent national priority. The President's program also includes demonstration projects for retraining and job search assistance to permanently laid off workers. The first pilot project has been announced for the Downriver communities near Detroit, which have been severely hurt by the retrenchment of local auto, supplier, and chemical employers. We frankly wish the Administration were ready to propose doing more, but this pilot project is a welcome step, and we will be watching it closely.

We especially welcome the proposal to extend unemployment benefits. In Michigan alone 250,000 workers will exhaust their benefits this year unless something is done. For more details on the UAW's views relative to other aspects of the President's program, as well as pending International Trade Commission proceedings,

and other short-term steps which could be taken to ease the auto crisis, I refer you to the UAW's statement before the House Auto Task Force earlier this week (September 15).

And in addition, as our September 15 statement also indicated, we need comprehensive new economic dislocation legislation. The pioneering bill introduced by Congressman Ford and Senator Riegle has our strong support; it points the way.

Many closings and relocations, however much they may enhance a corporation's bottom line, simply don't make sense when viewed from a wider social perspective. It is the job of government to try to prevent these anti-social closings and relocations. To do that job effectively requires legislation.

Many other closings and relocations are necessary and valid, even from a social point of view. But it is the job of government to make sure that such closings cause the least possible harm to affected workers and communities, whom departing employers must be forced by law to treat fairly and decently. For the thousands of workers and numerous communities that have become victims of the current retrenchment in auto and other industries, it is already too late. This need not be true of the restructuring which lies ahead.

Do we really lack the foresight and vision in this country, to plan for full and productive utilization of our nation's resources? That's tragic, if it's true. And it is by no means inevitable.

What about conversion to alternative production? Many of the auto supplier plants which have been closed are part of large, profitable, diversified corporations which at the time of a closing know full well that they will be opening a new plant in a different product line very soon. Why can't the new non-auto plants be built near the old plant which is to be closed, to provide jobs, with retraining if necessary, to the auto workers who will be displaced? Why can't existing plants be refurbished to produce the new product line?

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Why can't there be a systematic, public process for identifying unmet current and future needs, either of a non-market nature or to which the "market" is responding too slowly? And why can't those "unmet needs" be matched in a systematic way with the workers and the factories which are slated to close? Some experts have proposed that auto workers, plants and equipment could be readily adapted to production of oil and gas drilling and exploration equipment; industrial co-generation equipment; and weather stripping and other insulation products for home and industrial use. That would truly be a humane and rational use of our nation's resources -- to plan a smooth conversion of that part of our industrial economy most hurt by the energy crisis to products that are desperately needed to mitigate that crisis.

We therefore urge that there be significant legislative action, in both Houses of Congress, without backtracking or delay. Auto workers have borne the effects of the present crisis with remarkable patience and restraint. This doesn't mean, however, that they aren't angry, or that they don't recognize the need for, or the importance of, new legislation. What is it that the Congress would have them do, before their anguished voices will be heard?

Thank you.

The CHAIRMAN. Thank you very much.
[Whereupon, at 12:23 p.m., the committee was adjourned.]

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