

**THE AMERICAN APPROACH TO STRUCTURAL CHANGE,
PLANT CLOSINGS AND WORKER DISPLACEMENT**

by

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Abstract

Pervasive economic changes in America during the past decade have generated severe structural adjustment problems for millions of long-service blue-collar workers. Public and private efforts to help these workers are inadequate and tardy in delivery. This paper examines the severity of the displaced worker problem, reviews what the private and public sectors are doing, and concludes that America needs a new displaced worker program. It outlines the basic features of the Secretary of Labor's Task Force proposed national worker readjustment assistance program and events related to incorporating these ideas into legislation being considered by Congress. The paper concludes that if the proposed legislation is adopted and fully implemented, it will fill a major gap in America's employment and training policy and help ameliorate the human problems created by structural change.

Introduction and Overview

During the past decade, the United States has experienced severe economic problems due to a variety of reasons: the overvalued dollar, massive trade imbalances, the severe recession of 1979-82, large federal budget deficits, heightened foreign competition in world markets, and global overcapacity in key industries.

One of the serious consequences of the economic problems convulsing America is the restructuring of major sectors of the economy which causes widespread plant closings and dislocates millions of workers. While major sectors of the economy suffer severe job losses, the economy continues to generate many new jobs--approximately 9.6 million since 1980. This is in sharp contrast to most other industrialized countries which have either been unable to add any new jobs or have experienced actual declines in total employment. (Economic Adjustment, 1986)

The problem in America is that job growth has occurred overwhelmingly in services and not in manufacturing, continuing a forty-year trend. As a result, the share of total jobs in manufacturing has declined from almost one-third of nonagricultural employment in 1950 to less than one-fifth today. In 1950 services accounted for 59.1 percent of nonagricultural employment. In July 1986 services accounted for 75.2 percent. (Economic Adjustment, 1986, p.11)

The U.S. was one of three major industrialized countries (the other two were Canada and Italy) which managed to increase manufacturing employment during the 1970s. Unfortunately, the modest gains were reversed by the severe recession in the early 1980s and intense foreign competition in the traditional capital-intensive industries like steel, autos, and textiles. Consequently, jobs in manufacturing had declined by about 1 million by the

end of 1985 when compared with the 1981 pre-recession peak.

Recent productivity data reinforce the sobering employment picture for manufacturing workers in America. Even though manufacturing productivity has increased in the past three years, suggesting that manufacturing industries are becoming more productive and more competitive, productivity increases are made without hiring additional workers. The manufacturing sector has generated relatively few new jobs since the current business expansion began in late 1982. In the four years from 1982 to 1986 factory jobs increased less than 6 percent while output rose 30 percent. In the twelve-month period between December 1985 and November 1986 factory jobs dwindled 200,000 while manufacturing plants' output continued to expand, but only by 1 percent. (Clark, 1986)

While the U.S. economy was undergoing severe stress and shocks, the political climate was also changing. The 1980 election of Ronald Reagan as U.S. President heralded a more conservative political climate and brought about some major changes. In 1981 the Reagan administration began curtailing federal spending for domestic social programs. Responsibilities for a number of public services were shifted to state and local levels, and government regulation of business and industry was reduced which created a much more competitive environment in the airline, trucking, and telecommunications industries. Finally, there was a concerted effort to shift the delivery of some traditional public services to the private sector.

The Employment Effects of Structural Change in America

Because many different types of changes affecting American workers are taking place simultaneously, it is difficult to determine what the net effects are. It is also difficult to determine the magnitude of the changes

occurring today. Have the pace and pervasiveness of the changes accelerated? Is America's economic ability to compete seriously impeded by its failure to deal with its displaced worker problem? In short, is there a serious worker displacement problem in America? What are the consequences of displacement? Can the problem be resolved satisfactorily by private means or does it require a coordinated effort among business, labor, and government?

The available data suggest that the structural changes occurring in the U.S. economy are negative for a substantial number of mainstream long-service workers and that private responses are inadequate relative to the need. Mainstream workers have stable work histories and a significant attachment to their jobs. Displaced workers include mainstream workers who: (1) had stable employment in jobs with satisfactory pay and every reason to expect continued employment up to retirement; (2) have been laid off with little chance of recall, and (3) are unlikely to find new employment at or near their customary rates of pay using their existing skills. Using these definitions, the impacted group are primarily operatives in capital intensive basic manufacturing industries.

Recent surveys and research have provided a clearer picture of the nature and extent of the displaced worker problem. The Bureau of Labor Statistics defines displaced workers as people who lose their jobs due to plant closings, slack work, or abolished position or job and had held their former positions for at least three years. A survey conducted by the Census Bureau and analyzed by the Bureau of Labor Statistics (Economic Adjustment, 1986; USDOL, Reemployment Increases, 1986) found that:

--During the five years from 1979 to 1984, 11.5 million American workers lost their jobs because of plant shutdowns or relocations,

slack work, or abolished job or shift. Of these 11.5 million, 5.1 million had held their former jobs for three or more years and were counted as displaced by the Bureau of Labor Statistics.

--A second survey covering the five-year period from January 1981 to January 1986 again counted 5.1 million displaced workers who had been at their jobs for at least three years.

--The numbers displaced in any given year ranged from 775,000 in 1981 to 1.3 million in 1985.

--Other definitions produce different totals. Adult workers whose jobs were abolished in the 1981 - 1985 period, regardless of length of service, totaled 10.8 million. Currently unemployed adults whose jobs were permanently abolished and who had been unemployed for more than 52 weeks were estimated at 318,000 in 1986.

--Although manufacturing now accounts for less than 20 percent of U.S. employment, nearly half of all workers displaced from 1979 to 1984 worked in manufacturing industries, especially those hard hit by international competition.

--Occupationally, displaced workers were disproportionately blue-collar workers, both skilled and unskilled, especially operators, fabricators and laborers.

--The displaced population was heavily concentrated in the Midwest and other areas of heavy industry.

--More than one-half of the displaced workers who were reemployed were no longer in the industry or occupational group from which they had been displaced.

--As of January 1986, 67 percent of those displaced during the preceding five-year period were reemployed and two-thirds of them were reemployed within six months after being displaced. However, 18 percent of those displaced were unemployed and 15 percent had left the workforce.

--While 69 percent of the workers had received UI benefits, 48 percent had exhausted them by the end of the survey period and 52 percent of those who were unemployed as of January 1984 had exhausted their benefits.

Millions of new jobs help employ the structurally displaced workers, but how do they compare with the jobs that were lost? What kinds of jobs are being created? What wages do they pay? Most of the new jobs are in the service industries. Growth is considered a positive sign of expanding opportunity if the jobs created are "quality jobs" paying "good" wages. As

in manufacturing, service-producing industries cover a broad spectrum of jobs including fast-food restaurants, health care, personal services, business services, and banking. Some of these jobs are unskilled and low-paying and some are highly skilled and highly paid.

It is difficult to compare the manufacturing jobs lost through structural change with the service jobs being created. Comparing the averages of hourly earnings and weekly earnings suggest different conclusions. In 1985 the average hourly earnings for production and nonsupervisory workers in manufacturing were \$9.53, and the average weekly earnings were \$385.97. During the same period the average hourly earnings for workers in retail trade were \$5.94 and \$7.89 in services. Average weekly earnings were \$174.64 and \$256.43 respectively. Retail trade accounted for 24 percent and services accounted for 30 percent of all jobs in the private service-producing sector. At the high end of the scale, the average wage for the 7 percent of service workers in transportation and public utilities amounted to \$11.40 per hour and \$450.30 per week. (Supplement, 1986)

The first Bureau of Census and Bureau of Labor Statistics survey of dislocated workers covered the period from 1979 to 1984. It found that displaced workers suffered real earnings losses of 10 to 15 percent and that nearly 30 percent of reemployed blue-collar workers and 24 percent of reemployed white-collar workers suffered losses of 25 percent or more. Older and longer-tenured workers and less-educated workers experienced the highest earnings losses. Losses were greatest in areas of high unemployment and small labor markets, and they were particularly high for workers displaced from well-paying unionized industries. Finally, workers who were reemployed in a new occupation or industry, especially blue-collar males,

generally suffered greater earnings losses.

Research by Mishel and Podgursky shows that the incidence of displacement is quite broad, both by occupation and earnings, and that an expanded program of adjustment assistance for displaced workers is needed and would benefit "many (formerly) middle-to-high wage workers, many of whom suffer sharp drops in earnings as a result of displacement." (Mishel and Podgursky, 1987)

Concern over the lower quality of replacement jobs for structurally displaced workers during the past decade was heightened by a 1986 study conducted by economists Barry Bluestone and Bennett Harrison for the Joint Economic Committee of Congress (JEC). (Bluestone and Harrison, 1986; Seaberry, 1986) After carefully analyzing BLS data, the authors reported that more than half of the 8 million jobs created from 1979 to 1984 paid less than \$7,000 a year while jobs paying \$28,000 or more declined. The middle income share of job growth dropped from 64.2 percent in the 1970s to 47.5 percent in the early 1980s. Low wage employment increased by 4.7 million in the five-year period from 1979 to 1984, and more than two-thirds of the new jobs paying less than \$7,000 annually were part-time. Total middle-income employment rose by 3.8 million, including both full- and part-time workers. High-income employment fell by 442,000 in the same period.

In summary, the JEC commissioned report concluded that "the redesign of full-time into part-time jobs, the disproportionate growth of part-time or part-year work, and the spread of wage freezes and concessions from one industry to another all suggest a decline in annual earnings." These statistics do not offer a bright picture for displaced workers' job prospects--especially when the federal government-defined poverty line threshold is \$10,989 a year for a family of four. (Seaberry, 1986) These

data suggest that almost 50 percent of the recently displaced skilled and unskilled blue-collar workers who lost jobs in manufacturing, mostly in durable goods, will not be reemployed in their former industries and can expect to be employed only in lower-paying jobs in service industries.

The release of the JEC report in December 1986 generated considerable debate over the job replacement issue. The Reagan administration argued that high quality jobs were being created in services and that the lack of progress toward reducing low-wage employment "reflects the impact of the 1981 to 1982 recession rather than a general inability to generate good jobs." Some labor economists were less optimistic, noting that most of the new jobs are part-time with few benefits. (Nash, 1987; Hershey, 1987) For example, in July 1987 the nation's unemployment rate dropped to 5.9 percent, the lowest since 1979. In that month the economy generated 470,000 new jobs, but 324,000 of them were part-time, filled by "persons who want full-time jobs."

The authors of the JEC report, Bluestone and Harrison, responded to the criticisms of their low-wage job replacement thesis with a reappraisal of the data and extended it through 1986. Their new study, published in May 1988, found nothing in the data to suggest

anything but a rising low-wage share and growing wage polarization, at least after 1979. Second, neither the business cycle nor the entrance of the baby-boom generation in the labor force have contributed more than marginally to the proliferation of low-wage employment" [at least among year-round full-time workers]. (Bluestone and Harrison, 1988)

Public and Private Sector Responses to Worker Displacement

How have the private and public sectors responded to these major economic and political changes? How have they responded to the dramatic increase in the numbers of permanent jobs lost by high-wage, long-service

workers in basic manufacturing industries and the corresponding decline in federal support and involvement in the economy? What steps have they taken to ameliorate the effects of structural change on workers and their communities.

Private Sector Responses

Private employers in America have responded to the human problems of downsizing in a variety of ways. Several large unionized employers, negotiating with employee representatives through collective bargaining, have developed contractual provisions to deal with the dislocated worker problem. These range from advance notice provisions of up to six months and extensive retraining and financial packages, such as those adopted in the auto industry in 1982 by Ford and General Motors and the United Automobile Workers Union (UAW) and in telecommunications in 1986 by AT&T and the Communications Workers of America, to more modest efforts in other industries. (Savoie, 1985; Hilton, 1986; Deutsch, 1987)

Ford and the UAW set the pace by creating a jointly administered employee development and training program (EDTP) to respond to the personal and career needs of unionized hourly workers and foster "the mutual goals of greater job security and increased competitiveness." Ford contributes 5 cents for each hour worked (later increased to 30 cents) by UAW-represented employees into a fund to be used under the direction of the joint governing body of the UAW-Ford National Development and Training Center (NDTC) which was created to oversee the program. The joint approach and resources were first used in November 1982 when Ford announced it was closing its San Jose Assembly plant in Milpitas, California. After assisting in that closing and the closing of a casting plant in Sheffield, Alabama, the NDTC staff turned their attention to activities designed to help the broader group of employed

Ford workers. (Hansen, 1984; Savoie, 1986)

One of the most innovative programs initiated by the UAW-Ford NDTC and financed by the EDTP is the Life\Education Planning Program launched in 1985. Under this program each Ford facility has access to a full-time Life\Education Advisor (LEA) who is a professional career counselor hired and trained by the University of Michigan. Under the guidance of a joint local EDTP committee, the LEA provides interested workers with individual educational advising, academic advising and support, referral to training opportunities and academic programs, educational information and support, goal-setting assistance, on-site registration, education, and training courses, and life\education planning assistance. Resources available under the EDTP pay tuition costs for workers taking courses. (Life Education Planning Program, 1987)

The 1987 UAW collective bargaining agreements with both Ford and GM strengthened the job security provisions. In their current contracts the automakers agreed to prohibit layoffs unless there is a decline in sales and to reduce the work force by only one guaranteed job for every two lost to attrition. Workers on temporary layoff receive payments, possibly equaling their base pay, for as long as two years. In return, the union consented to the establishment of labor-management committees which promote greater productivity.

Follow-up research on several of the innovative joint labor-management efforts to deal with worker displacement suggests that advance notice and employers' active involvement in organizing outplacement efforts for their redundant workers substantially improve workers' transition. When employers are involved, more workers take advantage of readjustment services and successfully complete education and training programs. Workers

participating in adjustment programs and completing retraining programs experience significantly lower rates of unemployment, less income loss, and fewer social pathologies (suicide, drug abuse, spouse abuse, etc.). (Hansen, 1984; Hansen, 1986; Ashton & Iadicola, 1985)

Unfortunately, employers' acceptance of responsibility to help their workers, employers' voluntary provision of adequate advance notice, and their active participation in readjustment programs is the exception rather than the rule in America. A General Accounting Office (GAO) survey of a stratified random sample of 2400 business establishments with 100 or more employees found that during 1983 and 1984 over 1 million workers lost their jobs due to plant closings or mass layoffs. Fifty-five percent of the blue-collar workers and 44 percent of the white-collar workers received no notice or up to fourteen days of general advance notice of plant closings or layoffs. (General notice is intended to provide the workers and the community with advanced warning but does not specify the exact date or the particular workers to be affected.) Only 14 percent of the blue-collar workers and 19 percent of the white-collar workers received advance notice of 91 days or longer. (GAO, U.S. Business, 1986)

Employers' assistance to displaced workers was equally varied. According to the GAO survey, slightly more than half of the businesses experiencing a closing or a permanent layoff offered their workers severance pay, about a third offered health insurance and placement assistance, and only 3 percent offered testing and assessment of worker skills and occupational training. About 37 percent of the business firms offered their employees both financial and placement assistance, but 36 percent offered neither. Employers were also more likely to offer financial and placement assistance to white-collar workers than to blue-collar workers. (GAO,

Dislocated Workers, 1986)

A common excuse of the business community is that employers are not financially able to assist workers affected by closures and permanent layoffs. It seems reasonable that businesses experiencing financial difficulties such as bankruptcy or financial reorganization could not financially assist their employees. However, in the GAO survey only 7 percent of the establishments indicated that they had experienced a bankruptcy or financial reorganization prior to the closure or layoff. (GAO, Dislocated Workers, 1986)

After studying the problem for a year, the Secretary of Labor's Task Force on Economic Adjustment and Worker Dislocation, a bipartisan group of twenty-one business, labor and public representatives appointed by Secretary William Brock in October 1985, concluded that most private sector employer efforts to help their displaced workers were inadequate.

Many employers, particularly the larger ones, appear to feel an obligation to provide assistance to displaced workers and may have the capability to do so. On the other hand, many employers appear to do little or nothing before, during or after a closing or permanent mass layoff. (Economic Adjustment, 1986, p. 19.)

Public Sector Responses--Federal Government

The U.S. federal approach to the dislocated worker problem reflects the differing responses in Western Europe and the United States to the "manpower revolution" of the 1960s. In Europe, as exemplified by Sweden's "active labor market policy" and similar policies of other nations, public employment and training policies are more comprehensive and serve broader segments of the workforce. In the U.S., federal employment and training policies and programs developed after 1962 have focused primarily on the economically disadvantaged and marginal groups in society. Until very recently mainstream workers received little attention and only in a

peripheral way under JTPA. (Hansen, 1986b; Hansen, 1988; Mishal & Podgursky, 1987)

The federal response to the dislocated worker problem has been modest. It has relied primarily on the nation's unemployment insurance (UI) system and Title III. Title III was appended to the Job Training Partnership Act (JTPA) which Congress passed in 1982 to replace the discredited Comprehensive Employment and Training Act (CETA) and reorganize the nation's remedial employment and training programs for the economically disadvantaged.

For the first time JTPA legislation provided training and job search services for both disadvantaged and dislocated workers, but eliminated public service employment and cash subsistence stipends for persons receiving training. Because most private employers did not participate in the earlier CETA remedial training and employment programs for the disadvantaged and the fact that 80 percent of all jobs were in the private sector, JTPA attempted to obtain greater private employer involvement through the creation of employer dominated Private Industry Councils at the local level. These councils were given substantial roles in the development and approval of JTPA funded remedial employment and training programs.

Under the JTPA, about 6 percent of the \$3 billion available is allocated to Title III. These funds are administered through the JTPA decentralized delivery system at state and local levels to retrain workers permanently displaced from their jobs. Additional federal funds (\$121 million in 1986) are available through the Trade Adjustment Act (TAA) to compensate and retrain workers who lose jobs as a result of foreign imports.

As part of its deficit reduction efforts in the early 1980s, the Reagan administration reduced Title III funding and tried unsuccessfully to

eliminate TAA benefits.

America's UI system was created in 1935 as the first line of defense against unemployment. It is a jointly operated federal-state system designed to provide temporary income protection and support to workers "involuntarily" unemployed during cyclical downturns in the economy. The federal government sets broad standards and monitors and contributes to the financing system. The UI system is financed by state and federal payroll taxes on employers covered by state UI laws and the Federal Unemployment Tax Act (FUTA). Currently the FUTA imposes a 6.2 percent gross tax on the first \$7,000 of annual wages a covered employer pays to an employee. As long as a state system complies with basic federal UI standards and is not in debt to the federal government, its employers receive 5.4 percent as a tax credit and the balance (0.8 percent) is earmarked for the federal UI trust fund. States deposit all UI contributions into the UI trust fund of the U. S. Treasury from which they may withdraw funds to pay regular benefits and the states' share of extended benefits.

State UI taxes differ. In 1985 the average state tax rate as a proportion of taxable wages was about 3.1 percent. Unlike the federal UI tax, state tax rates are "experience rated," meaning that a firm's payroll tax depends on how much its laid off employees receive in UI funds. Since a firm's tax liability depends on its layoff history, an employer may be induced to stabilize employment, thus reducing unemployment, or limit the hiring of workers who might have to be laid off in the future. (Levitan & Carlson & Shapiro, 1986)

Only workers with lengthy periods of uninterrupted employment with covered employers (i.e., employers subject to the provisions of the federal or unemployment insurance laws) are eligible for benefits. Eligibility

requirements, benefit levels and other program aspects vary from state to state although most state programs are similar. The actual dollar amount of the weekly check may vary from \$10 to \$223 depending on the state and claimants' past wages. Displaced workers typically have wages and employment that qualify them for benefits at or near a state's maximum. The range for maximum weekly benefits in the continental U.S. is \$115 to \$223, with \$140 to \$150 being typical. The number of weeks of UI benefits displaced workers receive depends on state laws.

Most states vary the duration of benefits according to the amount of earnings or employment workers had in their base period. Typical ranges of potential weeks are 14 to 26 weeks. When the insured unemployment rate in a state rises to a certain level, extended benefits trigger on. Claimants' potential weeks of benefits increase by 50 percent, adding an additional 13 weeks of eligibility. Extended benefit costs are shared 50-50 by state and federal UI taxes. Total outlays for UI in 1984, including administrative costs, were \$18.4 billion. (Levitan & Carlson & Shapiro, 1986)

The UI system was designed to prevent workers from seeking career changes or upgrading their skills. Workers who use their idle time for retraining risk losing UI benefits. The UI system encourages workers to exhaust their benefits before beginning serious job searches. At the state level, unemployment insurance policies are dominated by employers and unions who are concerned with getting workers back in their same jobs and paying the same union dues.

For seasonal industries, UI was factored into annual income. For cyclically sensitive industries it was assumed that the work force would be waiting for recall. Beginning in the 1950s major industries like autos and steel adopted supplemental unemployment benefits (SUB) as part of their

collective bargaining agreements to further ensure that workers could ride out temporary periods of unemployment.

The UI system served quite well for the purposes for which it was designed and received employers' and unions' full support for many years. However, beginning in the 1970s financing for the system deteriorated because of recessions, high inflation, and the refusal of states to raise employer UI taxes. The rise of structural unemployment in the late 1970s and early 1980s and the dramatic increase in the numbers of displaced workers needing income assistance for extended periods of time increased pressure on the UI system and raised questions about its design. As more and more workers were permanently thrown out of work and onto the UI rolls, states' reserves became exhausted and federal loans were required to shore them up. Total lending between 1980 and 1984 exceeded \$17 billion, and at the end of 1984 state borrowing stood at \$10 billion. (Vroman, 1985; Levitan & Carlson & Shapiro, 1986)

Structural unemployment and worker dislocation cause serious problems for the UI system: (1) dislocated workers contribute to high unemployment rates and longer spells of unemployment; (2) long unemployment spells place heavy demands for benefit payments on state UI trust funds because many dislocated workers collect benefits for the maximum periods and at the maximum weekly rates allowed because of their previous work histories; and (3) companies push early retirement and devise schemes to make bridging pension payments to older workers which encourage maximum use of UI. (Vroman, 1985)

The UI philosophy of providing temporary income support to workers during business cycles while discouraging them from retraining or seeking employment seems dysfunctional for structurally dislocated workers. A

rational dislocated worker system would use the income maintenance period as a time for workers to prepare for and seek reemployment.

One of the most helpful, though modest, activities of the federal government in support of worker readjustment has been the creation in 1985 of the small, token Industrial Adjustment Service in the U.S. Department of Labor's Bureau of Labor-Management Relations and Cooperative Programs. This unit, consisting of a staff of three professionals, provides information and technical assistance to employers, unions and industries, conducts educational workshops to publicize best practice examples in America as well as the Canadian Industrial Adjustment Service model (which has professional advisors who intervene early in plant closing and permanent layoffs to facilitate cooperative labor-management approaches to help displaced workers), and encourages states to organize plant closing "rapid-response" teams.

Public Sector Responses--State and Local Government

The substantial gap between individual employer responses, the minimal federal efforts to assist dislocated workers during the past decade and the growing need for assistance have placed greater burdens and responsibilities on states and local communities. What have states done to cushion the impact of job loss due to plant closings and layoffs? Some states have been remarkably creative in their efforts to fill the gap and to aid their displaced workers and impacted communities. Unfortunately, most of them do not have sufficient resources, expertise, or suitable organizations to deal effectively with the increasing problems.

Some of the more innovative recent actions by states (Balderson, 1986) include:

Undertaking Efforts to Institutionalize a Process of Managing Change in

the Economy--primarily through the use of JTPA Title III. Currently each state receives an allotment of funds for dislocated worker programs under Title III of the JTPA. Allotments are determined on a formula basis according to state population and unemployment levels. The total funds available in 1988 (including carry-over funds) amount to about \$287 million, of which \$200 million is distributed to the 50 states and is passed through to substate Service Delivery Areas (SDAs)--geographical areas of 100,000 or more in population. The remainder of the money is retained at the federal level for distribution at the Secretary of Labor's discretion.

Unfortunately, in most states the readjustment efforts have been "too little--too late" because of insufficient resources to deal with the impacts of substantial plant closings or permanent layoffs and because funds are allocated by formula to SDAs without a direct relationship to actual closings or needs. The JTPA delivery system is too rigid and too slow to provide resources for rapid response to problems. Because JTPA funds are not made available for training until workers are notified of layoff or termination, services cannot be provided well in advance of layoff or closure. The JTPA system's "request-for-proposal" process makes it difficult to obtain resources until well after the shutdown occurs. Finally, the JTPA system is designed to serve the economically disadvantaged and those with little labor market experience or weak attachment. It is ill-equipped to deal with mainstream workers who have different values, strong labor market attachment, good work histories and quite different service needs.

Recognizing the limitations and defects of JTPA Title III, some states, including California, Delaware, Indiana, and Massachusetts, have appropriated funds on their own and have created more flexible programs to

try to fill the gap. California's Employment Training Panel, a joint labor-management group appointed by the Governor, began operations in 1983 and expends four times the state's Title III allotment in state funds to provide retraining for workers displaced or threatened with structural change which could lead to displacement.

Passing Plant Closing Legislation. Several states, including Maine, Connecticut, Wisconsin, and Maryland, passed legislation attempting to require or to encourage employers to provide advance notice of plant closings. Unfortunately, most of this legislation is considered ineffective. However, the constitutionality of Maine's law requiring employers to provide severance pay for workers losing their jobs because of a closing was recently upheld by the U.S. Supreme Court, and a number of states are now considering enacting advance notice legislation. (BNA, 1988)

In 1987 Hawaii enacted legislation which requires employers with at least 50 employees to provide each affected employee with written notification of a closing, partial closing, or relocation of a plant at least 45 days prior to its occurrence and to provide a "dislocated worker allowance" in addition to any unemployment compensation due. Regulations are currently being written to implement this new law.

Encouraging the Adoption of Voluntary Plant Closing Guidelines. Several states, notably Massachusetts and New York, encourage employers to participate in state-created voluntary compacts designed to ease the burden of plant closings. In 1984 Massachusetts passed the mature industries legislation which established a voluntary social compact between government and business. Businesses are encouraged to adopt voluntary guidelines on advance notice, severance pay, continuation of health care, and benefits to minimize disruptions caused by plant closings and mass layoffs. Employers'

adoption of the pact is a prerequisite for participation in the state's quasi-public economic development and business assistance programs. The Massachusetts Industrial Services Program (ISP) was set up to carry out the state's obligations under the compact. The ISP focuses on: (1) keeping businesses in mature industries healthy by providing consulting services, loans, business planning, "or whatever is necessary to get a company back on the right track"; and (2) helping displaced workers by funding worker assistance centers where plants shut down. In its first three years of operation the Massachusetts ISP helped more than 19,000 workers at 46 worker assistance centers, directly loaned \$4.4 million through its Economic Stabilization Trust Fund and arranged for \$21.7 million from other lenders to help businesses. Through FY 1987 management and consulting services were provided to 184 companies employing 12,030 workers. (Industrial Services Program, 1987 Annual Report)

In 1986 Gov. Cuomo of New York followed Massachusetts' example and earmarked \$15 million for a new state cooperative economic development program for business and labor to soften the effects of shutdowns and major layoffs. The New York approach encourages employers to give workers advance notice of plant closings, promises new job training and economic development assistance to troubled companies, extends health insurance coverage for workers who lose jobs because of a plant closing, and provides for mediation and arbitration of disputes. Signatory employers agree to try to prevent laying off workers and to use layoffs as a last resort. (Barron, 1986)

Business groups in several other states such as California and Connecticut have developed voluntary plant closing guidelines and encourage their members to follow the guidelines. (Connecticut, 1984)

Creating Teams Able to Respond Immediately to Layoffs and Plant Closings. Through a joint project sponsored by the U.S. Department of Labor and National Governors Association, six states are experimenting with Canadian IAS rapid-response and joint labor-management cooperative approaches. Among the participating states are Michigan, New Jersey, Connecticut, Idaho, and Vermont.

The successful rapid response capability of the twenty-five year old Canadian Industrial Adjustment Service (IAS) appears to offer a high degree of replicability for the United States. The IAS is a small, publicly financed national organization with a highly professional staff of 60 persons. Its Ottawa headquarters is staffed by only 3 persons, the rest are assigned to regional field offices strategically located throughout Canada. These professionals serve as advisors, consultants, catalysts, expeditors, facilitators, and sources of information to employers, unions and workers by helping them set up joint labor-management approaches for worker dislocations caused by technological and other industrial changes, including mass layoffs and plant closings. The Canadian IAS also assists employers with problems of turnover, employment instability, labor shortages, and expansion and recruitment as well as layoff adjustment. Participation in IAS programs is voluntary. (Batt, 1983; Hansen, 1986a; Abt, 1984)

Providing Targeted Assistance to Impacted Communities. Washington recently set up a Community Revitalization Team (CRT) to assist economically distressed communities throughout the state. (Hansen, 1987) A distressed community is defined as a local jurisdiction that has a higher than average unemployment rate, has experienced sudden and severe loss of employment, and has a very low median income. The CRT has four staffers in the field who

help distressed communities develop revitalization strategies and serve as information brokers for state, federal, and private sources. The CRT has set up a loan fund for distressed area businesses, published some manuals for community use, helped start a small business incubator, and helped conduct a number of feasibility studies.

Designing Programs to Maintain Income and Health Benefits. Recognizing the continuing need for health insurance after job loss, Massachusetts extends employees' health care coverage for up to three months and provides an additional thirteen weeks of Supplemental Unemployment Insurance. Rhode Island and Connecticut also do this. (Balderson, 1986)

Thirteen states have adopted an approach to unemployment insurance which is indirectly related to structural change and worker displacement and is known as "work-sharing unemployment insurance" (WSUI) or "short-time compensation." It consists of work sharing supplemented by shares of regular unemployment insurance benefits prorated in proportion to the reduction in work time. The benefits of this approach are that employers maintain a balanced, skilled, and productive work force and there is no significant drain on a state's UI fund. This system, which has been widely used in Europe for many years, encourages employment instead of subsidizing unemployment. WSUI was first introduced in America in 1978 when California amended their UI law to permit WSUI benefits for reduced workweeks. Arizona adopted the program in 1981, Oregon in 1982, and Washington and Florida in 1983. Eight more states have since adopted similar legislation.

In 1986 New Jersey launched a demonstration project giving dislocated workers a cash reemployment bonus as well as training, relocation, and intensive job search help to reduce claimants' unemployment, lower the state's unemployment rate, and reduce UI trust fund payments to workers.

Participants' periods of joblessness were reduced by an average of nearly 10 percent and unemployment benefit payments to workers offered services were reduced by over \$100 per person. (USDOL News, 1988) The preliminary results covering 6,000 unemployed workers in the period from July 1986 to September 1987 encouraged California and Washington to launch similar demonstration projects in 1987.

Designing Programs to Stimulate Job Creation. In addition to programs designed to directly assist displaced workers, a number of states have attempted to coordinate their economic development and worker dislocation efforts to more effectively cope with economic change. (Balderson, 1986)

Two innovative approaches link assistance to displaced workers with economic development and job creation. One approach encourages workers to consider the possibility of buying their firms when they are threatened with closure and provides assistance in conducting feasibility studies and obtaining financing for a buyout. (Hansen and Adams, 1987) Massachusetts, Oregon, Michigan and New York now provide such assistance on a statewide basis. Another approach, imported from France and Britain and being tested in the state of Washington, allows workers to capitalize their UI benefits in a lump sum and use them to start a new business. To encourage entrepreneurship and job creation, several states use JTPA Title III funds to provide entrepreneurial training courses for displaced workers. Michigan, Ohio and Vermont have had some success with this approach. (Hansen, 1986d)

The Present Status of Plant Closing Policies and Programs

As can be seen from the foregoing discussion, several innovative programs in the public and private sectors help ameliorate the problems of

worker dislocation in America. A handful of states also assist workers and communities with the destabilizing effects of plant closings and mass layoffs. Unfortunately, exemplary state-level adjustment programs and policies and innovative joint labor-management approaches like Ford and the UAW are the exception rather than the rule. And at the national level there is no meaningful policy or leadership to facilitate or coordinate states' efforts or encourage employers to do better. Shrinking federal funds have been devoted primarily to modest support of displaced worker retraining through JTPA Title III and the Trade Adjustment Act.

There is little systematic sharing of information about dislocated worker issues, problems or strategies. Most information is obtained from limited networks of interest groups such as the quarterly National Governors' Association conference telephone calls or from the token Industrial Adjustment Service unit in the U.S. Department of Labor. Unfortunately, in the plant closing and job retention/creation fields some duplication of effort exists. Many times the right hand does not know what the left hand is doing. Many communities are unaware of what has been tried and proven successful or unsuccessful. In several locations the wheel is being reinvented. Equally serious is the constant turnover of personnel in state agencies and the JTPA system which leaves little institutional memory of how to deal with dislocated worker problems.

Most states lack an effective early warning system which identifies firms in difficulty, about to close, or to permanently discharge large numbers of workers. Equally serious, with the exception of Hawaii, there are no substantive advance notice laws at state or federal levels to provide sufficient time to mobilize services to dislocated workers.

Few states have true rapid response capability, and even fewer

effectively coordinate service deliverers. Most states rely on traditional agencies such as the Job Service to deliver, at their convenience, placement and other traditional services of widely varying quality and quantity.

In summary, both government and private sector responses to worker dislocation in America are uncoordinated, narrowly focused, and inadequate relative to the need. The inadequacy of federal efforts to aid dislocated workers was highlighted in a 1986 report by the Congressional Office of Technology Assessment which stated that the JTPA Title III programs served the needs of only 5 percent of the eligible displaced workers. (U.S. Congress, OTA, 1986) Similar findings were reported by the Secretary of Labor's Task Force which concluded that "The United States lacks a comprehensive, coordinated strategy to deal with the problem." (Economic Adjustment, 1986, p.4).

Foreign Experience

Unlike the U.S., most other western industrialized countries have comprehensive worker adjustment policies and extensive publicly funded programs which reflect their broader perspective of the role of labor market policy in their societies. After reviewing foreign experience, the Secretary's task force concluded that foreign adjustment programs were established on the basic premise that

...change will occur, that there will be movement from declining to growing industries or from old to new jobs, and that it would be to a country's competitive advantage to achieve this transition as rapidly as possible. It is important on economic grounds as well as from a social standpoint. (Economic Adjustment, 1986, p. 20.)

Foreign worker adjustment programs generally include wage subsidies, relocation assistance, income maintenance beyond UI benefits, training,

implementation prior to a closing or layoff, advance notice of varying lengths, job creation provisions, and government supported early retirement. France, West Germany and the United Kingdom also include work-time reduction programs. Canada, as noted elsewhere, has the very effective Industrial Adjustment Service which facilitates cooperative labor-management approaches to worker adjustment. (Economic Adjustment, 1986)

If the U.S. is to compete with other nations, it needs better programs and more comprehensive labor market policies to deal with the problems of economic adjustment and worker dislocation resulting from permanent layoffs and plant closings. Fortunately, the U.S. is beginning to learn from other countries and to utilize some of their successful worker adjustment programs.

Basic Components of a Good U.S. Worker Adjustment Program

Experience and research in the U.S. during the past ten years and lengthy experience in Europe and Canada demonstrate that the most successful dislocated worker adjustment programs are those in which: (1) advance warning provides time for organizing and planning worker adjustment services; (2) worker adjustment occurs before a plant closes or mass layoff happens, thus minimizing disruption of workers' lives; (3) adjustment is provided by joint employer-worker committees--those directly involved engage in private adjustment measures; (4) government's role is to encourage and complement private means not supplant them; (5) carefully designed and adequately funded organizations at state and national levels ensure effective coordination and competent delivery of rapid response services and provide positive support and encouragement to employers and workers; and (6) adequate resources are available to finance retraining and other adjustment services needed by displaced workers. (Batt, 1983) (Hansen, 1984; Hansen,

1986a)

One of the most important benefits of advance notice is that it gives companies, workers and their unions (where present), and government agencies time to plan and develop adjustment assistance. It takes two to four months to develop and put in place a comprehensive adjustment program--testing and assessment, counseling, job search skills training, job development, vocational skills training, and remedial education. Dislocated workers are much more likely to participate in projects that begin before job loss. Furthermore, advance notice benefits workers whether or not they participate in adjustment programs because it gives them time to develop their job-hunting or training options and to adjust their financial and other plans. (GAO, Plant Closing, 1986)

It is noteworthy that while employers oppose advance notice because they feel it represents an unwarranted limitation of their freedom of action, the GAO found no substantive evidence of any dire consequences or costs resulting from advance notice. The benefits of advance notice are both tangible and substantial--especially where there is a prompt, effective response. (GAO, Plant Closing, 1986)

The Secretary of Labor's Task Force on Worker Dislocation concluded that it is in America's interest to foster, through private and public means, the reemployment of workers permanently displaced from employment. Specific conclusions reached by the task force are:

1. New institutional mechanisms must be established as part of the nation's employment and training system to meet the needs of dislocated workers, including workers covered by existing programs.
2. Experience has shown that the most effective and successful dislocated worker adjustment programs are those where employers and workers (and their unions if they are present), are directly involved in the design and delivery. Public policies and programs should encourage and facilitate this assumption of responsibility,

active participation, and cooperation. However, the private sector has a fundamental responsibility in relieving the problems of displaced workers.

3. Experience also has shown that the earliest notification possible leads to more effective delivery of public and private services to dislocated workers. Delivery of public services to affected workers should begin well before shutdown or layoff if possible.

4. An identifiable public agency should be available as a resource in the event of a dislocation of workers. This agency should have rapid response capability and should coordinate public efforts to aid the workers. Employers should be required to notify the designated agency of the closure or large-scale layoff, once announced.

5. Adequate public resources should be provided to support effective levels of readjustment services, retraining, and temporary income support.

6. Government should also provide adequate capability for gathering and disseminating knowledge and information on worker dislocation to all interested parties and provide technical assistance and staff training services to the states, communities, businesses and unions.

7. There should be effective linkages and coordination between public and private efforts to aid dislocated workers.

8. A variety of service options for dislocated workers should be provided, and their freedom to choose from among them maximized.

9. To ensure job mobility and employment security, many experienced workers will require improved basic educational skills and recurrent vocational training.

10. Fully meeting the needs of displaced workers and impacted communities can be accomplished only within the framework of an economy providing an adequate number of jobs. (Economic Adjustment, 1986, pp. 4-5)

Based upon these conclusions, the Task Force recommended that both the private and public sectors help develop a comprehensive, coordinated strategy to deal with worker dislocation problems in America. Specific Task Force recommendations called for greater private sector efforts to "alleviate the problems faced by displaced workers and their communities." Beyond this, the Task Force recommended initiating a new national public

effort, funded by \$900 million, "to provide an early and rapid response to the needs of workers permanently displaced from employment." Under this proposal, the Task Force recommended replacing JTPA Title III with a new federally supported and guided structure providing state-administered training and reemployment assistance "to meet the needs of all displaced workers." (Economic Adjustment, 1986, p.6) The proposed \$900 million expenditure level represents \$570 million in new money.

The Task Force report recommended explicitly that the existing JTPA local delivery system not be used and the proposed new financial resources for dislocated workers not be allocated by formula to substate JTPA Service Delivery Areas. Instead, the Task Force proposed the creation of highly competent Canadian-style state Dislocated Worker Units (DWU), directly controlled by state governors, to coordinate the rapid delivery of all services needed by workers being displaced by plant closings and permanent layoffs. The DWU would control federal funds to the states so that they could act quickly and flexibly to meet crises resulting from layoffs and plant closings. Recommended displaced workers' services include plant-specific adjustment assistance and labor market information--assessment and testing, vocational counseling, job search training, and client-oriented job development efforts--and remedial education and vocational training.

Other Task Force recommendations include refocusing priorities, redirecting Job Service resources "to be more useful to dislocated workers," and increasing income support "to be of adequate duration to support substantive training and job search." The Secretary of Labor was encouraged to evaluate projects designed to assist individual dislocated workers in starting their own businesses and "to facilitate feasibility studies of

enterprise purchases by groups of workers facing displacement." (Economic Adjustment, 1986, pp.6-7)

The Task Force gave considerable attention to income support for dislocated workers and concluded that it should be of adequate duration to support substantive retraining and job search, but not be too attractive in its own right. UI system changes were proposed to encourage dislocated workers to seek training and to allow UI benefits to be used to support workers while in training. Workers need to enroll early in training programs tailored to their job readiness, and income maintenance should be continued on a reasonable basis to encourage individuals to complete their training.

The Task Force endorsed a variation of income support for dislocated workers which uses UI benefits to facilitate entrepreneurship in starting new businesses. Similar programs in Britain and France allow unemployed workers to receive their UI benefits in a lump sum to start a business.

The Task Force could not reach a consensus on recommending advance notice, and therefore did not include a recommendation on this issue. The majority of the group emphasized the importance of advance notice to successful adjustment and recommended legislation to "ensure that the provision of notice will be the rule rather than the exception." Business representatives were unalterably opposed to this approach, arguing that "voluntary notification, vigorously promulgated...is a better way..." (Economic Adjustment, 1986, p.23.)

Similar disagreement was encountered on how to finance the proposed new national dislocated worker program. The Task Force said that if Congress did not see fit to fund the program through general revenues "the program is of such importance to the nation's competitive position that alternative

methods of financing should be considered." (Economic Adjustment, 1986, pp. 36-37.) An alternative method of raising revenue proposed in earlier deliberations was to use part of the one-tenth of one percent FUTA tax surcharge then in force but scheduled to expire in 1987. A small tax could be collected from employers (perhaps with a partial match obtained from employees) to provide training and readjustment services for dislocated workers.

A New Dislocated Worker Adjustment Program for America?

The prospect of a new national dislocated worker adjustment program for America appears promising. The Secretary of Labor's Task Force submitted its report on December 23, 1986. The timing was ideal. Secretary of Labor Brock was successful in lobbying the Cabinet Council and senior officials in the Reagan administration to include a program for dislocated workers in the 1988 budget and to include it as one of the programs highlighted in the January state of the union message. A \$980 million dislocated worker program was included in the proposed 1988 budget, and President Reagan mentioned it in his January state of the union message.

Early in 1987 key members of the Senate and House Labor Committees introduced legislation that contained many of the Administration's proposals, most of the Secretary's Task Force recommendations, plus provisions that would require employers to give three-to six-months advance notice of plant shutdowns and mass layoffs. The advance notice provisions generated the only major disagreement.

The Secretary's Task Force recommendations were also incorporated into HR-3, the omnibus trade bill which became the primary vehicle to get the dislocated worker program through congress. Two major changes in the worker adjustment program included in HR-3 resulted from the congressional

deliberations. First, instead of following the Task Force recommendations and placing primary responsibility for dislocated worker programs with the governor and centralizing resources at the state level, congress acceded to the importuning of the JTPA system's lobbyists and allowed one-half of the resources to be allocated directly to substate SDAs with populations of 200,000 or more and permitted the rapid response system to be operated at that level. The second major change in the legislation was to include provisions requiring employers to give advance notice of a plant closing.

HR-3 passed both houses of congress in 1987, but efforts to work out differences between the House and Senate versions of the bill were put on hold after the stock market crashed on October 19, 1987. The House-Senate conference committee resumed work on HR-3 in January 1988, and favorable action was taken by the committee in mid-April. HR-3 was passed by both houses of Congress on April 27 and sent to the President on May 11. The final version of the bill included a plant closing provision of sixty-days advance notice to workers before plant closings involving 50 or more employees, and for layoffs of more than six months, notification would be required for employment losses of 50 or more employees, if more than one-third of the workforce is affected, or an employment loss of 500 workers whether or not one-third of the workers are affected. No employer with fewer than 100 employees is covered. These advance notice provisions engendered the wrath of President Reagan who threatened to veto the bill on that issue alone. Although the omnibus trade bill was passed by large margins in both houses of congress, there were not enough votes in the Senate to override a presidential veto. This placed the final disposition of the omnibus trade bill in doubt and provided the Democratic Party with a major political issue for the 1988 presidential election campaign.

There appears to be strong bipartisan support in Congress and throughout America for a dislocated worker program without the controversial advance notice provision. Most observers expect some legislation to be passed eventually. If legislative efforts to create a meaningful worker readjustment program are successful, they will: (1) conclude the fifteen-year struggle begun in 1973 by Representative William Ford of Michigan when he first introduced plant closing legislation in Congress; and (2) substantially broaden the base of American labor market policy to include the most important but previously neglected core segment of the workforce.

By creating a national dislocated worker program, even if it lacks advance notice provisions and includes a decentralized, substate JTPA-based delivery system which dissipates limited resources, slows down rapid response to closings and hinders the efficient delivery of services, America will still be one step closer to having a coherent and comprehensive national employment and training policy, something which has been sorely needed for nearly three decades.

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