

**ECONOMIC DISLOCATION: ISSUES, FACTS, AND
ALTERNATIVES
A LITERATURE REVIEW**

By

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For

The North Carolina Rural Economic Development Center

WORKING PAPER

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Preface

This working paper was developed for the Rural Dislocated Worker Summit (held on September 2, 2004) to provide an update of previous literature reviews addressing the issue of dislocated workers. A great deal of research has been conducted in this area over the years, and the findings from past and new research could help guide North Carolina local and state leaders' thinking in tackling the challenges of economic dislocation in rural North Carolina.

Any opinion, finding, conclusion or recommendations expressed in this publication are those of the author and do not necessarily reflect the view and policies of the Rural Center or the North Carolina Tobacco Trust Fund Commission.

ECONOMIC DISLOCATION: ISSUES, FACTS, AND ALTERNATIVES

A LITERATURE REVIEW

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Highlights

Who are dislocated workers?

Dislocated workers lose their jobs due to a business facility shutdown or layoff. They typically have a stable employment history and, as a group, are disproportionately older than the labor force as a whole. Some studies have shown dislocated workers to be disproportionately male, but recent statistics on rural dislocated workers in North Carolina show that they are somewhat more likely to be female than male.² Dislocated workers often face structural barriers to reemployment, e.g., their job search skills are rusty, many lack basic skills, they no longer have relevant skills, and/or live in area hit by large scale job loss.

How many dislocated workers are there?

The answer depends on the time period and the state of the economy. Between 1979 and 1984, there were 5.1 million dislocated workers in the United States (with similar numbers in later periods). In a recessionary year, the number can reach 2.7 million or 1 in 25 workers. In a stronger economy, there still remain 1.5 million dislocated workers (roughly 1 in 50 workers). In the late 1990s (those characterized by full employment), the *scale* of displacement was smaller than these earlier patterns, but the *financial impact* of dislocation on workers was not lessened (workers were unable to secure jobs with wages comparable to their previous ones).

The latest national report (July 30, 2004) by the US Department of Labor, Bureau of Labor Statistics, on worker displacement documented that the period from January 2001 through December 31, 2003 reflected the highest displacement rates since this data was first collected in the early 1980s. During this three-year period, 6.3 percent of adult workers with at least three years on the same job lost their employment. In absolute numbers, 5.3 million workers were displaced. During the previous period – January 1999-2001 – the figure was only 4 million. Among those who were reemployed in the 2001-2003 cohort, 57 percent were paid less than their previous job. This is also a record (the highest rate previously was 52 percent). In addition, these high 2001-2003 displacement rates coincide with much lower overall unemployment rates (5.5 percent)

¹ This paper was co-authored originally in 2002 by Bill Schweke and Sara Lawrence. Lillian Woo researched and authored a couple of sections in this revised and updated version. Sarah Rankin provided copy editing and advice regarding its organization.

² The most recent US Bureau of Labor Statistics report on displaced workers (July 30, 2004) found that the gender of the displaced were now about 50-50. Women were as likely to be displaced in the period from 2001-2003 as men. In the eighties, roughly two-thirds of the dislocated were men. New data from the Rural Center (compiled from Employment Security Commission data) show that rural dislocated workers involved in mass layoffs are somewhat more likely to be women than men.

than in the years – 1981-83 (9 percent) and 1991-93 (7.1 percent). This may signal an increase in structural displacements – higher levels of layoffs and facility closures for any given level of unemployment.

What labor force groups suffer most from dislocation?

- ⌚ Manufacturing workers. They are disproportionately represented among the ranks of the dislocated workers. Their financial losses tend to be larger, and their bouts of joblessness last longer.
- ⌚ Older workers (especially 55 years and older).
- ⌚ Those with the least education.
- ⌚ Those employed by locally declining industries.
- ⌚ Long tenure workers (great losses of pay when reemployed in new positions).
- ⌚ Unionized workers (big loss in status if they are rehired by non-unionized firms)
- ⌚ The evidence on how women and men fare is conflicting: some studies show no gender difference; others show men doing better, and still others show women doing better at maintaining pre-layoff wages than men.

Are dislocated workers typically able to find new employment in a reasonable amount of time?

The short answer is: no. Those who sign up for adjustment services quickly have reduced periods of unemployment. A large majority of dislocated workers who secure reemployment face a marked decline in wages.

How do workers' traits (e.g.-- demographics, skills) affect their reemployment experience?

- ⌚ Typically, more men are laid off than women, but women tend to have more difficult time securing new jobs. (There is no definitive conclusion about gender; conflicting evidence shows that women are more successful at reemployment.) The latest study on this subject by the Bureau of Labor Statistics (July 30, 2004) found that 68 percent of men were reemployed, compared to 61 percent of women. But the share of displaced women that left the labor force (about 20 percent) was higher than that for men – nearly 12 percent. New data from the North Carolina Rural Center (using ESC statistics) also shows that reemployment rates and reemployment wages as a percentage of pre-layoff wages for rural, female dislocated workers are lower than for rural, male dislocated workers.
- ⌚ Educational attainment is often associated with decreased length of joblessness.
- ⌚ Reemployment of manufacturing workers is more sensitive to the local economic conditions than to shifts in the national economy.
- ⌚ Minorities typically fare worse.

How have national dislocation trends changed during the past two decades?

- ⌚ Displacement of white collar workers is increasing.
- ⌚ Displacement is spreading from manufacturing to other industries.
- ⌚ Older workers fared worse in 1990s than in the 1980s. A relatively worse reemployment pattern has continued. Younger workers (ages 20 to 24) and prime

age workers (ages 25-54) were reemployed restively at 65 and 69 percent. By comparison, during the same period (2001-2003), 56 percent of the workers that were aged 55 to 64 had jobs. Those 65 ages and older were reemployed at only the 24 percent rate.

- ⌚ Some evidence exists that white and minority displacement rates are becoming more similar.
- ⌚ Regions affected are shifting. No longer is displacement a “rustbelt/frostbelt” phenomenon; west and south, suburbs and central cities, unionized and non-unionized firms are all being hit.

Which program features most help displaced workers?

- ⌚ Early intervention
- ⌚ Advance notice of closings and layoffs
- ⌚ Addressing crisis needs such as stress and financial management
- ⌚ Better and repeated marketing of available programs
- ⌚ Thorough assessment of workers’ basic skills, vocational interests and aptitudes, and the transferability of existing occupational skills
- ⌚ Development of customized assistance to set career goals
- ⌚ Self-employment assistance works (but suitable for only a small segment of displaced workers)
- ⌚ Plant level labor-management committees that help workers access services, identify critical needs, develop customized plans for assistance, and monitor service delivery and worker progress
- ⌚ Plant-based peer counselors who help motivate other workers to access services and to act more quickly
- ⌚ Longer term training with performance-based contracts and close ties to the private sector has promise

Introduction

Dislocated workers have been a major subject of policy study for the past three decades.³ It is helpful to draw upon this literature to both understand the nature of the problem and explore policy options.⁴ In order to organize this vast literature on causes, effects, and policy responses, we have sought to use it to answer a number of obvious questions, including:

- ⌚ Who are dislocated workers?
- ⌚ How many are there?
- ⌚ What labor force groups or characteristics of an area show stronger negative impacts of dislocation?
- ⌚ Are dislocated workers typically able to secure new employment in a reasonable amount of time?
- ⌚ Are dislocated workers typically able to find new jobs that paid earnings comparable to their old jobs?
- ⌚ How effective have dislocated worker retraining programs been in terms of reemployment and wage replacement?
- ⌚ What does the international adjustment experience have to teach us in designing and implementing good programs?

It is organized in three large sections:

1. Documenting Worker Dislocation
2. Dislocation and Globalization
3. Adjustment Strategies that Address Dislocation⁵

Documenting Worker Dislocation

Identifying Dislocated Workers

Who are dislocated workers?

³ If the reader wants to delve lightly into this literature, the best place to tap hands-on policy insights are Matt Kane and Paula Duggan, *Dislocated Workers: Coping With Competition and Conversion* (Washington, DC: Northeast Midwest Institute, 1991); and John Lynch (editor), *Closures and Community Recovery* (Washington, DC: CUED, January 1990). The most helpful summary of the academic literature is Louis Jacobson, "Compensation Programs" in Susan Collins (editor), *Imports, Exports, and the American Worker* (Washington, DC: Brookings Institution, 1998). Although dated, the definitive report on the whole topic is: Office of Technology Assessment, *Technology and Structural Unemployment: Reemploying Displace Adults* (Washington: GPO, 1986).

⁴ It should be noted that the literature has appeared in waves. Academic research, case studies, and how-to manuals were profuse in the eighties and early nineties. There was a hiatus during the full employment boom during the Clinton Administration. More recently, there has been a flourishing of academic studies, spurred by off-shoring and globalization concerns, but little best practice material on the topic.

⁵ CFED appreciates the fiscal support provided by the North Carolina Rural Economic Development Center used to research and write this paper. A special thanks also goes to the Center's Anne Scharff, Senior Associate, Workforce Development, for her sound editorial suggestions and cooperative style of working.

Dislocated workers are individuals who have previously maintained a stable employment history, lose their jobs due to a business facility shutdown or layoff, and face structural barriers to reemployment. Unlike other segments of the unemployed, who quickly find a new job with the same skills, displaced workers are more affected by the cyclical, regional economic downturns because they tend to work in declining industries. Moreover, reemployment for dislocated workers is more difficult, because their job search skills are extremely rusty and they either lack basic skills or possess skills that are no longer desired in their regional economy.

Nationally, dislocated workers primarily fall in the 25-54 year old age group, and their racial characteristics mirror that of the national labor force. Nationally, men tend to be slightly more affected by this type of job loss.⁶ In North Carolina, dislocated workers are disproportionately minorities, and in *rural* North Carolina, women comprise a majority of dislocated workers.)⁷

This conceptual definition is narrowed down for research purposes in different ways, depending on the available data and the individual research questions. Research indicators for dislocated workers vary from measuring mass layoffs, to tracking plant closings in declining industries, to counting the number of workers who permanently lose jobs which they had previously held for three or more years. For example, in a Congressional Budget Office (CBO) study that examined dislocated worker data, two definitions were used: 1) workers who lost their jobs in declining industries or who had been unemployed for at least six months, and 2) all displaced workers in all industries and in all geographic areas, no matter how long they were jobless. Alternatively, the Bureau of Labor Statistics (BLS) defined dislocated workers as people age 20 and older who lost jobs held for three or more years because a plant shut down or relocated, a position was eliminated, or an employer experienced a decrease in demand.⁸ This latter definition is used on a regular basis in BLS biennial research on the topic. (And of course, there is the policy definition found in the Workforce Investment Act law.)

In summary, dislocated (or displaced) workers⁹ are those whose unemployment generally results from layoffs and plant (or facility) closings associated with economic restructuring. They tend to be older, experienced, and better paid, and typically possess outdated or underdeveloped job search abilities, relatively weak literacy and numeracy, and out-of-date specialized workforce skills. They suffer psychological stress at being displaced and are likely to face financial difficulties because of their reduced income and substantial household obligations. They have limited current information on labor market opportunities. Their spell of unemployment tends to last longer than the average jobless person.

One angle on the impact of displacement is provided by an analysis of the wage loss problem caused by dislocation. If these workers were “made whole,” meaning that their earnings losses were wiped out through some sort of compensation, approximately \$26

⁶ For more information of definitions and general characteristics of dislocated workers see: *Dislocated Workers: Coping with Competition and Conversion*, by Matt Kane and Paula Duggan, Northeast Midwest Institute.

⁷ New research by the North Carolina Rural Economic Development Center, using ESC Mass Layoff Statistics.

⁸ Kane and Duggan, 11.

⁹ In Britain, the term: "redundant workers" is used.

billion annually would be needed to meet the needs of the 350,000 workers per year who permanently lost their jobs.¹⁰ This is not small change.

Counting Dislocated Workers

How many dislocated workers are there?

It all depends on the time period. Initial studies documented the following. “Using three years of pre-layoff job tenure as the cutoff points to further distinguish displaced workers,” researchers calculated a population of about 5.1 million during the January 1979 to January 1984 period.¹¹ Later estimates with a slightly different definition found, on average, two million full-time workers were displaced from their jobs annually in the 1980s.¹² “In the recession year of 1982, 2.7 million workers -- about 1 of every 25 full-time wage and salary workers -- lost their jobs and were not recalled. But during the relatively strong labor market existing in 1988, 1.5 million workers -- about 1 in every 50 full-time workers -- are estimated to have permanently lost their jobs.”¹³

How have national dislocation trends changed during the past two decades?

A series of studies from the *Monthly Labor Review* show that in general, dislocation trends at the national level mirror the up and downs of the national economy.¹⁴ Although there are employment shifts between industries (mostly between manufacturing and services), as the economy expands, the labor market grows, and the number of displaced workers decreases. In contrast, during economic recessions the labor market shrinks and displacement becomes more commonplace.

Two studies specifically discuss the relationship between worker displacement and the cyclical nature of the economy. First, Jennifer Gardner finds that “like all recessionary periods, the weak economy of the early 1990s increased the number of displaced workers. While disproportionately large shares were in goods-producing industries, displacement was much more widespread across industries than was the case a decade earlier.”¹⁵ The second study, by Ryan Helwig, monitors displacement during a growing economy. He concludes that “As economic growth continued in 1997 and 1998, job losses declined, and the displacement rate was the lowest of the 1990s; many displaced

¹⁰ Jacobson, LaLonde, and Sullivan, *The Costs of Worker Dislocation*, 160-161.

¹¹ Paul Flaim and Ellen Sehgel, “Displaced Workers of 1979-1983: How Well Have They Fared?” *Monthly Labor Review* (June 1986), 3-16.

¹² Duane Leigh. *Assisting Workers Displaced by Structural Change: An International Perspective*. (Kalamazoo: Upjohn Institute for Employment Research, 1995, 1-2.

¹³ Duane Leigh. *Assisting Workers Displaced by Structural Change: An International Perspective*. (Kalamazoo: Upjohn Institute for Employment Research, 1995, 1-2.

¹⁴ See the following: Jennifer M. Gardner “Recession Swells Count of Displaced Workers” *Monthly Labor Review* June 1993, Vol. 116, No. 6. Bureau of Labor Statistics, Washington D.C.

<http://www.bls.gov/opub/mlr>, Jennifer M. Gardner, “Worker Displacement: a Decade of Change” *Monthly Labor Review* April 1995, and Ryan T. Helwig “Worker Displacement in a Strong Labor Market” *Monthly Labor Review* June 2001, Vol. 124, No. 6. Bureau of Labor Statistics, Washington D.C.

<http://www.bls.gov/opub/mlr>

¹⁵ Jennifer M. Gardner “Recession Swells Count of Displaced Workers” *Monthly Labor Review* June 1993, Vol. 116, No. 6. Bureau of Labor Statistics, Washington D.C. <http://www.bls.gov/opub/mlr>.

workers were able to find new jobs with little or no change in weekly earnings.”¹⁶ A detailed exposition of each work follows.

1981-1991

Jennifer Gardner documents changes in the characteristics of dislocated workers over an extended period of time. In her *Monthly Labor Review* articles she uncovers several interesting findings by comparing dislocated worker data from 1981-1982 with data from 1991-1992. She pinpoints some key overall findings and then categorizes all of her results through industrial, occupational, demographic, and regional shifts.

Overall, Gardner points out that the displacement rates in 1981-82 were similar to the rates in 1991-92 (3.8 percent). Key differences in displacement over the ten year time frame consist of the following:

- ⌚ Displacement was more frequent for white-collar workers and laborers in the service industry in the 1990s.
- ⌚ Workers in the Northeast and West lost their jobs at higher rates in the 1990s than a decade earlier.
- ⌚ The reemployment rate was higher in 1991-92 than in 1981-82.

Patterns of changes between industries and occupations also surface from Gardner’s research. Most of these findings distinguish between impacts on manufacturing and service industries and impacts on blue-collar and white collar workers.

Over this time period, Gardner’s work shows that the gap in displacement rates between manufacturing and other industries shrunk, as dislocation began to spread to non-manufacturing industries. She conjectured that this is most likely because displacement in manufacturing peaked in the late 1970s and early 1980s and fewer people were employed in that industry through the 1980s and early 1990s. In 1981-82, over half of all displaced workers were formerly employed in manufacturing. “This economic sector accounted for about one-quarter of total employment at that time. The displacement rate for manufacturing, therefore, was quite a bit higher than for the non-manufacturing industries, 8.2 percent versus 3.5 percent for non-manufacturing industries. Six years later, the displacement rate for factory workers was 3.9 percent.¹⁷ Manufacturing remained the most vulnerable industry to displacement during the recession in the early 1990s. In 1991-92 these workers lost their jobs at a rate of 6.9 percent (compared to 4.5 percent for all other workers). Manufacturing also suffered from the lowest reemployment rates in the 1990s.¹⁸

In contrast to manufacturing, most other industries expanded employment—and consequently experienced more displacement—during this time frame. Specific examples include finance, real estate, and insurance (displacement rose from 1.4 percent in the 1980s to 5.6 percent in the 1990s). The service and trade industries also experienced a rise in displacement, yet services still retained the lowest displacement rate

¹⁶ Ryan T. Helwig "Worker Displacement in a Strong Labor Market" *Monthly Labor Review* June 2001, Vol. 124, No. 6. Bureau of Labor Statistics, Washington D.C. <http://www.bls.gov/opub/mlr>.

¹⁷ Gardner, “Worker Displacement: A Decade of Change,” p. 45-47.

¹⁸ *Ibid.* p. 47.

among all industries in 1991-92 (2.8 percent). Three industries—construction, transportation, and public utilities—had virtually the same displacement rates over the 10 year period.

Continuing in this trend, displacement became more dispersed among occupational groups and less concentrated among blue-collar workers. The percent of workers displaced who last worked in blue-collar jobs dropped from 58 percent in the 1980s to 36 percent in the 1990s. Moreover, the displacement rate for blue-collar workers fell from 7.3 percent in 1981-82 to 5.2 percent in 1991-92. Gardner points out though, that blue-collar workers still have higher displacement rates than all other occupational groups.¹⁹ Picking up some of the burden, white-collar workers experienced more job loss in the 1990s than in the 1980s (one-half of all displaced workers had last held jobs in white-collar jobs in the 1990s compared to one-third in the 1980s). The displacement rate for white-collar workers increased from 2.6 percent to 3.6 percent. White-collar workers tended to gain reemployment at slightly higher rates than blue-collar workers (78 percent verses 72 percent).²⁰

Gardner noted changes in the age, race, and gender of displaced workers over this decade. First, older workers were disproportionately displaced in the early 1990s as compared with the early 1980s. In the 1980s, blacks and Hispanics were displaced more often than whites. Their displacement rates were 4.8 percent, 4.3 percent and 3.8 percent respectively. By the 1990s however, blacks and whites had the same displacement rate (3.8 percent), while Hispanics lost their jobs at higher rates (4.8 percent). Also notable, in 1994 Hispanics also held the lowest reemployment rate.²¹ Over the decade, the rate of job loss for women remained constant after accounting for the increase of women in the labor force in the 1990s.

Gardner observed regional shifts in displacement. In the 1980s, the Midwest experienced the highest job losses. New England and the West suffered the most in the 1990s. In addition, the reemployment rate for the Northeast (68%) was much lower than the rest of the U.S. (75%). Job loss in the Northeast and West rose most dramatically for construction workers. Interestingly, while the Midwest was hardest hit in the 1980s, it was the least vulnerable by the early 1990s.²²

1992 to Present

In general, displacement during this period has declined in the growing economy of the late 1990s. The 1997-98 displacement rate (3.4 percent) was the lowest since the late 1980s (3.2 percent). However, the trend of blue-collar workers experiencing higher levels of job loss holds through the 1990s. Economist Ryan Helwig of the Bureau of Labor Statistics finds: “Although the gap in displacement rates between goods-producing and service-producing industry workers has narrowed since the early 1980s, workers in

¹⁹ Ibid. p.47-48.

²⁰ Ibid. p.48.

²¹ Ibid. p. 49.

²² Ibid. p. 53.

goods-producing industries—mining, construction, and manufacturing—continued to be more likely to be displaced from their jobs than those in service-producing industries.”²³

A more recent paper by Faber looks at a longer period of job loss in the US (1981-2001), confirms earlier findings, and discovers a few novel trends. The overall job loss due to displacement was higher over the upside of the business cycle than expected. Yet full employment during the late 1990s helped the reemployment experiences of dislocated workers. Unemployment also increased among the more skilled, but the least educated displaced workers continued to have the largest rates of job loss overall. Finally, “there is no evidence of decline during the tight labor market of the 1990s in the earnings loss of displaced workers who were reemployed full-time. In fact, earnings losses of displaced workers have been increasing since the mid-1990s.”²⁴

The latest report (July 30, 2004) by the US Department of Labor, Bureau of Labor Statistics, on worker displacement documented that the period from January 2001 through December 31, 2003 reflected the highest displacement rates since this data was first collected in the early 1980s. During this three-year period, 6.3 percent of adult workers with at least three years on the same job lost their job. In absolute numbers, 5.3 million workers were displaced. The previous period – January 1999-2001 – the figure was only 4 million. Among those that were reemployed in the 2001-2003 cohort, 57 percent were paid less than their previous job. This is also a record (the former “winner” was 52 percent). In addition, these high 2001-2003 displacement rates coincide with much lower overall unemployment rates (5.5 percent) than in the years – 1981-83 (9 percent) and 1991-93 (7.1 percent). This may signal an increase in structural displacements – higher levels of layoffs and facility closures for any given level of unemployment.²⁵

Other major findings include:

- ⌚ 65 percent long-tenured displaced were reemployed at the time of the survey (January 2004).
- ⌚ 43 percent of long-tenured displaced cited plant or company closings or moves as the cause of their joblessness.
- ⌚ 43 percent received written advance notice of their job loss.
- ⌚ One-third of the long-tenured displaced workers were employed in manufacturing.
- ⌚ 47 percent who were displaced and then reemployed reported lower wages at their new jobs.
- ⌚ One-third said their earnings losses were 20 percent or more.²⁶

Identifying Who Is Hurt the Most

²³ Ryan Helwig “Worker Displacement in a Strong Labor Market” p. 16. *Monthly Labor Review* June 2001, Vol. 124, No. 6. Bureau of Labor Statistics, Washington D.C. <http://www.bls.gov/opub/mlr>.

²⁴ Henry Farber, *Job Loss in the United States, 1981-2001* (Princeton University Working Paper #4; 71, Industrial Relations Section, January 2003 (Revised: May 22, 2003), p. 1.

²⁵ US Department of Labor, Bureau of Labor Statistics, “Worker Displacement, 2001-2003.” Press release (July 30, 2004), p. 1.

²⁶ *Ibid*, p. 1.

What labor force groups or characteristics show stronger negative impacts of dislocation?

On the whole, manufacturing workers account for a disproportionate share of dislocated workers. One study found that dislocated workers previously employed in the manufacturing industry suffered larger financial losses and longer periods of unemployment than other dislocated workers.²⁷ Another study claimed that over half of its sample of dislocated workers had formerly worked in the manufacturing industry.²⁸

Blue collar workers are more adversely affected by dislocation. They tend to remain unemployed for 15.8 weeks longer than white collar workers.²⁹ Data from the early 1990s indicate that former defense industry workers faced the most severe setbacks when faced with dislocation,³⁰ but this research took place as the end of the Cold War spurred a large defense industry shakeout.

Previous research has shown that older workers and workers with longer work histories tend to suffer more than younger members of the labor force.³¹ However recent research indicates that better educated and younger workers are more vulnerable to job loss than in previous decades.³² For example, a study comparing dislocated workers in 1984-1986 and 1994-1996 found that in the 1980s, the percentage of college graduates who suffered an earnings loss of 20 percent or more was significantly lower than for other dislocated workers. By the 1990s, the percentages were the same, indicating that a college degree does not protect against losses stemming from dislocation.³³

Demographically, according to the latest BLS study (2004), the reemployment rates were similar across race and ethnic groups (between 62 and 66 percent).³⁴

The geographic picture showed increased displacement rates in all regions. At the time of the survey, the New England and West North Central (Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota) divisions had the highest reemployment rates, at 73 percent each.³⁵

The characteristics of regional economies play a role in the severity of displacement and its impact. Several studies conclude that workers laid off from locally declining industries experience greater difficulty in gaining reemployment and more financial hardships.³⁶ Howland finds that the costs of displacement are greatly influenced by

²⁷ Marie Howland, *Plant Closings and Worker Displacement: The Regional Issues*. (Kalamazoo Michigan: W.E. Upjohn Institute for Employment Research, 1988).

²⁸ Louis Jacobson, Robert LaLonde and Daniel Sullivan, *The Costs of Worker Dislocation*. (Kalamazoo Michigan: W.E. Upjohn Institute for Employment Research, 1993).

²⁹ Howland. p.133.

³⁰ Yolanda K. Kodrzycki "Laid-Off Workers in a Time of Structural Change" *New England Economic Review* July/August 1996, 3-26.

³¹ Diane Hertz, "Worker Displacement in a Period of Rapid Job Expansion: 1983-87," *Monthly Labor Review* (May 1990), p. 28-29.

³² Paul Osterman, *Securing Prosperity. The American Labor Market: How It Has Changed and What to Do About It*. (Princeton, New Jersey: Princeton University Press, 1999).

³³ *Ibid.* p. 81-84.

³⁴ U.S. BLS, "Worker Displacement, 2001-2003", p. 2.

³⁵ *Ibid.* p. 3.

³⁶ Howland and Kodrzycki.

industry growth. The net loss (on average) from displacement in growing economies was \$1,173 and jumped up to \$17,182 in declining areas.³⁷ She concludes that growing and declining labor markets affect wages, employment status and average length of unemployment. She also finds that while workers tend to gain employment faster in recessions—perhaps due to lower reservation wages³⁸—they also experience greater financial losses.³⁹

Landing A New Job

Are dislocated workers typically able to secure new employment in a reasonable amount of time?

A 1988 Bureau of Labor Statistics survey of dislocated workers found that the average period of unemployment was eight weeks, and workers who received advanced warnings about job loss recovered employment in just 5 weeks.⁴⁰ Groups experiencing longer spells of unemployment tended to be workers over 55 years old, those with lower educational attainment, and those in production-oriented manufacturing. Dislocated workers with higher educations tended to gain employment faster, but they were usually underemployed.⁴¹ While Kane and Duggan stated that workers who received advance notice of job loss tended to have shorter periods of unemployment, other studies found this not to be the case.⁴² The best example, a study by Ehrenberg and Jakubson, found small overall positive effects of advance notice on the firm's workforce as a whole and major impact on those who found jobs before the layoff. White collar workers benefited the most.⁴³ Kodrzycki found that former employees who promptly signed up for adjustment services tended to have reduced periods of unemployment.⁴⁴ That study also documented that workers in construction and service industries tended to have the highest re-employment rates.⁴⁵

As expected, dislocated workers overall are worse off than the jobless who were not displaced. The employment rate for non-dislocated workers is 10 percentage points higher than those who experienced dislocation.⁴⁶

Accessing Decent Jobs

³⁷ Howland, p. 128.

³⁸ An individual's "reservation wage" is the lowest wage he/she is willing to accept for a job.

³⁹ Ibid, p. 132.

⁴⁰ Kane and Duggan, p. 13. In the latest BLS study (2004), advance notice made little difference in reemployment experience.

⁴¹ Ibid.

⁴² Kane and Duggan and Howland.

⁴³ Ronald Ehrenberg and A. Jacobson, *Advance Notice Provisions in Plant Closing Legislation* (Kalamazoo, MI: Upjohn Institute for Employment Research, 1986). They also found no evidence that the most productive workers quit before the displacement date.

⁴⁴ Kodrzycki, p. 4.

⁴⁵ Ibid, p. 9 and 11.

⁴⁶ Osterman, p. 80.

Are dislocated workers typically able to find new jobs that pay earnings comparable to their old jobs?

The short answer to this question is no. Dislocated workers who secure reemployment usually face a marked decline in earnings. This decrease in income is compounded by the loss of pensions, leading to later retirement, and a loss of health insurance, causing further depletion of financial resources.⁴⁷ During the same time frame the remainder of the U.S. workforce increased their average weekly wage by \$17.50, or \$11.00 over a 7.5 month period, the average jobless spell for a dislocated worker. Thus, displaced workers experienced a \$7.00 net loss in earnings per week when compared to all other workers.⁴⁸ Another study estimates the costs of dislocation to be \$80,000 (in 1993 present value dollars) over a worker's lifetime.⁴⁹

Jacobson et al also point out:

The bulk of these losses accrue after workers are reemployed and not during prolonged or frequent periods of unemployment following their displacements ... Because the UI system replaces roughly 40 to 50 percent of predisplacement earnings and because displacement substantially lowers earnings prospects, UI benefits are likely to be a relatively large percentage of earnings from post displacement jobs . . . Workers who remained employed in distressed firms also experience modest losses.⁵⁰

These authors further note that the cost for rectifying a \$6,000 yearly long-term earning loss is high. To do so, the training program would have to last about two years and invest a greater amount in skill upgrading. Such a human capital investment would correspond to acquiring an Associates Degree. In addition, the worker would need resources to cover living expenses.⁵¹

Jacobson, LaLonde and Sullivan argue that earnings losses are due to a number of factors. There are union wage premiums. Displaced workers may work in industries that are more productive than most, and these employees take advantage of efficiency wages.⁵² The authors state: "Because displaced workers from so many demographic groups, industries, and geographic regions experience large earnings losses, our findings suggest that whenever high-tenure workers are displaced, some highly firm-specific attributes of their former employment relationship is lost ... If it is workers' skills that are lost, these skills must be firm-specific as opposed to merely industry-specific. Alternatively, earnings losses may result from the workings of internal markets."⁵³

⁴⁷ Kane and Duggan.

⁴⁸ Howland, p. 128.

⁴⁹ Jacobson, LaLonde and Sullivan, p. 137.

⁵⁰ Jacobson, LaLonde, and Sullivan, p. 160.

⁵¹ Ibid, p. 156-157.

⁵² The definition of an efficiency wage is: an above-average pay level at which the marginal revenues to the employer from a further pay increase equal the marginal costs. This is the level at which profits would be maximized.

⁵³ Ibid, p. 148-149. Internal labor markets exist when a more formal set of rules and procedures guides and constrains the employment relationship within a firm. These are more common in unionized workplaces and larger corporations. Most jobs are filled within the ranks of a firm and there is a clear mobility path as well. The benefits of this approach to filling vacancies are that the firm knows a great deal more about the

Indeed, in this last case, “should the successful workers be displaced by economic restructuring and subsequently accept employment with a similar firm, they will begin in jobs further down the promotion ladder.”⁵⁴

The evidence of dislocation and its effects on male and female workers is not clear. Osterman observes the effects of dislocation on men versus women. He finds that women and men experience similar income effects from dislocation.⁵⁵ Howland, on the other hand, finds that women do better at maintaining their pre-layoff wage than men. She hypothesizes that women earn less pre-dislocation and that women tend to work in service positions, where skills are more easily transferable across industries.⁵⁶

Howland also discovers that non-whites have larger financial losses than whites; these losses are greater than \$14,135 due to longer periods of unemployment (by 18 weeks) rather than lower re-employment wages.⁵⁷ In terms of age, most studies concur that workers with longer work histories (who tend to be older in age) suffer more from displacement. Howland states: “For every year of employment at their pre-layoff job, workers lost \$1,285 in total income and \$6.47 in weekly wages.”⁵⁸ It is also noted that higher tenured workers suffer larger losses. Their earnings fall significantly, especially in the first year when they earn 40 percent of their pre-displacement income.⁵⁹

Kodrzycki synthesizes several of her 1996 findings about dislocation’s effects on earnings for different populations. She finds that those with longer work histories, weaker education, and those who change their line of work tend to suffer larger earnings losses. She also reports that production workers (on average) accepted new jobs with relatively lower pay, while those with higher education tended to stay unemployed longer, but found jobs with similar pay.⁶⁰

Osterman conducts a detailed analysis of the impacts of dislocation on earnings. He finds that, although some workers experience an increase in pay after dislocation, most people suffer from earnings loss, and many experience sharp declines in income. Interestingly, he also observes that earnings do not improve over time.⁶¹

Accounting For Reemployment Experience

How do workers’ traits (e.g.-- demographics, skills, occupations, industries, and locations) affect their reemployment experience?

people working for it. Furthermore, firms most likely to have internal labor markets are ones where jobs require a great deal of firm-specific knowledge and on-the-job training.

⁵⁴ Ibid, p. 5.

⁵⁵ Osterman.

⁵⁶ Howland, p. 132. The latest Bureau of Labor Statistics survey (2004) found that women were reemployed at a slightly lower rate than men, but were much more likely to have dropped out of the workforce.

⁵⁷ Ibid, p. 133.

⁵⁸ Ibid, p. 132

⁵⁹ Jacobson, LaLonde and Sullivan, p. 137.

⁶⁰ Kodrzycki, p. 4 and 11.

⁶¹ Osterman, p. 83-84.

Reemployment experiences vary for different demographic and occupational workers. Research suggests that while more men tend to be laid off than women, women tend to have a more difficult time securing new employment.⁶² In terms of educational attainment, Howland states that there is a relationship between the length of unemployment and number of years a worker has attended school. Although the data are mixed, in general, the length of unemployment decreases as education increases.⁶³ In more recent research, Osterman finds that the advantage of being college educated has diminished in terms of positive reemployment effects when compared to those without college degrees.⁶⁴

In their book *From One Job to the Next*, economists Adam Seitchik and Jeffrey Zornitsky provide a more detailed examination of workers skills and work displacement. Since 1979, unprecedented changes in the structure of employment opportunities have occurred, resulting in a shift from blue-collar to white-collar jobs, a decline in employment at the midpoint of the wage and salary distribution, and an increase in educational and skill requirements in all jobs, especially in higher-paying positions. Moreover, movements among workers from blue-collar to white-collar and from declining industries to growing ones are fairly rare. Most workers do not change industries and occupations. Instead, they typically stay in the same broad sectors in which the workforce reduction occurred.⁶⁵

This mismatch of skills and jobs leads to the following:

- ⌚ 30 percent of displaced workers are jobless for more than 27 weeks; One-third of workers experience an earnings decline large enough to move them down at least one quartile in the wage and salary distribution;
- ⌚ Earnings losses remain large even after controlling for the differences in skills and other personal characteristics;
- ⌚ Displaced workers earn 15 to 20 percent less than other workers (and these shortfalls persist over time); and
- ⌚ The average male displaced worker takes about five years to recoup fully his loss and at least two years to recover 50 percent of his drop in wages.⁶⁶

It appears that the free flow of workers from declining to emerging industries is too slow and costly for the displaced, their communities, and the nation. The geography of growth and decline do not coincide. The dynamic places are rarely where the dislocation is happening.

Seitchik and Zornitsky contend that training and educational services for the displaced are not deep or long enough. Further, no one has yet found a way to help the dislocated worker afford the acquisition of new, more marketable skills or to figure out how to aid the older and less well educated to move forward.

⁶² Osterman, p. 81 and Howland, p. 116.

⁶³ Howland, p. 116.

⁶⁴ Osterman, p. 81-82.

⁶⁵ Adam Seitchik and Jeffrey Zornitsky, *From One Job to the Next: Worker Adjustment in a Changing Labor Market* (Kalamazoo, MI: Upjohn Institute for Employment Research, 1989).

⁶⁶ *Ibid*, p. 13-15, 29-34,39-42,45-46.

One interesting finding is that the reemployment success of manufacturing workers is much more sensitive to local economic conditions than to shifts in the national economy. Moreover, previous research between 1964 and 1987 shows that minorities tend to have a harder time getting reemployed than whites.⁶⁷

Dislocation in Rural America

What's the angle on dislocated workers in non-metro areas? Do the traits of such workers and their job loss and reemployment experience differ from those of their urban peers?

Research by economist Karen Hamrick finds that during the period 1995-1997, about 3.4 million of workers were displaced from their jobs.⁶⁸ About 15 percent (roughly 500,000) lived in non-metro communities. Hamrick finds that these rural workers are less likely to be displaced than their metro peers but once unemployed, that they have a lower probability of finding employment. Non-metro workers are less likely to get prenotification of shutdowns and major layoffs and have greater difficulties in maintaining their retirement and health insurance benefits after being laid off. They are more likely to drop out of the workforce. Women, workers with long tenure on their last job, and low-skill workers face greater odds in finding a job relative to other dislocated workers.

About half of the employed displaced workers, both metro and non-metro, did secure jobs, though lower paying than their previous ones. The most common reason for this drop in real weekly earnings is that the non-metro displaced employee could find only a part-time position.

A new study of dislocated workers in North Carolina finds that rural mass layoffs were greater in number than urban ones in 2000 and 2003. In 2000, in rural parts of the state, 63.5 percent of those laid off were reemployed a year later. In 2001, it was 58.8 percent. In 2002, it was 49 percent.⁶⁹

Two Case Studies: Youngstown, Ohio and Lowell, Massachusetts

Most of the data and literature so far has not followed the evolution of a local economy over time that is undergoing a violent restructuring.

On September 19, 1977, Lykes Corporation closed the huge Campbell Works in Youngstown, Ohio and terminated nearly 5,000 steelworkers. Between 1977 and 1988, 24 more steel plants closing, adding another 40,000 to the unemployed. It has been one of the most studied plant shutdown sites in the nation.⁷⁰ By examining the Youngstown

⁶⁷ Howland, p. 115-116.

⁶⁸ Karen Hamrick, *Displaced Workers: Differences in Non-metro and Metro Experience in the Mid-1990s*, US Department of Agriculture, ERS Rural Development Research Report No. 92, October 2001.

⁶⁹ North Carolina Rural Economic Development Center. *Economic Dislocation and the Rural Worker in North Carolina*. Rural Dislocated Worker Summit (September, 2004) Mass layoff data provided by N.C. Employment Security Commission.

⁷⁰ For background, see: Terry Buss and Stevens Redburn, *Shutdown at Youngstown: Public Policy for Mass Unemployment* (Albany: State University of New York Press: 1983) and Terry Buss and Roger Vaughan,

example, we can track particular workers over time and in a very troubled economic environment.

What have researchers discovered?⁷¹ In one of these studies, for the period of 1977 to 1985, Terry Buss and Stevens Redburn tracked about 4,100 displaced workers and found that:

- ⌚ In 1985, 32.4 percent were reemployed, 34.3 percent were retired, 14.3 percent were still jobless, 13.4 percent had moved from Youngstown, and 4.6 percent were deceased.
- ⌚ 1,328 were now working, 1,406 were retired, 590 are unemployed, 549 had relocated, and 189 were dead.
- ⌚ Relative to the entire Youngstown labor force, these workers were twice as likely to be unemployed than others in the workforce, despite the passage of eight years and the large number of retirees.
- ⌚ Twice as many Youngstown workers had left the workforce altogether than was case nationwide and locally in 1985. (The U.S. Bureau of Labor Statistics calls these people – “discouraged workers.”)
- ⌚ Only 12.9 percent of the original workforce has remained continuously employed. Well over half (57.2 percent) of those employed and nearly one-quarter (23.1 percent) of those now unemployed held at least two job following the shutdown.
- ⌚ About half of the currently jobless have failed to find any jobs after the closure.
- ⌚ Almost 450 of the original 4100 workers tracked have been unable to land a job at all.
- ⌚ Older workers had the least probability of being reemployed.
- ⌚ Minorities were much more likely to be jobless than whites.
- ⌚ Most that did find work, stuck with manufacturing.⁷²

Other interesting findings suggest that the more educated steelworkers (had completed high school) did not fare better than those who never finished high school. Workers who took longer to find or accept a job then (1985) were more likely to be still employed.⁷³ (This may be in part due to the fact that the area suffered back-to-back recessions in 1979 and 1982.)⁷⁴ Few workers sought educational and training opportunities and those that were retrained did not access higher skilled, higher paying jobs.⁷⁵

Those working or retired subsisted at incomes around the average for this labor market. But those holding jobs made much less than they did as steelworkers. More specifically, the researchers found that 37.3 percent of the laid off workers made more (16.4 percent) or maintained their standard of living at their new jobs (20.9 percent). Thus, almost two-thirds had suffered downward mobility in their reemployment.⁷⁶

On the Rebound: Helping Workers Cope with Plant Closings (Washington, DC: Council of State Policy and Planning Agencies: 1988).

⁷¹ Terry F. Buss and Stevens Redburn, “The Closing of Youngstown Sheet and Tube, 1977-1985” in *The Entrepreneurial Economy Review* (April, 1987).

⁷² Buss and Redburn, “The Closing of Youngstown Sheet and Tube,” p. 2-3.

⁷³ *Ibid*, p.3.

⁷⁴ Buss and Vaughan, p. 21.

⁷⁵ Buss and Redburn, “The Closing of Youngstown Sheet and Tube”, p.4.

⁷⁶ *Ibid*.

There was also little use of the vast range of human services made available, such as stress and even budget counseling. (Steelworker pride, strong networks of friendships, church and union membership, and ineffective marketing and customizing of these programs were responsible for this state of affairs.)⁷⁷

Their largest unmet need was the loss of their health insurance coverage.⁷⁸

Unemployment insurance was drawn upon heavily. Food stamps were used. But very few households ended up on welfare.⁷⁹ (Increases in AFDC, instead, tracked the recessions.)

On the positive side, very few lost their homes to foreclosure. The crime rate did not increase. Child abuse, divorce, and mental illness rates stayed at “normal” levels.⁸⁰

Overall, this picture is more troubling than national data represents, documenting that “so many experienced, and in many cases, skilled workers were either unable or unwilling to move into alternative employment . . . Apparently, this is . . . the case where a series of layoffs in one industry is combined with the near absence of alternatives to which the skills of affected workers are transferable.”⁸¹

Indeed, the picture of unemployment in 1985 was very bleak. If you added those workers who were discouraged from looking for a job, the underemployed, involuntary part-time workers, and so forth to the number of jobless, according to the U.S. Bureau of Labor Statistics, the rate of unemployment jumps from 16.5 percent to 32.4 percent. Buss and Vaughan argue that this could be regarded as a truer picture of the employment picture.⁸²

Sadly, Youngstown has not rebounded:

- ⌚ Between 1980 and 2000, the city’s population dropped from 115, 511 to 82,036.
- ⌚ The unemployment rate for Mahoning County was higher than Ohio and national rates from 1996-2000.
- ⌚ The unemployment rate for the city 10.4 percent in December 2001.
- ⌚ Between 1993 and 1998, its rate of joblessness ranged from 14.5 percent to 10.6 percent.
- ⌚ 50 percent of students in this school district eligible for school lunches.
- ⌚ Poverty rate dropped from 29 percent of the population to 24.8 percent between 1990 and 2000.
- ⌚ Median household incomes in Mahoning County are about \$5,000 lower than Ohio and the U.S. in 1997. (And remember: the county as a whole is doing much better than the city of Youngstown.)⁸³

Youngstown has not turned the corner.

⁷⁷ Buss and Vaughan, 15-43.

⁷⁸ Ibid, 9.

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ Buss and Redburn, “The Closing of Youngstown Sheet and Tube”, p.5.

⁸² Buss and Vaughan, p. 24.

⁸³ Mahoning County Risk Factor Data, found at <http://cc.yosu.edu/compstrat/extreme.htm>.

On the other hand, Lowell, Massachusetts has done a lot to reinvent itself.⁸⁴ Textile mill owners were originally attracted to Lowell by its labor force and by the Merrimack River and power canal system, which provided the energy for the power looms. These mills used the latest industrial technologies and transformed a smaller agricultural community (2,500 in population into a larger manufacturing one over a hundred years (112,000 in population).

It was an old and declining manufacturing community which rebounded in the 1970s. Then Lowell weathered further economic setbacks in the 1990s.

The 1970s rebound was due primarily to: (1) the development of a product, mini-computers, and a market (Wang); (2) relatively low wages for the region; and (3) the perception of a crisis stirred its leadership (including the late Senator Tsongas) into spirited and thoughtful action.

Other transforming lessons from the seventies included:

- ⌚ A broad conception of economic development
- ⌚ A case of civic participation overcoming widespread pessimism
- ⌚ A strategy aimed at improving the area's niche in high technology through venture capital, research and development, and entrepreneurship
- ⌚ Political leadership attracted outside dollars
- ⌚ New development partnerships were developed with the universities and others
- ⌚ Good cooperation between the public and private sectors

Wang Laboratories closed and the city went through a downspin in the 1990s. But it largely recovered by:

- ⌚ Not resting on its laurels
- ⌚ Strong partnerships focusing on downtown and riverfront development, and the conversion of old mills for other uses, such as incubators, artists lofts and sports facilities (co-owned with the university)
- ⌚ Leadership projecting a good image beyond its borders
- ⌚ Welcoming new Asian immigrant populations

Moreover, Lowell's experience can be clearly contrasted with that of nearby Lawrence, which was also a mill town, but has not been able to get its act together, trailing Lowell in its statistics and in its overall impressions. A major illustration of this concerns financial resources that Lowell has been able to attract as compared to Lawrence. Dr. Jeffrey

⁸⁴ Ross Gittell's book, *Renewing Cities* (Princeton, NJ: Princeton University Press, 1992), provides great background on this saga. His research was designed to involve an interdisciplinary examination of the effects of public, private, and nonprofit based economic development initiatives on the economic performance of mid-sized manufacturing-oriented cities (25,000 to 110,000 population), located in the Northeast. The four chosen for analysis were Lowell and New Bedford, Massachusetts; Jamestown, New York; and McKeesport, Pennsylvania. He picked these, because economic data alone could not explain why some were doing better than others. And all of them were doing measurably better than a group of peer cities in their states. During the time periods researched by Gittell, Lowell did better than the other three other candidates. Also, see the articles by Ross Gittell and Patricia Flynn in *New England Economic Review* in the November/December, 1999 and the April/May 1995 issues.

Gerson estimates that since 1975, Lowell has attracted \$400 million in public and private dollars, while Lawrence has been able to tap only \$100 million.⁸⁵

Money helps, of course, but effective organization and management of development activities appears to matter more in improving city economic positioning, increasing effort by individuals and institutions, and enhancing cooperation.

And relative to Youngstown, Lowell had a better and luckier location – one blessed by a regional renaissance signaled by high tech innovation, world-class universities, abundant and sophisticated venture capital, and entrepreneurial initiative

Dislocation and Globalization

Trade and Displacement

Many Americans blame trade and globalization for the growing dislocation problems. Is this the case? Let's look at the connections between trade, de-unionization, and wage loss. Then we will consider how US workers view these issues. How accurate are their views? Do they differ by class, skills, or education?

Robert Baldwin's book, *The Decline of US Labor Unions and the Role of Trade*, documents two important findings from the period 1977 to 1997. First, there was a precipitous decline in the proportion of American workers with a median education who were represented by a trade union. Second, the union wage premium declined sharply for those workers with only a basic education. According to Baldwin, trade had only a modest impact on these outcomes. Instead, de-unionization was driven much more by the enactment of new antiunion laws, intensified antiunion interpretations of old and new statutes, and a shift to increased employment in industries not known for pro-union attitudes among workers or management. Baldwin calls for more extensive adjustment programs to address the job loss and wage drops experienced by these workers.⁸⁶

Globalization and the Perceptions of American Workers, by Kenneth Scheve and Matthew Slaughter, disputes the thesis that the US is now experiencing an intense anti-globalization backlash. They contend that Americans hold more nuanced views, recognizing both the advantages and the disadvantages of globalization. Highly skilled

⁸⁵A great deal of federal and state money was poured into Youngstown as well. Buss and Redburn's book, *Shutdown at Youngstown* paints an ugly picture (1977-79) of different community and economic development organizations in the city in conflict over strategies, visions, and money and a growing reluctance of the federal government to invest the hundreds of millions needed to revitalize (possibly) a declining steel industry with its community leaders in disarray. But one cannot overemphasize the body blows dealt to its manufacturing economy by back-to-back recessions. The scale and speed of the changes were too much for the economy to assimilate and adapt to. Lastly, there is a "cultural" issue as well. An economy that has been successful for that many decades of generating and sustaining high wage jobs, which require minimal schooling, and where families for generations have worked at the same plant are not likely to be a hot-bed of entrepreneurialism.

⁸⁶ Robert Baldwin, *The Decline of US Labor Unions and the Role of Trade*. (Washington, DC: Institute for International Economics, June 2003).

workers are less likely to oppose trade and investment liberalization and immigration.⁸⁷ Those with lower skills are more critical of these policies and trends. These varied perspectives reflect the wage stagnation and earning inequality that has characterized less skilled American workers during the past few decades. There is a great deal of concern and skepticism about trade flows and policies. The authors contend that adjustment programs that better target the needs of the less skilled are essential, if the ambivalent mood is not to turn into utter hostility.

How important have imports been in harming American workers? Economist Lori Kletzer finds that the costs from growing imports are indeed high for many Americans, but not markedly higher than manufacturing workers who lose jobs due to automation or domestic competition.⁸⁸ Given their educational background and skills, most of the displaced would be better off returning to manufacturing rather than retooling their career and seeking higher education. However, if they do remain in manufacturing, many will be reemployed at wages significantly lower than those at their former jobs. Wage insurance supplements the earnings of these workers for a few years. A limited version of this for older workers (Alternative Trade Adjustment Assistance) was enacted in the last “fast track” law.

As Kletzer notes in another work, *Imports, Exports and Jobs*, “trade is not just imports.”⁸⁹ Imports do cost workers jobs. She argues that import restrictions will not boost employment by much, and consumers will bear the costs of higher prices. Exports promote job creation and new market development among other benefits; they could be harmed if the US sought to keep out imports. Kletzer also offers the view that free trade, open markets, and economic integration are good things, but, for reasons of fairness and politics, the losers must be compensated and aided by the winners. She, thus, proposes that the Trade Adjustment Assistance programs should apply to any displaced worker, no matter how they lose their job. If it is a mass layoff caused by automation or domestic competition, it does not matter. These dislocated workers should get the same deal as those who are made jobless by imports, for instance.

Job Creation, Job Destruction, and International Competition, by Michael Klein, Scott Schuh, and Robert Triest, finds that “international factors have a much more intensive and extensive impact on the labor market than previously believed. This naturally raised the question, of whether the costs of labor adjustment might be much more intensive and extensive than previously thought.”⁹⁰ Previous research often focused on gross, not net, job flows; it did not examine job search or hiring costs. It restricted its scope to the income lost during unemployment and failed to incorporate the permanent reduction in livelihood. The central question, “when a job is destroyed and a worker is laid off, how much firm-specific human capital is destroyed?”⁹¹, went unasked. Klein, Schuh, and Triest bring relocation costs, stress costs, declines in property values and tax rolls, and a

⁸⁷ Kenneth Scheve and Matthew Slaughter, *Globablization and the Perceptions of American Workers*. (Washington, DC: Institute for International Economics, March 2001).

⁸⁸ Lori Kletzer, *Job Loss from Imports: Measuring the Costs*. (Washington, DC: Institute for International Economics, September 2001).

⁸⁹ Lori Kletzer, *Imports, Exports, and Jobs: What Does Trade Mean for Employment and Job Loss?* (Kalamazoo, MI: Upjohn Institute for Employment Research, 2002).

⁹⁰ Michael Klein, Scott Schuh, and Robert Triest, *Job Creation, Job Destruction, and International Competition*. Kalamazoo, MI: Upjohn Institute for Employment Research, 2003), p.171.

⁹¹ Ibid, p. 170.

need for retraining into the conversation. These expenses are significant to individuals and communities. Unfortunately, this research does not offer a new estimate of the costs of international competition. But it still opens the way “for significant improvement in our understanding of the magnitude and nature of labor-adjustment costs and net welfare gains from trade.”⁹²

New evidence on the actual size and key features of these dislocation and adjustment costs can be found in *International Trade and Labor Markets: Theory, Evidence and Policy Implications*.⁹³

The costs to households of trade reforms are well-documented; loss of income, health insurance, and/or family home are among the most painful consequences of free trade. Unionized workers especially experience large losses in lifetime income. Economists frequently assert that the economy-wide benefits of trade liberalization exceed the costs to individuals once the economy adjusts to its new trade policies, but the total adjustment costs are difficult to estimate.

Carl Davidson and Steven J. Matusz examine the aggregate costs of adjustment when trade patterns are liberalized.⁹⁴ Davidson and Matusz use a simple general equilibrium model that includes unemployment, training, and job search and their associated resource costs to estimate the size of the adjustment caused by trade reform. (This goes beyond traditional models, which assume virtually frictionless labor markets and do not count these other adjustment costs.) Using a two-sector model that employs workers of differing abilities, they show that the adjustment costs range from 30 per cent to 80 percent of the gross benefits from trade reform.⁹⁵ This is a much, much larger number than earlier studies estimated, which are as low as 5 percent of the long term gains from trade (after using a suitable discount rate). This wide gap needs to be put in perspective though.

In the past, studies have focused more on the actual salary and benefit losses of the workers, for instance. They have not counted transition costs, such as programs to help their getting reemployed, the resiliency of the labor market, etc. Davidson and Matusz look at a wider variety of such real costs. In their study, these adjustment costs depend on the cost of training (the higher the training costs, the greater the adjustment costs) and responsiveness of the labor market (the greater the flexibility, the lower the adjustment costs.)⁹⁶ Lastly, the authors look at the problem of compensating the losers and how best to do it. They compare wage subsidies, unemployment insurance, employment subsidies,

⁹² Ibid, p. 171.

⁹³ Carl Davidson and Steven Matusz. *International Trade and Labor Markets: Theory, Evidence, and Policy Implications*. (Kalamazoo: Upjohn Institute for Employment Research, 2004).

⁹⁴ C. Davidson and S. Matusz. “Should policy makers be concerned about adjustment costs?” Unpublished manuscript, Michigan State University and GEP, University of Nottingham. (2001, April; revised 2003, September).

⁹⁵ They focused on two groups: low-tech workers who choose to shift to the high tech sector and low-tech who stayed in low-tech work, and gave differing estimates of the groups’ adjustment costs. The high-tech jobs require costly, time-consuming training, but, once acquired, last a long time and pay relatively high wages.

⁹⁶ Slothful labor markets, the least flexible in this model, have the most to gain from trade liberalization because they experience the greatest distortions from barriers to trade. This is from the perspective of the positive *benefits* generated from the increased trade and competition. More flexible markets will have lower adjustment *costs*.

and training subsidies. The relative merits of these options depend on the skills of the worker, but are cost effective if the right tool is targeted to the right person.

Is Off-shoring a Big Deal or Not?

Increased globalization of our economy has meant that consumers have access to quality products at lower prices and that communication and trade between countries is easier and greater than ever before. However, it has also meant that production of goods and, increasingly, services, has been shifted to those localities that have low cost inputs. The greatest impact has been on labor—American workers.

The term “creative destruction,” first coined by Joseph Schumpeter, describes a process that dismantles outmoded industries and diverts workers to new enterprises that offer expanded opportunities for higher standards of living.⁹⁷ According to him, evolving economies *should* cast off those industries that rely on unskilled labor and that are concentrated on natural resource or agricultural products; they should move toward industrial manufacturing and then to outward-oriented investments that increase access to capital, economic opportunities, and the political process for the poor. As a nation moves beyond subsistence, as its labor force becomes more skilled, literate, and flexible, as its economy masters production techniques and moves to more creative and innovative processes, its comparative advantage lies in new industries; its cast-offs should be “exported” to countries whose economies are less advanced and whose labor forces are not as skilled. In this context, globalization expands trade. Economies grow, and poverty decreases. These benefits of trade and outsourcing occur when an economy operates at full employment.⁹⁸

Where reality and economic theory diverge is in the numbers of Americans adversely affected by the destruction of their income sources. As of July 2003, there were 2,087 mass layoff events which translate into 226,435 jobs lost.⁹⁹ Between November 2001 and January 2004, 700,000 jobs disappeared from the U.S. economy. Since peak employment in March 2001, 2.4 million jobs have been lost;¹⁰⁰ the estimates rise to 2.5-3 million if manufacturing and service jobs are included.¹⁰¹ Many of these losses are not tied to cyclical fluctuations in economic health but are permanent.¹⁰²

Increasing numbers of workers who are displaced are unable to find jobs with comparable wages. Rather, they often accept large decreases in pay to secure any job. The pay cuts are even larger for those whose jobs are lost due to trade-related decisions.¹⁰³ There is little empirical evidence that displaced American workers are moving to higher level jobs.¹⁰⁴

⁹⁷ Boo, K. “The Churn: Creative destruction in a border town.” *The New Yorker* (March 29, 2004), p. 69.

⁹⁸ Madrick, J. “Toward a Progressive View on Outsourcing.” *The Nation* (March 22, 2004), p. 23-25.

⁹⁹ Bardhan, A. and C. Kroll. *The New Wave of Outsourcing*. Fisher Center for Real Estate and Urban Economics. Berkeley, CA: University of California (Fall 2003).

¹⁰⁰ Henwood, D. “Toward a Progressive View on Outsourcing.” *The Nation* (March 22, 2004), p. 25.

¹⁰¹ Marks, J. “The Outcry Over Outsourcing.” *State Legislatures* (May 2004), p. 30.

¹⁰² Marks, p. 31.

¹⁰³ Madrick, p. 24.

¹⁰⁴ Marks, p. 31.

Manufacturing job loss in the US is attributable to three causes: the economic downturn, lower cost inputs abroad (outsourcing), and increased productivity of labor (decreasing the need for large pools of factory workers). This last development has decreased factory employment in many countries, including those that we most often blame for “stealing” jobs from Americans (e.g.—Between 1995 and 2002, Brazil’s manufacturing employment decreased 20% and China’s decreased 15%).¹⁰⁵

In North Carolina, 134,000 jobs were lost between March 2001 and October 2003. A quarter of the state’s manufacturing base was lost (about 224,000 jobs) from 1990 to late 2003.¹⁰⁶

Off-shoring is just one element of international trade, and only about ten percent (10%) of the lost jobs are attributable to outsourcing.¹⁰⁷ Trade maximizes efficiency, by allowing companies to purchase needed inputs at lower costs than are available locally. It does not ensure fairness; the distribution of gains and losses from trade is uneven.¹⁰⁸ When a company sends work to another country, it increases American exports to those markets, new revenues from office services, and repatriated earnings. (There is some dispute about the extent to which the foreign earnings are taxed and, therefore, benefit the American public—versus the shareholders. Roughly \$12 billion in taxes on foreign earnings are deferred by U.S.-based multinational corporations each year.¹⁰⁹) What it leaves behind are workers whose skills infrequently match the available jobs and whose standard of living is likely to fall.

The pay gap between American workers and those overseas is *at least* 45 per cent; it is higher for unskilled laborers.¹¹⁰ For every dollar spent on business services abroad, 58 cents is saved.¹¹¹ During the 1970s and 1980s, 20 to 25 percent of the decline in real hourly wages was due to trade.¹¹² “Our labor force is not better trained, harder working, or more innovative than our foreign competitors.”¹¹³ In fact, one of America’s biggest exports is education. A large number of the students that attend colleges and universities in the U.S. are from other countries; they return to their homes after completing their degrees and, potentially, capture jobs that are exported. With decreases in research and development funding, American innovations have diminished, paving the way for foreign companies to improve on our production techniques. Moreover, venture capital often flows out of the U.S. to those enterprising firms that receive off-shored work!¹¹⁴

¹⁰⁵ Henwood, p. 25.

¹⁰⁶ *NC Policy Brief*, p. 1.

¹⁰⁷ Brookings Institution. (2004, March 3) Event summary: Preparing America to compete globally: A forum on offshoring. Accessed on the World Wide Web on 8 March, 2004 from <http://www.brook.edu/comm/op-ed/20040303offshoring.htm>.

¹⁰⁸ Southern Global Strategies Council, p. 12.

¹⁰⁹ Weisman, J. “U.S. Firms keep billions overseas: Kerry’s plan spotlights huge untaxed earnings.” *The Washington Post* (April 2, 2004) p. A1.

¹¹⁰ Anderson, S. and J. Cavanagh. “Toward a Progressive View on Outsourcing.” *The Nation* (March 22, 2004), pp. 22-23.

¹¹¹ Marks, p. 30.

¹¹² Henwood, D. (2003, December 1). “Beyond globophobia.” *The Nation* (December 1, 2003), p. 18.

¹¹³ Terry, R. (2004, March 12). Answers on outsourcing: A finance professor argues against placing blind faith in outsourcing. Retrieved March 19, 2004 from <http://cnm.money.printthis.clickability.com/pt/cpt?action=cpt&title=The+Dobbs+Report%3>.

¹¹⁴ Mattered, P. (2004, April 28). Capital flight: How U.S. investment funds are bankrolling offshore outsourcing. Retrieved April 29, 2004 from www.corp-research.org/apr04.htm.

A variety of policies to limit off-shored have emerged:

- ⌚ Banning foreign off-shoring of state and federal government work;¹¹⁵
- ⌚ Eliminating tax incentives for companies that outsource;
- ⌚ Giving tax incentives to companies that do not off-shore and/or pursue in-state interests;
- ⌚ Banning the transfer of financial, medical, or related personal information overseas.

These may be unconstitutional or jeopardize U.S. obligations under trade agreements.¹¹⁶

Although the US has not had a trade surplus in two decades, 80 percent of American exports and imports are manufactured goods. The value of those traded goods and services exceeds output because of the globalized nature of production. Each time a good is traded, its value is assessed. Intermediate goods, those goods used as inputs for some other final product (like tires for an automobile), are often produced in one country and sent to another country where the final product is produced. In this way, the value of trade overstates production. “At least 3 percent of the value of U.S. imports actually represents the value of domestic products that have been exported and then returned to the United States [as finished products].”¹¹⁷ This amounts to \$25 billion.¹¹⁸ The evolution of such supply chains are important politically and economically. For instance, it augments the numbers of firms tapped positively into global trade and clouds the picture of what is an import and what is an export.

Other economists point to the salutary effects of the globalization of IT services and white collar jobs as the next wave of productivity growth. Catherine Mann contends that this faster productivity growth “supports higher sustainable GDP growth, higher living standards, and more jobs, although it does not eliminate the business cycle or its effects on jobs and output.”¹¹⁹ She also points out that much of the discussion of out-sourcing-based job loss is exaggerated and results from bad analysis: frequent “use of the peak of the economic and technology boom as the base for analysis, thus ignoring the business cycle, trend decline in manufacturing employment, dollar overvaluation, and technology bust.”¹²⁰ Moreover, “frequently cited projections indicate that millions of jobs will be lost to offshore workers. What these projections ignore is that the globalization of software and IT services, in conjunction with diffusion of IT to new sectors and businesses will yield even stronger job demand in the United States for IT-proficient workers.”¹²¹ She further states: “An international value chain should increasingly produce not only hardware but also software and services, which will lead to a decline in

¹¹⁵ While states may lower the explicit costs of some services, the increased costs of unemployment insurance, retraining workers, and subsidized child care can easily exceed the savings from overseas labor.

¹¹⁶ Klinger, S. and Sykes, M. *Exploring the law: A legal analysis of state and federal outsourcing legislation*. (Arlington, VA: The National Foundation for American Policy, April 2004).

¹¹⁷ Irwin, D. (2002). *Free Trade Under Fire*. (Princeton, NJ: Princeton University Press), p. 14.

¹¹⁸ Irwin, p. 14.

¹¹⁹ Catherine Mann, “Globalization of IT Services and White Collar Jobs: the Next Wave of Productivity Growth” in *International Policy Briefs* (Washington, DC: Institute for International Economics: December 2003), p. 2.

¹²⁰ Mann, p. 2.

¹²¹ Mann, p. 6.

the prices of software and services, thus making the overall IT package affordable for more businesses.”¹²² Mann worries; “globalization of services and software, enhanced IT use and transformation of activities in new sectors, and job creation are mutually dependent. Breaking the links will put the entire prospect for robust and sustainable US economic performance at risk.”¹²³

A recent study by the Institute for International Economics finds that the US economy creates many more jobs each quarter than are lost by off-shoring. Outsourcing-induced job losses are region-, occupation-, and industry-specific. Many lost jobs have even been in high-paying management positions. While some IT jobs have disappeared, higher paying ones continue to disappear.¹²⁴

One of the most recent studies, conducted by the U.S. Department of Labor and released in June 2004, concludes that “shifting jobs overseas accounted for only a tiny fraction of U.S. job losses in the first three months of the year.”¹²⁵ Twice as many moved within the U.S.

A few researchers have already taken issue with the U.S. Department of Labor study. They point out that the Department’s Bureau of Labor Statistics (BLS) does not track data on the creation of new jobs abroad that do not directly result in layoffs at home, such as when a company decides to create a new call center in India rather than Kansas.¹²⁶

The battle between researchers will continue. There is no doubt that outsourcing is important, but the jury is still out regarding its scale, inevitability, benefits and costs.

The New Division of Labor: Here and Abroad

There is another angle on off-shoring: the role of distance removing communication technologies and transportation innovations.

At this point, it cannot be emphasized enough that computers are revolutionizing the job and human investment markets by establishing new conditions for labor market success. In doing so, some IT hardware, software, and related management and cost-saving strategies are further encouraging off-shoring.

Economists Frank Levy and Richard Murnane in their new book, *The New Division of Labor: How Computers are Creating the New Job Market*, tackle four big questions:

- ⌚ What kinds of tasks do humans perform better than computers?
- ⌚ What kinds of tasks do computers perform better than humans?

¹²² Mann, p. 9.

¹²³ Mann, p. 10.

¹²⁴ Author unknown, “Job Losses, White-Collar Occupations, and Service Sector Jobs: A Look at the Most Recent Available Data” (2003)

¹²⁵ Ken Moritsugu, “Study: Few Jobs Sent out of US: Most Large Lay-offs are for other Reasons,” *Raleigh News and Observer* (June 11, 2004).

¹²⁶ See the article, “Off-shoring by the Numbers”, by Angel Chen and Adria Scharf in *Dollars and Sense* (July-August, 2004).

- ⌚ In an increasingly computerized world, what well-paid work is left for people to do now and in the future?
- ⌚ How can people learn the skills to do this work?¹²⁷

Levy and Murnane argue that some new applications of computers in the workplace enhance productivity and encourage more out-sourcing. At the greatest risk are jobs that can be expressed in programmable rules (e.g., mortgage scoring, blueprint specifications for aircraft parts, credit scoring tests) as well as blue collar, clerical, and similar work that requires moderate skills and once paid middle-class wages. The loss of these jobs leaves a growing division between those who can and cannot earn a good living in the computerized economy.

High-wage/high-skill jobs that involve extensive problem-solving and interpersonal communication skills and demand higher levels of literacy and numeracy along with good “soft skills,” will continue to command higher salaries and more potential for income and career mobility. Speaking optimistically, we are beginning to learn a lot of how these skills can be enhanced in the workplace and the classroom. But the downside – the continued wage stagnation of the less-skilled and growing income inequalities – is still the more dominant trend.¹²⁸

American Manufacturing: What is Its Status?

U.S. manufacturing has been going through a rough patch during the last few years. How is it faring? What is harming its competitiveness? What is its future?¹²⁹

Manufacturing has long been the base on which the U.S. economy has grown. Providing consumers with a wide variety of products that make life easier and businesses with needed inputs, manufacturing is crucial to our economic growth and health, our standard of living and comfort. The skills that workers acquire and use in manufacturing jobs are easily transferable to other industries, creating positive spillover effects from manufacturing to the rest of the economy.¹³⁰ The Bureau of Economic Analysis estimates that growth in the manufacturing sector induces growth in other sectors to a higher degree than any other sector of the U.S. economy.

Historically, the manufacturing sector has provided employment opportunities with health benefits, retirement benefits, and wages that typically put workers firmly in the middle class without requiring a college education. Seventy percent of the labor force has less than a college degree; among manufacturing workers, eighty percent have less than a college degree.¹³¹ The average wages for manufacturing jobs are three times those

¹²⁷ Frank Levy and Richard Murnane, *The New Division of Labor*. Cambridge, MA: Harvard University Press, 2004, p. 3.

¹²⁸ The literature is vast and largely in consensus. For a start, consult: Richard Freeman, *The New Inequality*; Frank Levy, *The New Dollars and Dreams*; Albert Fishlow and Karen Parker (editors) *Growing Apart: The Causes and Consequences of Global Wage Inequality*; and Sheldon Danziger and Peter Gottschalk, *America Unequal*.

¹²⁹ A good overview on the issue can be found in Karl Rhodes, “Global Gain, Local Pain”, in *Region Focus*, Federal Reserve Bank of Richmond, Winter 2004.

¹³⁰ John Bivens, Robert Scott, and Christian Weller, “Mending Manufacturing,” Economic Policy Institute, 2003.

¹³¹ *Ibid.*

of the rapidly growing service sector¹³² where new jobs and vacancies are plentiful. Consequently, the rapid and steady decline in manufacturing jobs in the U.S. over the last few years spells dramatic income loss for manufacturing workers whose plants close or downsize.

The statistics on manufacturing job loss are staggering:

- ⌚ Since 1994, the seasonally adjusted annual employment in manufacturing across the U.S. has declined each year. In 1994, 17 million Americans were employed in the manufacturing sector. By 2003, that number had fallen to 14.5 million. Preliminary data from the Bureau of Labor Statistics show that manufacturing employment continues to decline in 2004.¹³³ (Some estimates place the percentage of manufacturing job loss upwards of 90% of the total jobs lost in the U.S. since March 2001.¹³⁴)
- ⌚ Particular states have been hit especially hard:
 - Pennsylvania's 106,142 manufacturing jobs lost place it fifth highest among the states.¹³⁵
 - Ohio lost 191,000 manufacturing jobs between November 1999 and November 2003.¹³⁶
 - Wisconsin suffered a 9.5% decline in manufacturing jobs between March 2001 and March 2003.¹³⁷

There are three main causes of manufacturing job losses:

1. Productivity increases. Technological innovations and advancements have raised the productivity of labor, allowing businesses to produce more with fewer workers. U.S. manufacturing output has increased despite the declining manufacturing employment.¹³⁸
2. Changing consumer and investment demand patterns. Inflation on manufactured goods has been lower than inflation on services. The share of *nominal* GDP accounted for by manufactured goods has, therefore, decreased. In *real* (inflation-adjusted) terms, the demand for manufactured goods has been steady, even growing.¹³⁹
3. Trade policy and an overvalued dollar. While economists agree that unrestricted trade is efficient in that consumers have access to lower-priced goods and production is based where inputs are cheapest, there is no denying that the flow of

¹³² Personal conversation with Keystone Research Center staff member (July 21, 2004).

¹³³ Retrieved 26 May, 2004 from

<http://data.bls.gov/servlet/SurveyOutputServlet?jrnsessionid=1085576490954241621> .)

¹³⁴ Office of Joseph Lieberman, "Making America Stronger: A Report with Legislative Recommendations on Restoration of US Manufacturing," September 2003.

¹³⁵ Keystone Research Center, "Trade and Pennsylvania," October 2002.

¹³⁶ Ohio Policy Matters, "Report Finds Trade-Related Job Loss Scars Ohio," February 2004.

¹³⁷ Laura Dresser and Joel Rogers, "The State of Working Wisconsin: Update 2003," The Center on Wisconsin Strategy.

¹³⁸ Rhodes.

¹³⁹ Josh Bivens, "Shifting Blame for Manufacturing Loss," Economic Policy Institute, 2004.

jobs from one area to another leaves a wake of income losses, homeownership foreclosures, underemployment, and unemployment. Opening our borders has given American consumers greater choices of products at lower prices. The overvalued dollar has brought in even more imported goods.¹⁴⁰

In addition to these main causes, factors contributing to manufacturing job losses include:

- ⌚ Decreased funding for research and development from both industrial and federal sources. Without innovation, U.S. manufacturing processes stagnate and become easy to duplicate overseas. Once a process moves, production soon follows, because American labor costs and environmental standards are higher.¹⁴¹ Further, federal research and development dollars are directed at long-term goals. Without a steady source of money with an eye to the future, manufacturing innovation will all but cease.¹⁴²
- ⌚ Large benefits costs for manufacturing retirees. Retiree health and pension costs are high and rising because 1) health costs rise faster than many other sectors, and 2) the pool of retirees is expanding quickly as plants offer early retirement as an alternative to layoffs and shutdown.¹⁴³
- ⌚ Market restructuring. Consolidation of factories has reduced the number of players in some industries, textiles for example. The remaining businesses are larger and less able to cope with market downturns.¹⁴⁴

A good summary of the big picture and what's at stake can be found in the work of Regional Technology Strategies.

Though the pace and complexity of markets have changed a good deal over the last two decades, firms still compete and prosper by capturing market share and by maintaining or increasing profit margins. To do this, they must be able to sell their finished goods for more than they paid for the raw materials, parts and components needed to make them, and sell their services for more than it costs to produce them. In these volatile, segmented and often lucrative global niche markets they create this difference – this margin – by adding value in design, in engineering and function, in precision, in speed of delivery, in appearance and many other aspects of production.

Those firms using relatively basic technologies, low-skilled workers and managers, and very traditional business practices are usually unable to add a great deal of value to the raw materials and component goods with which they start. They tend to compete only at the relatively low ends of their markets where products must meet far less exacting requirements – where they are less

¹⁴⁰ Timothy Bartik, "Thoughts on American Manufacturing Decline and Revitalization," Upjohn Working Paper, No. 03-096.

¹⁴¹ Patrick Conway, "When Do Firms Downsize," Prepared for Conference at University of North Carolina at Chapel Hill on *Community-based Adjustment to Textile Plant Closure and Downsizing*, March 31, 2004.

¹⁴² "Powering the Assembly Line: Long-term Drivers Behind Manufacturing Health May Need Some Repair," *Fedgazette*, Federal Reserve Bank of Minneapolis, November 2003.

¹⁴³ Bivens, Scott, and Weller.

¹⁴⁴ Conway.

differentiated and therefore tend to compete chiefly on the basis of price. Usually the most critical factor input within these markets for competitive advantage is the cost of labor. The region's firms are at a competitive disadvantage when they try to compete with other producers in many other countries on the basis of labor costs or, for that matter, on resource cost advantages. In the U.S., lower value-added manufacturing operations are, at best, an endangered species.¹⁴⁵

[M]anufacturing is still the prime mover of the U.S. economy. As the primary industrial source of R&D and technological innovation, manufacturing generates the productivity gains that drive economic growth.” Indeed, “this argument runs counter to a common New Economy refrain that relegates manufacturing to the past and places the stakes of the future on high technology. It's true that high technology is the future – what's misleading is the distinction between high tech and manufacturing. Manufacturing conducts 80 percent of the industrial R&D performed in the U.S.¹⁴⁶ – creating the technological innovation that is so crucial to industrial competitiveness and economic growth. ...manufacturing R&D is also the source of much of the technology diffusion that allows technological advancement to benefit, not just the firm or industry that achieves it, but the entire economy.¹⁴⁷

Substantively, manufacturing serves two roles: a major source of technological innovation and its distribution channel. Before a new technology, a new product, a new process, or a new improvement can reshape marketplace, it must be applied. Firms must create methods to produce it efficiently, with high quality and find willing buyers. Invention and good science are not the only prerequisites.¹⁴⁸

Looking at this from an economic development view, policymakers' and practitioners' interest in technology, innovation, and diffusion isn't in sharply distinguishing “high-” and “low-” tech. Instead, what is key is the power of technology to add value in the marketplace. “Firms use technology to add value in design, in engineering, in function, in precision, in durability, in speed of delivery, in appearance and on and on. The more value is added on a per employee basis, the more wealth is created by the enterprise and the greater the economic return to workers, managers, and investors.”¹⁴⁹

Adjustment Strategies to Address Dislocation

Delivering Economic Adjustment Programs That Work

How effective have dislocated worker programs been in terms of reemployment and wage replacement?

¹⁴⁵ Drawn from unpublished research by Trent Williams of Regional Technologies (RTS).]

¹⁴⁶ Borrus, Michael, and Jay Stowsky. “Technology Policy and Economic Growth,” in Lewis M. Branscomb and James H. Keller (Eds.), *Investing in Innovation: Creating a Research and Innovation Policy That Works*. MIT Press: Cambridge, MA. 1998.

¹⁴⁷ Based on unpublished research by Trent Williams.

¹⁴⁸ Ibid.

¹⁴⁹ Drawn from unpublished research by Trent Williams of RTS.

There is an array of programs to assist displaced workers in the U.S. In this section of the literature review, these programs are organized into categories (training, job placement assistance, relocation, self-employment and labor management adjustment committees) to organize and describe the most pertinent tools that encourage reemployment and higher wages.

Training That Works

Do some types of training work better than others? Do some groups of workers benefit more from training than others? To the extent that training improves reemployment prospects, does it work by increasing post-training wage rates or by reducing the duration of unemployment? In terms of vocational training, what should workers be trained to do?

Duane Leigh answers these questions in his landmark study on dislocated worker programs, *Does Training Work for Displaced Workers?*¹⁵⁰ “Skill training should be offered sparingly for well specified needs and only where adequate local training resources are present.”¹⁵¹ Classroom training, however, is deemed to be the least effective and most costly of the assistance options. Moreover, researchers Maynard and Wichita defined two key obstacles to classroom training. First, they state that many displaced workers do not adapt well to classroom learning. Next, they find that successful program graduates do not necessarily secure training related jobs regardless of overt attempts to tailor training courses to labor market demands.¹⁵²

Leigh discovers that women and workers with existing marketable skills tend to benefit more from training programs than other demographic groups. Although training offers *positive* effects on average weekly earnings in some cases, other data suggest that training does *not* affect earnings over the long-term. It appears that training programs can shorten the period of unemployment, but labor productivity over the long-term is unaffected by such efforts.

Leigh points out the significant difficulty of crafting good vocational training curricula to meet labor market demands. Leigh suggests that vocational training is most successful when it is designed at the state level, uses performance-based contracting with training vendors, and allows employers and private sector business people to engage in the training process. He finds that these program elements boost average annual earnings of reemployed workers. Leigh also notes that Minnesota's MEED program¹⁵³ successfully targeted assistance to the hard-to-employ and gained respect from the business community. Many small business entrepreneurs found the wage subsidy program beneficial to their firm while employees successfully gained market-related skills.¹⁵⁴

¹⁵⁰ Duane E. Leigh, *Does Training Work for Dislocated Workers? A Survey of Existing Evidence*. (Kalamazoo Michigan: W.E. Upjohn Institute for Employment Research, 1990).

¹⁵¹ Ibid, p. 104.

¹⁵² Ibid, p. 107.

¹⁵³ MEED (the Minnesota Emergency Employment Development) program was a successful, but now defunct initiative. It was used during a recession and the later recovery period. MEED provided to small businesses time-limited wage and benefit subsidies for hiring the unemployed.

¹⁵⁴ Ibid, p. 5, 52, 60-62, 101. See: Timothy Bartik, *Jobs for the Poor: Can Labor Demand Policies Work?*; and Schweke and Woo, “There Are Job Creation Alternatives to Traditional Business Incentives” (CFED).

Based on a quantitative and qualitative evaluation of economic adjustment programs, which included more than fifty site visits and numerous interviews with program managers, Katherine Dickinson and the staff of Social Policy Research Associates identify key characteristics of quality training programs for dislocated workers.¹⁵⁵ States should offer a broad range of training options to address the diversity of skills among dislocated workers. These training options should include basic skills, vocational skills, and on-the-job training, especially for higher paying jobs. To address the immediate needs of dislocated workers, training should focus on skill development, practical experience, and providing training services as quickly as possible.

Dickinson also advocates these features in effective training programs:

- ⌚ Early intervention to provide help as soon as possible;
- ⌚ Efforts to deal with crisis needs such as stress and/or financial management;
- ⌚ Thorough assessment of workers' basic skills, vocational interests and aptitudes, and the transferability of existing occupational skills;
- ⌚ Assistance in identifying immediate and longer term career goals for all clients; and
- ⌚ Development of customized plan to help meet these goals.¹⁵⁶

More responsive services lead to better outcomes. Pre-layoff services result in higher follow-up wages. Basic readjustment services, especially crisis management services, result in higher employment rates; adequate income support is often a key issue while being retrained or searching for a job. More customized classroom training services result in higher wage rates.¹⁵⁷

Evidence also suggests that many workers decide not to embark on retraining, because they cannot adequately finance their household budgets during the time required to obtain the skills needed to make a difference in their future earnings. In survey of 1993 JTPA trainees, 42 percent said that the lack of income support kept them from getting the training they wanted.¹⁵⁸ Some programs provide funds for this purpose.

Economist Jim Barrett argues that the ambiguity of the findings regarding the effectiveness of training can be explained in a common sense fashion.

Whether training programs are found to be successful depends largely on how success is measured. Judging retraining programs based on worker outcomes can be difficult, because outcomes are determined by more than just the retraining program. Factors like local economic conditions, participant characteristics, and effort levels play an important role in determining outcomes for workers . . . Additionally, if moving to a new job results in the loss of seniority, replacement wages will suffer further... Even valuable retraining programs may show low-wage replacement rates due to these effects . . . the way that programs are implemented will largely determine their success or failure . . . Studies with

¹⁵⁵ "A Model of Responsive Dislocated Worker Services" in *Early Intervention: A Seminar on Best Practices for Enhancing Worker Readjustment Services*. September 12-13, 1993 Chicago, Illinois.

¹⁵⁶ Ibid, p. 12-13. However, the bulk of the data on typical classroom training approaches for this clientele is negative in its findings.

¹⁵⁷ Ibid, p. 14.

¹⁵⁸ Jim Barrett, Economic Policy Institute, *Worker Transition and Global Climate Change* (Pew Center on Global Climate Change (December 2001), p. 17.+

follow-up horizons of less than three years are unlikely to show many of the benefits of retraining . . . A transition program aimed at returning workers to 100 percent of income would need to provide at least two years of full time training.¹⁵⁹

Job Placement and Search Assistance

The research suggests that job search assistance is effective in reducing the time frame of unemployment and is relatively inexpensive. Leigh finds that it is the most cost-effective program for displaced workers.¹⁶⁰ Moreover, job search assistance professionals can often match job seekers and employers better than if the two parties acted on their own. Studies have found that the U.S. Employment Service “was found to be highly effective in helping precisely those workers who were likely to have the most difficulty finding work on their own when access to job openings as well as personal and work history characteristics were taken into account.”¹⁶¹ Additional studies conclude that job search assistance is most efficient when targeted to workers who have been unemployed for longer periods of time. The rationale is that after some time has passed, workers have exhausted all personal and work-related contacts for job opportunities.

Evidence from the studied projects “indicates unambiguously that job search assistance strongly affects in the intended direction a variety of labor market outcomes, including earnings, placement and employment rates, and level of UI benefits.”¹⁶²

Relocation, Reemployment Bonuses, and Income Support

Experience shows relocation assistance has been of limited utility in most cases. Reasons include: (1) lack of workers’ mobility because of such factors as age, community and cultural ties, and home ownership – particularly in a depressed local housing market; (2) the high-risk nature of relocation as a reemployment strategy, since jobs can evaporate and workers can face adjustment problems in their new locale; and (3) the political unpopularity of moving citizens out of a community. A number of experimental programs that offer monies for moving to another community with more jobs have been established. Although some workers were aided in their move, few took this option.¹⁶³

Since dislocated workers suffer income losses and would generally like to find employment comparable to their previous jobs, income support like unemployment insurance and Trade Adjustment Assistance payments tend to delay their reemployment. Such programs allow dislocated workers to hold out longer for a better job. Because “programs that offer weekly cash payments to unemployed workers retard adjustment, several states have experimented with offering reemployment bonuses to encourage UI recipients’ rapid return to work.”¹⁶⁴ In these state demonstrations, workers got lump-sum payments if they found jobs within a specified period following job loss. Evaluations indicate that these pilot projects modestly reduced the time unemployed without increasing the costs of state UI programs or reducing subsequent wages.

¹⁵⁹ Jim Barrett, p. 15, 21.

¹⁶⁰ Leigh, *Does Training Work for Displaced Workers?*, p. 102.

¹⁶¹ Louis Jacobson “Compensation Programs” in *Imports, Exports and the American Worker*, p. 510.

¹⁶² *Ibid*, p. 102.

¹⁶³ Leigh, *Does Training Work for Dislocated Workers*, p. 41.

¹⁶⁴ Louis Jacobson, Robert LaLonde, and Daniel Sullivan, *The Costs of Worker Dislocation* (Kalamazoo: W.E. Upjohn Employment Institute, 1993), p. 153.

Self-Employment

Another option for dislocated workers is self-employment. Although microenterprise development is not a huge engine of job creation for a region, it is a viable, successful and relatively inexpensive approach to help laid-off workers achieve self-sufficiency. While offering an opportunity for employment, microenterprise programs also offer opportunities in training. Lisa Servon, microenterprise development expert and university researcher, states:

Unlike most strategies designed to help people become economically self-sufficient, microenterprise programs help many people do a better job of something they are already doing to survive—starting small businesses. Instead of trying to channel people into the mainstream economy, these programs teach those with an interest in and inclination for self-employment how to strengthen their entrepreneurial skills, and start and stabilize their businesses. The relational skills that these programs produce, particularly during the borrowing process, enable participants to take advantage of other programs and to create critical support networks.¹⁶⁵

It is difficult to ascertain the full impact of microenterprise development on distressed communities because this strategy has only been widely used for about 15 years, and self-employment as a job creation tool is a long-term process. As Servon notes: “Unlike industrial recruitment—where a plant will open with 1500 jobs—microenterprise programs take time to start and develop successful businesses...a microentrepreneur will work with a program for several months before starting his or her business; it will then take additional time to nurture that business into a successful enterprise.”¹⁶⁶ For long-term job retention, especially in rural areas where large employers are less likely to remain for the long, microenterprise programs are an effective strategy in the larger economic development toolkit.

Limited research has been done on the impacts of self-employment in terms of earnings and reemployment. There are results from two case studies in Washington and Massachusetts. First, interest in self-employment among unemployment benefit claimants is small (7.5 percent for Washington and 3.8 percent for Massachusetts).¹⁶⁷ This is not a strategy for vast numbers of the unemployed. However, for those who are more entrepreneurial, these programs “sharply increase the likelihood of self-employment.”¹⁶⁸ Evidence of an increase in earnings is mixed: there was a positive effect on earnings in Washington but a negative effect in Massachusetts. Neither program generated additional employment opportunities for non-participants.¹⁶⁹

¹⁶⁵ Lisa J. Servon "Microenterprise Development as an Economic Adjustment Strategy" prepared for the Economic Development Administration, U.S. Department of Commerce December 1998. p. iii.

¹⁶⁶ Ibid, p. 42.

¹⁶⁷ Benus, Wood and Glover, “A Comparative Analysis of the Washington and Massachusetts UI Self-Employment Demonstrations” (Abt Associates: 1994) cited in Duane Leigh's *Assisting Workers Displaced by Structural Change: An International Perspective* (Kalamazoo Michigan: W.E. Upjohn Institute for Employment Research. 1995) p. 80.

¹⁶⁸ Ibid, p. 81.

¹⁶⁹ Ibid, p. 91.

Microenterprise programs for non-dislocated workers have been well-studied; some of this literature is instructive as well. In 1997, at least 2 million of the 10.5 million self-employed individuals were low-income microentrepreneurs.¹⁷⁰ For many unemployed and working poor people, establishing and building a business may be their only option to make real income gains in the new economy. “Many low-income people run a business as well as hold down a low-wage job in order to make ends meet.”¹⁷¹ The decision to start a small business stems from the need to supplement income due to low-wage work, job loss, divorce, illness, disability, lack of affordable childcare and/or lack of alternatives in the labor market. Successful microentrepreneurs have strong self-employment spirits, marketable skills and products, technical assistance and support networks.

Furthermore, our best national research shows that:¹⁷²

- ⌚ Low-income microentrepreneurs (low-income is defined in a varied way by different programs, but 48 percent of participants were on AFDC/welfare) reduced their reliance on government assistance by 61 percent with the greatest reduction in the amount of cash benefits received. Average benefits declined by \$1,679.
- ⌚ 72 percent of low-income microentrepreneurs experienced gains in household income over five years. The average change in household income among poor entrepreneurs was \$8,485 -- rising from \$13,889 to \$22,374--over five years.
- ⌚ Average household assets of low-income microentrepreneurs grew by \$15,909 over five years.
- ⌚ 53 percent of low-income microentrepreneurs had large enough household gains to move out of poverty. The microenterprise business was a major source of earnings for these families.
- ⌚ Microenterprise development creates jobs for welfare recipients, their families and others in their communities. On average, such firms create 1.5 full and part time jobs per business.
- ⌚ Business starts are only one measure of the success of microenterprise development; it also generates a wide range of social and economic benefits such as life long skills, further education and training, improvement in self esteem and family relationships, jobs, assets, and tax revenue.

Microenterprise organizations in the United States have made substantial progress in serving “hard-to-reach” groups such as women of color, welfare recipients, refugees, the disabled, and rural and inner-city residents, demonstrating that these groups can, in fact, be bankable entrepreneurs. The 1999 Directory of U.S. Microenterprise Programs estimates that 283 community-based micro programs exist nationwide. These programs have served about 171,555 low-income microentrepreneurs by financing loans and providing training and technical assistance in areas such as business development, marketing, and financial management.

¹⁷⁰ Clark, Peggy and Amy Kays. *Microenterprise and the Poor: Findings from the Self-Employment Learning Project Five-Year Survey of Microentrepreneurs*, Aspen Institute, 1999.

¹⁷¹ Ibid.

¹⁷² The first four statistics were taken from Clark and Kays at www.fieldus.org. The last two statistics were taken from Friedman, Grossman, and Sahay, *Building Assets: Self Employment for Welfare Recipients; Overview of Findings from the Self Employment Demonstration* (Corporation for Enterprise Development, 1995).

Obviously, this is not an appropriate strategy for all dislocated workers. Most small businesses fail. But with good screening, technical assistance, and financing, it can work for some displaced employees.

Labor Management Committees

These on-site committees are comprised of workers and managers who assess adjustment needs, plan the best ways to meet these needs, and organize how to meet the pressing problems of the dislocated workers. A report issued by the General Accounting Office (GAO) addresses the effectiveness of labor management committees and identifies the “best practices” at the state level.¹⁷³ Determinations about labor management committees are derived from four in-depth case studies in Idaho, Michigan, New Jersey and Vermont.¹⁷⁴

The GAO finds that these committees help displaced workers because they assess the critical needs of the target population, develop customized plans for assistance, and monitor service delivery and worker progress. “The ability of labor-management committees to tailor assistance to worker needs was strengthened when (1) state officials provided guidance on effective dislocated worker assistance and available resources, (2) service providers worked willingly with the committee and committees had sufficient authority to influence service delivery decisions, and (3) committee members were available to carry out committee activities.”¹⁷⁵

Timely intervention is also noted as a hallmark for labor management committees. Assisting dislocated workers before the layoff occurs can increase the chances of reemployment and reduce the period of unemployment. The GAO report finds that committees enhance timely intervention by (1) discussing future work opportunities before workers are laid off, (2) holding group briefings and (3) distributing materials to advise workers of available assistance.¹⁷⁶ These committees also facilitate the coordination of service provision to displaced workers. They do this by centralizing decision-making, communication and service delivery. Although earnings information of reemployed workers is not discussed, the GAO concludes that “labor-management committees enhanced the ability of the four dislocated worker projects to help workers cope with job loss and employment.”¹⁷⁷

Regenerating Communities and Companies

How successful have programs been in regenerating economies that are hard hit by structural change, layoffs and closings?

¹⁷³ “Dislocated Workers: Labor Management Committees Enhance Reemployment Assistance” U.S. General Accounting Office, Washington D.C. HRD-90-3, November 1989.

¹⁷⁴ Canada has run similar programs for many years. These have been well-evaluated, documenting their positive impacts on dislocated workers' reemployment experiences. A good short description of its work can be found in Leigh, *Assisting Displaced Workers: Do The States Have A Better Idea?*

¹⁷⁵ *Ibid*, p. 21-22.

¹⁷⁶ *Ibid*, p. 34.

¹⁷⁷ *Ibid*, p. 2.

Efforts to address economic dislocation are not restricted to only assisting workers. Communities and companies can be aided as well. In fact, the federal and state governments in the U.S. have had considerable experience in helping communities and firms adversely affected by trade agreements, defense downsizing, forest protection, and changing domestic and international market trends.

Working With Communities

The first analysis of community efforts to aid areas hit hard by economic dislocation is a study commissioned by the Pew Center on Global Climate Change. The authors analyzed 26 community-focused adjustment programs to identify program design options and draw lessons. The examined programs were sponsored by federal, state, local, and foreign national governments. Eight were selected for in-depth reviews. Each of these communities suffered a substantial decline in local economic activity. Causes included plant shutdowns due to increased imports, plant relocations abroad, depletion of natural resources, military base closings, and natural disasters.

The authors concluded that the ability of communities to address effectively economic dislocation was based on four factors:

1. *Strength and diversity of the economy.* When one important sector declines, are there others that are stable or growing? Does the declining sector have the ability to rebound?
2. *Nature of economic assets.* Does the community have the assets (e.g., workforce skills, entrepreneurial tendencies, physical infrastructure, quality of life) to grow in new directions?
3. *Ability of community members to manage adjustment.* Does the community have the civic institutions, leadership, and attitude that will allow it to let go of the past and embrace the future, uncertain as that may be?
4. *Effectiveness of economic development institutions in strategic planning and implementation.* Does the community have the capacity to manage a thoughtful economic adjustment process effectively?

The report also advances a strong rationale for public support of such community adjustment efforts. The authors argued that these community adjustment efforts can be improved by initiatives, such as: (1) identifying communities that are especially vulnerable to dislocation; (2) helping communities take action before economic havoc hits; (3) exploring ways to leverage and integrate additional resources by involving multiple federal agencies and state and local governments through regional tasks; and (4) addressing community needs flexibly by supporting locally-determined, comprehensive strategies for a number of years.¹⁷⁸

Now let us look at a specific example. Oregon's Rural Development Initiatives, Inc. (RDI) is a nonprofit organization, with close to two decades of experience, whose mission is to build the capacity of rural communities to make strategic decisions about their futures and to act on those decisions to ensure a high quality of life and a vital, sustainable economy. RDI's initial work focused on providing strategic planning

¹⁷⁸ Judith Greenwald, Brandon Roberts, and Andrew Reamer, *Community Adjustment To Climate Change Policy*. Washington, DC: Pew Center on Climate Change, December 2001.

assistance to struggling timber-based communities and on strengthening the leadership base of rural areas through its leadership development efforts. The organization has grown to offer training and technical assistance to rural communities around a variety of issues, including brownfield development, business retention, and most recently, sustainable development. RDI's focus continues to be on small resource dependent rural areas in the Pacific Northwest.¹⁷⁹

RDI has worked with over 100 communities and graduated over 400 people from its leadership development program, the Rural Futures Forum. RDI has received national recognition for its work, including most recently an Innovation Award from the National Association of Development Organizations for its leadership program.

In 1994, an evaluation conducted of RDI's work by the Corporation for Enterprise Development concluded that:

- ⌚ RDI was a valued organization in the state's economic development system.
- ⌚ Their SWOT (Strengths, Weaknesses, Opportunities, and Threats) assessments and meetings were valuable and well conducted.
- ⌚ The strategic plans for individual communities were the "producers" that were mostly positively assessed (although some unevenness of final products was noted).
- ⌚ Community-level planning needed to be better integrated with other required planning efforts.
- ⌚ Mill site conversion programs were enthusiastically received.
- ⌚ Rural Futures Program was clearly the most popular of RDI's activities. Its networking opportunities, confidence boosting, and practical information was highly praised.¹⁸⁰

Aiding Firms

Trade Adjustment Assistance

The Trade Adjustment Assistance (TAA) program is another way to address economic development problems. It includes assistance to firms adversely affected by increased international trade. Companies that apply to the program and are certified as experiencing declining sales and employment due to trade can receive subsidized technical assistance, including plant layout, management information systems, human resources, marketing and promotion, and other aid. A recent evaluation found that TAA-assisted firms:

- ⌚ Survive at higher rates than unassisted firms;
- ⌚ Add employees, whereas unassisted companies register average employment losses of 5.3 percent; and
- ⌚ Show stronger sales growth.

In addition, the authors concluded that by the fifth year after certification, the program:

¹⁷⁹ Canada runs a nationwide program, Community Future, along these lines in its provinces.

¹⁸⁰ CFED, *Evaluation of Rural Development Initiatives, Inc.* (October 17, 1994).

- ⌚ Supported one job for every \$3,541 invested;
- ⌚ Generated \$87 in sales for every TAA dollar invested; and
- ⌚ Yielded an estimated return on investment of 261 to 348 percent.¹⁸¹

Defense Adjustment Programs

Large reductions in defense spending followed the end of the Cold War. Between 1987 and 1993, U.S. defense expenditures were cut by \$48 billion, reducing defense expenditures from 6 percent to 4.7 percent of the gross national product. In response, the federal government launched a variety of economic adjustment efforts. For example, the Defense Conversion Adjustment (DCA) Demonstration pursued three separate responses to defense downsizing:

- ⌚ The Community Planning Approach, which focused on planning responses to military facility closures or mass dislocation caused by extensive defense-related layoffs;
- ⌚ The Dislocation Aversion Approach, which worked with at-risk firms to support these firms' efforts to resist laying off workers as part of their conversion strategy; and
- ⌚ The Worker Mobility Approach, which focused on meeting the employment and training needs of workers who lost their defense sector jobs.

The policy and program design lessons drawn were extremely detailed. Especially important was the running of high quality incumbent worker training efforts.¹⁸²

Also worth noting is the more economic development oriented study, *Lessons Learned from Defense Adjustment: A Comprehensive Approach to Economic Transition*, by the National Association of State Development Agencies. This report looks at a range of classic issues: business location factors, technology commercialization, financing, marketing, workforce development and many others. Its main conclusion focuses on the need for bringing fragmented economic development programs and institutions more closely together.¹⁸³

Defense Adjustment Program delves into the workings of 187 grant-funded projects, including construction projects, capacity building grants, and revolving loan funds. The vast majority of projects were completed; job creation cost targets were met, and the technical assistance efforts were highly rated in follow-up surveys.¹⁸⁴

Manufacturing Modernization Programs

¹⁸¹ Christopher Walker, Kathy Pettit, and Brandon Roberts. *Effective Aid to Trade-Impacted Manufacturers: An Evaluation of the Trade Adjustment Assistance Program*. Washington, DC: Urban Institute, November 1998.

¹⁸² Berkeley Planning Associates, *Responses to Defense Cutbacks: Demonstration Evaluation Findings* (U.S. Department of Labor, Employment and Training Administration: 1997) Research and Evaluation Report Series 97-A.

¹⁸³ NASDA, *Lessons Learned from Defense Adjustment* (1996).

¹⁸⁴ Rutgers University, *Defense Adjustment Program: Performance Evaluation: Final Report* (U.S. Department of Commerce, Economic Development Administration: November 1997).

The recent and significant contraction in American manufacturing employment has generated a number of ideas for tackling this problem. Policies to address the manufacturing job losses have been proposed on the national, state, and local levels.

These federal actions have been considered:

- ⌚ Enforcement of trade agreements and trade promotion
- ⌚ Tax policies that encourage new investment in manufacturing
- ⌚ Manufacturing R&D to promote innovation
- ⌚ Expanding and enhancing work skills to build a 21st century workforce
- ⌚ Improving federal partnerships with states to support manufacturing (see below)
- ⌚ Creating infrastructure to drive new manufacturing products and processes¹⁸⁵
- ⌚ Encouraging “positive sum” competition among state and local governments for branch plants rather than the current zero sum
- ⌚ Supporting advanced manufacturing
- ⌚ Providing extra matching funds to support state efforts
- ⌚ Requiring and funding high quality evaluations of state and local economic development efforts¹⁸⁶ and
- ⌚ Reducing the value of the U.S. dollar vis-à-vis other currencies

If you are a policymaker on the state or local level, on the other hand, and you are faced with a once vibrant industry now in decline, what can be done? Three major options are relevant:

- ⌚ Assume that that particular industry has been lost and focus on adjustment assistance to the individuals affected by the continued decline.
- ⌚ Assume that although the industry’s competitiveness has been slipping, it can be yet rebuilt via retooling, faster innovation diffusion, workforce retraining, or improved labor management cooperation.
- ⌚ Regardless of which of the above options is chosen, also pursue non-industry-specific development for the long haul: serious investment in education, research and development, basic infrastructure, and the more innovation and entrepreneurship-based support programs. Such future-oriented investments improve the likelihood that an ongoing stream of new industries will continue to rise up to fill the gaps left by those whose time has come and gone.

Other more specific state and local actions to consider:

- ⌚ Determining if the closing was caused by failing to meet parent corporation profitability standards. If analysis shows sufficient profitability to remain viable, seek another owner, including employee ownership.
- ⌚ Assisting in upgrading and modernizing facilities and retraining the workforce if the plant facility is behind the times.
- ⌚ Retraining workers and job placements targeted to growth centers elsewhere if technological change requires fewer and/or more skilled workers.

¹⁸⁵ Office of Senator Joseph Lieberman, “Making America Stronger: A Report with Legislative Recommendations on Restoration of US Manufacturing, September 2003.

¹⁸⁶ Timothy Bartik, “Thoughts on American Manufacturing Decline and Revitalization,” Upjohn Institute Staff Working Paper No. 03-06, September 2003.

- ⌚ Establishing an early warning system based on county risk factors such as high percentages of the population living in rural areas, not earning high school diplomas, and earning lower incomes.¹⁸⁷

Plant-level interventions include:

- ⌚ Diversifying materials used and activities undertaken to minimize risk of downsizing and/or closure; and
- ⌚ Minimizing the debt service burden from leveraged buyouts¹⁸⁸

Now, let's expand on the effectiveness of the state role in manufacturing modernization.

State-based manufacturing modernization programs, jointly financed by the federal and state governments, have been effective in helping small and mid-sized manufacturers adopt best practices in management, marketing, skill training, market research, and advanced technology applications. Consider the following accomplishments:

- ⌚ The US Government Accounting Office surveyed 766 American manufacturers that had received at least 40 hours of assistance from 57 manufacturing extension programs. It found that (1) 73 percent believed that the assistance positively affected their overall business performance; (2) 63 percent reported that the assistance positively affected their use of technology in the workplace; (3) 61 percent reported that the assistance positively affected product quality; (4) 56 percent reported that the assistance positively affected worker productivity; (5) 86 percent of the companies stated that they made a financial investment (e.g., bought or upgraded equipment or plant facilities), that this impact was an outcome of the services, and that it positively affected company performance; and (6) of those who made a financial investment, 97 percent believed that the investment was worthwhile.¹⁸⁹
- ⌚ The US National Institute of Standards and Technology (NIST) Manufacturing Extension Partnership continues to track the work of these Manufacturing Extension Program (MEP) centers. During the NIST program support period studied, such organizations worked with 10,000 small and mid-sized manufacturers, including 2,885 technical assistance projects and formal assessments. The manufacturing firms that provided evaluation data said that they expected each individual technical assistance project, on average, to result in: \$191,473 in increased sales; \$17,518 in reduced inventory; and \$17,518 in savings from labor and material costs.¹⁹⁰
- ⌚ These same state-based MEP centers also had a large cumulative result. As of 1994, the impact across participating companies was \$167 million, and over 3,417 jobs were created and saved.¹⁹¹
- ⌚ A more technically sophisticated cost-benefit analysis of the Georgia Manufacturing Extension Alliance found that its industrial modernization services

¹⁸⁷ Patrick Conway, "When Do Firms Downsize," Prepared for Conference at University of North Carolina at Chapel Hill on *Community-based Adjustment to Textile Plant Closure and Downsizing*, March 31, 2004.

¹⁸⁸ Conway,

¹⁸⁹ Drawn from correspondence with Modernization Forum, April 1996.

¹⁹⁰ Ibid.

¹⁹¹ Ibid.

are leveraging relatively high levels of private investment, which, in turn, are likely to lead to favorable and positive public and private returns over the long-term. The estimated net public and private sector benefits from GMEA's first-year services – scaled up to just over 530 projects – ranges between \$10 million and \$26 million. The ratio of private and public returns to private and public investment ranges from 1.2 and 2.7. Most significantly, the program's public investment is discovered to have a substantial leveraging effect on private investment. Companies invested from \$3.00 to \$13.30 for every dollar of public expenditure. For a typical company, the estimated private payback period for this investment ranges from six to 22 months.¹⁹²

Recently, there has been a major debate about whether the federal government should continue to fund the state MEPs, given the budget deficit. This controversy has generated some interesting evaluation research. Most notable is a re-examination (2003) of the core premise of the MEP Program by the National Academy of Public Administration. The Academy concludes that the original rationale for the federal/state partnership remains sound: (1) barriers to productivity and performance improvement continue to challenge small manufacturers; (2) the small manufacturing market is underserved in terms of assistance with productivity and performance enhancement efforts; (3) the MEP does not significantly displace private providers of this consulting product; and (4) the MEP Program is uniquely positioned to create a national infrastructure to serve this market need.¹⁹³

Learning Lessons From Abroad

What lessons for program design and delivery can be gleaned from international adjustment experience?

Duane Leigh synthesizes some illuminating findings from his examination of labor market policies in Sweden, Germany, Japan, Great Britain, Canada and Australia. Some important features for successful assistance programs include:¹⁹⁴ [

- ⌚ Early contact with a laid-off worker by the employment security commission thwarts idleness, apathy, discouragement and self-doubt. The Canadian Revitalization Strategy found that an 11-minute interview with new UI claimants is sufficient for directing the displaced to the correct service program (i.e. training or placement assistance).
- ⌚ Program managers can combine services into “one-stop shopping.” Here, dislocated workers can gain job search assistance, unemployment benefits and other information in the same building.
- ⌚ The Swedish procedure of assigning a dislocated worker a case manager until he or she is employed is desirable. Under this scenario, those needing help receive customized assistance and supplementary help in locating job opportunities.
- ⌚ Job search assistance efforts are relatively cheap and should be made freely available to those recommended by their case managers.

¹⁹² Ibid.

¹⁹³ National Academy of Public Administration, *The NIST Manufacturing Extension Partnership Program: Report 1, Re-examining the Core Premise of the MEP Program*, September 2003, p. 1-2.

¹⁹⁴ Leigh, *Assisting Workers Displaced by Structural Change: An International Perspective*, p. 185-190.

- ⌚ Screening of candidates for those seeking retraining should be conducted. Instruction is more effectively targeted to those individuals requiring retraining to gain employment in growing industries. (This recommendation emerges from a common criticism of the Swedish program that the training system serves many workers whose long-term earnings prospects are unlikely to improve with retraining.)
- ⌚ The involvement of the private sector in training programs is essential in crafting programs that meet labor market needs.
- ⌚ Training should be locally based and characterized by decentralized decision-making to better meet local needs.
- ⌚ You can increase the interest of employer-based training by imposing a small payroll tax, which can be only avoided by making formal training expenditures. It is important to note that this approach carries the potential negative impact of reducing hires of new permanent employees and harming smaller firms that excel at informal training.
- ⌚ Training vouchers can effectively target minorities and the educationally disadvantaged.
- ⌚ Increasing incentives for training institutions to improve their links with local employers can work.
- ⌚ Quality counseling by employment service counselors is critical to helping laid-off workers make the appropriate choice of training providers and courses.
- ⌚ Incentives, such as, cash grants, to design curricula and establish admission and completion standards can be provided. In exchange for the grant, employers promise to hire successful graduates.

An important multi-national study under the direction of the Upjohn Institute for Employment Research fills out these conclusions in fascinating ways.¹⁹⁵ A series of quantitative case studies were conducted that compared the United States displaced worker experience and policies with results in Australia, Belgium, Canada, Denmark, France, Germany, Japan, the Netherlands, and Great Britain. Since all countries need to move workers from outmoded activities to new more productive ones, there has been a great deal of experimentation across the globe. Peter Kuhn states:

What is the best way to do this? In some situations, a combination of voluntary practices, including workforce attrition, reductions in overtime and in regular weekly work hours, cuts in bonuses and wages, and adoption of new products and lines of business can be used to adjust to declines in business without permanent layoffs. Sometimes, however, worker displacement, i.e., the involuntary termination of long-term employees is unavoidable. In the United States, displacement is fairly common, affecting about 5 percent of all employed workers each year, and 2.5 percent of those with more than 10 years of service. Furthermore, at least for workers with high levels in tenure in the lost jobs, the lifetime consequences of displacement can be both severe and permanent.¹⁹⁶

Kuhn grapples with these issues by searching for answers to the following big questions:

¹⁹⁵ Peter Kuhn (editor), *Losing Work, Moving On: International Perspectives on Worker Displacement*. Kalamazoo, MI: Upjohn Institute for Employment Research: 2002.

¹⁹⁶ Kuhn, "Summary and Synthesis," in *Losing Work, Moving On*, p. 1.

- ⌚ Do countries other than the United States rely more or less on worker displacement as a method of industrial adjustment?
- ⌚ Are the consequences of displacement, when it occurs, more or less severe, and does this differ for employment versus wages?
- ⌚ Do international differences in labor market policies, including employment-protection laws, unemployment insurance systems, and wage-setting regimes, play a role in explaining differences in the incidence and effects of displacement?
- ⌚ Are international differences in the experiences of displaced workers informative about important structural features of labor markets, such as the wage returns to tenure or the amount of firm-specific training?

Not surprising, the researchers reveals many interesting facts.¹⁹⁷

First, there is tremendous variation in the institutions that regulate and affect displacement among different nations. These institutions include: advance notification of shutdowns and mass layoffs, consultation requirements surrounding layoffs and closures, income support and retraining, and a variety of ways that affect the wage changes felt by displaced workers. The latter include collective bargaining powers and practices, and minimum wage statutes.¹⁹⁸

Relative to the U.S., other countries impose many more requirements on employers to avoid worker displacement and to provide a larger package of income support, retraining, and other safety net services. At times, they even regulate the seniority rules for layoffs, consideration of economic need (due to family size and number of dependents), and extensive relocation assistance; they even issue permits before workforce reductions can happen! Other common practices include: unemployment insurance with a higher wage replacement rate than the U.S. and severance pay. Japan provides wage subsidies to hire displaced workers for a target set of declining industries. More centralized wage-setting laws and numerous collective bargaining agreements help dislocated workers to land new jobs paying comparable wages.¹⁹⁹

Cross-country comparisons reveal:

- ⌚ Fairly similar displacement numbers existed;
- ⌚ Displacement is more common for men and the less skilled;
- ⌚ Terminations are greater in the so-called “old industries”;
- ⌚ Young people in Europe are more likely to be displaced than high tenure employees;

¹⁹⁷ For the researcher who wants to consult all such current literature, the following provide an excellent foundation: Marc Bacchetta and Marion Jansen, *Adjusting to Trade Liberalization: The Role of Policy, Institutions and WTO Disciplines* (Geneva: World Trade Organization, April 2003); Christine Evans-Klock, Peggy Kelly, Peter Richards, and Corinne Vargha, “Worker Displacement: Public Policy and Labor-Management Initiatives in Selected OECD Countries” (Geneva: International Labor Office, 1998); Working Party of the Trade Committee, *Structural Adjustment in Textiles and Clothing: Trade Related Labor Adjustment Policies* (Paris: OECD, December 10-11, 2003); Howard Rosen and John Dorner, “The US: Managing Different Levels of Accountability” in OECD, *Managing Decentralization: A New Role for Labor Market Policy* (2003).

¹⁹⁸ Kuhn, p. 8.

¹⁹⁹ Ibid, p. 2-6.

- ⌚ After factoring out the impacts of the common American practice of engaging in temporary layoffs, most of the U.S. economy's advantage in having lower duration of joblessness disappears;²⁰⁰
- ⌚ In all countries with suitable data, older workers have deeper wage losses (but are less likely to lose their jobs outside the U.S.);
- ⌚ Countries like the U.S. with the most decentralized wage-setting institutions and the weakest union coverage boast the greatest wage losses for long tenure workers;
- ⌚ In the US, 80 percent of displaced (laid-off) workers experience some level of unemployment. Experiencing joblessness is the exception not the rule in Netherlands, Denmark and Germany, because of their employment protection laws and union negotiations regarding layoffs – timing, size, etc.
- ⌚ Larger percentage of wage losses are only observed for high tenure workers in countries, such as the US, with relatively high levels of wage and income inequality and low levels of unionization;
- ⌚ Such laws may harm new workforce entrants such as immigrants, women, and students. In Belgium, which has the most generous safety net and the greatest regulation of private job termination decisions, these policies seem to *discourage* new hiring for fear of the obligations owed to workers. More research is needed to see if this is really the case. And further exploration of what specific types of employment protection laws create this problem of new hires is needed as well.²⁰¹

In the late 1970s, federal legislation in the U.S. akin to these European efforts was authored and debated in the US. The Employee Protection and Community Stabilization Act of 1979 (Williams S-1609) and the National Employee Priorities Act of 1979 (Ford-Reigle Senate Bill 160) were put forth. (The latter bill was more far-reaching.)²⁰² Key features of the two bills included:

- ⌚ Advance notification of a shutdown (six months to two years, depending on size of firm);
- ⌚ Company transfer rights for workers to go to other facilities with same wage rates and with relocation expenses paid by employer;
- ⌚ Significant, non-transferable severance benefits for terminated workers;
- ⌚ Pension and health insurance premiums paid for one year;
- ⌚ Retirement with lesser benefits an option for older workers;
- ⌚ Reimbursement by the firm of local government expenses for assisting displaced workers; and
- ⌚ Grants and loans to failing firms under certain circumstances.

²⁰⁰ The United State was in fact in the middle of this pack of nations in its average duration of unemployment, *not* at the low end as usually thought.

²⁰¹ Kuhn, p. 1-47.

²⁰² Ralph Nader's staff more recently authored the Corporate Democracy Act of 1990. Title III covered protections for employees and communities when large closings or permanent layoffs occurred. For more information, consult Ralph Nader, Mark Green, and Joel Seligman, *Taming the Giant Corporation* (New York, NY: Norton Books, 1976. This book describes the Act and calls for end of new state charters for large firms. It proposes a federal chartering process that would enforce corporate disclosure, an employee bill of rights (which is where the plant closing proposals would reside), and stronger anti-trust requirements. The Act was designed to deal with cases like Enron and much more. The proposed act was highly controversial and went nowhere.

Policy development and advocacy, regarding advance notice and income supports, occurred on the state level as well. These proposed state laws were introduced in about a dozen states, but none were enacted.²⁰³ They were “Ford-Reigle lite”, not as coercive, expensive, and far-reaching as the national bills. But they also called for prenotification of larger shutdowns and layoffs, a severance benefit for employees who worked three or more years for an employer, and a community payment to local government of percentage of the annual taxes lost.²⁰⁴

Conclusion

The preponderance of literature on virtually every imaginable aspect of the dislocation phenomenon speaks volumes of its influence and effects on the U.S. economy. By no means exhaustive, this literature review provides the reader with broad overview of the dimensions most salient to community economic development. It is meant to serve as a starting point for thought, conversation, and action that will address the very real problems that dislocation creates for workers, communities, and the larger national economy.

²⁰³ On the other hand, many laws were enacted that promoted employee ownership and provided turn-around services to closing but still potentially viable firms.

²⁰⁴ For more details, see: Schweke (editor), *Plant Closing: Issues, Politics and Legislation* (Washington: Conference on Alternative State and Local Policies, 1980).

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