UNEMPLOYMENT AND STRUCTURAL CHANGE
CONTENTS

INTRODUCTION ............................................. 1
Scope of the Study ........................................ 4
Arrangement of the Study ................................. 7

PART I

THE NATURE OF STRUCTURAL ADJUSTMENT PROBLEMS

CHAPTER I: The Pattern of Structural Changes .......... 11
  Some Causes of Structural Change ................. 11
  Diversity of Causes of Change .................. 14
  The Localised Impact of Structural Change ......... 14
  Causes of Structural Change and the Nature of the Adjustment Problem .... 18

CHAPTER II: Labour Adjustments Associated with Technical Change ........ 21
  The Displacement of Labour ...................... 21
  Technological Redundancy at the Firm Level ....... 23
  Internal Labour Transfers ........................ 25
  Dismissals ............................................. 27

CHAPTER III: The Process of Contraction ................. 30
  The Rate of Contraction ............................. 30
  Some Factors Affecting the Size of the Contraction ... 32
  Natural Wastage ....................................... 35
  Cost Increases in Declining Industries and Firms .... 37
  Labour Implications of Cost Increases ............ 41

CHAPTER IV: The Regional Problem ....................... 43
  Industries and Regions .............................. 43
  Firms and Localities ................................... 47
  The Movement of New Firms to Depressed Localities ... 49

CHAPTER V: The Incidence of Structural Labour Adjustments ........ 51
  The Scale of Adjustment Required ............... 51
  Unemployment .......................................... 52
  Other Aspects of the Adjustment Problem .......... 54
IV UNEMPLOYMENT AND STRUCTURAL CHANGE

| Changes in Skill Requirements and Earnings | 55 |
| Hardships Associated with Labour Mobility | 59 |
| Position of Older Workers | 60 |
| Problems of Female Workers | 64 |

PART II

MEASURES TO FACILITATE STRUCTURAL ADJUSTMENTS

CHAPTER VI: Employers' Reactions to Declining Demand
- Attempts to Increase Efficiency | 69 |
- Mergers | 69 |
- Diversification | 71 |
  - Investment Diversification | 73 |
  - Product Conversion | 74 |
- Take-over of Factories by New Management | 78 |

CHAPTER VII: Workers' Reactions to Structural Change
- Workers' Attitudes towards the Need for Structural Change | 85 |
- Spontaneous Adjustment of Labour | 90 |
- Geographical Mobility of Labour | 93 |
- Occupational and Industrial Labour Mobility | 99 |

CHAPTER VIII: Redundancy Procedures
- Short-Time Working | 102 |
- Transfers | 104 |
- Criteria for Dismissal | 106 |
- Periods of Notice | 108 |
- Severance Pay | 110 |
- Other Provisions for Dismissed Workers | 112 |
- Problems of Coverage | 116 |
- Conclusion | 117 |

CHAPTER IX: General Economic Policies
- The Need for a High and Stable General Level of Employment | 123 |
- Demand, Growth and Employment | 126 |

CHAPTER X: Measures on Behalf of Individual Economic Sectors
- Eliminating the Need for Structural Adjustments | 131 |
- Maintaining the Competitive Strength of Industries in Difficulty | 134 |
- Policies Designed to Facilitate Structural Adjustments | 138 |
- Suitability of Sectoral Economic Policies | 141 |
## CONTENTS

### CHAPTER XI: Measures to Combat Regional Unemployment

<table>
<thead>
<tr>
<th>Example</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examples of Action Taken</td>
<td>144</td>
</tr>
<tr>
<td>Grants</td>
<td>145</td>
</tr>
<tr>
<td>Loans</td>
<td>147</td>
</tr>
<tr>
<td>Tax Concessions</td>
<td>148</td>
</tr>
<tr>
<td>Licensing</td>
<td>149</td>
</tr>
<tr>
<td>Government Procurement</td>
<td>150</td>
</tr>
<tr>
<td>Other Concessions</td>
<td>150</td>
</tr>
<tr>
<td>Advice and Information Services</td>
<td>150</td>
</tr>
<tr>
<td>Some General Considerations</td>
<td>151</td>
</tr>
<tr>
<td>Effectiveness of Measures to Attract Firms to Areas of High Unemployment</td>
<td>151</td>
</tr>
<tr>
<td>Some Problems Encountered</td>
<td>152</td>
</tr>
<tr>
<td>Labour Mobility or Industrial Relocation?</td>
<td>157</td>
</tr>
</tbody>
</table>

### CHAPTER XII: Measures Directly Affecting Displaced Workers

<table>
<thead>
<tr>
<th>Measure</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resettlement Allowances</td>
<td>165</td>
</tr>
<tr>
<td>Re-training Facilities</td>
<td>166</td>
</tr>
<tr>
<td>Public Works</td>
<td>171</td>
</tr>
<tr>
<td>Unemployment Compensation</td>
<td>176</td>
</tr>
</tbody>
</table>

### CHAPTER XIII: Conclusions

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Need for State Action</td>
<td>184</td>
</tr>
<tr>
<td>Possible Lines of Action</td>
<td>186</td>
</tr>
<tr>
<td>Measures to Facilitate Labour Adjustments</td>
<td>186</td>
</tr>
<tr>
<td>Redundancy Procedures</td>
<td>186</td>
</tr>
<tr>
<td>Measures on Behalf of Individual Industries</td>
<td>187</td>
</tr>
<tr>
<td>Industrial Relocation versus Labour Mobility</td>
<td>188</td>
</tr>
<tr>
<td>Role of General Economic Policies</td>
<td>188</td>
</tr>
<tr>
<td>Cost of Measures to Facilitate Labour Adjustments</td>
<td>189</td>
</tr>
<tr>
<td>Need for Comprehensive Policies</td>
<td>189</td>
</tr>
<tr>
<td>Compensation for Victims of Change</td>
<td>190</td>
</tr>
</tbody>
</table>

### APPENDIX

**APPENDIX: A Case Study** | 193

**INDEX** | 203
INTRODUCTION

All economies have continually to adapt themselves to changes in the conditions of demand for, and supply of, different goods and services—in brief, to structural changes. This study is concerned with certain problems of adaptation in the form in which they arise in industrially advanced countries where the system of private enterprise prevails. Because of such factors as growing population, rising incomes, new inventions, new tastes on the part of buyers (often the result of "promotion" campaigns on the part of sellers), total production tends to rise gradually, and that of individual goods and firms may rise very rapidly. On the other hand, there are nearly always some goods and some firms for which the opposite is true. Demand for a product may fall as cheaper or better substitutes become available. The physical possibility of producing a commodity may vanish, for example, when a mineral deposit is exhausted. And even when total output of a product does not fall, that of individual firms may decline, if for one reason or another they can no longer compete with others making a similar commodity.

Apart from changes in the volume of output and in its distribution between firms, there may be changes in the organisation of production and in the techniques of making goods. These may be due to new scientific discoveries or to changes in the prices of machines or the wages of workers. Insofar as they enable cheaper or better products to be made, they may be regarded as technical progress. Such progress may, of course, be itself the cause of an increase in demand for some products, and perhaps of a decline in demand for others. When applied unevenly, it may also raise the share of output of some firms and decrease that of others. But technical progress may have neither of these effects and still be of considerable interest from other points of view.

Changes in the volume of production and in its distribution as between firms, as well as changes in the organisation and techniques of production, usually involve shifts in the structure of employment, i.e. in the composition and distribution of the labour force. The numbers of workers in certain industries, regions, firms and occupations will rise, those in others fall. Viewed over somewhat longer periods, these shifts in the structure of employment may be very drastic. Their implications in terms, for example, of rising productivity and prosperity, as well as of educational requirements, are tremendous.
The present study is concerned with structural changes in employment, or rather with a few limited aspects of this very broad subject. First, the analysis focuses mainly on one side of the shift, namely reduction in employment in certain regions, industries, firms or occupations. The other side of the process, i.e. the increase in employment elsewhere, is at least as important from various points of view, but is not of major interest in the present context. Secondly, special attention is paid to contractions in employment that occur so fast, and to those phases of more slowly occurring contractions that have advanced so far, as to raise an acute problem for workers who have to move out of the jobs that they are holding. This study, therefore, is concerned with the difficulties arising from, and the possibilities of easing adjustments to, structural declines affecting certain types of employment.

Structural changes and the need for adjusting production and employment to them are features of every dynamic economy, and the more rapid the growth of an economy, the more change it is likely to have to absorb. Some structural changes (for example, the closing down of a mine because of exhaustion of ore reserves) are bad for a community as a whole. More often than not, however, structural change (made possible, for example, by technological progress or opportunities to buy new, better or cheaper goods from abroad) enriches a community as a whole. But to the producers of particular commodities—and these include both the owners of established firms and the workers employed in them—the change may not be desirable at all. The adjustments demanded from them may be at best inconvenient, or very costly and painful in other cases. This contrast between wide dispersion of the benefits of structural change and its possible ill effects on a usually much smaller group of producers is at the root of the problems to be discussed in the following pages. For when deterioration in the position of a group of producers is the price which has to be paid for an increase in general welfare, the question arises whether those facing adjustment should not be entitled to some form of special assistance and indemnification to compensate them for the losses they incur.\footnote{Even in the less usual cases when a structural change is bad for a whole community, it may be asked whether the costs should not be more equally shared than would be the case if a small group of producers were left to bear the whole burden unaided.}

A clear illustration of this point is provided by the effects of abolishing a protective tariff, and thereby causing a fall in the output of a domestic industry. Such a change normally benefits broad sections of the community, in the form of lower prices for the commodity in question. On the other hand, the relatively small numbers of workers and employers
in particular firms, and perhaps regions, who were dependent on the industry affected have to adjust to the changed conditions. Even if the adjustment proves to be smooth and easy, capital and labour being quickly reabsorbed into other sectors of the economy, they are unlikely (since the benefits of the lower prices which they enjoy in their capacity as consumers are probably quite small) to be compensated wholly for the trouble and loss involved in the adjustment.

When structural changes come fast and affect many different sectors of an economy, there will, it is true, be some automatic tendency for the benefits and costs to be widely spread. The improvements in the standard of living deriving from all structural changes taken together are obviously very great and very widely shared. The general increase in prosperity that has taken place in industrialised societies, taken together with the extensive adjustments by which it has been accompanied, suggests that most people do in fact over the course of their lives derive a net benefit from structural change, even if many of them have, at one time or another, to go through adjustments of one sort or another. But there is no assurance that this will be true of everybody, and still less that there will be any equality of gains and losses. Some individuals may escape the necessity for any painful adjustments due to structural changes while others may encounter a succession of them, perhaps accompanied by years of unemployment.

A case for some special assistance to groups adversely affected by structural change can be made out on grounds of social justice. For although a net improvement in society’s welfare as a consequence of structural change is generally recognised, such an improvement can be claimed more unambiguously when the change, while making some elements of society better off, leaves no one worse off. Furthermore, it may often be argued that the increase in total welfare would not have taken place but for the involuntary sacrifices of the adversely affected minority.

This ethical justification for aid to these groups is greatly reinforced by considerations of expediency. If structural changes are beneficial to society, it is logical to remove any barriers which may stand in their way. Such barriers do exist, since the factors of production in any one sector will tend to seek a situation in which, while enjoying the fruits of progress occurring in other parts of the economy, they are able to prevent structural changes in their own sector. Therefore social action aimed at easing adjustment problems may serve to reduce sectional opposition and thereby facilitate desirable change. It may also, by relieving to some extent the apprehension with which workers frequently view structural changes, reduce the tension and disruption in industrial relations which
stem from these fears. Strikes resulting from threatened or actual redundancy are, indeed, not an uncommon feature of the industrial scene.

In the final analysis, the economic benefits of structural change accrue from the redistribution of resources. If a considerable time elapses between the release of labour from one activity and its reabsorption into other sectors, or if such reabsorption fails to materialise, there may be little or no economic gain to set against the resulting social hardships, and the desirability of the original change may be questioned. The occurrence of such situations emphasises the need for action to promote the realignment of workers.

**Scope of the Study**

Both labour and capital may be adversely affected by a structural change, but the problems of adjustment experienced by the two groups are not the same. Therefore, any policies for easing the adjustment process may have to be formulated separately for each group. This study is concerned almost exclusively with the problems of labour adjustment, the reactions of the workers concerned to structural change, and a general review of measures likely to promote an easier adaptation of labour. Employers’ reactions to structural change are examined mainly from the point of view of any influence which they may have on the adjustment of labour. Similarly, attention is given to the principles and practice of government aid to capital mainly insofar as such aid exerts an influence on the problems of adjustment faced by workers. The sole purpose of these limitations is to keep the study within manageable proportions. There is no intention to deny the importance and the difficulty of the structural adjustments sometimes facing employers and the owners of capital, or the validity of their claims to special consideration in certain circumstances.

As already noted, the release of workers from a contracting industry and their reabsorption in expanding sectors are equally necessary to bring about the reallocation of factors of production which makes structural change increase prosperity. However, from the point of view of the adjustment problems experienced by workers and of the hardships they involve, it is primarily the process of contraction of an industry, firm or region, and the background against which it takes place, that are significant. The expanding sectors of the economy will therefore be examined only insofar as their expansion is one of the many considerations affecting the readjustment of labour.

Labour adjustment difficulties may take a variety of forms—the need to change one’s place of residence or to learn a new trade, a fall in
earnings, loss of job satisfaction; but the hardship which most readily comes to mind in this connection is probably unemployment. Considerable attention is therefore paid in the following chapters to structural unemployment, as distinct from "cyclical", seasonal and "frictional" unemployment.

The study is limited in terms both of the economic sectors and of the countries to which it relates. In principle, it is concerned only with the adjustments occurring in the non-agricultural sectors of the economy. Of course, this is not to suggest that the need for labour adjustment is any less important in agricultural than in industrial activities. Indeed, the universal movement of rural workers into industrial occupations points to a contrary conclusion. However, the adjustment process which agricultural workers experience has distinct and special features which call for separate study.¹ For example, the movement of labour from the land is unlikely to be accompanied by the dismissal of workers in large groups. But it is group dismissals—which are fairly common in manufacturing, for instance—that give rise to unusually difficult adjustment problems and which therefore receive considerable attention in this study. Again, while unemployment percentages in rural areas may reach high levels, the low absolute number of unemployed workers in any one area which these often reflect may mean that rural problems are not amenable to certain types of policy (such as relocation of industry) that are examined in the following pages.

Within non-agricultural activities, the study concentrates on commodity-producing rather than service sectors, because the latter are less afflicted by difficult labour adjustments. In part this results from the relatively high rate of expansion of the service sectors in industrialised economies. Furthermore, where they do occur, structural adjustments in these sectors are tempered by the geographically dispersed nature of service activities.

Problems of structural change and adjustment are far more serious and acute in newly developing economies than in industrialised nations. Indeed, economic development is in a sense nothing but a thorough and complete transformation of traditional systems into modern economies. Therefore, an attempt to study in isolation the process of structural adjustment in developing countries might prove rather fruitless. Such a study could only be satisfactorily achieved within the framework of a comprehensive inquiry into the nature of economic development. Consequently this study does not deal with, or draw upon the experience of, structural adjustments in newly developing economies, but is limited

¹ See, for example, I.L.O.: Why Labour Leaves the Land, Studies and Reports, New Series, No. 59 (Geneva, 1960).
to the more marginal types of change in the production structure of modern economies.\(^1\)

Moreover, only the experiences and problems of economies in which private enterprise plays a major part are examined. Structural adjustments do, of course, occur also within centrally planned economies and most of the structural adjustment problems discussed in Part I of this study have a parallel, and often a very close one, in these countries. Economic changes stemming from, for example, technological change or changes in raw material supplies occur frequently in planned economies. "Institutional" forces, such as shifts in the pattern of activity caused by government decisions, have an even greater impact in centrally planned economies than in countries where private enterprise is responsible for the greater part of economic activity.

Many examples of structural change in centrally planned economies can be cited. For example, between 1951 and 1958 the number of wage earners in the Hungarian building and construction industry decreased by 12 per cent., while in manufacturing and extraction industries the number increased by 43 per cent.\(^2\) Similarly, Czechoslovakia and Eastern Germany have provided for a reduction in employment in the building and construction industries under their current long-term plans. Most Eastern European countries have, at one time or another, reduced the number of people engaged in state administration; in Poland administrative personnel amounted to 362,000 in 1955, and to 281,000 in 1959. Changes also take place within the occupational structure of individual industries, with administrative personnel, for example, being transferred to manual work. As a consequence of the mechanisation of materials handling in Czechoslovakia, it is planned to release 80,000 workers for direct production by 1965. A structural problem of a rather special nature exists in Poland, where there is a shortage of male and a surplus of female workers. It is hoped to solve this problem by substituting women for men in commerce, transport and certain service industries. The men thus released will be employed in manufacturing, extractive and other activities. Regional economic problems are currently attracting much attention in centrally planned economies.

However, while structural changes occur as frequently in planned economies as elsewhere, they take place within a very different economic, social and political framework. The special provisions pertaining to the

\(^1\) An additional reason for this limitation is that employment problems of newly developing countries have been examined in another recent I.L.O. publication (see Employment Objectives in Economic Development, Studies and Reports, New Series, No. 62 (Geneva, 1961)).

\(^2\) These Hungarian figures refer to the "Socialist economy" sector only.
employment relationship, for example, mean that the labour adjustment problems which are caused by structural changes in centrally planned economies are qualitatively different from those arising in economies where free enterprise plays the predominant role. Since labour adjustment problems in centrally planned economies and the measures taken to solve them are so different, they are not examined in this study.

One further limitation may be mentioned. No attempt is made to establish what proportion of unemployment in different countries can properly be described as "structural". Because of difficulties of definition as well as difficulties in the interpretation of data, any discussion of this question would be involved and inconclusive. But, even if it is not possible to give a reliable quantitative indication of the importance of the problem, no observer of the industrial scene will question its importance, or will doubt that it lies at the root of much of the "hard core" unemployment that gives rise to the greatest hardship.

ARRANGEMENT OF THE STUDY

The study is divided into two sections. Part I deals with the nature of adjustment problems, and Part II with the reactions of the affected groups and the State. Chapter I examines the various causes of structural change and the relevance of these causes to the nature of the adjustment process. Chapter II analyses the impact on workers of one type of structural disturbance, namely the introduction of technical change, which has features that distinguish it from other forms of adjustment. Factors determining the nature of the adjustment problem, such as the amount of labour employed in declining sectors and the rate of contraction which firms and industries display, are examined in Chapter III, which also contains a discussion of the adverse economic trends stemming from an industry's initial decline, giving rise in some cases to a cumulative contraction process and thereby complicating labour's adjustment problems. Chapters IV and V, dealing with the incidence of structural adjustments, conclude Part I. The former chapter describes the impact of the contraction of industries or firms on the employment situation in particular areas and localities. The various types of hardship caused by structural adjustments—such as unemployment, financial loss and need to move—and the difficulties experienced by particular groups of workers are reviewed in Chapter V.

Part II begins with a description and assessment of the counter-measures—improvement in efficiency, concentration, diversification and product conversion—undertaken by employers who are threatened by a decline in demand for their products (Chapter VI). Chapter VII discusses
the attitudes which structural disruptions evoke in the affected workers and the part played by labour mobility in facilitating the adjustment process. Redundancy schemes resulting from collective bargaining may temper the hardships experienced by workers; their role in easing adjustments and their shortcomings in this respect are examined in Chapter VIII. The four subsequent chapters outline the part which governments can, or might, play in promoting and smoothing the re-adjustment of workers. The importance of high-level employment as a condition for orderly adjustment is emphasised in Chapter IX. Measures for easing adjustment problems as they are experienced in particular industries and regions are examined in Chapters X and XI. Finally, Chapter XII focuses attention on those measures, such as re-training and resettlement provisions, public works schemes and the payment of unemployment compensation, which most directly affect individual workers.

Many of the problems examined in the study are experienced at the level of the individual enterprise, and in particular the impact on the labour force of the closure of an entire production unit. Although much information about the difficulties raised by such closures has now been published, it was thought that a first-hand case study of at least one example would be of interest. Accordingly, the repercussions which followed the abandonment of a West German motorcycle factory are described in an appendix.
PART I

THE NATURE
OF STRUCTURAL ADJUSTMENT PROBLEMS
CHAPTER I

THE PATTERN OF STRUCTURAL CHANGES

SOME CAUSES OF STRUCTURAL CHANGE

Identification of the causes of structural change is not necessarily a prerequisite for understanding the resulting problems of adjustment. Indeed, as will be noted in Chapter X, the emphasis frequently placed upon the causal aspect may become a source of some social injustice in measures to solve such problems. An examination of structural labour adjustments does, however, require some review of underlying causes.

Apart from technical change, which will be examined later, the most widely recognised (though by no means actually the most important) cause of structural disturbance is foreign competition. For example, member countries of the European Economic Community have indicated that disruption due to rising imports can occur in a wide range of industries. The following goods, in particular, have been mentioned as being vulnerable to such competition: ceramics, optical goods, precision instruments, glassware, rubber shoes, toys, metal articles, chemical and pharmaceutical products, radio apparatus and sewing machines. But perhaps the structural disturbances caused by foreign competition which most readily come to mind are the difficulties currently experienced in the textile industry of industrialised economies. These difficulties derive largely—though by no means exclusively—from the expansion of the industry in newly developing economies.

A second group of forces are those associated with changes in consumers' tastes. Such changes may be linked with variations in the level of income, e.g. the growing demand for motor cars at the expense of motorcycles and public transport. Alternatively, they may simply reflect a spontaneous change in social habits; such a shift in taste apparently explains the fall in the United States production of briar pipes.1

The technical and commercial development of new products may give rise to adjustment difficulties in the sectors producing commodities with

which the new product competes.\(^1\) Thus the growth of television has been followed by a decline in cinema attendance; and the increasing use of oil as a fuel is a major element in the recent disturbances in coal mining.

Exhaustion of raw materials may also lead to structural change. In the United States, the city of Tacoma (Washington) has experienced unemployment as a result of a reduced supply of saw and peeler logs\(^2\); similarly, the shortage of rough diamonds has been suggested as the explanation of the employment contraction in the Belgian diamond-cutting industry. Some of the difficulties experienced in particular coal-fields can be traced to the progressive depletion of resources; much of the current Belgian coal-mining problem is due to the inaccessibility, relative to that obtaining in other countries of the European Coal and Steel Community, of its Borinage coal resources.\(^3\)

The causes mentioned up to this point might be thought of as deriving from the play of "natural" economic forces. Yet purely "institutional" factors, the most important of which are government actions, can also produce structural changes. Government fiscal and commercial policy can influence particular sectors of the economy. Thus excessive financial and taxation burdens have been suggested as one cause of the decline of the Parisian dressmaking and fashion houses. Reductions in, or the abolition of, tariff barriers can also cause contractions in particular industries. In the United States it has been recognised that tariff reductions have caused structural difficulties in the following industries: bicycles, watches, fur felt hats, hatters' fur, dried figs, clover seed, flax towelling.\(^4\) In industrialised economies there is probably a greater outcry against the disturbances which are believed to result from increases in foreign competition (whether due to tariff reductions or not) than against all the other forces together. Yet, at least for the United States, it has been claimed that—

Compared with the adjustments that are continually being necessitated by public policy and by economic change, those that would be involved

\(^{1}\) This process is generally considered as one of the many facets of "technological change", and is usually referred to as such. However, in this study it has been found convenient to reserve this latter term for changes associated with the introduction of new machines and methods into the production process.


\(^{3}\) The same applies, for instance, to the decline of the South Wales coalfield in the United Kingdom and is also a factor operating in the United States (Report No. 2099, loc. cit.).

in any likely reduction of the American tariff should be relatively insignificant.\(^1\)

Similarly—

The effect of any import liberalisation programme on domestic employment would vary, depending on its composition. But whatever its composition, the absolute effect could not be impressive compared with all the other adjustments taking place.\(^2\)

It is not now believed that tariff reductions resulting from the establishment of the European Economic Community and the European Free Trade Association will cause serious disruptions on an industry-wide scale, although within each industry marginal firms may be displaced more rapidly.\(^3\) \(^4\) Member countries' willingness to accelerate these tariff reductions indicates that no major structural disruptions are anticipated as a result.

Another way in which governments may adversely affect particular industries is through changes in their expenditure policies and patterns. Since in most countries government spending constitutes a large proportion of total expenditure, such changes can have severe repercussions. The adjustment problems experienced by the British and United States aircraft industries as a consequence of changes in defence expenditure are clear examples of this.

Finally, there is a whole range of structural disruptions which may be said to result from "technical change", including the introduction of new machinery, the mechanisation of existing methods and, generally, the reorganisation of the production process. In terms of the sectors, industries, firms and plants affected, it is the most widespread single cause of structural change. This, however, does not imply that the disruptions to which it gives rise are the most severe that an industrialised economy experiences. Indeed, as will be suggested later, as a source of difficult labour adjustment, relative to other factors, technical change need cause rather less concern than it is customarily accorded.

Some of these forces may affect a whole industry simultaneously; others—e.g., technical changes or changes in consumer demand for particular products—may touch first or exclusively some firms within the


\(^3\) T. Scitovsky: *Economic Theory and Western European Integration* (London, 1958); see especially p. 24.

\(^4\) "It is significant that, since the inception of the Common Market, about 9,000 French small and medium-sized businesses have been forced to wind up" (*The Times Review of Industry* (London), Oct. 1960, p. 102).
industry, affecting their relative competitive strength and employment potential.

**DIVERSITY OF CAUSES OF CHANGE**

A closer examination of the forces at work often reveals that to single out any one factor as the cause of a given change would be a gross oversimplification.

Thus in the foregoing section the difficulties experienced in coal mining were variously attributed to the increasing difficulties of resource exploitation and to the development of competing products; to these factors, technical improvements can very justifiably be added. Similarly, while fiscal policy was cited in regard to the decline of the Parisian dressmaking and fashion houses, it appears that a shift in tastes—i.e., a decline in the custom of dressing up for social occasions—and competing products (in particular, an increase in high-class ready-mades) also played a part. In New England, competition from the low-wage South, technological change, the loss of export markets, increasing imports, the changing pattern of consumer preferences and inter-fibre competition have been mentioned as factors in the decline of textile employment. In New England, competition from the low-wage South, technological change, the loss of export markets, increasing imports, the changing pattern of consumer preferences and inter-fibre competition have been mentioned as factors in the decline of textile employment. Similarly, a lack of growth in demand for shoes, the development of leather substitutes and increased foreign competition have all been suggested as contributing to the difficulties of the United Kingdom tanning industry.

To draw attention to the fact that a given structural change is not typically attributable to any single cause is not merely to underline a curiosity. As will be seen in Chapter X, policies designed to deal with problems of structural adjustment according to their particular causes may be both unjust and impracticable. And even where it can reasonably be argued that one cause is more important than others, the practical difficulties involved in measuring the precise extent of its predominance (as may be necessary for the administration of such policies) are virtually insuperable.

**THE LOCALISED IMPACT OF STRUCTURAL CHANGE**

In the United Kingdom from 1950 to 1956, out of the seven major economic sectors (agriculture, mining, manufacturing, building, public utilities, transport and services), reductions in employment were recorded.

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THE PATTERN OF STRUCTURAL CHANGES

in three, namely agriculture, transport and mining, where the labour force fell respectively by 14.5 per cent., 2.9 per cent., and 0.1 per cent.¹ However, these figures by no means imply that labour adjustment problems were experienced only by workers in these three sectors, for a closer examination of one of the expanding sectors—manufacturing—reveals contractions of the labour force in four of the 14 constituent major industry groups into which it is divided. In the industries in question, i.e. textiles, leather, clothing, and wood and cork, decreases in employment over the six-year period amounted to 6 per cent., 9 per cent., 2.7 per cent. and 2.4 per cent. respectively. Yet, again, it does not follow that within the manufacturing sector adjustments were limited to these four industries. For although, for example, the total engineering labour force showed a substantial expansion in these years (15.7 per cent.), reductions in the numbers employed were recorded in two of the constituent industries—the manufacture of textile machinery, and shipbuilding and ship repairing. Similarly, while employment in the vehicle industry taken as a whole rose by about 22 per cent., reductions in employment were recorded in those sections producing locomotives, railway wagons, carts and perambulators.

It is, of course, natural to find more and more individual variations in the labour repercussions of structural change as the statistical material is further broken down. In the United States, for example, between 1947 and 1954 employment in the textile industry fell by 17 per cent. At an average annual contraction rate of 2 to 3 per cent., this is perhaps not a very impressive figure. However, between 1947 and 1955 employment in the New England section of the industry fell by 40 per cent.—a far steeper rate. Similarly, the 17 per cent. contraction in the textile industry as a whole disguises a 53 per cent. decline in employment in the manufacture of woollen and worsted fabrics during the same period.² Again, although the number of coal miners in the European Coal and Steel Community remained virtually unchanged between 1950 and 1954,

¹ Annual Abstract of Statistics (London, Central Statistical Office), No. 95, 1958, table 134. The 1950-56 period largely avoids both the peculiarities of post-war recovery and the slight recession of the late 1950s. It also straddles the 1952 recession. The period, therefore, may well display fairly normal trends in the structure of the labour force in the United Kingdom. Also the percentage changes were obtained by measuring from the average of 1949, 1950 and 1951 and the average of 1955, 1956 and 1957, to reduce any distortion as a result of any one untypical year.

employment in French coal mines fell by 17.5 per cent. (and by as much as 28 per cent. in the Centre-Midi field).¹

A further breakdown of the figures, down to the individual product or firm or, even beyond, to the individual plant and process, will reveal many more instances of labour force contraction. Furthermore, and this is equally important, the unit directly affected can be located more precisely. For example, foreign competition has caused difficulties in the United States market for woven cotton sports shorts in a certain price range. These difficulties could be experienced with some severity in particular firms with no noticeable effect on the cotton textile industry as a whole, or even in the section concerned with the manufacture of shirts.

For the difficulties in any one industry are rarely felt equally by its constituent firms. In some the problems will be much simpler, in others much graver than "the average". In the United States aircraft industry, for example, while Martin, North American and Convair were recently reasonably well placed—even, in some cases, hiring more workers—Fairchild, Douglas and Boeing were doing rather badly.² Indeed, what may appear in statistical terms as a fairly mild contraction of an industry as a whole may in fact involve the complete closure of a number of firms.

Even within an expanding industry, some firms may decline and dismiss some workers. For example, out of 22 manufacturing industries in northern Bavaria, ten experienced a reduction in their labour force between 1957 and 1959, and 12 an expansion.³ Yet in each of these latter industries, some workers were dismissed as a result of the contraction of some firms. And, as the following table shows, in relation to the size of the employment expansion the number of these less fortunate workers was by no means negligible:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Labour force expansion, 1957-59</th>
<th>Number of workers dismissed on account of contraction in individual firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Glass</td>
<td>304</td>
<td>227</td>
</tr>
<tr>
<td>Non-ferrous metals</td>
<td>876</td>
<td>33</td>
</tr>
<tr>
<td>Metal products</td>
<td>2,579</td>
<td>1,166</td>
</tr>
<tr>
<td>Steel construction</td>
<td>206</td>
<td>560</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>18,242</td>
<td>958</td>
</tr>
<tr>
<td>Optical goods</td>
<td>947</td>
<td>70</td>
</tr>
<tr>
<td>Paper</td>
<td>1,452</td>
<td>162</td>
</tr>
<tr>
<td>Tobacco</td>
<td>115</td>
<td>190</td>
</tr>
<tr>
<td>Clothing</td>
<td>1,699</td>
<td>920</td>
</tr>
<tr>
<td>Footwear</td>
<td>342</td>
<td>64</td>
</tr>
<tr>
<td>Upholstered furniture</td>
<td>351</td>
<td>323</td>
</tr>
<tr>
<td>Others</td>
<td>15,358</td>
<td>320</td>
</tr>
</tbody>
</table>

³ Data supplied by the Federal German employment service.
This example should not be taken to imply that it makes little
difference in terms of adjustment problems whether an industry is
expanding or not. But it can be said, for example, that a group of workers
dismissed as a result of the closure of a firm in an expanding industry
but located in a small town may well experience more adjustment
problems, in the form of difficulty in finding new jobs, than workers
dismissed by a firm in a contracting industry but located in a large city.

Labour adjustment, of course, does not invariably presuppose the
complete closure of the firm; a partial reduction in the labour force (and,
of course, the systematic transfer of workers within particular firms and
plants) can also give rise to adjustment problems.

It is important, in any case, to recognise as structural changes those
affecting the relative competitive position of firms within an industry.
For, regardless of whether the industry as a whole is expanding or
contracting, there is normally a procession of firms into and out of the
industry, reflecting the closure of inefficient units and their replacement
by new enterprises. Such disturbances, of course, involve labour ad-
justments.

The fact that structural changes may occur on such a micro-economic
scale means that the picture of attendant labour adjustment in an
industrialised economy is too complex to be conveyed in any detail.
Available statistics would in any case be inadequate for the purpose;
for, although labour statistics relating to industries are fairly readily
available, they are not obtainable on a comprehensive basis for individual
firms.

On the other hand, the process of breaking down data on employ-
ment shifts should not be carried to the point where all terminations of
labour contracts are regarded as cases of structural labour disruption
(although, as noted in Chapter V, many such separations may well be so
regarded). Much less systematic and indeed often capricious considera-
tions can cause employment contractions in individual firms. For
example, in Nice, in November 1959, 700 employees were dismissed as a
result of a closure of two casinos, consequent upon an infringement of
the licensing requirements. Following a change in the safety standards
applied to the product, a manufacturer of oil heaters in the United
Kingdom was recently obliged to suspend production and dismiss
workers. Also in the United Kingdom, following the crash of one of its
aircraft, a small independent airline was obliged to cease operations and
dismiss 150 of its staff.

Poor labour relations can be a consequence of labour disruptions,
but they can also be a factor contributing to structural change. Thus the
loss of efficiency experienced by a firm as a consequence of strikes and
general labour unrest has been known to reach a point where the firm has had to cease production. Events in the South Wales village of Cwmllynfell have been cited as an illustration. There the local colliery was closed as a result of uneconomic operation attributed to poor labour relations, and in this particular instance the consequent labour adjustment proved very difficult. A second illustration is that of a firm of steel erectors in the United Kingdom which claimed that the loss of a contract, entailing the dismissal of 96 employees, was caused by strikes and go-slow tactics on the part of its workers.

CAUSES OF STRUCTURAL CHANGE AND THE NATURE OF THE ADJUSTMENT PROBLEM

Adjustments in a firm’s labour force required as a direct result of technical change in that firm are dissimilar to those due to other forces (although, when the indirect repercussions of the technical change in other firms are considered, the difference becomes much less marked).

First, in contrast to most of the other forces, the introduction of technical change represents a voluntary act on the part of the enterprises immediately affected. Therefore those directly concerned—and, to some extent, this includes the workers and their representatives—can exercise considerable control over the conditions under which the change is made (for example, the pace at which it is to take place) with a view to reducing the disruption. Indeed, as technical change occurs at their initiative, employers have often been willing to accept some of the responsibility for consequent labour adjustments (see Chapter VIII).

Secondly, as will be discussed further in Chapter III, causes of structural adjustment other than technical change will often impair the profitability of the enterprise immediately concerned; and this considerably complicates the resulting problems of labour adjustment. But the firms introducing technical change may well be among the richest in the industry.

Thirdly, while in other cases structural employment adjustment normally means a reduction in the size of the labour force in the sector, industry or firm concerned, there are many reasons for believing that technical change by no means generally leads to lower employment—at least, not in the firms introducing the change. These reasons include the different attitudes of employers towards technical change on the one hand, and other types of structural adjustment on the other. This question will be discussed further in Chapter VI. At this stage, it will suffice

1 The Economist (London), 14 Nov. 1959. See also below, Chapter V.
to note that the labour adjustments arising directly from technical change tend to take the form of adjustments within the enterprise concerned.

For these reasons, labour adjustments consequent upon technical change are examined separately in Chapter II, while the discussion of the process of contraction as such, in Chapter III, deals with forces other than technical change.

Technical change apart, however, the cause of a particular structural change has relatively little effect on the nature of the labour adjustment required. As will be seen in Chapters III, IV and V, other factors determining the incidence of labour adjustment problems are much more important than the cause. Naturally, this does not mean that the initial forces are completely irrelevant. It means, rather, that they constitute at best only one out of a whole set of factors influencing the adjustment process. However, some illustrations of the special (but by no means dominant) features which may characterise adjustment following from particular causes are given below.

For example, structural labour adjustments resulting from a change in consumers' tastes can be contrasted with those arising primarily out of inter-firm competition. While in the former case some workers will normally have to change occupation, in the case of inter-firm competition the worker may simply move to expanding firms within the same industry.¹

Similarly, it can be argued that, other things being equal, there will be less disruption as a result of the formation of geographically close-knit customs unions (especially where provision is made for the mobility of labour) than in the case of increased competition from distant, developing economies, since in the former case workers affected may be able to move to a nearby country in order to perform their former jobs (although in reality, owing to labour immobility, this may well prove a rather unrealistic expectation).

Furthermore, competition from newly developing countries tends to bear more heavily on the more labour-intensive industries in the industrialised economies. As far as labour is concerned, this of course aggravates the adjustment process. If in the United States tariffs were reduced on a uniform basis on all products, it is probable that the greatest increases in imports would be in industries which are fairly labour-intensive.

¹ Changes in consumers' tastes arising out of improvement in the standard of living have a further peculiarity, in that the rapid growth of the economy as a whole—a generally desirable background for smooth structural change—may in this instance tend to increase the rate of contraction in certain industries and thereby make the adjustment process more difficult. A case in which this factor may have been of some importance is illustrated in the Appendix.
The following data confirm that, in the United States at least, the more heavily protected industries are also the more labour-intensive:

<table>
<thead>
<tr>
<th>Protection class</th>
<th>Number of industries</th>
<th>Average number of employees per $1 million of shipments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unprotected</td>
<td>54</td>
<td>57</td>
</tr>
<tr>
<td>Slightly protected</td>
<td>20</td>
<td>56</td>
</tr>
<tr>
<td>Moderately protected</td>
<td>28</td>
<td>56</td>
</tr>
<tr>
<td>Heavily protected</td>
<td>108</td>
<td>73</td>
</tr>
<tr>
<td>Most heavily protected</td>
<td>76</td>
<td>84</td>
</tr>
<tr>
<td>All classes</td>
<td>286</td>
<td>70</td>
</tr>
</tbody>
</table>


Changes in government spending are a frequent cause of structural disruptions resulting in sudden labour force contractions. When the cessation of defence contracts and taxation changes stem from administrative decisions, the cause the situation to change almost instantaneously. In the case of tariff reductions, however, some attempt is usually made to soften the blow by staggering the reductions.
CHAPTER II

LABOUR ADJUSTMENTS ASSOCIATED WITH TECHNICAL CHANGE

THE DISPLACEMENT OF LABOUR

The advantages of technical progress in terms of rising productivity and general prosperity need no emphasis here. Almost invariably technical change has, however, also given rise to apprehension among the workers employed in the affected sectors. For the most part, these fears centre upon the possibility of labour being displaced as a result of the change in question—"displaced", that is, solely in the sense that the worker is removed from his usual job and becomes redundant owing to changes in organisation or working methods, and not necessarily that he is dismissed altogether from the establishment in which he was employed.

It should indeed be made clear from the outset that there are no overwhelming reasons why displacement due to technical change should necessarily lead to dismissals. For technical change has two opposing effects. First, there is its most widely recognised characteristic, namely that labour is replaced by capital or (for instance, in cases where productivity is increased by reorganisation of factory layout without a material increase in the amount of capital employed) by improved organisation. Secondly, the cost and price reductions (at least in a relative, and often also in an absolute sense) to which technical progress should lead tend to cause an increase in demand and production, and on this score an increase in labour requirements. Thus technical change may be both cited as a cause of, and advocated as a cure for, contractions, even within the same industry. For instance, while recent reductions in employment in the coal-mining industries of various countries have been largely ascribed to the modernisation of the mines and to the introduction of more efficient methods of work, in the Federal Republic of Germany the Government imposed a temporary tax of 25 Deutschmarks a ton on heavy fuel oil, the

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1 It should be recalled that in this study the term "technical change" is employed to cover such processes as the installation of more modern machinery, automation, modernisation and reorganisation.
proceeds of which were to be used to facilitate the modernising of the coal-mining industry. Similarly, although technical change has been regarded as one of the causes of declining employment in the New England textile industry, the authors of a report on the problem have urged "labour and management to search for means to increase productivity of both labour and capital".1

Broadly speaking, the experience of industrialised countries, viewed from the standpoint of the economy as a whole over fairly extended periods, has been that the effect of technical change in increasing demand and production has matched or exceeded that of falling labour requirements per unit of output. Productivity has risen fast, but widespread technological unemployment has not occurred. The evidence also shows that large-scale dismissals are not a common feature of the innumerable technical changeovers that are the basis of the great rises in productivity achieved in industrialised nations. But some qualifications must be made. Even where no dismissals occur, this does not mean that technical change has no effect on employment. It may be that the firms or industries concerned will reduce their recruitment of new staff; if widespread, such a tendency would clearly cause unemployment, should a country's labour force grow more rapidly than employment opportunities elsewhere expanded. It may also be that, although no dismissals occur in the firms or industries installing new machinery, other firms (or industries) which do not do so may become less competitive and have to dismiss workers (although such dismissals may then be blamed, for example, on "increasing competition in a weak market" rather than on technical change). Indeed, and more generally, although technical change may not lead to dismissals when undertaken in a fast-expanding market, it is much more likely to do so when applied as a remedy against increasing competition or shrinking demand.

Unfortunately, it seems that no satisfactory method of apportioning the cause of labour force contractions at the industrial level as between technological developments and changes in the demand situation has yet been devised. It is therefore necessary, in examining the effects of technological change on employment, to approach the problem from the point of view of the individual firm.

But, first, attention may be drawn to a mutual relationship which seems to exist between output changes and labour productivity changes at the level of the industry. Research results from different quarters suggest that a systematic relationship exists between these two variables,

1 The New England Economy, A report to the President transmitting a study initiated by the Council of Economic Advisers and prepared by its Committee on the New England Economy (Washington, 1951), p. xxxii.
such that large output increases tend to be associated with the bigger gains in productivity.\textsuperscript{1}

The rank correlation coefficient affords a means of describing the strength of the relationship.\textsuperscript{2} On the basis of Fabricant's data, which covered 32 industries in the manufacturing, mining, communications and public utility sectors in the United States from 1899 to 1953, the correlation between these two characteristics was 0.66; Reddaway and Smith present data for 14 British industries between 1948 and 1954, which give a coefficient of 0.93; and Raushenbush's results for 20 United States manufacturing industries from 1952 to 1955 yield a coefficient of 0.76.

This relationship tends to temper disturbances in industrial employment because, where technical change is rapid and the reduction in unit labour requirements greater than average, the output increase tends to be higher; where output rises slowly or not at all, the rate of technical change also tends to be lower than the average.\textsuperscript{3}

**TECHNOLOGICAL REDUNDANCY AT THE FIRM LEVEL**

The many studies assessing the effects of technical change in individual firms tend to support an important generalisation. Despite the fact that in the processes or plants directly subject to technical change reductions in labour requirements per unit of output often occur, rarely does there appear to be any net reduction of the labour force employed in the enterprise as a whole. Even less frequent are actual dismissals due to technical change. There are, of course, exceptions to this generalisation, and workers have in some cases been dismissed on account of technical change; some of the circumstances in which such dismissals are more


\textsuperscript{2} This coefficient measures the extent to which a series, in this case of industries, when ranked according to one characteristic accords with the same series ranked by a second characteristic. In this instance the two characteristics are changes in output and in labour productivity. A rank correlation coefficient of 1.0 means that the industry with the highest output increase has the highest labour productivity gain, the industry with the second highest output increase the second highest labour productivity gain, etc. A coefficient of 0 implies that there is no systematic relationship at all between the two characteristics.

\textsuperscript{3} Exceptions to the above rule do occur. Thus, according to Raushenbush's data, the United States textile industry, while enjoying between 1952 and 1955 a labour productivity increase eighth from the highest, had an output increase next to the lowest. Leaving this one industry out, the rank correlation coefficient based on Raushenbush's data rises from 0.76 to 0.85.
likely to occur are mentioned further on. But the more typical impact of technological change is conveyed by the following quotations:

In almost every case... the new installations required fewer workers.... This did not, however, mean that the men were unemployed, for almost every redundant worker was found an alternative job within the firm.¹

Thus, in the foundry industry, the modernisation of moulding, sandblasting, transport and various handling operations has resulted in manpower savings but has not led to workers being laid off, as the workers are usually transferred to other branches of the same undertaking.²

In the footwear industry... employers consulted estimated that mechanisation had resulted in a labour saving of 15 per cent. However, the workers thus released had been transferred to other departments in their respective undertakings.³

Additional employees were hired as the functions of the office not affected by the automatic Reservator expanded rapidly with greater passenger traffic.⁴

Although Leo does an amount of work equal to that of between 200 and 300 clerks per shift with a staff of ten, there has been no redundancy of clerical workers.⁵

The operational record of the Post Office shows quite clearly that, whilst automation has up till now resulted in a considerable increase in workers' average output... no measures of staff reduction have been possible.⁶

An I.L.O. study on the effects of technological developments in the textile industry suggests that even in this declining industry technological change has not generally caused dismissals—at least, not in the Federal Republic of Germany, Australia and the United Kingdom.⁷

Sometimes, however, technological change has definitely led to dismissals. Out of 13 cases reported in one United States study, three showed a fall in employment.⁸ In two of these a mere three workers were displaced. In the third (a bakery) employment fell by as many as 250 to 300 workers, but in this case mechanisation was accompanied by a merger, replacing three separate bakeries by one.⁹

⁷ J. R. Bright: Automation and Management (Boston, 1958), pp. 174-175.
⁸ In some cases imprecise language makes it impossible to judge whether dismissals occurred in particular cases. For example, attention has been drawn to the fact that between 1954 and 1959 the number of lift attendants in Washington fell from 2,270
It may also be noted that, whereas the evidence does not suggest that technological change normally leads to dismissals, it seems to be normally feared that it will do so. It almost seems as if the evidence is regarded with suspicion or reluctance. The following quotations illustrate this (italics not in the originals):

Although the modernisation of plant and reorganisation of working methods in industry are not at present affecting the general employment situation to any marked degree, they are leading to changes in the structure of the different occupational groups.¹

Has office automation thus far led to technological unemployment among these workers? Statistics provide the answer: "No, not yet." ... It would, however, be jumping to conclusions to draw from these figures the inference that office automation can at the most slightly reduce, if at all, the increase in the number of office workers. The progressive development of our economy during the period in question, and the fact that we are only at the beginning of technical modernisation in office work should both make us cautious in drawing conclusions.²

In view of what has been said earlier it would, however, seem necessary to pay special attention to the experience of enterprises in declining industries. This subject is further discussed below.

INTERNAL LABOUR TRANSFERS

The obvious way of avoiding dismissals in the case of technical change is the transfer of displaced workers to other jobs within the same enterprise, but usually in departments and plants not directly affected by the change.³

In the final analysis, these transfers are explained by the fact that the firm introducing technical changes is usually of the more dynamic variety, experiencing or seeking an expansion in its activities, and more typically encountering labour shortages rather than surpluses. Indeed, a shortage of labour is quite often the primary motive for the introduction of labour-saving machinery and methods. Furthermore, the introduction of new machinery and methods, by raising the capacity of the department

to 1,870 ("Technological Revolution Causing Much Joblessness", in Bulletin of the Industrial Union Department, A.F.L./C.I.O., Feb. 1959). But it was not indicated whether this involved the dismissal of workers or whether the reduction was achieved by transferring workers or simply by curtailing recruitment. Similarly, the number of redundant motormen in New York was estimated at 3,000, but without specifying what, precisely, was meant by the word "redundant".

¹ "Supply of and Demand for Labour in the French Metal Trades", in Industry and Labour, 1 Apr. 1955, p. 319.
² BLAU, op. cit., pp. 18-19.
³ The same occurs also in the Soviet Union, where the personnel manager of a steel-rolling plant recently pointed out that workers displaced by automation in individual workshops were mostly re-trained for other departments.
immediately concerned, may give rise to an increase in the demand for labour by other parts of the enterprise.

These internal transfers have important implications for the workers whom they concern, for management and for the economy at large. For the workers they represent a change of jobs, of work groups, earnings, and perhaps even of residence, and for some, if not all, of the workers they may involve hardships which, if less severe than those consequent on dismissal, are nonetheless appreciable. These problems are dealt with more fully in Chapter V.

For management the problem is one of adjusting the available labour force to the new requirements resulting from the technical change. Internal rearrangements of the labour force are a quick method of achieving this readjustment.¹ Yet it should not be thought that, from a manager's point of view, this reshuffling of the original force is necessarily the best solution to his problem. It is not certain—perhaps even not likely—that by adapting and re-training the available manpower an enterprise will obtain a labour force as efficient, in relation to the changed requirements, as that which it could have built up if it had been completely free to resort to the employment market. In practice, management is in fact rarely entirely free to do this. Owing to the repercussions which dismissals would have on relations with their employees, or from a sense of responsibility towards the latter, employers will often prefer to minimise the employment impact of technical change by making internal transfers anyway. But in any case, as will be noted in Chapter VIII, provisions for internal transfers are often written into collective agreements.²

Failure to achieve optimum utilisation of the labour force represents a loss to the economy which in a way reduces the gain deriving from the initial technical improvement. But, in examining whether it would be preferable for employers to have greater freedom in this respect, account should of course be taken of the more difficult labour adjustment which technical change would entail if it normally resulted in dismissals. Even if it could be shown that internal transfer policies designed to avoid mass dismissals represented a loss to the economy, most people would consider them an acceptable way of cushioning the impact of a socially desirable change upon an unfortunate minority.

¹ However, the question of long-term adjustment poses problems outside the framework of the enterprise—and of this study—as regards national education and training policies.

² Where labour is in short supply the need to make transfers may represent no great loss. Even then, however (questions of labour relations aside), transfers can never provide a better solution to the problem than would be reached if in addition management could resort to the employment market. Moreover, as noted in Chapter III, internal transfer can mean a rise in costs when demoted employees continue to be paid their former wage rate for a time.
However, particular workers may prove so unsuited to the new tasks that the employer has little alternative but to dismiss them, obtaining replacements among more suitably qualified workers in the employment market. This may happen particularly to older employees; their problems will receive closer attention in Chapter V.

Also, there is the possibility that some workers are temporarily displaced during the interruption of activity which may accompany the introduction of technical change. Often management will "hoard" these employees until they can be reabsorbed.

**Dismissals**

Although technical change does not usually seem to cause many dismissals in the firms introducing it, this statement, as suggested earlier, needs to be qualified in certain respects. First, widespread technical change may cause unemployment as a result not of dismissals, but of a low rate of recruitment; this point will be examined briefly in Chapter IX. But there are also situations in which technical change causes actual dismissals.

Such situations are likely to arise especially when the demand for the products of a firm or industry is stagnant or declining. Sales problems may provoke "technical change", in the sense of changes in organisation and methods of work. When sales and profits are low, special efforts may be made to reduce costs by eliminating from the production process unnecessary or inefficient features that were not noticed, or could be tolerated, when business was good. But, although they reduce costs, such organisational improvements are not likely to lead to an immediate rise in output. This means that the reorganisation of one department or operation is not often attended by increases in activity elsewhere along the production line, so that transfer of redundant workers is rarely possible. Indeed, a reorganisation may mean that certain products are dropped altogether from a firm's production programme or that subsidiary plants are closed down. And as the urgent aim of the change is to reduce costs, dismissals are then likely to occur. For example, in 1955 unemployment in the French textile industry was ascribed largely to the modernisation and concentration schemes of various firms, under which some mills had been closed. And when production was redistributed among the plants of Armour, the United States meat packing firm, a number of dismissals followed.1

Even when technical change is not prompted by sales problems, it may cause such problems in firms other than those introducing it. The

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firms that introduce technical change on the widest scale are normally the wealthiest and most progressive. And the introduction of technical improvements in some units is apt to widen the competitive gulf between these and other units. The progressive firms with lower costs or better products tend to encroach on the sales of their competitors—indeed, this will often be the purpose of innovation. As a result, technical change in some firms may cause dismissals in others. Thus in France it was found, as the result of an official survey carried out in 1953, that foundries which had altered their equipment only slightly or not at all had experienced a marked drop in the number of persons employed, while in those where equipment had been modernised the increases in activity had resulted in immediate or subsequent increases in the numbers employed. Similarly, in the glass industry the number of persons employed in semi-automatic glass works had decreased slightly, while in glass works with completely automatic machinery the labour force had increased. This was ascribed to the improvements in plant and equipment, which had enabled production costs to be reduced to a level considerably below the normal production costs in semi-automatic works. And, in the French textile industry, case studies had shown that the firms which had resisted the depression most effectively were those in which modernisation had been carried furthest. This was ascribed to reductions in production costs, which had enabled these undertakings to keep their domestic and foreign markets and thus to maintain and even increase their staff, while during the same period undertakings in which there had been little or no modernisation had been compelled to cut down staff and hours of work to overcome serious difficulties.

It may be noted incidentally that, when technical change takes the form of an organisational improvement, it may similarly lead to dismissals not in the reorganising firm itself but in others. For example, a firm may meet redundancy problems arising from reorganisation by deciding to carry out maintenance and repair tasks formerly entrusted to specialised outside firms (though the opposite may also occur in the course of reorganisation). Indeed, the degree of integration of production in individual firms and plants may have a substantial impact on labour adjustment problems. For example, in a recent reorganisation of British Railways the demand for the services of the railway workshops was reduced. The shops belong to the British Transport Commission, and arrangements were made for transferring redundant workers to  

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1 See Bulletin d'information et de documentation professionnelles (Ministère du Travail et de la Sécurité sociale, Direction de la Main-d'œuvre), No. 115 (15 Jan. 1953), pp. 44-46; No. 116 (1 Feb. 1953), pp. 45-51; and No. 117 (15 Feb. 1953), pp. 49-53.
other activities operated by the Commission. Had the workshops been owned privately, however, this possibility of “internal transfer” would not have existed, and some of the staff might have been dismissed instead.

This example draws attention also to another point that has already been mentioned, namely the difficulty of establishing clearly and unambiguously the “cause” of a labour adjustment problem. In this case the contraction of the workforce may be said to have been due to reorganisation, i.e. to a special case of technical change. Had the workshops been owned privately, the need for adjustment would probably have been ascribed to a fall in demand. Similarly, when progressive firms introduce new techniques of production, thus encroaching on the markets of competing firms and compelling them to dismiss workers, such dismissals will be ascribed to a fall in demand. But the basic cause of the difficulty is really technical change. This question becomes of great practical importance when a redundancy agreement restricts the provision of compensation for displaced workers to cases of “technical change”. Under such an agreement workers dismissed in one firm as a result of technical change in another will probably not receive compensation, while the firms introducing technical change will probably have to dismiss few, if any, workers, and any redundancy agreements which such firms may have concluded will prove largely irrelevant.
CHAPTER III

THE PROCESS OF CONTRACTION

THE RATE OF CONTRACTION

The rate at which the reduction of an industry or firm's labour force takes place materially influences the process of labour adjustment. Other things being equal, the more slowly a contraction occurs the more easily displaced workers can be absorbed into other activities. Furthermore, the slower the rate of contraction the greater the proportion of redundancy that can be matched by the "natural" depletion of the labour force (retirements and normal labour turnover) rather than by dismissals. For example, separations in north Bavarian manufacturing industries between 1957 and 1959 totalled 255,500.\(^1\) Of this figure, 226,600 were voluntary separations; dismissals accounted for a mere 11 per cent. of the total. It would seem, therefore, that natural wastage has a considerable potential for easing the adjustment. The role of this factor is examined further on.

Rates of contraction may be especially high in particular industries and during certain periods. For instance, between 1939 and 1959 employment in Lancashire cotton weaving fell by 47 per cent. And in the United States coal-mining industry employment fell from 480,000 in 1944 to less than 200,000 in 1958. Even so, such figures tend to understate the magnitude of the contractions actually experienced. For, as was noted in Chapter I, figures pertaining to industries as a whole fail to reflect the fact that the contraction may be concentrated within one sector of the industry, within one particular region, or indeed within one or two firms. In the sectors and firms primarily affected the rate of contraction will, of course, be above that for the whole industry.

Further, the rate of contraction in a unit over a certain period may give an unwarranted impression of smoothness; actually, labour force contractions within the period may have been quite irregular. In particular years, months or weeks, and on certain days, the rate of contraction will often have greatly exceeded the average rate for the decline as a

\(^1\) Data supplied by the North Bavarian employment service of the Federal Republic of Germany.
whole. One reason is that employers in declining markets naturally attempt, if possible, to meet temporary recoveries in demand. Indeed, the expectation of decline may itself cause a temporary resurgence of demand. Thus the proposal to increase the United States tariff on watches, which might have put some importers of Swiss watches out of business, gave rise in 1953 to substantial speculative purchases of Swiss watches.\textsuperscript{1} The scheme to reduce United Kingdom textile capacity also led to some speculative buying, and contributed substantially towards a recovery in demand. Similarly, the long-term average rate of contraction may, in particular years, be accentuated by cyclical recessions or other special disturbances. But, whatever the cause of a temporary revival of demand, the required increase in production may be achieved by hiring additional workers and employing them with the surplus capacity normally available in a declining firm. The result is an expansion in the labour force in a period of decline. But ultimately the dismissal of these “temporary” workers, superimposed on the long-term reduction in the labour force, will give rise to abnormally high contraction rates.

The following figures, illustrating employment trends in the Canadian textile industry from 1951 to 1959, typify the lack of smoothness which, to a greater or less extent, characterises all labour force contractions.

<table>
<thead>
<tr>
<th>Year</th>
<th>Index (1953=100)</th>
<th>Annual percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>111.3</td>
<td>—</td>
</tr>
<tr>
<td>1952</td>
<td>98.5</td>
<td>-11.5</td>
</tr>
<tr>
<td>1953</td>
<td>100.0</td>
<td>+ 1.5</td>
</tr>
<tr>
<td>1954</td>
<td>86.3</td>
<td>-13.7</td>
</tr>
<tr>
<td>1955</td>
<td>91.6</td>
<td>+ 6.1</td>
</tr>
<tr>
<td>1956</td>
<td>93.1</td>
<td>+ 1.6</td>
</tr>
<tr>
<td>1957</td>
<td>90.6</td>
<td>- 2.7</td>
</tr>
<tr>
<td>1958</td>
<td>83.2</td>
<td>- 8.2</td>
</tr>
<tr>
<td>1959</td>
<td>84.5</td>
<td>+ 1.7</td>
</tr>
</tbody>
</table>

While the average annual rate of contraction in this nine-year period was only 3 to 4 per cent., in two years the rate exceeded 10 per cent.

In individual firms, the concentration of the contraction within narrow time limits may be even more pronounced. Even in the early stages of a firm’s decline, the course of the labour force contraction may well be discontinuous, since from the employer’s viewpoint the retrenchment of production is best obtained by a complete and sudden closure.

of his least efficient plants and processes. Indeed, this is often technically necessary.\(^1\) In the case of a firm going out of business, the reduction of the labour force in the final stage takes the form of an instantaneous 100 per cent. drop—since, when production has fallen to a certain level, it pays the enterprise to cease production completely. This final contraction can often affect a major proportion of the original force. Thus in the United States, in the case of the closure of a factory at Danielson (Connecticut) the peak employment had been 1,200 workers; just prior to liquidation it was as high as 800.\(^2\)

**Some Factors Affecting the Size of the Contraction**

In the case of technical change the rate at which employment declines in the occupations and firms directly affected depends on the nature of the innovation and on the speed with which it is introduced. Both may vary considerably but, as mentioned before, they can to a large extent be controlled by the employer. In the case of contraction due to a fall in demand this degree of control is much smaller, and the rate of labour displacement depends first and foremost on the speed with which the causal factor operates. But, in such a case, the size of the labour adjustment problem depends additionally on the pattern of production.

Two factors are of special interest in this connection, namely (a) the variety of output in the firms affected, including the degree of integration of production, referred to in the previous chapter, and (b) the degree of "labour intensity" of production.

For an industry or firm to produce only one commodity is more the exception than the rule. Therefore, even a large fall in the demand for any one product may well have only a slight adverse effect on the labour requirements of the various manufacturing firms. There is an important difference between the dismissal of a given number of workers from one factory (or possibly just a few) which tends to occur in conditions of extreme product specialisation, and the spread of the same number of redundancies over many production units. In the latter case, which is in turn associated with product diversification in the firm, dismissals are more likely to be dispersed geographically, and this normally facilitates the adjustment process. Thus, when the United States garlic producers claimed damage from garlic imports it was held that their production of

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\(^1\) Thus in a certain year an employer in the United Kingdom dismissed 1,169 on one day (7 June), 1,064 on three days (28 June, 5 and 12 July) and 952 on 30 August and 6 September (Acton Society Trust: *Redundancy*, Three studies on redundant workers, No. 2 (London, 1959), p. 4). This publication is referred to hereafter as *Redundancy No. 2*.

\(^2\) *Staff Papers 1954*, pp. 412-413.
commodities other than garlic had prevented any serious injury to them and that, while the reduction of barriers on imports of garlic might have a serious adverse effect on garlic production, it might not do serious injury to any individual. Similarly, the effects of a recent decline in the demand for constructional steel work in the United Kingdom appeared to be mitigated by the fact that most of the leading companies were diversified and carried out platework, pipework and other activities besides steel framework. Again—

Employees who might have been thrown out of work because of the decline in the production of hand lawn mowers are busily engaged in the same plants in the manufacture of power mowers and hay balers.

In fact, in a firm making many products not even a small labour force contraction may be required; there always exists the possibility that a demand for one commodity grows simultaneously with a fall in demand for another. Thus a reduction in the numbers employed by radio manufacturers, which might otherwise have been reasonably anticipated, has not generally occurred, since the same firms make television sets.

However, in discussing the importance of product variety as a factor modifying the required labour adjustment, two remarks must be made. First, the labour adjustment problem is substantially eased only where product diversification is a feature of the individual factory or plant. For this purpose the importance of product diversification in large national and international combines is not very great, since the various factories of which these groups are composed are frequently given over to one item only. Secondly, as will be seen in Chapter VI, product diversification undertaken by an enterprise as a deliberate measure to counteract a fall in demand for its principal product is by no means the panacea for structural labour disturbances which it is sometimes thought to be.

A second factor having an impact on the rate of contraction in a workforce affected by structural change is the degree of labour intensity of the industry or firm—i.e., the physical labour requirements per value unit of output in that industry or firm. The lower the labour "content" of a particular commodity, i.e. the higher the percentage of production costs normally represented by raw materials, capital, land and entrepreneurship, the less will be the required labour adjustment arising out of a given fall in consumer expenditure on the product in question.

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1 *Staff Papers* 1958, p. 282.
3 See Chapters VI and VIII.
Value for value, a reduction in expenditure at cinemas has rather less severe implications in terms of dismissals in the industry concerned than a decline in the demand for coal. Furthermore, since the fee paid to a film star is much more than the wage of a coal miner, any given fall in labour income corresponds to a far greater number of individuals adversely affected in coal mining than in the film industry.

In the United States it has been estimated that, while the average number of workers displaced in 70 industries as a result of the loss of 1 million dollars' annual expenditure would be 67, as many as 163 would be displaced in pottery and related products, and as few as 17 in grain and mill products.\(^1\) Other labour-intensive industries exposed to difficult adjustment problems include lead and zinc mining, apparel, wood furniture, footwear (excluding rubber footwear), toys and sporting goods. To some extent inter-industry differences in the employment effect of declining output depend on the degree in which the fall in production is distributed among various industries. When, following a decrease in the demand for its own product, an industry buys less raw material, it may be said to "pass on" part of the labour adjustment problem to other sectors. Thus, if the decline in employment due to a 1 million dollar fall in annual demand is relatively slight in the grain milling and meat-packing industries, this is partly because the bulk of the adjustment problem falls on agricultural producers.

Indeed, important adjustments can arise as a result of these secondary effects. For example, the substantial labour force contraction which has occurred in recent years in the United Kingdom textile machinery industry is largely a direct consequence of the decline in the textile industry itself.

The "passing on" of the labour adjustment is largely a natural consequence of the economy's structure. There is, however, both scope and inducement for people directly concerned in adjustment processes to intensify this effect of the adjustment. Thus, in United Kingdom railway workshops pressure was applied to have the fall in demand for steam locomotives and rolling stock shifted completely to private manufacturers. The chairman of a private company complained:

We have seen considerable pressure recently . . . for an increase in the work to be placed in railway workshops on the plea of avoiding redundancy. We would stress that such an increase would be achieved only at the expense of redundancy in the private workshops.\(^2\)

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NATURAL WASTAGE

We may now examine the contribution of natural labour force depletion to the solution of adjustment problems. It is not possible to make any precise assessment of this factor. The depletion of the labour force which occurs when enterprises cease to employ new workers cannot be estimated with any precision. Since it is determined by retirements and sickness among workers, and the number of resignations and disciplinary dismissals, one would indeed hardly expect this rate to be very stable, either between firms and industries or over time. It in fact varies with such conditions as the age, health and other general characteristics of the labour force. In the United States manufacturing sector, the "quit rate" for the one year 1956 (which was somewhat below the level of other years) was as high as 19 per cent. of the labour force. The corresponding percentage in Japan in 1959 was only 8 per cent. And a mere 4 per cent. of a group of Dutch steelworkers left their jobs during a period of four years.

However, the matter need not be left in quite such an inconclusive state as this. For instance, it can be said with some certainty that "normal" or "average" figures of labour turnover in an industry that is not declining tend to overstate the rate at which the labour force of a declining industry could actually be depleted through natural wastage. First, voluntary separation, which constitutes a major component in labour turnover, comprises the movement of workers both to other industries and to firms within the same industry. But in a decline affecting the whole industry, the latter element vanishes, and statistics will show a fall in the rate of labour turnover.¹ This does not imply that the voluntary exit of workers out of the industry is reduced. Indeed, the contrary may be true.

Secondly, employers in practice are unwilling to cease recruitment altogether, and on this account, too, rates of normal turnover taken in isolation overstate the speed at which the labour force can be reduced short of resorting to dismissals. In United States redundancy agreements, for example, attention has been drawn to the scarcity of clauses providing that no new employees shall be hired during slack periods.² For as key jobs are vacated by the more highly skilled workers retiring or leaving the industry, it may be that after a certain stage they can be filled by internal transfers only at a considerable loss of efficiency. Similarly, the increase in the average age of the labour force which accompanies a cessation of

recruitment also makes for an imbalance in the firm’s labour force. Employers will tolerate such trends only up to a certain point, and although pressure from workers may lead to a reduction in the rate of recruitment, it is most unlikely to stop it completely. Thus, during the course of a labour force contraction in a light engineering firm in the United Kingdom it was found that—

Owing to labour wastage... some lack of balance in the labour force developed during the period and certain vacancies had to be notified to the employment exchange even when redundant workers were being released.¹

And in France the third modernisation and equipment plan emphasises the need to pay increased attention to vocational training and to recruiting skilled personnel for the textile industries, although the industry’s labour force is shrinking.

By and large, even in the most favourable circumstances (e.g., a rate of natural depletion amounting, as in the case of United States manufacturing, to as much as a fifth of the labour force in a year), natural depletion may still be a long way from providing a complete solution when a contraction is proceeding very fast. In the face of large contractions running their course within a matter of weeks or less (and, of course, in the case of complete closure) a natural reduction even as high as, say, 50 per cent. per year may be inadequate—as evidenced by the many group dismissals of workers which take place in industrialised economies. On the other hand, where a high rate of natural depletion in the labour force is paralleled by a gradual, smooth contraction, it can of course be a factor of great significance. For example, natural depletion would seem to have played a major part in the recent contraction of the United Kingdom coal industry.² Similarly, on the British Railways there have recently been 14,000 redundancies—though not, apparently, dismissals—in the space of two-and-a-half years, out of a total labour force of about half a million. Since in 1959 as many as 78,000 people left the industry, it would appear that natural depletion is capable of effecting the major part of the required adjustment.³

It is probably no accident that labour force depletion has played such an important part in highly concentrated industries. For where there exists some unity of control over a whole industry natural wastage can make a larger contribution to the avoidance of labour displacement.

² "In the last twelve months the labour force in the industry has been run down by 60,000, or getting on for 10%. The run-down, initially caused by the freezing of recruitment, still continues, but in some cases wastage is progressing at too fast a rate from the Coal Board’s point of view". (The Financial Times, 11 May 1960.)
³ It is also interesting to note that during 1959 as many as 55,000 new workers had to be recruited. (The Economist, 12 Dec. 1959, p. 1098.)
First, when the disturbance is concentrated on a particular sector of a monopolised industry the adjustment may be eased by reducing recruitment throughout the whole industry, vacant jobs being filled by workers transferred from the contracting sectors. Such a policy takes advantage of the natural depletion of the total workforce of the industry, and not merely that of the affected sectors. Thus, it is hoped that as a result of amalgamations in the United Kingdom aircraft industry—

These large groups with interests in other industries may find it rather easier to absorb redundant aircraft workers.¹

Complete success of such a policy generally depends on a high geographical mobility of labour. But although this condition is rarely met entirely, it is difficult to dissociate the contrast between, for example, the difficult adjustment experienced in the United States coal-mining industry and the fairly easy one achieved in its United Kingdom counterpart from the unity of control which characterises the latter but not the former.

The second reason why a high degree of integration improves the chances of adjusting the labour force through natural depletion is that unified control makes it possible to some extent to regulate the rate at which the industry's production is to contract. An example may be found in the transitional arrangements for the European Coal and Steel Community. Sections 26 and 28 of the Convention attached to the Treaty establishing the Community provide special guarantees for the Belgian and French coal-mining industries. Under these provisions, in the event of coal production in the Community as a whole remaining stable or rising the output of coal in Belgium is not to fall at an annual rate exceeding 3 per cent. In the case of France, production is not to be allowed to fall by more than 1 million tons a year.²

**Cost Increases in Declining Industries and Firms**

For various reasons, unit costs of production tend to increase during a contraction, and this adds to labour adjustment difficulties. Most obviously, as demand falls off excess production capacity emerges in the industry, and this causes an increase in unit costs since capital costs remain the same.³

As a contraction gets under way there is often strong pressure for reducing hours of work, beginning with overtime and going on sub-

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³ In Chapter VI it is pointed out that the presence of excess capacity in an industry is a potential threat to any new modern equipment that some firms might otherwise introduce. In this way, excess capacity also hinders improvements in efficiency.
sequently to normal hours. Both the clash of workers’ and employers’
interests which arises over the workers’ desire for short-time working,
and the general suitability of short-time working as a modifying influence
on the process of labour adjustment are examined in Chapter VIII. At
this point it may simply be noted that short-time working is frequent in
decreasing industries and firms and, moreover, that it tends to raise pro-
duction costs.

A loss of efficiency results from short-time working as a result, first,
of the disruption which it entails; such disruption is greatest where the
production process is a continuous one. Of more general significance,
however, is the fact that often labour costs vary more closely with the
number of workers than with the number of hours worked. For example,
social charges are sometimes payable on wages up to a certain amount of
weekly earnings. When actual earnings tend to exceed the maximum
assessable wage, a smaller workforce working normal hours may entail
much lower social charges than a larger force working part-time. Of
course, where the workers receive guaranteed weekly or annual wages
the increase in unit labour costs due to declining production is often
more pronounced.

As will be seen in Chapter VII, declining firms and industries may
experience a spontaneous, uncontrolled outflow of workers and a re-
luctance of new workers to enter. This may cause severe disruption of a
firm’s activities, impairing its efficiency and thereby contributing to its
further decline. In British coal mining it has been said that—

The men who go are never the ones the [National Coal] Board would most
willingly lose.^[1]

The average age of the labour force rises following a reduction in
recruitment and the spontaneous outflow of workers from the firm, since
both of these factors mainly affect young workers. Older workers,
appreciating the difficulties which they would experience in finding other
employment, are reluctant to leave their jobs. In the United Kingdom,
practically all of 47,000 miners lost by the National Coal Board in 1959
were under 50 years of age.^[1] Seniority criteria applied in determining
the workers to be dismissed have the same effect, so that the workers
which the firm retains up to the final collapse are mainly the older ones.
This aging of the labour force which occurs during a contraction usually
involves a fall in its over-all quality and therefore, again, an increase in
labour costs.^[2]


^[2] Theoretically, this increase in the average age of the labour force should also
speed up natural depletion, as a consequence of a rising incidence of sickness and
retirement, and thereby ease the process of contraction, which frequently gathers
momentum in the latter stages of a decline.
Much evidence is available to show that contracting labour forces do, in fact, "age". The proportion of workers over 45 years of age employed in the United Kingdom cotton spinning and weaving industry rose from 22 per cent. in 1937 to 44 per cent. in 1954; in one mill as many as 76 per cent. of the operatives were recently recorded as being over 45 years of age.\footnote{R. Robson: \textit{The Cotton Industry in Britain} (Manchester, 1957), p. 245; and \textit{The Financial Times}, 19 Jan. 1960. It should be pointed out, however, that in industry as a whole, the corresponding percentage had increased from 21 per cent. in 1937 to 35 per cent. in 1954.} More extreme cases are found in the United States. At the closure of the Charlottesville Woollen Mills, the average age of the dismissed workers was over 50 years; and, in the leather glove industry, in 1954 the average cutter's age was as high as 59 years.\footnote{U.S. \textit{News and World Report}, 27 Apr. 1959, p. 57; and \textit{Staff Papers 1954}, p. 406.}

Finally, there are also certain ways in which redundancy procedures, desirable as they may be on other grounds, lead to higher costs. These are examined in Chapter VIII.

Opposed to these various factors which raise costs in a contracting firm, there is one which may temper the deterioration in the firm's competitive position. This is the possibility of a relative fall of wage rates in declining industries and firms. Views as to the desirability of this differ sharply. Such a relative fall in wages can be either considered a good thing insofar as, through its effects on production costs, it eases the contraction process, or its value can be questioned on the score that it merely shifts the incidence of adjustment problems; for it can be argued that a relative wage decrease preserves some workers from the need for changing jobs only at the cost of financial hardship for all the firm's employees.\footnote{A shift of this kind is also a feature of short-time working.} Examined in a wider economic context, the appearance of such wage differentials can be welcomed to the extent that they encourage labour to leave the declining industry, or deprecated on the ground that the less efficient producers are, in effect, subsidised by cheap labour.

Their desirability aside, however, whether in fact such differentials generally arise cannot be ascertained with any certainty. This certainly holds true at the individual industry level. Observations of 32 United States industries over a long period reveal little correlation between expansion and contraction in employment, and the rate at which wages have increased.\footnote{Fabricant, op. cit., pp. 46-47. The data yield a rank correlation coefficient of only 0.18. Furthermore, out of the nine industries experiencing a labour force contraction, as many as five had higher than average earnings increases.} While a relative fall in the wages of United States textile workers took place in the early 1950s, it is possible that this was merely a short-term departure from a more normal trend. From 1950 to 1954 the purchasing power of textile weekly wages declined by 5 per cent.;
in the same period, real wages in manufacturing generally rose by 11 per cent. Yet the trend of textile wages over a longer period is very different. For example, in a comparison of four growing industries and four weak ones from 1929 to 1953, the textile industry, though the only one to experience a contraction in employment, was found to have enjoyed an increase in annual earnings per employee next to the highest.

As between individual firms, there exists little evidence showing systematic wage differentials within the same industry, depending on whether a firm is expanding or declining. Cuts in wage rates in declining firms do, however, occur in particular cases. Thus in 1960 a United States aircraft company reduced the wages of its 13,500 employees, and at the same time an airline proposed a similar reduction. Yet explicit provision for wage cuts in redundancy agreements seems to be very rare.

Both in the United States and the United Kingdom attention has been drawn to the fact that the largest gains in efficiency, measured by output changes per unit of combined factor input, occur in the expanding sectors; the declining industries fare worst. In the United States, it was found that industries in which total productivity lagged usually showed a smaller growth in output and capital than industry in general; in some cases, they even showed a decline. A rank correlation coefficient of 0.64 was obtained between output changes and total productivity changes. In the United Kingdom, the corresponding coefficient was 0.83 and it was found that in only one industry—leather—had there been a fall in total factor productivity. As it happened, this was also the only industry in which output decreased.

Given this deterioration in physical efficiency and assuming that it is not offset by, say, a fall in wage rates, costs per unit of output will tend to rise, relative to those in expanding industries. It would seem not uncommon for at least part of this cost increase to be passed on to the consumer in the form of higher prices:

Industries with the smallest increases in selling prices have recorded the largest increases in output; and industries with the largest increases in prices have recorded the smallest increases in output.

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2 Hearings 1956, p. 27.
3 Only one agreement containing such a clause has been located. (See Ministry of Labour and National Service: Positive Employment Policies, op. cit., p. 34.)
4 FABRICANT, op. cit., pp. 23-29; and REDDAWAY and SMITH, op. cit., pp. 28-31. In Chapter II, where the rank correlation coefficient system was explained, research findings on the relationship between output and labour productivity changes were examined. Here the association between output and total factor productivity changes—including productivity of capital—is the pertinent relationship.
5 W. E. G. Salter: Productivity and Technical Change (Cambridge University Press, 1960), p. 122. This finding was based on the analysis of 28 British industries between 1924 and 1950.
In addition, profit margins may be reduced. For example, between 1953 and 1954 when United States hardwood plywood production fell by 12 per cent., profit margins in the industry, already low in 1953 at 5.4 per cent., fell to 2.7 per cent.\(^1\) In the second quarter of 1959 the profit margin in the United States aircraft industry was as low as 1 per cent.\(^2\), and similarly 12 large New England textile firms, over a period of three years, had a profit margin of only 1.4 per cent.\(^3\)

**Labour Implications of Cost Increases**

The tendency for unit costs to increase in declining industries and firms is of great significance for the process of labour adjustment. First, since lower efficiency and a consequent increase in costs imply a further deterioration in the firm's competitive position, the rate at which demand is being switched to other commodities or firms is accelerated.\(^4\) As a result, the process of contraction will tend to become a cumulative one. Other factors may reinforce this tendency. For example, the increasing scarcity of the product or service concerned can speed up the rate at which consumers switch to competing products or services (e.g., from public transport to private cars). A cumulative contraction will tend to reinforce any "concentration" of the impact on particular sectors and firms which may have characterised the initial disturbance. It also accelerates the process of contraction as a whole, and on both these grounds will complicate labour adjustment problems.

The situation may be further illustrated by reference to the case of a fall in demand in an industry subject to competition from imports. Such a fall will normally be accompanied by a fall in production in the domestic industry. This may well entail a loss of efficiency, and hence a worsening of the industry's competitive position relative to imports, especially if sales in the domestic market constituted a larger proportion of the output of domestic producers than of foreign producers. As a result, the share of imports in total sales will rise. Indeed, if the loss of competitiveness of the domestic industry is sufficiently large, imports may show an absolute increase despite the fall in total sales.

Something like this may have happened in 15 heavily protected industries in the United States, which failed to increase production

\(^1\) *Hearings 1956*, pp. 418-419.
\(^3\) *Staff Papers 1958*, p. 874.
\(^4\) For this to happen, the efficiency of affected units need not decline in absolute terms: it is sufficient that it should decline relatively to that of other industries and firms. In actual fact, as has been pointed out, the loss of efficiency may well be an absolute one.
between 1947 and 1954. Eight of these experienced a contraction in total demand (as measured by domestic output plus imports). Production in all eight industries fell, but the share of imports in the market increased in all but one case. Even more significantly, despite the declines in the domestic markets imports showed an absolute increase in six out of the eight cases. It seems perfectly possible that the increase in imports was due to the original decline in demand, itself causing a fall in efficiency. A superficial analysis, however, might lead to the conclusion that it was the increase in imports which caused the decline of the domestic industry. But this would not explain why increasing import shares were associated with reductions in the total size of the market.

While a decline in sales and output may thus become self-aggravating due to decreasing efficiency, the weakening of the firm or industry's economic position also reduces its ability to finance adjustments (such as, for example, producing new types of goods) through which the impact of falling demand on employment might have been softened. Also, the units which stop producing altogether are, of course, the least profitable ones. The firms leaving the industry generally do so in liquidation or bankruptcy, while those enterprises which might be in a position to make generous provisions for redundant workers are least affected by the structural change.

This analysis should, however, be qualified by drawing a distinction between cases where all or most firms in an industry are caught up in a cost-increasing decline, and cases where this happens only to a relatively few marginal firms in the industry. Situations of the former kind are quite conceivable but, even in these cases, as the least favourably situated firms are forced out of business competitive pressure on the others will relax. Thus even in this case, and still more in the case where the more efficient firms escape the need for contracting the scale of their activities, contraction itself, by leading to a smaller but economically stable industry, in a sense provides the ultimate cure for the decline. Thus the Chairman of the United Kingdom National Coal Board regarded the industry's recent contraction as—

a steady retreat from marginal mines and faces to a more compact, concentrated, efficient sphere of operations.\footnote{The Economist, 16 Jan. 1960, p. 223.}
CHAPTER IV

THE REGIONAL PROBLEM

INDUSTRIES AND REGIONS

Regional hard cores of chronic unemployment continue to exist in countries that on the whole have managed to achieve high levels of activity. Southern Italy is an outstanding example, though rather an extreme one insofar as the entire area really constitutes an under-developed region within the frontiers of an otherwise highly industrialised nation. But in parts of Belgian Flanders, Brittany and the centre of France, the north-east of the Netherlands, certain regions of Norway and Sweden, Northern Ireland, parts of Wales and Scotland in the United Kingdom, and areas in Pennsylvania, West Virginia and Massachusetts in the United States, local unemployment has been above, and sometimes much above, the national average.

Industry contractions, regional declines and difficult labour adjustments often go together. One explanation is that, where an industry is geographically concentrated, a fall in employment in that industry gives rise to a relatively high level of unemployment in the region. However, this generalisation needs to be qualified in several respects.

In the first place, a high degree of "localisation" in an industry, in the sense that most of its units are situated within a small geographical area, does not by itself imply economic distress in that area as a result of the industry's decline. More important in this respect is the size of the declining industry's labour force relative to that of the region as a whole. This ratio may be called regional "dependency". For example, although the Belgian diamond-cutting industry is concentrated in Antwerp, its decline has not caused any regional problem, since that area is hardly dependent on diamond cutting. Similarly, the loss of the United States grain trade to the port of New York has not led to any serious labour problems in that city, even though many of the country's dockers are "localised" there.

A failure to draw this distinction between "localisation" and "dependency" may be in part responsible for the fears of unemployment
which were voiced in some quarters at the start of the United Kingdom cotton industry reorganisation scheme. The following figures show that, although the localisation of the United Kingdom cotton industry in Lancashire and Cheshire remains very high, the region’s dependency on that industry has fallen to a fairly low level:

<table>
<thead>
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<th>Year</th>
<th>Cotton workers in Cheshire and Lancashire, as percentage of</th>
<th></th>
<th>All cotton workers in England and Wales</th>
<th>All workers in Cheshire and Lancashire employed in industry and services</th>
</tr>
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<td>87</td>
<td>22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1911</td>
<td>90</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1921</td>
<td>89</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1931</td>
<td>88</td>
<td>14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1951</td>
<td>80</td>
<td>9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


The relatively low degree of dependency (combined with a recovery in demand for cotton goods) helped to prove these fears groundless.

As an industry decline proceeds, regional dependency will tend to diminish for two reasons. On the one hand, employment in the contracting industry falls; on the other hand, in a growing economy other industries in the region will tend to expand unless the region is heavily dependent on the declining industry. The following figures show the extent to which the dependency of New England states on textiles has fallen in recent years:

<table>
<thead>
<tr>
<th>State</th>
<th>Dependency percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1947</td>
</tr>
<tr>
<td>Connecticut</td>
<td>9.8</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>18.1</td>
</tr>
<tr>
<td>Maine</td>
<td>25.8</td>
</tr>
<tr>
<td>Vermont</td>
<td>14.1</td>
</tr>
</tbody>
</table>


Where dependency is high, a contraction in the industry concerned can give rise to a regional problem. However, for this to happen, the dependency need not be anything like complete. Although the regional problems encountered in the Borinage area in Belgium and in the New
England states are attributed respectively to declines in the Belgian coal industry and in the United States textile industry, in neither case does the industry account for a majority of the region’s labour force. In any case, the impact of an industry decline on a particular region will vary not only with the region’s dependency on the industry concerned, but also with the industry’s rate of decline and the severity of secondary repercussions within the region.

The latter aspect is of particular importance. For, as in the economy at large, so within its component regions, the economic relationships which exist between groups and sectors cause an initial disturbance to spread. For example, in the United States it has been estimated that in Lancaster county, Nebraska, approximately two-thirds of the total labour force depend solely on local demand, and that for every ten workers losing their jobs as a result of a fall in “exports”, 13 workers in other activities would also become unemployed. In other words, for a given decline in an “exporting” industry the number of workers whose jobs would be ultimately threatened might be more than twice the number originally affected. In technical language, the “local employment multiplier” is larger than two. An almost identical result was arrived at for Los Angeles county.

Among the secondary repercussions, two elements may be distinguished—the consumption effect and the structural effect. The former term refers to the fall in employment which occurs when workers dismissed from the declining industry find that they must reduce their purchases of locally produced goods and services. The second refers to the fall in employment and incomes occurring in any local activities ancillary to the main industry, such as the production of pitprops in a coal-mining area. For some groups, local shopkeepers for example, secondary repercussions will be felt mainly as underemployment and reduced incomes, rather than as open unemployment.

The distinction between the consumption and the structural effects has real significance. For instance, a policy which provided new jobs for the workers dismissed from a particular declining industry would also prevent any consumption repercussions. However, unless the policy also led to the establishment of new local ancillary activities it would not offset the structural effect. Similarly, the payment of generous unem-

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1 G. E. THOMPSON: “An Investigation of the Local Employment Multiplier”, in Review of Economics and Statistics, Feb. 1959, pp. 61-67. These results were obtained by apportioning total employment in Lancaster county between “localised” and “non-localised” categories and correlating changes over time in the two series.

2 G. H. HILDEBRAND and A. MACE: “The Employment Multiplier in an Expanding Industrial Market; Los Angeles, 1940-47”, in ibid., Aug. 1950. In this instance a local employment multiplier of 2.25 was obtained.
ployment benefits to workers dismissed from a declining industry can reduce repercussions on the consumption side.

Local communities often are self-contained commercially rather than industrially, and therefore one would expect the consumption repercussions to be greater than the structural effect. Nevertheless, purely structural repercussions should not be overlooked. In Dundee, Scotland, where 20 per cent. of the employees are employed in the jute industry—

Many more find employment in ancillary industries such as machine manufacture and repair, dyeing and bleaching and dock labour.¹

It may be noted that the larger the region, the higher the employment multiplier of a localised industry will be, since—other things being equal—wider consumption and structural effects will occur. In a larger region, however, the degree of dependency on a single industry is also likely to be less.

Regional problems can arise even in the absence of a decline in a particular industry. For example, the four regions of the United Kingdom which had the highest unemployment levels between 1949 and 1957 did not appear to be unduly burdened with declining industries. It would seem that their situation was due, rather, to a failure to share in the expansion of those industries which, during this period, accounted for the growth of the British economy. Between regions, increases in employment in expanding industries ranged from 19.1 per cent. to 5.4 per cent. of the labour force in the region concerned, while decreases in employment in declining industries ranged only from 3.8 per cent. to 1.4 per cent. In short, it was insufficient expansion, together with the continued growth of the labour force, rather than declining industries as such, which gave rise to the regional disequilibria.²

One conclusion that may be drawn from this example is that public support of declining industries does not necessarily exclude a regional depression. For not only do some contractions in the more localised industries occur without causing a regional problem, but some regional problems are not attributable to industry declines. Nevertheless, where an industry contraction occurs in an already depressed locality, this will complicate the readjustment of the dismissed workers. For example, even though a high level of local unemployment might not be caused by the contraction of, say, coal mining in the region, the existence of a slack employment market would hinder the readjustment of miners.


FIRMS AND LOCALITIES

Up to this stage the problems with which the chapter is concerned have been discussed in terms of industries and "regions". Yet, as emphasised earlier, it is often necessary to direct attention to the firm. On the geographical side, this is paralleled by the need to divert attention from the larger areas or regions to rather smaller geographical units—i.e., "localities".

In principle, these smaller geographical areas correspond to the concept of "the local employment market", although this does not lend itself to any precise definition. For an individual worker the local employment market might be regarded as the aggregate number of jobs, filled or vacant, within acceptable travelling distance of his home. This definition, however, is less suitable when extended to a group of workers, for, even in the case of a uniformly acceptable travelling distance, the above definition would produce a series of overlapping markets as, for example, in an industrial conurbation. A local employment market, therefore, is more easily recognised than defined; but the confines of a city or a provincial town can for practical purposes normally be accepted as delimiting it.

It was noted in Chapter I that shifting attention from industries to firms brings to light further instances of structural disruption. Examination of smaller geographical units similarly reveals a much larger number of problems, usually of a more extreme variety than are encountered in the larger units. For example, in January 1960 the unemployment percentage in the northern region of the United Kingdom was 3.7 per cent., i.e. higher than the national average (2.1 per cent.). Yet within that region particular localities had much higher unemployment rates. Jarrow, Hebburn and South Shields all had rates of 7.6 per cent.; Sunderland and Pallion had 6.5 per cent.; Hartlepool 5.8 per cent. Within the same region, Consett and Darlington had unemployment levels below the national figure.¹

The contraction of a firm located in a town, particularly a small town, will give rise to greater labour adjustment difficulties than that which results from the decline of an industry in a wider region. A recent review of the problems caused in the United States by foreign competition has shown the extreme difficulties which can arise in these smaller localities.² The contraction of a cutlery factory in Meriden (Connecticut) was associated with a high level of local unemployment. The con-

traction of a firm manufacturing clocks had similar effects in Bristol (Connecticut). The decline of firms engaged in the wool and glove industry has given rise to a high level of unemployment in Gloversville (New York). Similarly, the closure of a plant making hardwood plywood in Denmark (South Carolina), a town with a population of only 3,500, caused the dismissal of 120 workers.

Thus, the narrower the local employment market the more extreme are the problems raised by the closing down of a factory. A West German city had relatively little difficulty in absorbing 1,000 workers suddenly dismissed by a firm making motorcycles. Between 1957 and 1959 nine factories closed in this city, dismissing 8,500 workers. Yet throughout this period the city's unemployment level remained low. In contrast, the closure of a clothes-pins firm, although it involved the dismissal of only 200 workers, caused a major upheaval in Richmond (West Virginia), a town of only 5,300 inhabitants and—

. . . changed us from a city with a fair state of business to a depressed area.

As noted in Chapter III, the rate at which a firm or industry's labour force declines influences the labour adjustment, but the number of workers dismissed, in relation to the size of the local employment market, is also important.

The greater vulnerability of smaller geographical units is due to the fact that the smaller the unit, the greater its dependency on any single firm or industry tends to be. For example, in each of 82 counties in the state of Kentucky, more than half the number of jobs in manufacturing were provided by only two employers; it would seem that this is not untypical of many areas in the United States. In 1953 a quarter of the establishments engaged in the Canadian primary textile industry—which had experienced a sharp fall in employment—were located in towns with populations of less than 5,000 people. Where dependency reaches such a degree, the shutdown of a major plant in a one-industry town can indeed have catastrophic consequences for the labour force.

Two conclusions follow. First, it appears again that attention should not be limited to declining industries but should rather be extended to firms. In a small town the labour force can suffer great hardship even

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1 See the Appendix.
2 Data supplied by the North Bavarian employment service of the Federal Republic of Germany.
though the locality has no nationally declining industries. Secondly, policies designed to ease economic difficulties in particular areas must take account of the size of the area typically involved. It seems possible that hitherto, in framing such policies, there has been a tendency to concentrate on the problems of the larger regions, at the expense of those of “localities”.

THE MOVEMENT OF NEW FIRMS TO DEPRESSED LOCALITIES

Does there exist any automatic tendency for high unemployment levels in particular areas to fall back to the national average? The movement of workers to areas where jobs are readily available and also the movement of firms into depressed areas are both factors which tend to reduce regional disequilibria. The former is examined in some detail in Chapter VII; the latter is discussed below.

In an economy characterised by full employment the release of factors of production in depressed areas is in sharp contrast with their scarcity in other parts of the economy. As a result, the management of expanding enterprises may be attracted by the availability of land, labour and buildings in these areas. In Sweden engineering firms, attracted by the availability of labour, have settled in areas where textile firms were contracting or closing down. Often, the attraction afforded by the sheer availability of these resources is enhanced by their cheapness.

Unfortunately, other features of depressed areas act as a deterrent to the entry of new firms. As will be seen in Chapter VII, there is a tendency for younger workers to leave a depressed locality, with the result that the average age of the labour force increases. This has occurred in parts of Switzerland; a high average age is now also a feature of the New England states. This aging process, accompanying a regional decline, parallels that which takes place in a contracting firm, and like the latter it complicates the labour adjustment process. In this case the complication arises because firms are less willing to enter a region where they are faced with the necessity of re-training older and therefore less adaptable workers. In New England it is reported that, when a textile mill closes down, growing industries have great difficulty in training and absorbing the older employees.\(^1\)

Secondly, on account of high levels of unemployment and under-employment, and low regional wage rates, the inhabitants of depressed localities receive lower than average incomes. Consequently, there is less inducement for a manufacturer of consumer goods, serving a local

\(^1\) The New England Economy, op. cit., p. 15.
market, to enter the area. Such a reaction seems to have hindered economic development in Northern Ireland.

Finally, that indefinable characteristic, the regional "image" of depressed localities, often constitutes a barrier to the entry of new firms. While no exact weight can be attached to the disfavour with which businessmen regard the stark spoilage heaps and generally decrepit social capital of depressed areas, the importance of this factor may in fact be considerable.

The net balance of the attractive and less attractive features of depressed areas will vary according to the particular locality and also with the prospective entrant. Sometimes new firms enter them, and to some extent the problems of the depressed area may then be eased. In a few cases this has even been sufficient to prevent the onset of a depression. The recent decline of aircraft manufacturing in and around Gloucester, in the United Kingdom, has been offset by the expansion of alternative industries. In Lancashire the growth of new industries has helped to ease the situation created by the recent reorganisation of the cotton industry. Despite cases of this sort, it is obvious that in many parts of industrialised economies critical unemployment problems may persist for long periods without showing any sign of dissolving through the play of "natural" economic forces.

It seems reasonable to conclude that any tendency for firms to move spontaneously into depressed localities is likely to be rather weak, except perhaps if there is a rather acute shortage of labour in other regions, or if potential new employers are not deterred by the "image" presented by a depressed area. Since these conditions are not always fulfilled, it would seem that, unless special measures are taken, new firms will not be attracted to depressed localities in substantial numbers.
CHAPTER V

THE INCIDENCE OF STRUCTURAL LABOUR ADJUSTMENTS

THE SCALE OF ADJUSTMENT REQUIRED

When the labour force of a particular industry or firm must fall within a year from, say, 10,000 to 7,000 employees, it does not follow—though this is commonly suggested—that at the year's end there will be, in the absence of any action by society, an additional 3,000 workers unemployed. In fact, such an increase in unemployment is highly improbable. In the first place, natural depletion will account for at least part of the contraction and therefore, on this score alone, less than 3,000 workers will have to be dismissed. Out of 72,000 workers leaving the West German coal industry between January 1958 and January 1960, only about 8,000 were actually dismissed. Secondly, some of those dismissed will find alternative employment more or less immediately, and others after only a short period of unemployment; in the United Kingdom, out of 15,500 employees made redundant by the closure of 53 National Coal Board pits in 1959, only 400 were still out of work in May 1960.1

But, although the number of workers experiencing anything more than transient unemployment will be less than the actual labour force reduction, even in the best of cases some workers will experience adjustment difficulties. The recent contraction in the United Kingdom cotton industry, for example, has in general been very smoothly accomplished; and although from January 1959 to January 1960 the labour force fell by 8 per cent., this fall was actually attended by a drop in the unemployment percentage in the north-west region, and in most cases it proved difficult to obtain labour for the cotton industry. Yet it was reported that “there is hardship in some districts”, that “many old mule spinners have not found other jobs” and that “some of the married women have gone back into the home”.2 Similarly, the labour adjustment consequent upon the decline of the United States briar pipe industry was, by and

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2 *The Economist*, 2 Apr. 1960, p. 73.
large, an easy one, but in a few instances some of the affected workers remained unemployed for extended periods.\(^1\)

Another illustration of an easy adjustment is provided by the abandonment by a West German company of its plant manufacturing motorcycles. In this instance nearly everything favoured a smooth adjustment. The plant itself was located within a large and healthy employment market area, and many of its employees possessed sought-after skills. Most important of all, a second company wished to take over both the plant and the majority of the labour force, synchronising this action with the contraction of the former company. Consequently, the adjustment was indeed a smooth one, and only about 2 per cent. of the original labour force was unemployed for more than six months. Yet even in these circumstances some workers, often older ones and (perhaps less typically) office workers, did experience difficulties in finding alternative employment.\(^2\) As was emphasised in the introduction, a basic feature of any structural disruption is the manner in which its impact is distributed among the various sectors of society. It can now be seen that this same impact is unevenly distributed also within the group immediately affected. Typically, most of the affected workers experience relatively little hardship; but a minority will face very difficult problems, or even fail entirely to readjust.

**Unemployment**

Of all the hardships associated with structural labour adjustments, unemployment is both the most widely recognised and the major hazard. However, some care needs to be exercised in assessing the extent of unemployment resulting from a given structural change.

On a strict definition, perhaps only a minority of the dismissed workers in most cases experience no unemployment whatsoever. But the proportion of those who do remain unemployed for a longer or shorter period will generally convey a needlessly gloomy picture of the adjustment process. In the smoother adjustments, the majority of the dismissed workers may be unemployed only for the few days in which they move to other activities. Even in the most difficult adjustments a substantial proportion of the labour force may experience unemployment only for a very short transitional period. Thus, although 2,000 workers representing over half the industrial labour force in Mount Vernon, an already depressed town in Illinois, were dismissed from one factory

\(^1\) *Staff Papers 1954*, p. 411.

\(^2\) See the Appendix.
between February 1953 and March 1954—obviously making for a very difficult adjustment—as many as 25 per cent. were unemployed for less than two weeks.¹ Those who do remain unemployed for any length of time, however, may suffer real hardship as a result; and in Mount Vernon 54 per cent. of the workers dismissed were still unemployed after six months. Similarly, in the United Kingdom more than half of a group of miners in the South Wales village of Cwmlynfell were still unemployed ten months after dismissal.² Among textile workers from seven New England plants, more than half of the workers who had lost their jobs were reported to be still unemployed after a year or two.³ Cases like these illustrate more accurately the hardships incurred during the more difficult labour adjustments.

But even these figures fail to convey the full impact of adjustment difficulties. Individual workers may remain unemployed, or seriously underemployed, for the rest of their working lives—which not only involves great hardship for these people but also implies a loss to the community as a whole.

The immediate financial hardship experienced by the unemployed worker is the replacement of his wage by lower unemployment benefits. Since, however, unemployment in some cases lasts longer than the maximum period for which benefits are paid, the financial loss may be larger. Both the workers experiencing difficult adjustment and those who find it impossible to readjust at all are forced to draw on any savings which they may possess. Out of 800 workers who suffered unemployment as a result of the closure of a United States factory manufacturing man-made fibres, as many as 360 had to draw on their savings.⁴ In the United Kingdom a group of dismissed workers had to spend, on an average, 68 per cent. of their savings.⁵ Significantly, the study of the displaced Mount Vernon workers showed that the percentage of home ownership had held up for those with jobs, but had fallen off among the unemployed.⁶ Ultimately, such workers may have to resort, where this is possible, to some form of public relief which, in

¹ R. C. Wilcock: “Employment Effects of a Plant Shutdown in a Depressed Area”, op. cit., pp. 1047-1052. It is not, of course, suggested that such rapidly readjusting workers suffer no hardship whatsoever. This point will be elaborated upon further on.

² The Economist, 14 Nov. 1959.

³ Hearings 1956, p. 61.


⁵ Acton Society Trust: Redundancy No. 2, p. 31.

⁶ Wilcock, op. cit., p. 1050.
addition to lower financial payments, frequently carries some social stigma.

Nor is it certain that financial sacrifices and embarrassments are for many people the worst features of prolonged unemployment. A few days' or weeks' unemployment is unlikely to impair anybody's self-respect. But repeated disappointments in seeking work, a sense of uselessness and of having nothing to contribute to society, a knowledge that one's skills are rusting for lack of use, loss of the companionship of former workmates, and the fact of spending days, weeks or months with no creative or constructive activity—these things may cause more bitter misery than living penuriously on meagre benefits or assistance and supplementing these by drawing on savings destined for other purposes.

OTHER ASPECTS OF THE ADJUSTMENT PROBLEM

Although unemployment may be the most widely recognised and the worst form of hardship associated with structural adjustments, it is not the only difficulty to which structural changes give rise. Indeed, in terms of numbers of workers, the impact of structural change is felt more widely in its other forms. The workers uprooted as a result of a market contraction experience a change of employer, perhaps of occupation, and skill content of their labour, together with adjustments in their earnings; indeed, the latter eventualities are also experienced by workers affected by technological change, whether or not this is accompanied by a market contraction. Even where workers are not required to change their place of residence, they may still have to travel longer distances to their new workplace; for that matter, even when the affected worker is merely subject to internal transfer he must face up to change in his job, skill requirements and earnings, and to all the repercussions which such changes entail.

Therefore, the process of change—the transition itself—involves difficulties and hardships; even when it causes no unemployment, its effects can be far-reaching. On a non-material plane there can result a loss of job satisfaction, a loss of status, and with the breakup of old work groups, a loss of friendships. Where a move of residence is required, such losses may extend to the whole family.\(^1\)

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\(^1\) Structural changes have been known to affect the family unit in an extreme form. The menfolk, after years of unemployment, have become reconciled to staying at home and the women have taken over the task of breadwinner. Three cases in which such a reversal of the family roles has been a typical result are referred to in "A Close Up: Where People Are Still Out of Work", in *U.S. News and World Report*, 30 Mar. 1959, p. 82.
However, while on balance, for those whose jobs are affected, it is the hardships which predominate in the event of structural adjustments, it must be emphasised that the change can, in some measure, bring benefits even to them. Frequently, reduced physical exertion and more congenial working conditions accompany technological change. In the remaining part of this chapter attention is drawn to the variety of forms which structural labour adjustments can assume, and examples are given of how in some circumstances and in certain respects some workers dismissed from contracting firms may benefit by the change.

Changes in Skill Requirements and Earnings

In the following examination of changes in skill and earnings, a distinction is made between the changes resulting from internal transfer and those involving group dismissals. As regards internal transfers it is useful to make a further distinction between, on the one hand, transfers arising out of technological change and, on the other, those occurring within a contracting firm.

Almost anything can happen to skills and earnings as a result of technical progress. A survey carried out in 1954\(^1\) showed that in the French metal trades, as a result of plant modernisation and reorganisation of working methods, there had been a reduction in the employment of ordinary workers, while at the same time numbers in the other grades—semi-skilled and skilled—had increased. In the French glass industry, an earlier (1953) survey\(^2\) had shown that undertakings entirely equipped with automatic machinery no longer employed skilled or semi-skilled glassworkers, i.e. blowers, gatherers and pressers, but only mechanics and machine operators. An increase in the skill level would seem to be a feature of technological developments in both the French textile and footwear industries; while an increase in the demand for less qualified personnel appears to have attended technological changes in Austrian offices and enterprises in the metal trades.

It is obviously unwise to generalise about the form which the changed pattern of demand for labour will assume. While earnings in steel works in Belgium, the Netherlands, France, the United Kingdom and West Germany tended to increase as a result of technological change, those in an Italian firm fell.\(^3\) An example from the French foundry industry, provided

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\(^1\) Ministère du Travail et de la Sécurité sociale, Direction de la Main-d'œuvre: Disponibilités et besoins en main-d’œuvre dans les différents métiers du secteur de la production et de l’utilisation des métaux (Nov. 1954).

\(^2\) Idem: Bulletin d’information et de documentation professionnelles, op. cit.

\(^3\) European Productivity Agency: Steel Workers and Technical Progress, op. cit., p. 20.
by the 1953 survey, illustrates how different sections of one industry can have different experiences in this respect: it was found that, whereas moulders working by hand had been driven out by the introduction of mechanical moulding, in other sectors of foundry work there had been increases in numbers of skilled and semi-skilled workers. Moreover, even within the individual firm, any net shift, up or down, in the level of skill requirements will represent a balance of larger changes experienced by individual workers and groups of workers. Some employees undergo a downgrading and suffer a loss of earnings, whereas others will benefit from the structural adjustment in the reverse manner. The table below illustrates this diversity of experience by reference to wage changes within a single undertaking. The data given make allowance for any general changes in wage rates during the period concerned. It may be added that no employees were dismissed as a consequence of technical change in this particular case which related to an oil refinery in the United States, before and after a major technical change. The distribution of wage earners according to hourly rates is shown in the table.

<table>
<thead>
<tr>
<th>Hourly wage rate</th>
<th>Percentage distribution of workers before technical change (1948)</th>
<th>Percentage distribution of workers after technical change (1956)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3.00 and over</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>$2.80-2.99</td>
<td>41.8</td>
<td>33.4</td>
</tr>
<tr>
<td>$2.60-2.79</td>
<td>28.8</td>
<td>38.6</td>
</tr>
<tr>
<td>$2.40-2.59</td>
<td>18.6</td>
<td>22.4</td>
</tr>
<tr>
<td>$2.20-2.39</td>
<td>10.4</td>
<td>5.4</td>
</tr>
<tr>
<td></td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


The figures show that the technical change had a substantial effect on the wage structure. In fact, about half of the affected workers retained their original grade; of the remainder, a small number were upgraded and a sizable group downgraded. Yet, in this instance the wage gain of the promoted workers was just sufficient to cancel out the losses suffered by the demoted employees; despite the changed pattern of distribution, the average wage would have been unaltered had it not been for a general increase between the two dates. However, workers may be adversely affected as a result of having to move when, as often

1 In terms of 1956 wage rates the average (weighted) hourly rate prior to the change was $2.686; after the change it was $2.691.
happens, the "internal" transfer is between geographically separate plants.

In the case of a contracting enterprise, internal transfers tend to cause demotions in terms of skills and a loss of earnings for the workers transferred. For the emphasis placed on the dismissal of predominantly younger, short-service employees, will give rise to understaffing in the somewhat less skilled, lower-paid occupations. Filling these vacancies by transferring some of the older, more senior workers means that the general experience associated with transfers will be one of downgrading, together with a loss of skill, status and earnings.

Moreover, where a worker is dismissed from a contracting firm and must find a job elsewhere, there is a strong likelihood that the new job will demand less skill and pay a lower wage, if only because the worker will lose the whole of any seniority which he may have enjoyed in his original job. This probability is borne out by a number of examples from the United States textile industry. In one case where a mill was closed down it was found that those workers who had found new jobs had a downgrading in experienced skills, and that 69 per cent. of them were earning less than they had in the liquidated mill. In another similar case 64 per cent. of the employed workers reported lower earnings, and again a shift to lower skill classifications was found. In still another instance, out of a group of 346 manual workers dismissed by a firm who obtained new jobs, 161 received roughly their previous earnings, 170 suffered a loss and only 15 were being paid more.

These examples also suggest that, for some of the workers who had to change jobs, the adjustment was beneficial. The following data, relating to the earnings experience of workers dismissed from three contracting United Kingdom enterprises, show that, while most of

<table>
<thead>
<tr>
<th>Change in weekly earnings</th>
<th>Number of workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of more than £3</td>
<td>7</td>
</tr>
<tr>
<td>£2-£3</td>
<td>11</td>
</tr>
<tr>
<td>£1-£2</td>
<td>11</td>
</tr>
<tr>
<td>less than £1</td>
<td>10</td>
</tr>
<tr>
<td>Unchanged</td>
<td>5</td>
</tr>
<tr>
<td>Gain of less than £1</td>
<td>4</td>
</tr>
<tr>
<td>£1-£2</td>
<td>3</td>
</tr>
<tr>
<td>£2-£3</td>
<td>1</td>
</tr>
<tr>
<td>more than £3</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Acton Society Trust: Redundancy No. 2, pp. 28-29.


them suffered a loss in earnings, some benefited. The workers surveyed had formerly been employed making textiles, electrical goods and aircraft.

There exists, however, at least one situation in which this general trend towards lower earnings may be reversed. Where the declining firm is located in a depressed area, and when many of the dismissed workers seek employment in other areas, average earnings may rise. Thus, in the United States, workers obtaining new jobs in another industry within Harrison county (a depressed area in West Virginia) between 1953 and 1955 suffered an average earnings fall of approximately 11 per cent.; workers leaving the county, but remaining in West Virginia, received an increase of 20 per cent.; and the earnings of those who moved still further afield were, in 1955, as much as 53 per cent. above their 1953 level.¹ The following figures further illustrate how dismissed workers, considered as a group, may benefit from structural change if they move away from a depressed area:

<table>
<thead>
<tr>
<th>Change in weekly earnings</th>
<th>Number of workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of more than £3</td>
<td>5</td>
</tr>
<tr>
<td>£2-£3</td>
<td>1</td>
</tr>
<tr>
<td>£1-£2</td>
<td>6</td>
</tr>
<tr>
<td>less than £1</td>
<td>7</td>
</tr>
<tr>
<td>Unchanged</td>
<td>7</td>
</tr>
<tr>
<td>Gain of less than £1</td>
<td>12</td>
</tr>
<tr>
<td>£1-£2</td>
<td>10</td>
</tr>
<tr>
<td>£2-£3</td>
<td>10</td>
</tr>
<tr>
<td>more than £3</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Acton Society Trust: *Redundancy No. 2*, pp. 28-29.

The information refers to the earnings experience of workers dismissed during the contraction of a large British aircraft firm located in an area where there was little alternative employment and which was remote from other industrial areas. Such wage increases as occurred, therefore, were most probably experienced by workers who had found employment in other areas. Indeed, it might perhaps be argued that, in a general way, workers affected by structural changes in an industrialised locality have little difficulty in getting other jobs, but may suffer a loss of earnings, while workers similarly affected in non-industrialised areas have difficulty in getting work but, when they get it, generally receive higher earnings.

This discussion of the financial repercussions of structural adjustments is not yet complete. Above, attention was given, first, to the financial hardship accompanying unemployment and, secondly, to problems associated with internal transfers and job changes. There remain those financial adjustments which can be thought of as alternatives, even if only temporary ones, to unemployment or the need to switch jobs.

For example, dismissal can be avoided, or at least postponed, by resorting to short-time working. This amounts, in effect, to keeping some workers on the job at the cost of a fall in the earnings of the workforce as a whole. Cutting wage rates in order to keep a declining firm in business is another way of shifting the burden of adjustment from some of the employees to all. Of course, the loss in earnings due to short-time work, rate cuts or other conditions may impel workers to leave their jobs voluntarily. For example, in the case of a reorganisation leading to the formation of the Compagnie des ateliers et forges de la Loire, although the French Government and the E.C.S.C. attempted to moderate the reduction in the earnings of workers affected, most of the employees received about 25 per cent less than previously, and some were as much as 40 per cent down. When some workers left the company, the unions complained of "concealed dismissals".1

Hardships Associated with Labour Mobility

There remains the possibility that a move may be an alternative to unemployment. The extent and nature of geographical labour mobility are examined in Chapter VII. Here a few observations may be made about the hardships which movement to a new place of residence involves.

Perhaps more so than any of the other repercussions of structural adjustment, such a move means a very different degree of hardship for different people. As will be seen in Chapter VII, many workers do elect to move in response to a structural change and in preference to unemployment. But others prefer to retain their old homes and endure prolonged unemployment. Apparently, leaving one’s environment is looked upon by some as an even greater hardship than unemployment.

Yet, even for workers who choose to move, some considerable hardship may be involved, as shown by the declared preference of many such workers for employment in their former locality.2 Clearly, the hardships are, for the most part, non-pecuniary. They include difficulties connected with ensuring continuity in children’s education, the possible

1 Diebold, op. cit., pp. 412-413.
2 Wilcock, op. cit., p. 1051.
breakup of the family, the nostalgia for familiar surroundings and, most important, the loss of friends, together with other social disturbances following a change of residence. Out of one group of the Mount Vernon workers who had found employment elsewhere, as many as 43 per cent. still maintained homes and families in Mount Vernon. Many of these workers expected their employment in other areas to be temporary, and they were willing to endure the inconvenience of long-distance daily or weekend commuting in order to be able to maintain their homes in Mount Vernon. Furthermore, in the case of the non-commuting migrants, 44 out of 56 workers said they would prefer jobs in Mount Vernon to the jobs they were holding. Of a group of British workers about to be dismissed, two-thirds preferred, in principle, to accept a reduction in wages rather than move their homes to a new district. In cases where jobs have ultimately become available in their former localities, many migrating workers have returned. Thus, when a chemical factory was established in a United States labour surplus area, substantial numbers who had left the area to work in distant manufacturing centres were willing to return to new opportunities close to home. In the United Kingdom—

The experience of most firms who had tried to bring workers in from depressed areas is that the results are disappointing. Many of the unemployed turn out to be older men with family ties, and most of them dislike leaving their home towns and tend to return as soon as possible.

This tendency of many workers who have been obliged to leave their old homes to return there if they can may well entail a financial loss, but workers seem quite willing to accept it. In addition to the actual expenses of moving back, the change frequently means a permanent reduction in earnings. Thus, in the case of workers who had formerly migrated from Mount Vernon—

According to the interview responses, a majority . . . were willing to accept Mt. Vernon jobs even though it might mean lower earnings. Living in Mt. Vernon, if accompanied by a decent job with a fair wage, was more important to most of them than the higher average wages which they were earning in the metropolitan centres, where most of them had found jobs.

Position of Older Workers

As was emphasised above, regardless of the ease with which any particular adjustment takes place, some workers are almost always

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1 Acton Society Trust: Redundancy No. 2, p. 25.
4 Wilcock, op. cit., p. 1051.
adversely affected. Older workers figure to a disproportionate extent in this more vulnerable group, and their problems merit special attention. These problems are best examined by reference to two questions: What is the position of older workers vis-à-vis the rest of the labour force with respect to dismissals? What is their experience on the employment market after dismissal?

In attempting to answer the first question, it is necessary to consider, first of all, the degree of protection afforded by seniority rules. As will be seen in Chapter VIII, the application of seniority criteria in dismissals is frequently subject to qualification, and in any case these criteria are by no means universally accepted. Moreover, even in those instances where the seniority principle is applied, the protection afforded to older workers is far from absolute. For although some correlation exists between the two, seniority does not exactly coincide with age. This point is illustrated by the case study of the closure of a West German motorcycle factory in the Appendix. In this particular case, if the dismissals of manual workers (amounting to 49 per cent. of the total manual labour force) had been regulated exclusively by seniority, 8 per cent. of those aged 55 years or over, 22 per cent. of those aged 50 to 55 and as many as 33 per cent. of the group aged 40 to 50 would nevertheless have been dismissed. The corresponding figures for non-manual workers would have been 25 per cent., 28 per cent. and 54 per cent.; altogether, 63 per cent. of the non-manual staff were dismissed.¹ Obviously, the adoption of the seniority criterion should not in general be regarded as providing full protection for older workers when a firm is reducing its labour force. Of course, when a firm is liquidated the seniority criterion affords no protection whatsoever.

Indeed, when complete closure has been preceded by some gradual reduction in employment the application of seniority provisions, far from warding off the hardships of adjustment, may make the readjustment of older employees more difficult. Vacancies originally available in the local employment market will have been occupied by the younger workers released earlier, so that when the older employees are eventually released jobs are becoming progressively more difficult to obtain. Similarly, the policy of compulsory retirement of employees reaching pensionable age tends to shift the burden of the adjustment to the higher age groups. For example, the second requirement in one six-point redundancy programme was "retirement of employees aged 65 or over". In another, the retirement of workers of pensionable age entitled to a pension was stipulated.²

¹ Many of the workers released as a result of the shutdown were subsequently employed by a new enterprise which took over the same building. The dismissal figures given do not apply to those taken over by the new employer.

The retirement of elderly workers was also the policy of the National Coal Board in the United Kingdom during a recent labour force contraction.¹

As indicated in Chapter II, the dismissal of workers as a direct result of the introduction of new machinery or methods does not seem to occur very frequently. But this generalisation needs to be qualified in respect of the effect which technological change may have upon the employment of older workers. As older workers tend to lack flexibility, or are thought to do so, when technological change impinges on their tasks their adjustment to new job requirements and their absorption into other sections of the enterprise are usually difficult and sometimes impossible. In France the 1953 survey mentioned earlier ² showed that, while in the knitwear industry it had usually been possible to find other employment for workers freed by modernisation, this did not apply to employees aged 50 or over—a group comprising specialists in jobs which modernisation had made unnecessary and who were too old to adapt themselves to new jobs. Similarly, the more elderly office workers in Austria—whose jobs are being swallowed up by automation are hardly able to accustom themselves to minding [automatic machines] . . . and are, of course, only rarely capable of rising to join the "qualified" staff who are available for transfer to other jobs.³

The preference which employers normally show for younger workers means that dismissed older workers have rather less than an even chance of re-employment. For example, when 5,000 workers applied for jobs in a chemical firm located in a depressed area in the United States, the plant management chose workers who were relatively young: 97 per cent. of the unskilled and semi-skilled workers and 91 per cent. of the clerical and technical employees were under 40 years of age when hired. Similarly, 85 per cent. of the operators and 75 per cent. of the craftsmen were in that age group.⁴ A relative lack of education may be the principal reason why older workers are at a disadvantage:

Young men entering the labour force are said to have an advantage over unemployed older workers in obtaining satisfactory jobs. Most of these young people possess twelve years of school, most of the older workers six years or less. The observed advantage of these younger workers may therefore result not from inflexibilities in social security or in retirement programmes, or from sociological preference of employers, but from real differences in productivity connected with one form of human investment, i.e. education.⁵

¹ The Financial Times, 23 July 1959.
² See p. 28.
³ BLAU, op. cit., p. 25.
⁴ SOMERS, op. cit., pp. 1328-1329.
The resulting tendency for older workers to remain unemployed for longer periods is borne out by Dutch and Belgian statistics. In the Netherlands in November 1958, only 2 per cent. of unemployed workers under 25 years of age and 7 per cent. of those between 25 and 40 had experienced more than 12 months' unemployment, whereas the proportion rose to 13 per cent. in the 40-50 group and as many as 24 per cent. in the 50-65 group. The corresponding figures in Belgium, at 3 per cent., 14 per cent., 26 per cent. and 48 per cent., were even more dramatic. Similarly, a Swedish study of longer-term unemployment showed that in the main the workers affected were over 45 years of age.

In the absence of anything approaching full protection against dismissals, and because of the greater difficulty which they have in obtaining a new job, older workers bear a disproportionately large share of the burdens of structural labour adjustments. A few years ago a study of the heavy unemployment among textile workers in Utica (New York) showed that most of the unemployed were older workers, 60 per cent. of former male textile workers and 40 per cent. of the women being over 55. A significant fact was that one-third of these workers had more than 20 years' seniority.

The premature retirement of older workers during their fifties, as a consequence of difficult labour adjustments, is not an uncommon occurrence. In the absence of retirement pensions, this causes great hardships; furthermore, it represents an economic loss for the whole of society. Premature retirements of this sort represent perhaps the blackest aspect of structural change.

However, even where older workers avoid dismissal during a structural adjustment, any internal transfer to which they are obliged to submit, whether it takes place in a contracting firm or as a result of technological change, is unlikely to be to their advantage, as measured in terms of earnings and status. For example, in the case of a group of steel workers affected by technical change, it was found that the older men were most likely to suffer a fall in wages. When such workers do

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1 *Bulletin trimestriel de statistique* (Brussels, Secrétariat général de l'Union douanière néerlando-belgo-luxembourgeoise), Aug. 1959, p. 16. The explanation of the difference which exists between the two sets of country data is that the over-all level of unemployment was higher in Belgium than in the Netherlands. When unemployment is high, employers are better able to fill their vacancies with the younger workers whom they prefer. This provides an interesting example of the manner in which policies directed towards achieving full employment can help in easing purely structural problems (see below, Chapter IX).


3 *Staff Papers 1954*, p. 422.

find new jobs the change will very likely involve a reduction—perhaps a large one—in earnings. For while formerly they tended to be the more highly skilled, experienced and senior workers, commanding above-average wages, in their new jobs they possess no seniority, and probably their skills are no longer in demand. Also, since older workers are rather less amenable to re-training, the majority will find themselves moving into unskilled, less strenuous occupations paying low wages. Many of the older United States textile workers who have found non-manufacturing jobs—

are doing unskilled and relatively low-paying work as janitors, porters, hospital attendants, and so forth.¹

And in the United States briar pipe industry—

The problem of adjustment for the workers is proportionate to their skill and age, two closely associated factors. The unskilled workers and younger skilled workers seem to be able to find alternative work rather easily . . . at little or no loss of wages or other benefits. The older skilled workers allegedly find it almost impossible to find other work utilizing their specialised skills; . . . Consequently, there were reports that the weekly wage of these workers was about halved if they were forced to work elsewhere, and, in a few instances, that they remained unemployed for long periods.²

Thus it is hardly surprising that a major finding of a Canadian government report on the effects of technological change was that—

In no sector of the labour force . . . are adjustment problems greater than among the older workers. Older workers have firmer roots in locality, usually more extensive family obligations, and a greater investment in terms of time and effort in the job or skill which is displaced by the change in technique. Even when older workers are willing to make greater sacrifices, they may find age a barrier in obtaining jobs elsewhere and may not be flexible enough in outlook and ability to be retrained easily. In consequence, they may find it increasingly difficult to obtain alternative steady employment at comparable wages. In this case, hardships are imposed on their family and although willing they are able to contribute little to the welfare of the country.³

Problems of Female Workers

Since their ties with the home are stronger than those of male workers, female workers are even less geographically mobile. Their occupational mobility also tends to be lower. It is tempting to conclude, therefore, that where the labour force contains a high proportion of female workers the adjustment may be unusually difficult.

¹ Miernyk, op. cit., p. 647.
² Staff Papers 1954, pp. 410-411.
³ Technological Changes and Their Impact on Employment and Occupations, A report prepared for the Special Committee of the Senate of Canada on Manpower and Employment by the Economics and Research Branch, Department of Labour (Ottawa, 1961), pp. 32-33 (mimeographed document).
This, in fact, is a debatable proposition. First, since the turnover of female employees is above average, a declining industry or firm employing many women workers will need to have less resort to dismissals in order to contract its labour force. The Canadian government report referred to above drew attention to the fact that clerical workers who are sometimes displaced by technological change—

are primarily women, and their rate of job turnover is relatively high. This means that with some planning individual employers can avoid or reduce the need for lay-offs by reducing hirings and allowing employment to decline through natural attrition.¹

Secondly, when dismissed female workers do not obtain new jobs, extreme hardships are not very frequent, since they are usually single or the wives of working husbands. But when hardship does occur, it may be acute, as in the case of a widow with dependent children.

It has been found that in times of recession, when jobs are fewer, a good many women withdraw from the labour force. These may no doubt include some who formerly had a rather marginal preference for paid employment as compared with household duties or leisure and whose preference swings the other way when continuing paid employment means making efforts to find a new job and adjusting to new conditions.² Of course, those who withdraw from the labour force may also include a number who would much prefer to go on working, but who do not register as unemployed because they feel that there is little hope of finding another job within the geographical area and range of occupations open to them. If many women withdraw from the labour force for reasons of this kind, unemployment statistics may suggest that there has been a more satisfactory adjustment to a structural change than has in fact occurred.

¹ Technological Changes and Their Impact on Employment and Occupations, loc. cit.

² It appears that many married women workers from the Lancashire cotton industry belong in this category and preferred not to continue working when the plant where they had been employed closed down. Even if in the majority of cases they could find a new job, many of them preferred not to have to travel some distance each day to a job where they would, in addition, have had to adjust to a machine of different construction or greater speed than that which they were accustomed to operating.
PART II

MEASURES TO FACILITATE STRUCTURAL ADJUSTMENTS
CHAPTER VI

EMPLOYERS' REACTIONS TO DECLINING DEMAND

Sometimes the first reaction of owners or managements in industries confronting special difficulties is to demand government action to suppress the disrupting forces. Often, however, owners or managements themselves take action designed to mitigate adverse effects on the capital and sometimes also on the labour employed. Such counter-measures may have implications, good or bad, for the adjustment required on the part of the labour force. These repercussions are examined below.

ATTEMPTS TO INCREASE EFFICIENCY

As noted in Chapter II, technological change is sometimes cited as a cure, as well as a cause, of structural disturbances. The argument is that an increase in efficiency through a reduction in unit costs and lower (relative) prices will counteract, or at least modify, the contraction in demand.

The demand for coal . . . will depend largely on the extent to which productivity in coal mining keeps costs competitive with those of other fuels. It is therefore important that whatever short-term measures . . . are applied should not be in conflict with this longer-term objective of eliminating high-cost producers of coal and concentrating on the areas of more economic production.\footnote{Economic Bulletin for Europe (Geneva, United Nations Economic Commission for Europe), Vol. 11, No. 1, 1959, p. 27.}

As a first step in the analysis of this question, it is useful to distinguish improvements in efficiency which take the form of changes in organisation and methods of work from those deriving from the introduction of newer and better machines.

Since the former usually require only a relatively small capital outlay, they should normally appeal strongly to management in declining industries and firms. Furthermore, both for the industry or enterprise into which it is introduced and for society as a whole, this means of raising efficiency can be very beneficial. However, as pointed out in Chapter II, for some of the workers concerned improved organisation in
circumstances of a market decline may well accentuate rather than reduce the required adjustment.

The same will be true of increased mechanisation. This, in addition, will usually require substantial new capital investment, which may be discouraged by the presence of excess capacity in the form of old or obsolete equipment.

Owing to the tendency of employers to "hang on" even after the point at which, in retrospect, it becomes apparent that it would have been in their interest to discontinue operations, excess capacity tends to be a chronic feature of declining industries. Nor would it be fair to describe such behaviour as irrational: where cyclical fluctuations are usual, it is natural for permanent structural changes to be mistaken initially for temporary contractions.

Thus, of firms in the United States hardwood plywood industry it was said—

We'd have been better off if we had closed a couple of years ago.¹

Similarly, it has been written that the small family firm in Western Europe seems to have, by and large—

a staying power that makes it long outlast its period of profitability.²

The resulting excess capacity creates an atmosphere which is prejudicial to new investment, and hence to greater operating efficiency. Until recently the United Kingdom cotton industry was faced with a situation characterised by an excess of plant as well as by obsolete, non-competitive production facilities, resulting in a serious loss of confidence.³ The experience of the French shipbuilding industry has been very similar:

Some shipyards have undertaken a majority of orders at a considerable financial loss. . . . This makes the crisis all the more inevitable since these losses prevent or slow down reconversion and investment, which comprise the two main elements of any satisfactory long-run solution.⁴

As mentioned in Chapter III, even where there is a desire to introduce new machines the financial resources of a declining firm may well be inadequate for the purpose.

² Scitovsky, op. cit., p. 129.
³ By a process of machinery scrapping, fostered in turn by the payment of compensation to owners, the United Kingdom Government has done much to remove this obstacle as a preliminary to investment in new equipment.
⁴ "L'Industrie française de la construction navale", in La Documentation française, Notes et études documentaires, 22 Jan. 1960, p. 9. The French Government has agreed to help this sector in order to achieve the concentration of orders in the more efficient yards.
Thus the expanding, profitable industries will receive the lion's share of new capital, and in this respect also declining industries will tend to lag behind other sectors. While in the United States between 1947 and 1954 a 13 per cent. employment increase in all industries was accompanied by a 29 per cent. increase in annual capital expenditure, the 17 per cent. fall in the textile labour force was associated with a drop of 39 per cent. in annual capital expenditure. In such circumstances the fact that some investment is still made in declining industries is small comfort; for the success of this investment can be measured only by the consequent changes in efficiency, costs and prices relative to changes in other industries. But, as already noted in Chapter III, the efficiency differential, and therefore the competitive gap between expanding and declining sectors of an economy tends to widen rather than diminish. Very probably the contraction itself—in addition to relatively low investment—will, by reducing the scale of operations, tend to reduce the efficiency of declining industries. Whether or not government aid towards investment can effectively make up this leeway is discussed in Chapter X.

But even if sufficient private capital can be attracted and the cost of production reduced, it may not be possible to reverse a downward trend in output (though this trend may be slowed down) when the price elasticity of demand is low. And even if, as a result of technical improvement, the decline of the industry can be arrested, the labour force may still have to be reduced. Indeed, as noted in Chapter II, while technical change does not normally give rise to dismissals, if accompanied by a fall in demand it often does.

Nevertheless, the individual firm has more scope for improvement than the industry as a whole. By introducing new machinery, and therefore achieving higher operating efficiency, any one firm can expand its market at the expense of the less progressive units in the industry. However, while this, of course, offers greater security to the firm's own workers, it has merely shifted the burden of adjustment to those employed in the other firms of the industry. Indeed, the effect of this might well be to concentrate the decline to a greater extent, both spatially and temporally, thereby aggravating the adjustment difficulties of the labour force of the industry as a whole.

**Mergers**

The merging of firms is a fairly common feature of declining industries. Thus the combination of individual enterprises has, in recent...
years, been a notable development in the European textile industry. Usually a merger takes one of two forms. Either it aims at supplying the market from fewer and therefore more efficient units or, alternatively, the objective is to apportion the falling level of demand among the firms participating in the merger.

In essence the former type rationalises the industry by closing the less efficient units and concentrating production in the more efficient ones. Mergers in the United Kingdom brewing industry, for example, are frequently associated with the closure of individual breweries; Ind Coope’s merger with Taylor Walker made possible the gradual closure of the Limehouse Brewery, and the 1958 arrangement between Watney, Combe & Reid and Mann, Crossman & Paulin paved the way for the closure of the Stag Brewery.¹ Mergers of this type raise an industry’s efficiency and, in some measure, that of the economy as a whole and therefore are generally considered desirable.

In contrast, mergers of the second type, which share production between efficient and inefficient units alike, are not—on the basis of this latter criterion—equally acceptable. Such purely defensive liaisons may have been responsible for a fall between 1947 and 1954 in the average size of mills in the United States cotton yarn and cotton thread industry, despite a high frequency of mergers.²

However, in terms of their impact on the workers employed in a contracting industry, the two forms of merger, in the short run at least, may be judged rather differently. As pointed out in Chapter II, schemes involving the closure of whole plants in a declining sector can give rise to serious labour problems, and mergers having the same effect will therefore aggravate rather than ease the difficulties experienced by a declining industry’s labour force. On the other hand, defensive mergers, whatever their drawbacks, moderate the impact of a market decline on an industry’s labour force. A merger involving a market-sharing agreement would spread the required dismissals more evenly over plants and regions.³ The recent offer of government help to the British aircraft industry was made conditional on the formation, by amalgamation, of larger manufacturing groups which, by following a work-sharing policy, would avoid the formation of pockets of unemployment as a result of individual factory closures.⁴ It should not be overlooked, however, that

¹ The Financial Times, 4 May 1960.
² United States Department of Agriculture: Changes in American Textile Industry, Technical Bulletin No. 1210 (Washington, 1959), pp. 76-77. The continued entry of new companies into this sector may also have been a contributing factor.
³ See Chapters III and IV.
eventually such mergers are likely to be detrimental to the industry's efficiency, and in turn this will have adverse repercussions on the labour force.

**DIVERSIFICATION**

"Diversification" is the course of action generally suggested as the most appropriate counter-measure for enterprises threatened by, or actually experiencing, a long-term fall in the demand for their products. This device is advocated on the ground that, while not impeding the required change in an economy's pattern of production, it avoids any major readjustment on the part of either capital or labour, and can therefore be unreservedly welcomed by both.

Unfortunately, the word "diversification" is often used ambiguously, and frequently refers to what are in effect two quite different concepts. Since the distinction is one of considerable importance for the purposes of this study, it is necessary to employ a rather more precise terminology, and to differentiate cases of diversification according as it takes the form of "product conversion" or of what may be termed "investment diversification".

Only if diversification leads to the retention of the whole production unit—comprising the original ownership, management, factory and labour force—can employees reasonably anticipate the avoidance of a major adjustment. This can be achieved when management switches these factors to the production of secondary or entirely new products. This form of diversification is referred to as "product conversion". An alternative course for management is to abandon the factory and labour force and invest the enterprise's capital in expanding firms and industries. This reaction, which obviously holds few, if any benefits for the labour force, is here called "investment diversification". It must be emphasised, however, that at some points, the various forms of diversification tend to merge and that, furthermore, a single instance of diversification may include more than one of its various sub-forms. These difficulties are compounded by the fact that, frequently, the details given in reported instances of diversification are inadequate for proper classification and assessment.

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1 In this and the following section, the case of the marginal firm operating in an otherwise expanding industry but suffering a decline largely as a result of its own inefficiency is not considered. In such circumstances the possibility of avoiding dismissals by means of diversification is hardly worth considering, since managements of less than average efficiency will have great difficulty in effecting the necessary changes.
Investment Diversification

As a result of analysing "diversification" along these lines it becomes apparent that, from labour's point of view, its modifying influence is easily overstated. For it would appear that the interests of the owners of capital are usually better served by investment diversification than by product conversion and that, in consequence, the former is the more common.

To understand this preference, it will be necessary to digress briefly in order to examine how capital is affected in a declining unit. Usually, a declining firm makes low profits and often incurs losses. However, the real value of the firm's assets may often be quite high, in the sense that their sale would yield a sum greater than the valuation placed on them in the balance sheet or by the capital market. In times of rising prices the "book value" of assets tends to understate their real worth, since it is normally based on historical costs; and the stock market valuation tends to be depressed by the assets' low current earnings. But the assets owned by a company are rarely completely specific, and can often be put to other uses. This is particularly true of land and buildings; it is much less a feature of plant and machinery.

Thus, the poor profit record of the Singer Manufacturing Company in recent years, attributed to Japanese and European competition in the manufacture of sewing machines, led the stock market to place a valuation on that company's assets which was well below their true worth. A Wall Street financier was quoted as saying—

I'd pay $100 a share for Singer's assets if I could control them, but I would not pay $30 a share for its stock . . . . The Company's own 50-year old building at . . . New York City, for example, is written down to much less than the value of the land on which it stands.1

The attempt by a finance company to "take over" a cotton mill in the United Kingdom was based on the assumption that the company's mill could be sold for more than the valuation placed on it.2 Similarly, it was estimated that, should a certain United Kingdom aircraft company liquidate its assets, distributing the proceeds—

Shareholders might expect . . . 14s. for each ordinary share now standing at 11s. and 50s. for each of the preference shares now priced at 25s."3

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1 *Fortune* (Chicago), Jan. 1959, p. 86. In fact, it was estimated to be less than one-tenth of the actual value.

2 *The Financial Times*, 10 Feb. 1960. Rather more generally, ROBSON (op. cit., p. 161) writes that, "After World War II, inflation and taxation policy led to a situation in which mills were available at a price . . . which . . . was well above the current level of share prices ".

In the United States previous losses incurred by declining enterprises can in themselves represent an asset to more profitable companies, as they can be set against the latters’ profits when assessing taxation liability:

We have paraded before congressional committees one illustration after another of textile companies having been bought primarily for the loss carryback tax benefit which the buying corporation could obtain.¹

This remarkable versatility of capital means that, together with any reserves, the sale of assets provides the owners with a springboard for investment diversification. This, as we shall see, means the breakup, to a greater or less degree, of the original production unit.

If the proceeds of the realisation are paid to shareholders as cash—which they can then invest elsewhere—the breakup is complete, the firm liquidated. Alternatively, the identity of the firm, but little else, is preserved by purchasing shares in existing enterprises in other industries; the firm, in effect, becomes a holding company. Or the firm may use the proceeds to build new factories and plant and to make goods in increasing demand. Since in this instance some of the original personnel may be retained, it represents a rather less extreme disruption of the original production unit.

In this last case, if in addition the new factory is located in the same employment market area ², the labour force may benefit in some measure from investment diversification. But only rarely will investment diversification fulfil these conditions.

In practice, cash payments to shareholders appear to play a relatively minor role; enterprises prefer, if possible, one of the alternatives which allow them to retain their corporate existence. Of these, the use of the realised liquid funds to purchase existing companies may well be among the more important. In the United States, for example, attention has been drawn to the fact that non-textile affiliates of textile companies have been acquired through purchase rather than by being built up by the textile companies.³ Yet it is the construction of new factories which is most likely to help in easing the process of labour adjustment.

A number of examples are provided by the United States aircraft industry. Lockheed, for instance, has taken over Stavid Engineering and thereby obtained an electronics facility on the east as well as the

² One might add: "and the structure of the new labour force approximates that of the old." However, this is equally a requirement of product conversion. See below.
west coast; it has also acquired the Puget Sound Bridge and Dry Dock Company. Chance Vought Aircraft has taken over the National Data Processing Corporation.1

Similarly, a United Kingdom company, feeling the reduced demand for railway wagons, obtained a large share in a civil engineering firm. A textile firm purchased a company of merchant bankers and also an enterprise manufacturing animal foods. An aircraft manufacturing company purchased a business manufacturing and marketing steel multi-drawer filing cabinets. Another acquired a firm making domestic products.

A possible explanation of this preference for taking over existing businesses is that by this means the resident management, together with the requisite "know-how" for the new operations, are obtained. This helps to mitigate the dangers courted when executives experienced in one field have to organise completely new activities, differing greatly from the old ones. It is difficult to take an old, well-established and specialised firm and convert it into something new and dynamic, capable of achieving the same kind of success in a different field. The managing director of a United Kingdom cinema company was quoted as saying—

Diversification should be related in the broadest sense to the accepted activities of a group so that its management "know-how" and experience can be utilised to the best advantage.... [A firm ought not] to extend into fields which have no connection with its previous activities.2

In the United States—

Textile organisations that have ventured far afield have in a majority of cases regretted it and classic failures—such as Botany's failure despite their entrance into the cosmetic field—are beacons which mark the experience of those unfortunate enough to have unwisely followed [this course].3

Nevertheless, investment diversification in which the original company builds and operates factories making new products does occur, though perhaps less frequently than the case in which the firm becomes a holding company. Douglas Aircraft has established Datagraphic Systems, Inc., which specialises in data processing and microfilm recording. A United Kingdom wagon company recently formed a subsidiary concerned with engineering. Singer has built a plant to produce wood pulp.

1 United States aircraft companies have also diversified into such products as commercial electronics, data processing, shipbuilding and the manufacturing of home trailers, monorail systems, medical and school equipment, paper honeycomb structures and atomic energy facilities.
2 The Times Review of Industry, May 1960, pp. 4-5.
However, as pointed out above, in order to be effective in providing jobs for the employees concerned, the new factory must be located in the same employment market area. Frequently this condition is not fulfilled. When, on account of the fall in sales of home-produced matches, the British Match Corporation diversified by erecting a factory to make chipboard, the new plant was located in Scotland. In the United States a striking feature of the new interests acquired by aircraft companies is the shift in location which they have involved.

Sometimes investment diversification to preserve the enterprise against a shrinking market requires the transfer of production activities outside the original country of operation. This appears to be a fairly common practice among employers affected by structural changes due to developments in international trade. A Senate committee investigating problems of the United States textile industry brought to light several such cases of capital mobility. West German and Dutch textile firms have also begun to move abroad. Similarly, arrangements were made for a United Kingdom motor car manufacturer to build vehicles in Japan, and United Kingdom firms in the declining locomotive industry have negotiated with the Indian Government for locomotive construction facilities in India.¹

Such movements are attractive to enterprises threatened by imports from low-wage countries, since “migrating” to these regions may ensure their survival. However, low foreign wages are by no means the only cause of such inter-country movements. Direct investment abroad may be prompted by the desire to tap new markets or to preserve old ones. Or perhaps, in order to protect its exports from the “trade-diverting” consequences of a customs union, a firm may locate plants within the boundaries of the union. The recent influx of United States enterprises into Western Europe, for example, owes much to the establishment of the European Economic Community and the European Free Trade Association.

Where it is the domestic market that is threatened, it may be possible to retain at least some of the production processes at home. Components for bicycles, typewriters, watches and radios are now imported into the United States, but their assembly is still carried out within that country. Yet, whole production units—minus, of course, the labour force—are sometimes moved abroad. Such drastic steps have been taken, for example, by United States companies making sewing machines and portable typewriters.

However, the overseas expansion of production facilities by a domes-

tic enterprise does not necessarily imply a loss of jobs at home. In some cases such a development may represent a general expansion by the firm, without any decrease in the workforce at home. When the firm merely shifts its production to the foreign plants, however, domestic activity and employment will fall. Thus, for example, at a time when a particular United States typewriter manufacturer was opening plants abroad, it was releasing workers in the United States. Another United States firm making textiles could not guarantee that no jobs would be lost as a result of its decision to start production in Ireland; a strike involving over 1,000 workers ensued. With the possible exception of managers and other higher grades who may accompany the firm abroad, a move of this kind is of no benefit for the domestic labour force—except, perhaps, in the case of a multi-plant firm, where it may preserve or enhance the profitability of the firm as a whole, and hence the employment capacity of its domestic plants. Apart from this possibility, the effect for the workers is the same as that of a shutdown. Moreover, the sharp contrast which such cases involve between the relatively easy "escape" enjoyed by capital and labour's untempered adjustment difficulties, can produce bitter feelings. In one case, as already mentioned, a strike developed. In the United States many trade unionists and members of Congress have protested against the "export of jobs" resulting from foreign investment by American industries.1

Product Conversion

Product conversion is a device sometimes resorted to by declining firms. In the United States one particular watch-manufacturing company sought to meet Swiss competition by improving its styling and merchandising, and concentrating on less competitive higher-jewelled movements. Similarly, producers of screen-printed silk scarves changed to the production of other forms of printing on textiles.2 In the United Kingdom a firm faced by the declining market for railway wagons ultimately turned to the production of car bodies and aircraft fuselages. Another firm undertook to replace its production of belts and railway fastenings by a large modern malleable iron foundry, and it was expected that this would prevent redundancy on any substantial scale among the original labour force.3 Currently some cinemas, closed as a consequence of the loss of audiences to television, are being converted by their owners

2 Staff Papers 1954, p. 386.
into bowling alleys. As a consequence of reduced protection for the United Kingdom jute industry, one firm decided to increase its output of specialised products, at the expense of standard goods production.1

Where such product conversion is undertaken, does the manufacturer prefer to produce a wide or a narrow range of items? More precisely, is there a preference for "product diversification" or "product specialisation"? In Chapter I it was explained that multi-product manufacture softens the impact on a firm of a fall in demand for any single item. It might therefore be expected that a manufacturer threatened by a fall in demand would welcome the insurance offered by product diversification.

In fact, any general movement towards greater product diversification is unlikely in these circumstances. For the need for increased product specialisation as a means of fostering the factory's recovery through larger product runs and higher efficiency is well understood. The dilemma has been described in the following way:

Every manufacturer had and still has by nature an inclination not to put all his eggs in one basket with regard to manufacturing. In addition to a number of staple articles, one is inclined to keep a number of by-products, so that a quick change-over can be made in case of hard luck. This is a principle which directly contradicts every attempt to simplify production by specialisation and standardisation. Yet the latter course must finally be followed.2

Unfortunately, product conversion, whether to many or to few items, does not seem capable of successful application on a scale which would allow it to make a very important contribution towards easing labour force adjustments. In some circumstances it is physically impossible to adapt the original work site to alternative uses. A coal mine is the classic example of inadaptability. Except, perhaps, for the storage of explosives, there is rarely an alternative use to which it can economically be put.

Even where product conversion is feasible, its cost may well be beyond the means of declining enterprises, since in this case the firm cannot sell its land and buildings. In one of the cases cited above the original building had to be replaced by a foundry.3 Such an apparently simple change as the conversion of a cinema into a bowling alley can cost more than £50,000. In the United States—

Individual companies subject to increased competition may find it difficult or impossible to diversify. For example, in some of the industries subject to.

2 International Federation of Cotton and Allied Textile Industries: The Cotton Industry in a World Economy (Manchester, 1958), p. 120.
3 Significantly, in this case the establishment was owned by a large national concern with ample financial resources.
import competition, firms are typically small and financially weak. Some of them lack funds to procure the necessary technical services, such as market analysis and production engineering. Some would not have the record of earnings to qualify for the needed financing from ordinary private sources.\(^1\)

Ignoring these limitations, the alternatives open to the firm are the production of a commodity akin to the original product or the manufacture of very different items. In either event, the venture will entail a large element of risk. Conversion to a very different product, by requiring far-reaching alterations, will usually be the more expensive course of action. If such a conversion is nevertheless undertaken, management's lack of experience in the new line—to which attention has already been drawn above—may cause the venture to fail. The final selection of new products made by some United Kingdom aircraft companies has been criticised in this respect:

Several companies have started to manufacture quite strange products without proper investigation of the market or without sufficient understanding of the major adjustment required at all levels to enable a company reared on aircraft manufacture to make industrial products profitably at prices which are competitive.\(^2\)

However, even where the conversion is to similar products, the chance of failure as a consequence of insufficient management ability is by no means negligible. When a United States company formerly engaged in manufacturing briar pipes resorted to the production of other articles involving wood turning, the attempt was abandoned when costs proved far higher than those of established competitors.\(^3\)

Others factors will also threaten a successful conversion to related products. First, the kinship between the old and the new lines is often not limited to production techniques, but may extend to the market for the products. Where a structural change affects a whole sector, the converting firm may find that it has left one depressed market only to enter another. In 1953 there were 56 establishments in Western Germany making two-wheeled motor vehicles. Out of the 38 which by 1959 had left the industry, as many as 18 had entered the bicycle market—hardly an expanding one. In the United States—

Textile mills are not and have not been unaware of diversification, although admittedly they have not pushed widely into vastly foreign fields. Many have, however, sought out opportunities to diversify within the general scope of a textile operation.\(^4\)

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\(^1\) *Hearings 1956*, op. cit., p. 1505. See also above, Chapter III.

\(^2\) *Engineering* (London), 13 Nov. 1959, p. 477.

\(^3\) *Staff Papers 1954*, p. 409.

In such circumstances the prospects of a successful "escape" by either capital or labour through product conversion are not really very good.

Secondly, the number of alternative products which are akin to the original line is necessarily limited. It is therefore likely that many of those firms in a declining sector which undertake product conversion will choose the same commodity. Even if demand for this commodity is increasing—and it has been seen that the reverse may well be true—the sudden influx of several new suppliers leads to more extreme competition, and perhaps to a structural disturbance in this sector too. Again, the interests of labour are hardly well served by diversification.

Instances of such conversion to already crowded fields seem to be fairly common. As already mentioned, many firms dislodged from the West German two-wheeled motor vehicle sector flocked to the bicycle industry. In the United Kingdom the development of the moped industry was a great help to firms which had been suffering from the prolonged bicycle slump, but significantly one of these firms—Raleigh—stated—

Other manufacturers have not been slow to follow our lead and competition in this market is now very keen . . . .

Similarly, in the United States textile industry—

Domestic mills . . . shorn of their market in one product group have no choice but to crowd into another. In doing this, they create new conditions of overproduction and force still another shifting of product lines.

In the United Kingdom textile industry, by 1954 the possibilities of shifting from cotton goods to the relatively protected rayon sector had already been fully exploited and there was evidence that a point of temporary saturation might have been reached. In all countries aircraft companies are trying to build up civil business to offset the impact of cutbacks in military demand, with the result that "there are several types of aircraft being offered for every order that is available".

For these reasons it is hardly surprising that there are cases of unsuccessful product conversion. A United Kingdom firm formerly manufacturing steam locomotives experienced very difficult times as a consequence of its failure to achieve a smooth change-over to diesel locomotives. In the United States four woollen blanket mills were ultimately liquidated after having tried desperately to get into the field

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1 The Economist, 12 Dec. 1959, p. 1104.
4 The Financial Times, 7 July 1960.
of producing apparel fabrics with the same equipment.\(^1\) Out of 20 firms which left the United States briar pipe industry the one that attempted product conversion ultimately had to abandon that attempt. A West German motorcycle firm which eventually was obliged to sell one of its factories had previously tried unsuccessfully to produce a "baby car" in that plant.

It should be noted that, even if product conversion is feasible, its cost not prohibitive, and management has the ability to break into new markets, some labour adjustment may still be necessary. The new activities may require a smaller or different type of labour force. The conversion of some United States aircraft companies to missile production, for example, led to the dismissal of some workers in favour of more highly skilled technicians. Temporary—and sometimes fairly prolonged—unemployment or underemployment may also occur during the actual period of conversion.

**Take-over of Factories by New Management**

While there is scope for some scepticism regarding management's adaptability to entirely new production tasks, it has already been pointed out that the workplace itself is often taken over by another enterprise and converted—successfully, it would seem, in most cases—to alternative uses. Industrial buildings may well be rather less specific than entrepreneurial ability. Furthermore, when this acquisition is made to coincide with the demise of the original firm or, in the case of a small, depressed labour market, even when it occurs a little later, at least part of the former labour force is normally retained.

"Defunct" textile mills are often acquired in this way. In Lawrence (Massachusetts) the Western Electric Company has been operating in a former textile mill. In Manchester (New Hampshire) the business community formed a private industrial development corporation to purchase a company and lease the space to new industry.\(^2\) In the United Kingdom a mattress-making organisation took over a cotton mill, planning jobs for 200 workers.\(^3\)

More generally, out of 550 United Kingdom cotton mills which have been closed since 1951 only 180 remain empty. The rest are used by firms from 80 different industries and account for the employment of about 120,000 workers.\(^4\) As the result of an agreement between French

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employers and workers, a service was established to draw up a list of
textile mills that had ceased, or were about to cease, operations in partic­
ular areas, to discover alternative activities that could be carried out on
the premises, to find an entrepreneur to undertake the experiment and to
obtain the capital required.¹ Out of 38 firms leaving the West German
two-wheeled motor vehicle sector, four, accounting for as much as two­
thirds of the total production capacity of the 38, were sold to other
industries.

But a study made in one of these factories underlined the fact that
even here the problem of labour adjustment was only mitigated, not
removed.² In this particular case only half of the original labour force
was absorbed by the new firm. Again, when a West German electrical
company took over the factory buildings of a cotton firm going into
liquidation, only those employees with earnings below a certain level
were retained. Similarly, the acquisition of a United States mill by a firm
making industrial leather belting and packing provided employment for
only 30 per cent. of the original labour force.³ Even where the new firm
ultimately requires more labour than the old one, there is often a time
lag before the new, higher level is achieved, and this may mean extended
unemployment for some of the workers. Thus, although a firm making
refrigerators, which took over a former cotton mill in the United King­
dom, intended to employ about 1,000 workers eventually, at first only
200 jobs were offered.⁴

Furthermore, the new management will usually not feel that it has
the same kind of responsibilities towards the labour force as the manage­
ment of the now defunct firm. Thus, in choosing the workers to be
retained, it appears that the West German enterprise which is the subject
of the case study in the Appendix paid scant attention to seniority.

Work sites may, of course, not be amenable to product diversification
either by their original owners or by any newcomers. Nor does it
appear that such cases are necessarily limited to the more obvious
situations, such as coal mines. For example, the glove-manufacturing
centre of Gloversville (New York) was described as not having—
any suitable factory space to offer new industry; the vacant glove factories
are usually several stories high with small rooms and of light (often ramshackle)
construction.⁵

¹ See “Labour Problems of Modernisation in the Textile Industry”, in Inter­
² See the Appendix.
³ MIERNYK, op. cit., p. 646.
⁵ Staff Papers 1954, p. 404.
Nevertheless, circumstances will often favour a factory take-over, and clearly it would be wrong to attribute any significant role in easing labour adjustments to product conversion by the original management while neglecting the possibilities afforded by the acquisition of defunct factories.
CHAPTER VII

WORKERS' REACTIONS TO STRUCTURAL CHANGE

WORKERS' ATTITUDES TOWARDS THE NEED FOR STRUCTURAL CHANGE

A sharp distinction needs to be made between the "attitude" and the "reaction" of workers to structural change. Failure to draw this distinction has been responsible, for example, for the faulty assessment of the role of geographical mobility. Probably most workers dislike to change their place of residence, but in fact many of them do move. Even young workers will rarely welcome movement for its own sake. Their greater mobility merely reflects the fact that the hardships of moving bear less heavily upon them than upon older people.

The most striking feature of workers' attitudes to the need for structural adjustments is their variety. Worker and trade union attitudes in respect of adjustments caused by technological change frequently tend to be negative. The disruption accompanying technological change often presents the affected worker with two very different alternatives. The most extreme case occurs where a worker's job is taken over entirely by a machine and no possibilities of transfer exist within the undertaking. Here the worker may either accept his dismissal, with the risk of consequent unemployment and financial loss, or he may try to induce his employer to retain him at his old post and pay him for doing nothing. That the worker should prefer to fight for the latter alternative is readily understandable.

While the choice is seldom as dramatic, the same elements are generally present in greater or less degree, colouring the worker's attitude to technological change. Change of occupation within the same enterprise rather than dismissal is, of course, more typically the fate of a worker displaced by a machine. Moreover, the machine rarely takes over all the human tasks associated with a particular job. The introduction of diesel locomotives, for example, may eliminate most, but not all, of the firemen's duties: the location of signals or the need for an emergency driver may require a second crew member. Nevertheless, the contrasting features of the two alternatives remain unchanged. Either the fireman must be willing to change over to a new railroad occupation,
perhaps with a loss of earnings, or he retains his former post where he performs purely residual tasks under much easier conditions. Again, the worker's natural reaction is to choose the course which improves his lot, rather than to accept without protest developments which affect him adversely.

The fact, moreover, that the consequences of technological change, e.g. in terms of labour requirements, are not always simple and straightforward tends to favour the worker. In the United States the railroads have asked for elimination of firemen from diesel-powered locomotives of freight trains but not of passenger trains, not because the firemen's functions have completely disappeared in the former and remained completely intact in the latter, but rather because the total labour requirements of a locomotive engaged on freight duty are more closely approximated by one worker and those of passenger locomotives by two. In the United Kingdom trains now carry "firemen" on diesel locomotives under certain conditions of duration and length of journey, and according to the type of brake and the shift being worked. Alternatively, the major adjustment to technical change may be achieved by displacing some members of a work group and making any necessary adjustments in the conditions of employment of the remaining workers. For example, there may be a need for extra rest periods for a weaver minding automatic looms, since he is under greater strain because of the greater possibility of breakdown with a large number of looms.

Thus there is much scope for disagreement, both on the precise extent to which labour requirements have been altered by particular technological changes, and on the form which the adjustment in the work groups should take. Where detailed "work rules" have previously been agreed upon, the hand of the trade union is strengthened, since it is defending the status quo and the chances are that, for a time at least, the workers will become better rather than worse off. This preservation of the status quo by work rules may in fact have the effect of dissuading employers from introducing technological change.

In seeking to prevent any deterioration in the position of their members, trade unions often refer to management's responsibility for the introduction of technological change. Since such changes are avoidable, the argument runs, management has a duty to prevent any deterioration in the workers' position. It seems, however, for reasons which will be elaborated upon at a later stage, unsatisfactory to make such a distinction between disruptions due to technological change and those attributable to other causes.¹

¹ See below, Chapter VIII.
Trade unions also reason that, because the firms expect to gain from technological changes, managements can and should agree to a course which will improve the workers' position and give them a share of the fruits of progress. Thus during the 1959 strike in the United States steel industry, the union claimed that a substantial increase in the productivity level of the industry made it incumbent upon the companies to share the resulting gains with their workers. Indeed, technological changes are sometimes welcomed by unions because, despite a fall in the numbers employed, the remaining workers are able to obtain improved conditions of employment. Such a policy has been followed by the United States mineworkers.

The principle of sharing the gains from technical progress with their workers is frequently endorsed by firms introducing technological change. Under a collective agreement applying to the Belgian cotton-spinning industry 25 per cent. of savings in wages arising out of productivity were to be made available for distribution to all workers, 10 per cent. being given immediately to the workers directly affected. In another agreement a dockworkers' union in the United States agreed to waive objections to the introduction of labour-saving machinery in return for cash bonuses paid out of the resulting savings. Such provisions naturally tend to strengthen the hand of other trade unions in urging upon firms a policy designed to make the workers immediately affected better and not worse off as a result of technological change.

Negative attitudes towards the need for structural adjustments are not, of course, voiced only in circumstances of technological change. Strong feelings can also be aroused, for example, in industries directly affected by foreign competition:

The working men and women in this industry [plate glass] resent the idea of being treated as robots who may be transferred from one job to another to satisfy the theories of foreign trade economists. Many of them have worked in the glass industry all their lives and are temperamentally and physically unfit except for the work they are doing. As individuals they have a right to a proper amount of protection against their displacement by foreign workers. Such extreme positions may be bolstered by a threat of counter-measures. Structural changes have given rise to strikes as well as to less emphatic forms of protest.

Three observations are prompted by these attitudes. First, even if it is felt necessary to accommodate those workers who adopt a policy
of unyielding resistance to structural change, this will by no means necessitate providing permanent protection or support for the affected industry. For, clearly, protection is claimed only for those workers already engaged in the industry, and ultimately the natural depletion of the labour force will account for these. Therefore, from the point of view of the labour force, adequate protection need imply only a programme of gradual contraction, not one designed to ensure the industry’s permanent survival.

Secondly, such extreme positions seem to be taken especially where difficulties have arisen from import competition. Rightly or wrongly, the opinion that this form of competition is unfair, particularly when it comes from low-wage countries, is widely held by workers. Extreme attitudes seem to be less common in cases of structural change caused by other forces. However, trade unionists often hold the view that workers have a right to be protected from adverse effects of cuts in government expenditure.

Thirdly, the bargaining position of workers in declining industries is relatively weak, and where retaliatory measures are taken on a sectional basis their success is highly doubtful. Yet, since action to prevent structural changes in fact constitutes coercive action by a minority, directed against the majority, it will rarely occur on anything but a sectional basis. The weight of organised labour as a whole is usually behind schemes designed to ease rather than prevent structural adjustments. Thus, the International Confederation of Free Trade Unions has suggested that to ease structural labour adjustment—
governments should promote measures to foster a high degree of labour mobility. Provision of vocational training, efficient employment services, adequate supply of working class dwellings and measures to facilitate migration are also among the most promising steps in this direction.¹

Indeed, workers often are prepared to recognise the inevitability, and even the desirability, of structural change, provided that there are some safeguards for those affected. The extent of trade union demands in this connection varies considerably. At one end of the scale there may simply be strong pressure by the unions on the company to hold down discharges. More frequently, however, trade union effort is devoted to securing for workers the kind of benefits available under the more comprehensive of the dismissal procedures discussed in Chapter VIII. However, unions are sometimes reluctant to approach the problem on this level. According to one authority, trade unions in the United Kingdom—

in contrast to the United States have not shown much interest in redundancy until it has actually arisen.¹

Also, some trade union representatives—
prefer not to be involved in selecting the people to be redundant, but would rather be free to make objections to the list after the men concerned have been informed.²

However, many workers and unions hold more moderate and, in some cases, very positive views on the need for structural adjustments. For example, the Director of Research of the A.F.L./C.I.O., referring to the plight of import-competing industries in the United States, said—
We fully sympathise with the difficulties faced in these industries and . . . we are convinced that effective steps can and must be taken to mitigate their hardships. Nevertheless, the tail must not be allowed to wag the dog.³

In another context, he made the following statement:
We should not be forced to keep out foreign goods simply to permit American industries, long past the peak of their efficiency, to stay in business.⁴

Similarly, a Swedish Workers’ representative at the 1961 Session of the International Labour Conference, referring to the disruptive effect of growing imports, stated that—
In the interests of our own peoples and of the peoples of the developing countries . . . it would be wise to go through the painful process of structural adjustments on the labour markets of the advanced countries, but to ease the process by an active and selective labour market policy.⁵

This view is even held by some Swedish and British trade unionists immediately concerned with the textile industry, a sector which is particularly vulnerable to structural disturbances from this quarter.

A significant feature of these more positive union attitudes is the view that the measures to help labour readjust, which they insist need to be provided, should come from the government itself rather than the contracting firms:
The entire burden of the impact of increased imports should not be placed on the firms and workers adversely affected by tariff reductions. If tariff reduction is part of a national policy required in the best interests of the nation as a whole, then no one group should be expected to pay the price of that policy. It is a cost which should be borne, in so far as possible, by the nation as a whole.⁶

¹ Acton Society Trust: Redundancy No. 1, p. 54.
² Ibid., p. 34.
³ Hearings 1956, p. 917.
⁴ Staff Papers 1958, p. 782.
⁶ Staff Papers 1958, p. 792.
Although this statement refers only to instances of import competition, there seems no good reason why the argument should not logically be extended to all forms of structural change. Measures of the type contemplated are examined in Chapters IX, X, XI and XII.

**SPONTANEOUS ADJUSTMENT OF LABOUR**

Insofar as structural change calls for a redistribution of the labour force as between firms, industries, regions and occupations, it is useful to distinguish two elements in the labour force—workers already holding specific jobs, and those about to enter the employment market for the first time.

This latter group, composed mainly of school leavers and other young workers, will be reluctant to take up employment in a contracting industry or firm. Decisions as to where to look for a job usually owe much to advice of relatives who may have themselves been affected by a particular industry decline. Fear of eventual redundancy and dismissal is therefore likely to be a strong deterrent to job-seeking in such an industry. Furthermore, declining firms may have been obliged to reduce wage rates or have granted lower than average increases. Of much greater significance for earnings, however, is the fact that short-time working may be expected by any newcomers. The President of the United Kingdom National Association of Unions in the Wool Textile Trade, drawing attention to the difficulty of recruiting apprentices in textiles, held that—

> Employers ought to face up to the fact that their competitors for labour could offer more congenial employment [and that wages and other conditions should be made] at least as favourable as those offered by another industry.¹

Striving to restore their competitiveness, firms in the United Kingdom cotton industry recently introduced shift work; but it has been doubted whether—

> a shift work industry with cotton's record of recurrent unemployment... can hold out much attraction to young workers in the future.²

Where other openings are available, the young workers prefer expanding industries and firms. Where the local employment market is depressed, they are also among the first to look elsewhere for a job. The inflow of new labour not yet committed to specific jobs makes an important contribution to structural employment adjustments, making it possible to rely to some extent on natural depletion as a relatively smooth method of contracting an industry's labour force.

The difficulty of recruiting young workers has, moreover, some interesting implications for the labour force in the declining units. As noted in Chapter III, even contracting firms need new workers in order to maintain the balance of the labour force. The smaller the number of workers who can be attracted to these firms, the fewer will be the dismissals of workers whom management would prefer to replace. Also, the management of a declining enterprise may seek to meet transient recoveries in demand through temporary additions to the labour force. But reluctance of workers to enter declining industries tends to frustrate such attempts, thus limiting the impact of any ultimate contraction that may occur.

Similarly, workers already employed in declining firms and industries may ease the adjustment process through voluntary departure. Their reasons for doing so are the same ones as prompt the "new" labour force to avoid such firms and industries: an awareness of employment insecurity and relatively poor conditions of employment. For example, workers have left the United States leather glove industry for better-paid or steadier jobs elsewhere.\footnote{Staff Papers 1954, p. 406.} The movement of workers from British Railways has been attributed to both lower pay and the fear of redundancy.\footnote{The Observer, 19 June 1960.}

One group of manufacturers stated that the introduction of work-sharing and short-time (in lieu of layoff)—

tends to produce its own remedy. Workers, finding their pay packets are cut, leave of their own accord to seek employment elsewhere.\footnote{The Economist, 4 June 1960, p. 1002.}

Falling morale among workers, due to poorer working conditions, may even speed up the labour force contraction beyond the rate required by market developments. Thus in the United Kingdom coal industry—

To a degree this voluntary wastage is convenient in the short run [but] in the medium run the labour force will soon fall below what would be needed . . . .\footnote{ROBSON, op. cit., pp. 25-26.}

Similarly, in the United Kingdom cotton industry the contraction following the 1952 recession was given further impetus as the loss of labour caused several firms to close down.\footnote{ROBSON, op. cit., pp. 25-26.}

The tendency for a labour force contraction to "lead" an industry's decline is generally to be welcomed. It has been said of the South Wales coal industry that—

The more rapid decline in the industry's labour force during recent months—while an understandable source of concern to the National Coal Board—can
hardly be regarded as wholly disastrous. Even the importation by the United Kingdom of marginal supplies of coal... would probably be a price well worth paying for a smooth and voluntary adjustment of the labour force occurring rather earlier than would be enforced by sheer necessity.¹

Thus, where only a partial contraction is required, a tendency for voluntary separation to outstrip the market decline may jeopardise the enterprise’s future operations. Some passenger services on the British Railways have been curtailed owing to a fall in the number of guards and firemen and, in an effort to staunch the efflux of workers, the British Transport Commission promised that, with certain provisos ², there would be no further dismissals on grounds of redundancy.³ The experience of the British Railways also shows that these “escapes” are more likely to affect areas with a wide employment market. There, not only are alternative jobs more readily available, but the contrast in earnings and other conditions is usually more marked. Accordingly, the shortage of railway staff is particularly acute in Birmingham and London.⁴ Where alternative jobs are available, there is little doubt that voluntary separation is important in restricting the number of dismissals from a contracting sector—even more so than, for example, the retirement of older workers. A large number of voluntary separations may sometimes lead to an increase in costs and speed up a cumulative contraction process ⁵, but if the contraction has to take place anyway, any disadvantages on this score are likely to be more than outweighed by this direct and positive contribution to the labour force adjustment.

Even after dismissal it may often be the initiative of the workers themselves that accounts for the major part of the adjustment process. For example, out of 120 workers re-employed after dismissal from four United Kingdom firms affected by structural changes, 64 per cent. found jobs through their own efforts.⁶ Again, out of 881 workers dismissed by a West German motorcycle company who found new jobs, 67 per cent. did so without the assistance of the local employment office. However, this is not to minimise the contribution of the employment service to smooth adjustments. Indeed, evidence from the West German case study set out in the Appendix suggests that the burden of coping with the more difficult cases of worker adjustment falls primarily on the local employment office.

² See below, Chapter VIII.
³ The Economist, 12 Dec. 1959, p. 1098.
⁵ See above, Chapter III.
WORKERS' REACTIONS TO STRUCTURAL CHANGE

Mention may be made of a rather special type of worker reaction to structural change. Very occasionally the employees of a declining firm attempt to assume management of the enterprise in an effort to preserve their jobs. Thus, in the United States, the employees of a firm closing down in Trenton (New Jersey) formed a committee which was to make an offer for the company's equity. An example of a successful scheme of this type is provided by the Nashua (New Hampshire) mills of the Textron Company, partially taken over by the employees to provide employment. The new company, organised to produce specialised textile products, has succeeded in raising employment from 175 to 355 workers.

But little practical importance can be attached to such a “solution”. If economic conditions are sufficiently difficult to make it impossible for professional management to survive, it will not be often that workers will succeed. Furthermore, the capital resources required for the success of such schemes will be beyond the reach of most workers. Even in the United States, from which all of the above examples are taken, cases of this type are likely to remain unusual.

GEOGRAPHICAL MOBILITY OF LABOUR

Structural changes sometimes require a geographical realignment of employment opportunities and the labour force. In Chapter V the hardships which the need to change residence can entail were mentioned. In this section an attempt is made to determine how far workers are willing to move to another area, and thus adjust to the new employment pattern. In dealing with this question, two conflicting strands of evidence make it difficult to give a simple answer.

On the one hand, the conclusion arrived at by studies of actual instances of structural adjustment is that workers are usually reluctant to move their homes. Thus in Belgium, while the Campine coalfield might have absorbed miners from the Borinage, it proved difficult to persuade the latter to make the change. A study in the United Kingdom emphasises—

the reluctance of people to move their homes and their willingness to accept considerable sacrifices financially and in many other ways rather than move.

In New England textile communities it was found that—

In general, the displaced workers have exhibited a relatively low degree of geographical and occupational mobility.

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1 Business Week, 4 June 1960, p. 77.
2 Staff Papers 1954, pp. 419-420.
3 Acton Society Trust: Redundancy No. 1, p. 55.
4 Mierynck, op. cit., p. 647.
After a United Kingdom company had decided to close one mill—
A party of loom tuners and their wives were taken by coach to visit another works in the same organisation in a different part of the country. They were provided with hotel accommodation and taken to see the works and surrounding district, in the hope that at least some of them would decide to take up employment there. Not one man accepted the offer.¹

The French Government and the E.C.S.C. made provisions for the transfer of 5,000 miners about to be displaced from the Centre-Midi coalfield to Lorraine. When only about a tenth of these moved, the plan was shelved.² Moreover, as noted in Chapter V, many workers who elect to move do so with great reluctance and even eventually return.

The correlation between duration of unemployment and the age of workers has been discussed in Chapter V; but it seems that no such relationship exists between length of unemployment and labour mobility. Of a group of unemployed workers in Manchester (New Hampshire) who had exhausted their unemployment benefit, only 4 per cent. were later found to have moved to another locality.³ Similarly, in the United Kingdom it has been suggested that, even when unemployment lasts many months, redundant workers will often try to avoid moving, and that willingness or unwillingness to do so may hardly be related at all to the time spent before finding a job. This is perhaps due in part to the fact that elderly workers tend both to have the longest spells of unemployment and to be the least willing to move.⁴

In contrast to these pessimistic findings, population statistics reveal very substantial movements as between regions in industrialised economies. The following net “migration” figures (expressed in each case as a percentage of the region’s population in 1951) for the various regions of the United Kingdom from 1953 to 1957 illustrate this:

<table>
<thead>
<tr>
<th>Region</th>
<th>Migration percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern</td>
<td>+14.0</td>
</tr>
<tr>
<td>Southern</td>
<td>+7.8</td>
</tr>
<tr>
<td>South-western</td>
<td>+1.8</td>
</tr>
<tr>
<td>North Midlands</td>
<td>+1.7</td>
</tr>
<tr>
<td>Midlands</td>
<td>+0.8</td>
</tr>
<tr>
<td>Wales</td>
<td>−1.2</td>
</tr>
<tr>
<td>North-western</td>
<td>−1.4</td>
</tr>
<tr>
<td>East and West Riding</td>
<td>−1.7</td>
</tr>
<tr>
<td>Northern</td>
<td>−2.3</td>
</tr>
<tr>
<td>London and south-eastern</td>
<td>−2.4</td>
</tr>
<tr>
<td>Scotland</td>
<td>−5.0</td>
</tr>
</tbody>
</table>

¹ Positive Employment Policies, op. cit., p. 38.
³ The New England Economy, op. cit., p. 45.
⁴ Acton Society Trust: Redundancy No. 2, pp. 9-10 and 20.
In the most rapidly expanding regions (eastern and southern) net "immigration" was an important cause of the labour force increase. In Scotland, where expansion was least and unemployment highest, the labour force evidently was seriously depleted by "emigration". The regions losing people by migration lost fractions of their natural increase varying from about one-third to four-fifths.1 Similarly, in the United States, immigration to the state of Delaware in recent years accounted for about one-half of the state's annual population growth of 20,000.2

Even these figures do not convey the full extent of labour mobility, since they measure only net movements. The following data, giving population shifts into and out of communes in the Belgian province of Luxembourg (expressed as percentages of the province's total population), show how much greater gross movements can be3:

<table>
<thead>
<tr>
<th>Year</th>
<th>Emigration</th>
<th>Immigration</th>
<th>Net movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954</td>
<td>5.0</td>
<td>4.6</td>
<td>-0.4</td>
</tr>
<tr>
<td>1955</td>
<td>5.2</td>
<td>4.8</td>
<td>-0.4</td>
</tr>
<tr>
<td>1956</td>
<td>5.7</td>
<td>4.8</td>
<td>-0.9</td>
</tr>
<tr>
<td>1957</td>
<td>5.2</td>
<td>4.8</td>
<td>-0.4</td>
</tr>
</tbody>
</table>

In the United States, one person in five changes his state of residence every year. One author hints at the conflict between this type of evidence and the case study findings mentioned earlier when he writes—

It would be unfortunate if generalisations about the immobility of workers led to too firm a conviction that men are forever anchored to their hereditary abode and that industry must always go to them. History does not support this.4

Four considerations, examined in turn below, do much to resolve the apparent contradiction.

First, while the case study evidence places much emphasis on the reluctance of people to move, it does not deny that some workers do in fact move. Thus, in the United States, out of a group of workers dismissed in Mount Vernon (Illinois)5 32 per cent. moved elsewhere for jobs. After the closure of a United Kingdom company which was exceptionally remote from any industrial centre, as many as 46 per cent.

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1 SYKES, op. cit., pp. 203-204.
3 P. ROUSSEAUX: La province de Luxembourg (Louvain, Centre d'études sociales, Université catholique de Louvain, 1959), p. 78.
4 DIEBOLD, op. cit., p. 424.
5 See above, Chapter V.
of the workers took up jobs beyond travelling distance from their former residence.\(^1\) Out of the 1953 labour force in a particular United States labour surplus area, 18 per cent. had migrated by 1955.\(^2\) Even some of the French miners displaced in the Centre-Midi coalfield did, after all, move to Lorraine.\(^3\)

Secondly, some case studies tend to expect too much of labour mobility by emphasising, for example, its failure to remove, or even reduce, differences in area unemployment percentages. Thus—

This migration was not a satisfactory solution to the problem from the point of view of either the workers involved or the community and, in spite of migration, the level of unemployment was still well above 10 per cent. in April 1956 and about 10 per cent. again . . . in April 1957.\(^4\)

Also—

Despite out-migration, unemployment in Harrison County has ranged from 4 to 11 per cent. of the labor force since 1950 and has been consistently higher than the national average.\(^5\)

The application of such a criterion is surely too stringent a test of the effectiveness of labour mobility. For in the complete absence of movement from these areas, the unemployment level would have been higher than it was. For example—

If the boys who enlisted in the service had remained in Harrison County, it seems likely that they would have greatly increased the unemployment rate for this age group.\(^6\)

Similarly, in Rhode Island, where employment opportunities failed to keep abreast of the population increase—

The trouble was reflected not in a substantial rise of unemployment but in a very large desertion of the labor market.\(^7\)

It seems reasonable to assume that some minimum differential must exist between regional unemployment rates before net migration is "triggered off". On this score alone, it would be unrealistic to expect labour mobility to remove such differentials completely. Even so, and

\(^1\) Acton Society Trust: *Redundancy No. 2*, pp. 8-9.
\(^2\) GEGAN and THOMPSON, op. cit., p. 1451.
\(^3\) Anomalously, there are some grounds for believing that the fact that this was a planned and organised movement may have been instrumental in reducing labour mobility below the level which it would otherwise have reached. There was, in fact, talk of the "deportation" of labour. See GIRARD and MEUTEY, op. cit., p. 44.
\(^4\) WILCOCK, op. cit., p. 1048.
\(^5\) GEGAN and THOMPSON, op. cit., p. 1452.
\(^7\) *Staff Papers* 1958, p. 875.
although continued inter-regional migration in the United Kingdom has
failed to remove differences in unemployment levels, there has been some
narrowing of these differences in recent years.  

Furthermore, although migration may leave unemployment per­
centages unchanged, this does not imply that, in terms of absolute
numbers, there is no fall in unemployment; for an unchanged unemploy­
ment percentage of a dwindling labour force in an area affected by
steady out-migration reflects a reduction in the number of those
unemployed.

Thirdly, geographical mobility not only cannot, but need not be
relied upon to solve the entire adjustment problem. Indeed, in many
cases there will be very little need for mobility on the part of workers.
Although a mere 15 out of 1,058 employees dismissed from the West
German motorcycle factory studied in the Appendix ultimately remained
unemployed, this result was achieved despite the fact that only 6 per
cent. moved to another district. In the United Kingdom, after group
dissmissals from three companies located in an area offering wide alterna­
tive employment opportunities, as few as 3 per cent. of the workers
had to move to find jobs.  

Similarly, in France, although only 10 per cent. of those miners whom it was planned to move from the Centre-Midi basin actually went, there was no question of the remaining 90 per cent. going without work. Most of them seemed to have been ultimately absorbed locally.  

Set in this perspective, labour mobility which accounts
for the reabsorption of 40 per cent., 30 per cent. or even 10 per cent. of a
group of affected workers can make a significant contribution to the
process of adjustment.

Fourthly, there is no guarantee that the workers who do move will be
those affected by a particular structural change. Therefore, long-period
unemployment—often on a large scale—may occur even when there is
substantial inter-regional migration. For example, where an industry
employing predominantly female labour experiences a decline, the
amount of geographical mobility is likely to be least within the very
group where it is most urgently required. Married women with children
are especially handicapped in finding other work because they are
unable to go outside the districts where their husbands work. This,
however, is a rather special case.

Much more general is the reluctance of older workers affected by
structural change to move to another area. United States experience, in
particular, points to the importance of age as a factor influencing labour

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1 SYKES, op. cit., p. 208.
2 Acton Society Trust: Redundancy No. 2, pp. 8-9.
3 DIEBOLD, op. cit., p. 408.
mobility. The following data concerning migration out of a labour surplus area illustrate variations in the behaviour of different age groups:

<table>
<thead>
<tr>
<th>Age group</th>
<th>Percentage of each group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>in the labour force leaving the area between 1953 and 1955</td>
</tr>
<tr>
<td>Under 20 years</td>
<td>28.1 per cent.</td>
</tr>
<tr>
<td>20-24 years</td>
<td>24.4 ” ”</td>
</tr>
<tr>
<td>25-34</td>
<td>21.4 ” ”</td>
</tr>
<tr>
<td>35-44</td>
<td>17.6 ” ”</td>
</tr>
<tr>
<td>Over 45 years</td>
<td>13.0 ” ”</td>
</tr>
<tr>
<td>(Total number of migrants)</td>
<td>(4,024)</td>
</tr>
</tbody>
</table>

Source: GEGAN and THOMPSON, op. cit., p. 1453.

In the United Kingdom also geographical mobility is mainly a characteristic of younger workers, and the same phenomenon has been observed in Sweden. Finally, figures relating to male workers in the Belgian province of Luxembourg provide further evidence of the preponderance of the relatively young in the mobile group. Out of this group, 84.1 per cent. of the “emigrant” workers and 83 per cent. of the “immigrants” were under 45 years of age, while those under 30 accounted for no less than 59.7 per cent. of the emigrants, and 55.2 per cent. of the immigrants. In the United States as many as 50 per cent. of a sample of young people had left Harrison county, a depressed area in the state of West Virginia, a short time after leaving school. Not only are such movements important in themselves; they also reflect the fact that the population rearrangement can be a lasting one.

To a considerable extent the lower mobility of older people can be explained in terms of specific factors which tend to be associated with age. Thus, although the search for accommodation in a new locality would be a problem common to all age groups, it tends to be more serious for middle-aged workers with families. In the Netherlands the main obstacle to the transfer of workers is the shortage of housing. When the attempt was made to move the French miners from the Centre-Midi area to Lorraine, housing was found to be the most frequent cause of complaint in the early stages. The difficulty of realising property, perhaps on a weak market, arises mainly for older workers. “Property

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1 Owing to a rather high average age of the labour force, the actual number of older workers who migrated was quite high. Workers over 45 years of age accounted for approximately a quarter of the migrant group.


3 ROUSSEAUX, op. cit., p. 99.

4 RICHES, op. cit., p. 1458.

5 Diebold, op. cit., p. 409.
and personal ties" were put forward to explain immobility among the Mount Vernon workers. In the case of miners displaced in south-eastern Kentucky a reference was made to those who "still own their little homes and are too old to secure employment". Furthermore, displaced older workers will always fear that even in another locality they will be unable to obtain employment; younger workers have much less to fear on this score.

In the last analysis, however, it is surely age itself, rather than any associated characteristics, which is the principal barrier. Many older people are reluctant to change their place of residence; but it would be wrong to suppose that this relative immobility by itself explains the greater degree of hardship borne by older workers as a consequence of structural adjustments. For if all workers remained immobile, or were equally mobile, adjustment of the younger ones would still be easier, since they, in preference to the older workers, are usually offered alternative employment. Therefore, older workers would actually have to display greater mobility than the young ones in order to offset their other disadvantages. Viewed in this light, the low mobility which in fact they display can be seen for what it is—an additional disadvantage.

**Occupational and Industrial Labour Mobility**

In their quest for new jobs, dismissed workers may need to change their occupation. Like geographical mobility, occupational mobility is more difficult for older workers. Among dismissed United States textile workers, for example, it was found that younger workers were better able to find employment in non-textile manufacturing industries. Of the young workers who had quit their old mills, 43 per cent. remained in the textile industry; among those who lingered on before being dismissed—i.e., the older ones—as many as 68 per cent. ultimately rejoined the industry.

Thus, even when dismissed older workers obtain employment, the jobs will often be in the old industry. Accordingly, where a structural adjustment affects the industry as a whole, their jobs remain threatened. Younger workers entering expanding occupations are more likely to make good their "escape". As noted in Chapter V, older workers will often be able to obtain jobs outside the declining sector only at the cost of lower earnings.

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2. Miernyk, op. cit., p. 646.
Possession of a highly specialised skill can make for a difficult adjustment. Often this will involve the worker in a choice between accepting a similar job in another area—with all the hardships entailed by geographical mobility—and retaining his residence by accepting a fall in status and earnings.\(^1\) In the case of a group of coal miners displaced in Harrison county, one-third chose a change of residence, while another third accepted a change of occupation.\(^2\)

Sometimes a worker may avoid having to change his occupation if the same occupation is common to a number of industries. In changing from one job to another, he may look for the same kind of work but not necessarily confine his search to the industry he left. If he can in fact follow the same trade in another sector of the economy, his chances of obtaining alternative employment within the same area are greater. Moreover, where the industry in which he was formerly employed is in general decline, such a transfer makes for a more complete "escape". Therefore, the less specific a skill, the easier the transition should be.

Because some occupations are common to a number of industries, the mobility of workers as between different industries or sectors of the economy tends to be somewhat greater than their occupational mobility. Since consumers switch their demand from one commodity to another (and not from one skill to another), industrial mobility seems the more relevant criterion for gauging the repercussions of structural change. Not uncommonly, however, the two kinds of mobility are fairly closely correlated. Of a group of dismissed skilled and semi-skilled vehicle workers in the United Kingdom, 78 per cent. entered a new industry and 69 per cent. changed their occupation.\(^3\) Out of the craftsmen employed by a chemical company moving to a United States labour surplus area, 83 per cent. had previously changed industries and 71 per cent. had experienced a change of occupation.\(^4\) Even for coal miners, conditions may occasionally be such that, while changing industries, they can nevertheless retain their basic skills. Still in the United States, more than half of the workers employed in a new salt mine near Cleveland came from neighbouring coalfields.\(^5\)

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\(^1\) An exception would occur where a skilled worker had been dismissed from a marginal firm operating in a geographically concentrated expanding industry; his readjustment should then be fairly easy. One would not expect this combination of circumstances to occur very frequently. Yet the closure of marginal coal mines may sometimes give rise to adjustment of this type, and these conditions may have been of some importance in facilitating a recent adjustment in the United Kingdom coal industry.

\(^2\) GEGAN and THOMPSON, op. cit., p. 1454.

\(^3\) Acton Society Trust: Redundancy No. 2, p. 10.

\(^4\) SOMERS, op. cit., p. 1329.

\(^5\) Business Week, 26 Sep. 1959, p. 171.
With the possible exception of more highly skilled men, workers seem to regard the prospect of a change in occupation with less distaste than a change of residence. In the case of the chemical company mentioned above, the record of geographical mobility of the group of workers hired was not as impressive as that of movement between industries and occupations. Even where openings exist in the same occupation, but in other parts of the country, it is not unusual to find that they are refused by displaced workers. A British trade unionist pointed out that the shortage of coal miners in the Nottinghamshire coalfield had coincided with a surplus in other areas.
CHAPTER VIII

REDUNDANCY PROCEDURES

Procedures designed to moderate the impact on labour of redundancy due to structural adjustments may be imposed upon the employer by law, or be negotiated between management and labour or may be adopted unilaterally by the employer as part of his personnel administration policies. The relative importance of legal and contractual elements varies considerably from one country to another. Dismissal procedures in Belgium, France, the Federal Republic of Germany, the Netherlands, Norway and Switzerland, for example, are largely laid down by law. In Canada, Denmark, Sweden, the United Kingdom and the United States they are fixed mainly by collective agreement.

The scope and nature of redundancy procedures derived from collective bargaining may vary widely. Such procedures may be concerned with three aspects of the general problem of structural labour adjustments. They may aim primarily at minimising the amount of adjustment necessitated by given structural change, or they may seek to ease the hardships experienced by workers before they are reabsorbed, or they may aim at promoting the absorption of dismissed workers. As will be seen below, most redundancy procedures are concerned with the first two aspects of the problem; only exceptionally do they deal with the third.

A desire to limit the firm's contraction and, where this fails, the need to redeploy, are common to both labour and capital caught up in a decline. Yet, only to a minor degree do redundancy procedures represent a joint reaction of management and labour, with complete and unreserved

1 In so far as this is the case, such procedures or rules might more logically have been discussed in the following chapters dealing with the role of the State. It is, however, more convenient to discuss them in the present chapter along with similar arrangements or procedures of a private character.

2 However, in France and Sweden and, in the case of group dismissals, in the Federal Republic of Germany, for example, employers about to dismiss workers must give warning to the employment exchange. This is intended to aid the reabsorption of dismissed workers into other activities. (See "Dismissal Procedures—I: France", in International Labour Review, June 1959, p. 627; "Dismissal Procedures—IV: Federal Republic of Germany", ibid., Sep. 1959, p. 270; and G. OLSSON: Employment Policy in Sweden, Information memorandum issued by the National Labour Market Board (Stockholm, May 1961; mimeographed), p. 1.)
support from both sides. Perhaps the least contentious type of measure is the provision for cancelling any subcontracts awarded by the firm.¹

More generally, the measures adopted for short-time working, transfer of employees, notice periods, payments to dismissed workers, and also the criteria for dismissals, all reflect elements of conflict and compromise. It is unlikely, and indeed not reasonable to expect, that provision for the transition adequate to the needs of the affected workers will come entirely from their former employers.

Since this study deals only with permanent changes, procedures concerned mainly with temporary contractions in the labour force are not examined at length. But it may be noted that in some countries, e.g. the United States and Canada, collective agreements usually make explicit provision, even in the case of economic or technological redundancy, only for "layoff", and not for dismissal. In other words, in these countries reasons beyond the worker's control are, as a rule, considered as justifying layoff, but not dismissal. Layoff, by suspending rather than terminating the employment relationship, provides essentially for a temporary, not a permanent, change in the labour force. The worker keeps his status as an employee of the undertaking. He retains and continues to accumulate seniority and, on this basis, enjoys certain "recall" rights if and when the company recruits workers; he may even retain the right to certain fringe benefits, such as health and accident insurance.

But the economic forces of the kind examined in this study, by their very nature, imply that many layoffs will prove to be permanent. The question, then, arises of how layoff procedures cope with these cases. Technically, the method of reconciling such procedures with the need for permanent dismissal is usually quite simple: provision is made for the rights which layoff confers to lapse after a time. Thus, one collective agreement provides that—

Seniority and the employment relationship shall be broken for the following reasons:... if the employee is laid off for one-half his or her length of service up to three years.²

However, the absence of a dismissal procedure as such may impede a worker's readaptation in the case of a lasting change. First, it is obvious that difficulties may arise where collective agreements do not clearly provide for an unequivocal termination of the employment

¹ This is a fairly common clause in redundancy agreements, particularly in the United States. It has already been noted, however, that it is a device which merely shifts the incidence of adjustment (see Chapter I).

relationship but speak only of layoff. For example, since the worker is not dismissed the employer is not bound to pay any severance benefit, where such benefit exists. Actually, it appears that, in practice, when the layoff is expected to be permanent, the benefit is paid at the outset. Yet, conceivably, the layoff may only be recognised as permanent after a time, in which case the worker will be deprived for a time of a benefit which, had he received it, might have aided his readjustment at an earlier stage. Secondly, though state unemployment benefits are only paid if the worker seeks a new job, the knowledge that he still is on the books of his former employer will in some cases make him reluctant to readapt. And, thirdly, since the acceptance of a new job does not break the worker's layoff status vis-à-vis his former employer, another employer may hesitate to hire him, for fear that he may eventually go back to his old job.

Therefore, not only do some layoff procedures seem rather clumsy, and in some cases ambiguous where they must deal with permanent adjustments, but also to a certain extent they may adversely affect the adjustment of workers. This, however, in no way detracts from the value of such procedures in other important respects falling outside the scope of this study, e.g. as a device for dealing with temporary disturbances, and also as a method of providing fringe benefits. When it is known whether a particular disruption will be temporary or permanent, their application should not cause serious difficulties.

**SHORT-TIME WORKING**

Clauses providing for the abolition of overtime and the introduction of short-time working are a fairly common feature of collective agreements dealing with redundancy problems. Provisions of this nature are rather less frequently laid down by law, although the effect of legislation in the Federal Republic of Germany, for example, is to require the employer to make every reasonable effort to avoid dismissal through redistribution of the work or by transferring the employee to another job.

In some circumstances, and up to a point, a reduction in average hours worked is considered a welcome alternative to dismissals by both employers and workers. For the former, short-time working provides a method of "hoarding" labour during slack periods, a policy which is particularly attractive when labour is scarce. By workers, short-time

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working is seen as a form of work-sharing and as such is usually accepted, at least for a time, as the lesser of two evils.

Nevertheless, both to management and to labour, short-time working has much less appeal in situations where a short-term expedient will not suffice, i.e. in cases of permanent contraction, as opposed to cyclical recessions. Here it can at best be only a palliative; it is useful, for example, in so far as it smooths the rhythm of the labour force contraction. But on two counts it may actually hinder the readjustment of workers. First, it can be conducive to a cumulative contraction in the firm, of the sort outlined in Chapter III, since it tends to be accompanied by an increase in unit labour costs. Secondly, if mishandled, far from smoothing the decline it may result only in "damming up" the labour force, its cessation suddenly releasing a flood of workers onto the employment market.

Because of the rise in unit costs, management will not agree to the indefinite prolongation of short-time working. Out of 102 United States redundancy agreements which stipulate a certain duration beyond which short-time working is not to continue, over one-half specify a period of less than four weeks.\(^1\) In extreme cases firms even refuse to have any short-time working at all. Thus one United Kingdom enterprise prefers to declare workers redundant than to put them on short-time. In another the management, after considering and rejecting the possibility of working short-time, drew up a redundancy plan.\(^2\)

Similarly, workers would hardly accept short-time working, and the concomitant reduction in earnings, as a permanent solution to the problem of readjustment. Yet they do seem prepared to tolerate rather longer periods of short-time working than management.\(^3\) Although this may only seem a difference of degree, it frequently constitutes a sensitive issue in labour-management relations. The refusal of management to introduce short-time working as an alternative to dismissals has in some cases led to strikes.

A reduction in hours worked, as a response to structural change, is not unsatisfactory only from the point of view of the individuals immediately concerned. It also reflects an incomplete adjustment of factors of production to a change in demand. To society as a whole, it is apt to represent a waste of economic resources, unless indeed those who are


\(^{2}\) Positive Employment Policies, op. cit., pp. 32 and 37.

\(^{3}\) However, where severance benefits are payable in the event of dismissal this drawback may not be so pronounced. On the other hand, in cases where some unemployment benefits are available to augment short-time earnings, workers may be prepared to endure short-time working for longer periods.
retained on short-time working could otherwise find no productive employment. Some idea of the potential magnitude of these losses is conveyed by recent developments in the United Kingdom cotton industry. Between January 1959 and January 1960 production in the industry increased by 7 per cent. Yet during the same period employment fell by 8 per cent. This huge increase in output per man is explained mainly by the elimination of the widespread short-time working that had characterised the industry at the beginning of the period.¹

**TRANSFERS**

The transfer of workers from one job, department or establishment to another in an effort to avoid their dismissal is a common feature of redundancy agreements; it is rarely regulated by law. However, not all transfers of workers in firms experiencing structural changes should be regarded as attempts to avoid dismissals. Transfers will also result as a by-product of the practice of dismissal according to seniority. Moreover, where technological changes are being introduced, internal transfers to some extent reflect the changed pattern of the firm's labour requirements. When transfers accompany a decline in output, the "bumping" sequence is usually based on the seniority principle.² While workers may press for the application of the seniority criterion in circumstances of technological change, this tends to conflict with management's desire to promote workers to the new tasks on the basis of ability.³

Internal transfers are also held in rather less esteem by management than by labour. For, as noted in Chapter II, beyond a certain point further movements mean a loss in efficiency. Moreover, such movements may well entail substantial increases in operating costs. First, when vacancies have to be filled by transfer of redundant workers and cannot be met by recruiting new staff with specialised training or experience, the labour force may gradually become less effective than it would have been in the absence of such a constraint. Secondly, if a transfer involves downgrading, it is a fairly frequent practice to continue paying the worker his former wage, at least for a time, and this of course entails an increase in unit labour costs. Thus any loss of efficiency that occurs

¹ *The Economist*, 2 Apr. 1960, p. 73.
² "Bumping" is an American term which refers to the displacing of a junior employee by one senior in terms of length of service.
³ Thus a redundancy agreement in a United States oil company introducing technological change stipulated that "senior employees eligible under this article shall be given preference...". The trade union interpreted "eligible" as merely repeating seniority; the company claimed that it meant ability. In this case, arbitration upheld the company's interpretation. (*Monthly Labor Review*, Sep. 1957, p. 1086.)
as a result of transfers constitutes a loss to society as a whole. Furthermore, an increase in costs contributes to a cumulative contraction process of the sort discussed in Chapter III. Therefore, management often tries to retain a degree of freedom in the matter by reserving the right to hire new workers even during a labour force contraction.\(^1\)

Sometimes, in firms comprising plants in different regions, transfers involve a change of residence for the employee. In the United Kingdom the civil service, the British Railways, the gas industry, the electricity industry and the National Coal Board, together with a few larger companies, have been operating special schemes for such transfers. Fairly comprehensive financial facilities—subsistence allowances, removal expenses, housing assistance, etc.—are often offered in such cases; variations between regions in the total labour supply, and also in the availability of particular skills, may partly explain this. The frequent limitation of these schemes to salaried staff suggests that they may be intended as a means of persuading people to move who are required elsewhere, rather than people who are redundant at any particular place.\(^2\)

In the United States, however, court decisions have now ruled that a firm which moves to another location must offer jobs in the new plant to its old labour force, on the basis of seniority.

In view of the known disinclination of many workers to move, the extent to which measures for inter-plant transfers will in practice prove effective is limited. The scheme operated by the British Railways takes full account of the preference of many workers to remain where they are. Only in the case of a single man or widower without dependants living with him must a worker be prepared to change his residence in order to be assured of continued employment should his former job become redundant. Under the reorganisation scheme for the British cotton industry, where employment is offered to the affected worker by his old firm he is not entitled to any compensation payment if the offer of employment is in the same mill, or in a mill which is in the "immediate vicinity", but in other cases he is so entitled.

The success of the scheme operated in the United Kingdom civil service is probably attributable to initial acceptance by the employee of a need for mobility which, in return for pension rights and job security, is a clause in the contract of employment.\(^3\) The employee recognises from the outset that mobility is one of his basic conditions of service, and not one which he need accept only in case of redundancy.

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\(^1\) This is very prevalent in the United States. See R. Platt: "Layoff, Recall and Work-Sharing Procedures—Part I", op. cit., p. 1391.

\(^2\) Acton Society Trust: *Redundancy No. 1*, p. 29.

\(^3\) Ibid., pp. 27-28.
Criteria for Dismissal

When structural adjustment does not entail liquidation, but the firm is merely obliged to curtail its activities, the order in which employees are dismissed is obviously of vital importance; it determines which employees are to be exposed to the adjustment, and which sheltered from it.

Three types of criteria have been used in deciding this question. First, there exists a set of purely social considerations (such as age, number of dependants, etc.), application of which tends to reduce the human hardships of labour readjustment. Secondly, there are a group of characteristics variously labelled "skill", "ability" or "efficiency"; in this context, these terms imply such diverse criteria as punctuality, suitability for re-training, needs of production, etc. It is doubtful whether these characteristics have any direct bearing on the ease of the adjustment process.1 Some qualities that make a worker particularly "able", or "efficient" in his present job might help him to get another job quickly, while others may be quite irrelevant; a highly skilled coal miner may not take easily to alternative occupations. To the management of the contracting enterprise, however, this criterion is a very important one.2 Thirdly, there is the seniority criterion.

The seniority criterion might appear to be the simplest of all. While the former two criteria each involve a number of factors among which it may be difficult to choose, seniority is a single factor. In fact, however, the measurement of seniority is rather arbitrary. This stems from the question of the unit by reference to which it is to be determined. Should this unit be the process immediately affected, the department, the plant or the enterprise as a whole?

The seniority criterion derives most of its appeal from the fact that the principle of "first in, last out" is in some sense considered to be "fair". However, part of its acceptability may also come from the fact that it seems to go some way towards meeting both of the other two criteria. There is at least a presumption (though not necessarily justified) that an employee with long service will be one whose work has been particularly valued by the employer. Moreover, as between a group of long-service

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1 Except in so far as application of these criteria may strengthen a firm's chances of survival, and thus of providing continuing employment for those retained in its service.

2 Redundancy arrangements may sometimes have the effect of compelling employers to discharge their most efficient workers first. For example, when it became necessary to reduce the number of French coal miners in the Centre-Midi coalfield, "arrangements were made so that only those physically approved for work in Lorraine were discharged" (DIEBOLD, op. cit., p. 410).
employees and a group containing an equal number of short-service employees, there may be some presumption that the former group will (a) have more dependants and (b) contain a higher proportion of people who, on account of their age, would have difficulty in finding other, equally good jobs. But the seniority principle is at best a hit-or-miss method of taking account of these considerations, and may sometimes have undesirable effects.¹

What is in practice the relative importance of these three types of criteria—social considerations, ability and seniority? In selecting the first workers to be dismissed, the first two types of consideration are frequently taken into account. Workers over retiring age and married women, for whom it is generally thought that dismissal represents relatively little hardship, are often among the first to go—although in the United States special arrangements respecting married women do not seem to be common. Probably on account of their lower value to employers, temporary, probationary and part-time employees also tend to be high on the list.

When these categories have been removed, dismissals from the main body of the labour force are often based primarily on seniority. However, ability is also an important consideration. For example, in only 597 out of a sample of 1,743 United States redundancy agreements was seniority adopted without any qualifications as the dismissal criterion. Of the remaining agreements, 496 made no provision as regards dismissal criteria, and in 614 seniority was subject to, or qualified by, ability.² In the United Kingdom, out of a group of 96 firms 46 mentioned seniority as their first consideration and 43 mentioned efficiency.³ In the West German motorcycle factory studied in the Appendix, little attention seemed to have been paid to seniority when deciding dismissals.

A typical agreement—taken from the United Kingdom—which does not recognise seniority as the prime consideration stipulates that—

The selection of employees to be dismissed will be based on the following four factors to be considered in the order stated:
(1) requirements of production;
(2) efficiency;
(3) length of service;
(4) domestic responsibilities or other relevant factors.

Another agreement states that—

Dismissals will be based on efficiency subject to domestic circumstances.

¹ See above, Chapter V.
³ Acton Society Trust: Redundancy No. 1, p. 33.
Under a third agreement—

Employees shall be considered for dismissal with regard to the principle of "last in, first out", but this is to be applied subject to the right to retain highly efficient and key workers.¹

Save for the protection of small, special groups such as disabled workers ², purely social factors usually play a less important part than either seniority or ability. In France, in the absence of collective agreements laying down dismissal criteria, the law prescribes that works rules must have regard to all three types of considerations, but no order of priority is specified. In three sets of works rules—those of the National Renault Factory, the National Aero-Engine Research and Construction Company, and the French Kodak-Pathé Company—occupational qualifications rank highest. Only one of these undertakings—the National Aero-Engine Research and Construction Company—ranks family responsibilities as the second criterion, with absolute priority over seniority.

In the Federal Republic of Germany legislation provides that a dismissal may be regarded as socially unwarranted (and therefore null and void) if, when selecting a particular employee for dismissal, the employer takes no or insufficient account of social considerations. Again, however, this does not mean that such considerations must take first place, and in practice it would seem that operational considerations have priority over social considerations.

In the United Kingdom it appears to be less usual to take account of external circumstances—social or domestic—than of seniority and efficiency.

**Periods of Notice**

Early warnings of approaching dismissals and lengthy periods of formal notice allow employees some time in which to find alternative employment. However, in Chapter I attention has already been drawn to the fact that many of the forces causing structural changes operate quite abruptly. In such cases management itself may have little enough warning of the impending contraction. But even in those cases where they are fully aware of the approaching disruption, employers have reasons for not notifying the workers concerned too far in advance.

For, in the first place, as noted in Chapter VII, if they are aware of coming dismissals many workers may quit before the time is convenient,

¹ Positive Employment Policies, op. cit., pp. 33-34 and 36.
² For example, the preferential treatment of handicapped employees is a feature of collective agreements in the United States chemical industry.
having regard to production plans—especially if this does not involve loss of rights or benefits. Secondly, the rate at which these workers leave the enterprise will be unpredictable and, in all probability, uneven. Thirdly, the affected workers may become careless and unproductive during the waiting period. On all counts the production programme will be disorganised, operating efficiency impaired, and this will in turn contribute to the firm’s further decline. Thus in the United Kingdom, when the Government was asked why only three weeks’ notice had been given to the workers of the closure of a state-owned iron works, the reply was—

There is a risk, if people are told too soon in advance, that the workpeople will melt away and one will lose production and involve oneself in the last few months in very heavy losses.¹

Nevertheless, the law, collective agreements, or both, oblige companies to give some notice of dismissal. Compared with the adjustment difficulties which workers are liable to suffer, a notice period of several weeks at the most is often inadequate to be of much assistance. However, in view of the consequent disruption, even such a comparatively short period may be too long for the liking of the management. Therefore, employers often take measures to temper the disruption which the giving of notice involves.

In many countries dismissals are sometimes made effective immediately when notice is served, the workers receiving a payment in lieu of notice. In other cases, management gives notice in the normal fashion, but offers bonus payments—or “inducement pay”—to workers who actually serve their notice period or who remain until the precise day on which the company wishes to dispense with their services. For example, one United Kingdom textile firm about to close down offered those of its workers who were prepared to stay on until their services were no longer needed payments at rates varying from £2 to £3 per year of service, depending on the length of service of the employee concerned.² In the case of the provisions for workers affected by the recent United Kingdom cotton reorganisation scheme, payment of compensation was made dependent upon the operative concerned having worked out the period of notice given by the employer.

The length of the notice period often varies with the seniority of the employee. A collective agreement applying to the West German chemical industry states that dismissed workers with less than half a year’s service need be given only one week’s notice; those with one-half to five years’

² Positive Employment Policies, op. cit., p. 38.
service, two weeks; those with six to ten years' service, three weeks; and those with over ten years' service, four weeks.

Measures of the kind just discussed have considerable advantages for employees. Payment in lieu of notice provides paid time (though perhaps not enough time) in which to seek other jobs.\(^1\) Inducement pay may make a fairly substantial financial contribution towards easing the transition problems experienced by workers. On these grounds it may be considered desirable that greater use be made of provisions of this kind or of longer notice periods, in an effort to ease the burdens of adjusting workers. On the other hand, by raising labour costs such measures may aggravate the problems faced by a declining firm; a payment in lieu of notice can place a heavy financial burden on such a firm.

**Severance Pay**

Provision for the payment by firms of redundancy compensation to dismissed workers appears to be a growing feature of collective agreements in some countries such as Canada, France, the United Kingdom and the United States. It has been estimated that roughly half of the larger United States manufacturing companies operate such schemes, though in about a third of the cases they are limited to salaried employees.\(^2\) Out of a sample of 200 British firms, one-fourth were found to pay some form of dismissal compensation.\(^3\) Such schemes have been justified on various grounds, e.g. as affording compensation for a loss suffered by the worker, as reflecting a recognition by the firm of a worker's services, or even as a restraining influence on firms contemplating the dismissal of workers. Further shades of justification can be discerned. Compensation to workers may be supported by the analogy of payments to displaced directors; it may also be viewed as compensation for the loss of promotion prospects which the worker might have enjoyed had he remained with his old firm.

Some trade unionists claim that workers have a kind of “property right” to particular jobs. On this basis, severance pay to dismissed workers is seen as legitimate compensation for the loss of this property right. With reference to the British motor car industry it has been stated that—

The post-war development of strikes against redundancy ... suggests that

\(^1\) Even where workers are expected to remain on the job during the period of notice, some agreements require that they be granted a reasonable amount of leave in order to find other work. In the Federal Republic of Germany such leave is prescribed by law.


\(^3\) Acton Society Trust: Redundancy No. 1, p. 36.
workers' conceptions of their basic standards have been enlarged since pre-war days, and now include job security.¹

Length of service is used most widely as a criterion for determining the amount of compensation. In more than three-quarters of a sample of 280 United States severance pay plans, seniority was the sole criterion for determining the size of the benefit.² Seniority reflects, to an extent, the value of the worker to his employer. Alternatively, it may be regarded as a yardstick for measuring the loss for which the worker needs to be compensated:

Severance pay is at least a partial reimbursement for the loss of valuable job-connected rights that have accrued to the worker because of his length of service: seniority, vacations, sick leave, pensions, etc.³

It is a fairly common practice to fix the severance pay in terms of a number of weeks' wages. This has the effect of giving, within a given seniority group, a larger severance pay to the more highly paid workers, again as a reflection of both their "value" to the employer and the potential "loss" which faces them. Views as to the suitability of this criterion can differ sharply. At one extreme, it may be thought that—

A worker who has invested in specialised skills that are no longer needed is bound to suffer a capital loss, and deserves no more protection than anyone else who makes an investment that turns out badly.⁴

At the other extreme, it may be held that the size of severance payments should be determined by "capitalizing the earning powers of which [the worker] is deprived".⁵

Severance pay seems to be less commonly related to age than to seniority or earnings. For example, none of the 280 United States plans referred to above recognise age as the sole determinant of the amount of severance pay, and only about 10 per cent. give it any weight whatsoever. In practice, however, age does play some, if only a minor, part. First, seniority reflects, though in a very rough fashion and with varying degrees of accuracy, the age of the employee. Secondly, some schemes actually admit this factor as an independent consideration alongside seniority.

³ Ibid., p. 4.
For example, under the national collective agreement for the French chemical industry, workers with ten years' seniority receive on dismissal 50 hours' pay with a further ten hours' pay for each additional year. This sum is then raised by 10 per cent., 20 per cent. and 30 per cent. for workers who are over 50, 55 and 60 years of age respectively. A similar agreement adopted by a United Kingdom engineering firm provides that—

Payments will be made to redundant adult manual workers with over two years' service, varying from a week's pay for employees with under six years' service to 12 weeks' pay for those with 40 years' service or more. Employees aged 50 or over (45 in the case of women) with at least 15 years' service are guaranteed at least seven weeks' pay in addition to notice.¹

The redundancy scheme for operatives dismissed during the recent reorganisation of the United Kingdom cotton industry attributes even more importance to age. Only in the sense that a worker must have served a total of five years in the spinning, doubling, or weaving industry since 1945 is "seniority" taken into account. Otherwise, age alone determines the maximum compensation, which varies from one week's pay for the 21-23 age group to 30 weeks for those over 65.

In view of the difficulties experienced by older workers, it is pertinent to consider whether the adoption of age as the sole criterion, rather than as an auxiliary consideration, might not be preferable. In fact, such a change might actually do more harm than good. For the contingent financial liability then assumed by a firm upon the employment of an older worker would reinforce the already widespread unwillingness to hire older people.

In any case, at their current level, severance payments make only a limited contribution to easing the plight of dismissed older workers. Suppose, for example, that a dismissed 55-year-old worker, having been employed in the same firm for 40 years, finds it impossible to obtain another job—that he is, in short, forced into premature retirement. Let us suppose, moreover, that he is entitled to severance pay equivalent to three months' wages. In France, where the age of retirement is 60, such a worker will have to wait five years for his pension. For the same man dismissed in, say, a British firm, the waiting period will be ten years. In the United States, where dismissal compensation is often equal to a week's wage per year of seniority, the worker will be in a better, but still unsatisfactory position. Of course, severance payments are supplemented by unemployment benefits, but these too are of limited duration.

It is possible to divide severance indemnities into a fixed-sum benefit and a variable item, the size of which is made to depend on the period of

¹ Positive Employment Policies, op. cit., p. 36.
unemployment actually experienced. This has been a feature of a scheme
drawn up and operated, under the auspices of the Government, by
employers and workers during the recent United Kingdom cotton
industry reorganisation. Under this scheme, an eligible operative aged,
say, 42, is allowed a maximum amount of compensation equal to eight
weeks' wages. If his previous weekly earnings were £10, this will represent
£80, half of which is paid to him as a lump sum, the remaining £40 being
available, should he remain unemployed, to make up state unemployment
benefit to two-thirds of his previous wage.\(^1\) Since such a method
attaches weight to the difficulties actually experienced as a result of
structural adjustments, it is a welcome development. It can be argued,
however, that merely to allay the hardships experienced in an adjustment
is insufficient; that the worker deserves something in addition to this—
most appropriately, a lump sum. For even if most of the difficulties
encountered in the transition are amenable to compensation, and are in
fact compensated, a displaced worker has after all experienced change
(in itself usually a sacrifice) while the position of other members of
society is unchanged or improved—and this perhaps merits compensa­
tion in its own right.

Arrangements of this sort are comparable to unemployment benefit
schemes privately operated by some firms and industries. In the United
States such schemes are particularly widespread in the automobile, steel,
aluminium, rubber, agricultural equipment, can-making, and glass
industries. It is estimated that at present about 12 per cent. of collective
agreements in the United States incorporate supplementary unemploy­
ment benefit plans.

Unfortunately, however, like government unemployment schemes,
they appear to be geared primarily to cyclical disturbances, not per­
manent contractions. A maximum unemployment period of the order of
26 weeks is frequently stipulated, beyond which no benefits are paid.
Their usefulness, therefore, is restricted in those cases where adjustment
is particularly difficult.\(^2\)

This type of scheme may, as in the case of that operated by the Ford
Motor Company, entail no contributions from workers.\(^3\) In other cases
both employers and employees contribute to the fund. Frequently the

\(^1\) Largely because the readjustment of the cotton workers has been quite smooth,
the fixed-sum benefits have outweighed the variable elements (see The Economist,
7 May 1960, pp. 507-508).

\(^2\) In France, however, under a scheme agreed upon by the National Council of
French Employers and the General Confederation of Labour (Force ouvrière) covering
approximately 5 million workers, in some circumstances benefits will be paid for as
much as one year after dismissal.

\(^3\) Local 600's Ford Facts (Detroit), 11 June 1955.
payment is fixed so that, together with the state unemployment benefit, it cannot total more than a certain fraction of the normal wage. In the case of a French agreement, this figure is 80 per cent.; in the case of Ford, 65 per cent. The United Kingdom National Coal Board operates a scheme by which the state benefit is made up to two-thirds of the miner's minimum wage.

Limiting benefits to a fraction of previous earnings presumably is intended to provide some incentive for dismissed workers to seek alternative employment. But it should be pointed out that benefits below previous earnings are not necessarily less than the wages which may be offered in alternative jobs. The problems which this possibility raises are discussed in Chapter XII.

OTHER PROVISIONS FOR DISMISSED WORKERS

Some employers have provided still other forms of assistance to workers whom they have been obliged to dismiss. For example, it is not unusual for an employer to allow the employment service to contact workers inside the factory, in an effort to ensure that jobs will await them on dismissal. Indeed, the firm may use its own personnel department to locate prospective new employers.

Armour, the United States meat-packing firm, took steps to help its workers obtain other jobs when in 1959 it was faced with the need to dismiss more than 5,000 employees on account of a reorganisation of its plants. The firm decided to establish a fund of $500,000, financed from a levy on sales, to help these workers readjust. Some of this money has financed studies of the adjustment difficulties experienced by workers; but the fund has also been used to help former employees train for other jobs. In fact, out of a group of 431 workers invited to participate, only 170 completed aptitude tests and interviews, and the employment service reported that, of these, only 60 were likely to benefit from re-training. Furthermore, it is clear that such a re-training programme could hardly be undertaken by a bankrupt enterprise. Nevertheless, re-training by

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1 See footnote 2, p. 115.
2 Acton Society Trust: Redundancy No. 1, p. 39.
3 Ibid., pp. 39-40.
4 Armour and Company: Progress Report of the Automation Committee (Chicago, 1961), pp. 6-7. The aptitude testing and re-training was carried out in collaboration with the state employment service. Also, the workers themselves had to contribute, in some cases, towards re-training costs.
5 However, it is still too early to make a final assessment of the re-training scheme.
former employers, where practicable, might make a significant, if only partial, contribution to the readjustment of workers.  

PROBLEMS OF COVERAGE

While generalisations about the manner in which redundancy problems are met in industrialised countries must be viewed with some caution, a number of general features seem to be common to all or most countries. For example, it is clear that the protection afforded to workers may vary, within a given economy, from a mere period of notice to the more comprehensive measures outlined in the preceding sections. Systems of severance pay are less widespread than provisions calling for a minimum period of notice. Such groups as domestic servants are rarely covered by the more elaborate schemes sometimes applied to industrial workers. The fact that the firm is generally the unit for which such schemes are formulated means that the scope of the facilities offered to workers upon dismissal varies even within the same industry. As workers are not responsible for the effect of structural adjustments on different firms, such variations suggest a certain lack of social justice.

Furthermore, it may be that the degree of protection is least where it is needed most. It appears, for example, that few redundancy schemes exist in those sections of the United States economy which are vulnerable to tariff reductions. Indeed, there are some reasons for expecting schemes to be least generous where workers’ protection is needed most.

First, comprehensive redundancy schemes are less likely to be applied by small, poor firms; yet it is precisely these units which are most vulnerable to declines. There is some confirmation of this in the following estimates of the proportion of firms providing severance pay out of a group of seven United States manufacturing industries:

<table>
<thead>
<tr>
<th>Size of firm (Number of employees)</th>
<th>High estimate</th>
<th>Low estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,000 or more</td>
<td>83 per cent.</td>
<td>67 per cent.</td>
</tr>
<tr>
<td>1,000-10,000</td>
<td>59 &quot;</td>
<td>39 &quot;</td>
</tr>
<tr>
<td>250-1,000</td>
<td>45 &quot;</td>
<td>29 &quot;</td>
</tr>
</tbody>
</table>

Source: Severance Pay Patterns in Manufacturing, op. cit., p. 8.

1 This question is examined further in Chapter XII.

2 "The individual schemes vary enormously . . . in the amount of extra security which they confer. . . . Individual firms will continue to make the running and industries will follow a very poor second. . . . Broadly speaking, neither side is ready to raise the matter within an industry-wide framework" (The Financial Times, 5 Aug. 1959).

3 Staff Papers 1954, p. 392.

4 It will be noted that even the smallest firm quoted is still quite large in size.
In this light, the kind of action taken, for example, by the Japanese Government, in drawing up a severance pay scheme applicable to small employers, seems particularly desirable.¹

Secondly, application of many schemes is dependent on the introduction of technological changes within the firm concerned; but, as observed in Chapter II, technological change, though it may lead to the displacement of labour, often does so in firms other than those in which the new techniques are introduced.

Thirdly, firms which have accepted substantial commitments associated with elaborate redundancy schemes will, when a structural change occurs, explore every possibility of shifting its incidence to other enterprises. For example, the efforts of the British Transport Commission to concentrate its declining orders within its own workshops, to the detriment of private companies, have been ascribed in part to the fact that the Commission had accepted heavy commitments to workers who might become redundant.²

The scope of redundancy agreements varies, inter alia, as regards the range of contingencies covered. In particular, disturbances resulting from technological change are covered more frequently than other types of disturbance. An example of this is given by the following statement of a United Kingdom chemical company:

The company accepts the view that if redundancy should occur as the result of voluntary action on the part of management, it is appropriate to make some ex gratia payment to those affected by way of compensation for loss of employment. Redundancy of the kind under consideration may occur when a plant, a factory or an office is permanently closed down or when new methods of production or organisation are introduced.... The company makes it clear that workers discharged for reasons outside the control of management, for example, as a result of general recession in trade, do not come within the scope of these arrangements for compensation.³

Such a distinction is also made in the United States. For example, severance pay in textiles is often limited to employees who are terminated because of "technological change".⁴ Article 56 of the Treaty of the European Coal and Steel Community, in its original form, also restricted the payment of redundancy aid to cases of technological change. In the United Kingdom the redundancy scheme recently applied to cotton workers is limited to loss of employment due to the elimination of

³ Positive Employment Policies, op. cit., p. 32.
⁴ Severance Pay Patterns in Manufacturing, op. cit., p. 41; see also E. Herz: "The Protection of Employees on the Termination of Contracts of Employment", in International Labour Review, Apr. 1954, pp. 312 and 318.
surplus machinery or the introduction of new machinery under the government-aided scheme.

These examples suggest that in the case of technological change management is prepared to acknowledge a direct "responsibility" for any consequent readjustment of the labour force. This, indeed, appears to be the main reason why technological change is sometimes distinguished from the other causes of structural adjustment. The scope of this "responsibility" for the effects of technological change is, of course, restricted. It does not extend to workers dismissed from other firms in the same industry—even if their dismissal is the result of technological change in the original firm. On the other hand, management never recognises "responsibility" for dismissals due to its own inability or inefficiency. Yet it seems likely that more workers lose their jobs because of inefficient or short-sighted management than because of technological progress. For example, there is reason to believe that in some countries excessive post-war investment in the motorcycle industry was a factor contributing to its subsequent decline, and to that extent the employers might well be held "responsible" for the industry's contraction. However, while employers may be instrumental in causing the decline of their firm, it does not follow that their action is deliberate. Even less is it true that the decline is wanted. Technological change is usually introduced on the initiative of management; but other forms of structural change entailing labour force contractions are usually as unwelcome to management as to workers.

Another reason why technological change is sometimes regarded as deserving special consideration in redundancy arrangements may be that a management introducing technical improvements tends to take a fairly long view of the company's future and is anxious to avoid any adverse repercussions on the firm's labour-management relations. In a declining firm the problem of labour relations may be accorded rather less priority.

Thirdly, the healthier financial position of firms introducing technological change will allow them to make more generous provisions than can be afforded by a firm experiencing a marked contraction. For example—

In the case of technological displacement, the trade union movement is harnessing its economic strength both to obtain the requisite severance pay and the shorter work week to solve the problems created by the rising level of productivity. . . . No such cushion exists for the distress caused by mill closings resulting from competitive imports. One reason for this contrast is that concerns in the latter category are generally in a poor economic condition due, in part, to the pressure of imports. They are less capable financially to provide these benefits.¹

¹ *Staff Papers 1958*, p. 838.
Whatever the explanation, it seems unsatisfactory that aid to unemployed workers be made to hinge on the "cause" of their dismissal. It is, in any case, difficult to disentangle the individual effects of several causes. Therefore, the tendency for redundancy agreements to be freed from this constraint would appear to be a very welcome development. For example, Article 56 of the European Coal and Steel Community Treaty, which originally provided for redundancy aid only in cases of dismissal due to technological change, has now been widened to include changes in market conditions.\(^1\)

Similarly, Imperial Chemical Industries, a large United Kingdom company which originally operated a redundancy scheme applicable only to cases of technological change, now also applies the scheme where redundancy is caused by a recession in trade, or as a result of changes in demand for the company's products.\(^2\)

**Conclusion**

Redundancy procedures, whether prescribed by law or, as is more commonly the case, established by collective agreement, are making a growing contribution in a number of countries to easing the hardships to which workers displaced by structural change may be exposed. However, such procedures often fail to deal adequately with labour problems resulting from permanent structural changes, and are designed to apply primarily in cases of layoff associated with temporary fluctuations in activity (although there is now some tendency to place greater emphasis on changes of a permanent nature). Thus provisions for re-engaging laid-off workers may be altogether irrelevant to the problems of permanent structural adjustment. Supplementary unemployment benefits, moreover, although they ease hardship, in no way facilitate re-employment, and may sometimes have the opposite effect.

If the avowed primary purpose of redundancy procedures was to ease the hardships of structural labour adjustment, more attention would need to be paid to such features as age, incapacity or number of dependants, which have a direct bearing on the degree of hardship experienced by individual workers. In practice, these purely social factors seem to receive less attention than principles derived from the worker-firm relationship. Among the latter, the seniority criterion may, roughly speaking, operate in the same direction as those based on social considerations; but the "ability" criteria are justified on quite different grounds.

\(^1\) *Journal officiel des communautés européennes* (Luxembourg), 16 May 1960.

\(^2\) Imperial Chemical Industries, Ltd.: *Annual Report for the Year 1957.*
Nor would most private redundancy arrangements appear to be adequate or, indeed, very well conceived, if their purpose was to provide full protection or compensation for workers adversely affected by structural change. But, in fact, they do not have so ambitious a function. Their purpose is, rather, to cushion the initial impact of change by supplementing public provisions such as unemployment insurance, removal grants and other measures which are discussed in the following chapters.

Nevertheless, in so far as private and public provisions may constitute alternative ways of providing essentially the same kind of protection or compensation, it is worth giving some attention to the question whether the costs of a reasonable measure of protection or compensation for redundant workers are more appropriately borne by the undertakings concerned or by the community as a whole. There are some arguments against relying on private redundancy arrangements to cover any large part of these costs.

First, in all cases where redundancy is caused by a structural change adversely affecting a whole undertaking and not merely a particular group of workers in it, private redundancy arrangements involve a charge placed on one disadvantaged group—namely, the owners of capital—for the benefit of another—namely, the workers—in an adversely affected industry or firm, whereas society as a whole, which normally benefits from structural changes, is not called upon to bear any part of the expense.

Attention was drawn in Chapter III to the fact that, once a decline has started in a firm or industry, it may tend to accelerate as the result of various cumulative factors. Unless the firm has established, in prosperous times, a fund from which severance payments can be paid, a commitment to make financial provision for dismissed workers would materially add to this problem. Even then, as it declines, and therefore has to pay increasing amounts out of the fund, the firm loses the interest which it previously earned and, relative to other enterprises, its competitive strength may suffer.

Furthermore, tying the worker's welfare too closely to the unit in which he is employed involves him in risks. For even should the law regard him as a preferred creditor, the bankruptcy of his employer could bring much less than he bargained for by way of severance payments. ¹

¹This possibility is discussed by S. Please in "Structural Unemployment and Government Policy", in International Labour Review, Feb. 1957, p. 134.
taking is closed by reason of business difficulties payments under the scheme are reduced by 50 per cent.

These disadvantages of private schemes might be remedied by an obligatory insurance scheme managed by the State. Employers or workers, or both, would make contributions—according to some criterion that would not penalise contracting firms—to a state fund, from which dismissed workers would receive severance payments at an agreed rate. A scheme more or less along these lines has recently been introduced in Belgium. Workers dismissed as a result of factory closures are now entitled by law to severance payments. If the allowance is not paid by the employer, it is paid out of a government fund established for that purpose and fed by contributions from employers covered by the legislation. Compulsory schemes of this type might be further developed as society comes to recognise more fully its responsibility with respect to problems of structural adjustment. For, by contributing to the fund from which severance benefits are paid, the government could quickly and effectively shoulder some of these burdens. Thus, for example, the Japanese Government contributes to a fund from which workers in small enterprises receive severance pay.¹

Such a scheme should be operated in addition to, and not at the expense of, other social security benefits such as unemployment compensation, since the objective should be to raise the amount of compensation payable to displaced workers, not merely to change its form. However, the "lump sum" form of severance payments would also play a role distinct from that of weekly unemployment benefits.

It may be argued that private firm, industry or occupation-wide agreements, by making due allowance for special conditions in the occupation or industry concerned, preserve the flexibility needed to keep the undertaking's financial responsibilities within reasonable limits. But the main practical effect of such flexibility is likely to be that workers in different sectors have different degrees of protection. The provision of benefits on a broad basis would ensure equality of treatment without any disproportionate burden being placed on particular sectors or firms. While private redundancy arrangements which mitigate hardship are to be welcomed, it would seem even more desirable to foster public awareness of a collective social responsibility in this field.

¹ See above, p. 118.
CHAPTER IX

GENERAL ECONOMIC POLICIES

Many of the factors considered in the three previous chapters—spontaneous movements of labour and capital away from declining and towards expanding activities, as well as private redundancy arrangements of one sort or another—help to ease structural labour adjustments and to mitigate accompanying hardships. Yet even in the easiest of adjustment processes these factors may not constitute a complete solution; and in the more difficult cases they certainly do not. In this and the following chapters the role of the State in facilitating adjustments to structural change will be examined.

Government policies which mitigate the effects of (or reduce the need for) changes in the employment structure can be conveniently divided into three categories according to their more or less direct impact on the workers affected. First, general economic policies, though aimed primarily at promoting or maintaining high and stable levels of employment in the economy as a whole, naturally have very important implications for such workers. This subject is discussed briefly in the present chapter. Secondly, government economic policies may include measures designed more specifically to aid industries or regions affected by structural change, and hence the workers employed therein. Measures of this type aimed at individual industries are discussed in Chapter X, while regional aid programmes are examined in Chapter XI. Finally, measures undertaken specifically in favour of displaced workers are reviewed in Chapter XII.

THE NEED FOR A HIGH AND STABLE GENERAL LEVEL OF EMPLOYMENT

It must be emphasised that the above classification does not necessarily reflect the relative efficacy of the three types of measures envisaged in mitigating structural adjustment problems. General economic policies, in particular, should not be underestimated as solutions for labour adjustment problems merely because their impact on displaced workers is less direct than that of measures of the other types. It is of little avail
for a displaced worker to be trained in a new skill or helped to move from a depressed area when no vacancies exist in his new occupation or in other parts of the country. A high general level of employment is, moreover, a necessary background for effective spontaneous labour mobility—which, on the basis of the evidence presented in Chapter VII, emerges as the factor mainly responsible for the readjustment of the labour force. It is clear that problems of structural adjustment of the labour force are much simpler when employment and the demand for labour are high than when they are low. Indeed, in a reference to the recent United Kingdom cotton industry reorganisation scheme, it has been stated that—

It is not unduly cynical to argue that general full employment, by reducing the difficulties of mobility in circumstances of dynamic change, has been more valuable in bringing about the necessary adjustment than have other and more specific measures.¹

This comment may well apply to most instances of successful adjustment to structural change. Thus it is interesting to note that in the early years of the European Coal and Steel Community requests for assistance under the readaptation provisions of the Treaty proved less numerous than had been expected. And when, for example, measures were taken to help a group of French steel workers, they were rendered largely superfluous by a general increase in demand. Only 700 workers were ultimately affected, compared with an anticipated total of 1,500.² In the rather less buoyant economic conditions of the later years of the 1950s, however, applications for aid greatly increased. During 1959 and early 1960 the number of workers benefiting from the E.C.S.C. readaptation provisions doubled. Similarly, in the United States it is thought that—

Unless the national economy begins to grow at a rate fast enough to reduce substantially the current excessive national rate of unemployment, any special measures to benefit the distressed areas will be little more than palliatives.³

Similarly, Canadian adjustment problems—

have become more difficult in the circumstances of a slow rate of economic growth.⁴

As already noted in Chapter II, when the introduction of a technological change coincides with a general recession it is likely to cause

² Diebold, op. cit., p. 413.
dismissals. For example, in 1957 it was stated that in Europe since the war—

The rate of growth of output has been so great that the introduction of new machinery has not led to any reduction in the employment of the firm or industry in question. More recently, however, the completion of large investment programmes accompanied by some falling off of demand in certain sectors has led a number of firms to lay off labour either temporarily or permanently.¹

As was noted in Chapter III, adjustment becomes more difficult when the contraction in a declining industry is irregular. This is another reason why policies designed to achieve greater stability in the general level of economic activity contribute to a smoother process of adjustment. In an economy experiencing temporary ups and downs, both the employers and the workers affected by a permanent decline in the demand for their products will less readily recognise its true nature. They prefer to "stick it out" in the hope of an eventual recovery, rather than to make provisions for a lasting readjustment. Thus the Centre-Midi coal miners who refused an opportunity to pursue their occupation in another part of France—remembering past periods of unemployment, could not see why it would not be best to hang on this time as well and wait for the mines to begin hiring again.²

On the other hand, when economic fluctuations are a regular phenomenon, people may not readily seek adaptation to long-term structural changes in periods of high economic activity either. In boom periods such adaptation should normally be easier, since workers can more easily be re-employed. But at such times declining firms will be less willing to cease production. For example, it is widely believed that the periods of high economic activity in Belgium would have provided a solid basis for the long-term readjustment required in the coal industry:

There were more opportunities to absorb in growing enterprises the labour displaced by shutting down others. On the other hand—and this was probably the stronger factor—high demand and high prices reduced the pressure for adjustment. The urgency of reducing costs was less obvious. The whole atmosphere made it easier to postpone adaptation.³

Similarly, in a New England textile town little was done during the post-war boom period to adjust towards the long-term changes in the market for textiles:

The citizens of Lawrence did not rise to their problem until the crisis was upon them in April 1950. At that time a labor industry committee was

² *DIEBOLD*, op. cit., p. 411.
appointed ... charged with the task of bringing new industry to Lawrence. This might have been an easier task three years earlier. *The time to develop new industry is when business is good—not when business is bad.*

Only insofar as they lead to a rapid increase in society's standard of living and thereby change patterns of consumers' demand can policies for high and stable employment be said to provoke adjustment problems. For example, the fast rate of contraction of the labour force in the West German motorcycle industry might be attributed to the high rate of post-war growth of incomes in that country, if it is assumed that at higher incomes people prefer other goods (such as motor cars) to motorcycles.

**Demand, Growth and Employment**

The main requirement for avoiding general unemployment (as distinct from structural unemployment affecting particular regions, industries and occupations) is usually considered to be the maintenance of an appropriate level of effective demand. Clearly, this study on structural unemployment is not the place for a detailed discussion of ways of dealing with general unemployment. Suffice it to say that there is now widespread agreement (which there was not in the 1930s) that, at times when effective demand tends to slump to a level below that needed to sustain full employment, it is a responsibility of governments to take appropriate monetary, fiscal or other measures to stimulate demand, and that much experience has been acquired with the various techniques that can be used for this purpose. The much lower average level of unemployment in industrially advanced countries since the Second World War, as compared with the inter-war period, may reflect chiefly a change in economic conditions owing little to deliberate government policies; but it almost certainly reflects also a greater understanding of the role of, and the means of regulating, effective demand.

However, while it may be said that greater understanding of these problems has helped to create conditions in which adjustments to structural changes can take place more easily than they could in the 1930s, there is no room for complacency on this score. Cyclical recessions still occur and give rise to considerable unemployment. These have not been deep or prolonged during the post-war period. But, in the United States at least, there is disquieting evidence of the operation of more enduring

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2 See the Appendix.
forces, which could, within the next years, destroy the basic conditions for smooth structural adjustments. At the peak of the 1953 boom (in June) only 2.7 per cent. of the United States labour force was unemployed. Since then each recession has left a legacy of higher unemployment. At the peak recovery dates of July 1957 and May 1960 the unemployment levels were respectively 4.2 per cent. and 5.1 per cent.¹

Several factors may, in part, explain this apparent long-term rise in unemployment. First, the United States, like many other industrialised economies, has during the last decade been faced increasingly with the problem of reconciling the pursuit of economic growth and full employment with the avoidance of inflation and balance-of-payments difficulties. The absence of a satisfactory solution to this problem has meant that, in some instances, effective demand has been restricted to lower levels than would have seemed appropriate in the light of employment criteria alone. As yet, there is little evidence that this obstacle to full employment will soon be overcome.

Another feature of the United States employment situation in recent years has been the combination of, on the one hand, very rapid and widespread displacement of labour as a result of automation and other forms of technological progress, with, on the other, a rather slow rate of economic growth—a rate such that recent increases in effective demand have been too small to reabsorb workers made redundant by technical improvements and at the same time provide jobs for newcomers to the labour force.² Thus, there appears to be a problem of promoting a sufficiently rapid long-term increase in effective demand (which depends upon a sufficiently rapid rate of growth in the economy as a whole) as well as the more familiar problem of controlling cyclical fluctuations in effective demand.

With respect to the production of material goods, it has been argued that technological progress and automation have “put a ceiling on the number employed.”³ However, statistics suggest that a fall in the rate

¹ The method employed to estimate the level of unemployment in the United States and Canada differs from that used, for example, in Western Europe. The effect is that, compared with unemployment in the latter, unemployment in the United States and Canada tend to be overstated.
² A Canadian government report states that “during times of expansion in economic activity, the main burden of any changes in technology falls on potential jobs, that is, job opportunities do not expand as rapidly in the affected establishments as they would have done with the older techniques. In this case, the most seriously affected group in the labour force is the new entrants, who may find it more difficult to enter the labour force in traditional occupational or industrial fields of employment.” (Technological Changes and Their Impact on Employment and Occupations, op. cit., p. 32.)
of increase in demand rather than an upsurge in the rate of technical change is the more important factor. The average annual increases in labour productivity in mining and manufacturing were roughly unchanged in the 1953-59 period as compared with the 1938-53 period, at around 3 to 3.5 per cent. for manufacturing and 4.5 to 5 per cent. for mining. Output, however, increased at a lower rate in the later period. In manufacturing it rose by a mere 2 per cent. per year, compared with 7.5 per cent. before 1953. In mining the annual average rate of output increase fell from 4.5 per cent. to about 1 per cent.

The occurrence of technological displacement of labour on a nationwide scale contrasts sharply with the rarity of worker redundancy due to technological change within a given firm, to which attention was drawn in Chapter II. It is interesting to note in this connection the point of view expressed some years ago by a group of European steel workers:

The unemployment they feared...was not simply redundancy due to the introduction of more efficient machines. These particular workers have seen such redundancy averted and do not believe it to be a serious danger. What they fear, rather, is a crisis of over-production and a return to the unemployment of the depression years...Technical innovation may bring these fears closer...by increasing production to the extent that it outstrips demand, but only in this sense is it perceived as a threat by the majority of workers.¹

A more detailed examination of United States figures emphasises the magnitude of the problem. Early in 1961 it was calculated that, in order to reduce unemployment to 4 per cent. in the course of the year, an additional 7.3 million jobs would have to be created. Of this total, 4.2 million would be required to deal with the "backlog", i.e. to provide full-time jobs for workers then unemployed or underemployed. A further 1.8 million jobs would be required to offset the technological displacement of workers during the year, and another 1.3 million jobs for net additions to the labour force. It was estimated that the provision of 7.3 million jobs would require an increase in the gross national product of about 10 per cent., as compared with an actual annual average increase, between 1956 and 1959, of about 4.5 per cent.²

It may be, therefore, that, in the United States, economic conditions conducive to smooth structural adjustments will not be achieved for some time to come. The year 1962 started with 4.7 million people out of work. Moreover, during the next decade, the United States economy—with no likelihood of a slackening in the rate of technical progress—will need to

¹ European Productivity Agency: Steel Workers and Technical Progress, op. cit., p. 45.
² However, compared with 1960, gross national product in 1961 showed an increase of 3.4 per cent.
absorb the record figure of 13.5 million new workers—the "bulge" resulting from the post-war "baby boom".\footnote{1}

To what extent are these developments a foretaste of events in industrialised countries other than the United States? Presumably, technical improvements and automation will continue to be introduced in all of them. And when certain standards of living have been attained it is not unlikely that, as in the United States, the growth in demand for material goods will no longer outstrip increases in labour productivity, and that this will give rise to a reduction in employment in the production of physical goods. There would appear to be every likelihood that the demand for services will continue to expand rapidly as it has done in the United States, and there is much less scope for automation in such things as teaching, medicine, entertaining and beauty culture than in the production of most goods. Nevertheless, there can be no assurance that the service sectors will automatically expand so as to provide sufficient jobs to accommodate any employment contraction that may occur in other sectors as well as future increases in the labour force.

Adaptation to this situation may be sought in various ways. One possibility is that the relative decline in the demand for material goods may be partly or wholly offset by an increase in expenditure on government services. Such a policy would accord with the growing awareness of the social problems posed in an "affluent society”\footnote{2}. Galbraith has stressed the need for achieving a suitable “social balance” between private consumption and the provision of basic public services, and is alarmed at the tendency for the development of educational facilities and municipal services of all kinds to lag behind the rest of the economy. It has been further pointed out in this connection that—

Many of the goods and services that we have grown used to the government providing are things that ought to be expanding more than proportionately with national income because they have a high income elasticity.\footnote{3}

In addition it may be necessary to seek to prevent technological unemployment by sharing the amount of work available—and, with it, the benefits of technical progress—in the form of shorter working hours, later entry into the labour force or earlier retirement from it, lengthy sabbatical leaves in mid-career, or some combination of the various alternatives. A rise in the school-leaving age and an increase in the

\footnote{1} On the other hand, this same "bulge" will cause a rapid increase later in the 1960s in the establishment of new households with a consequent increase in the demand for housing and consumers' durable goods. Many observers expect that this will promote a renewed increase in the rate of expansion of the United States economy.


\footnote{3} In other words, they are goods for which the demand is highly responsive to an increase in incomes (The Economist, 10 Dec. 1960, p. 1111).
number of people receiving full-time higher education would, in particular, besides reducing the size of the labour force, increase both people's productive capacity and their ability to make good use of their leisure time.

Policies designed to maintain sufficient aggregate demand and a low level of unemployment, while providing a background against which structural adjustments can more easily occur, by no means prevent structural unemployment. Indeed, stubborn adherence to these measures alone in an attempt to remove such unemployment would merely give rise to monetary inflation. More selective measures are also required to achieve smooth structural adjustments, and these are discussed in the following chapters.
CHAPTER X

MEASURES ON BEHALF OF INDIVIDUAL ECONOMIC SECTORS

Government measures to meet adjustment problems in individual sectors may pursue a variety of ends. Their precise objective is not always stated very clearly, and in practice the measures cannot always neatly be classified as belonging to one group or another. However, for purposes of analysis three aims may be distinguished. First, the objective may be simply to abolish the problem, e.g. by forbidding imports or by resisting technical change. Secondly, measures may be taken to help an industry meet its problems in a more constructive way: better organisation and higher productivity may enable a falling trend in sales and output to be reversed. But in some cases a decline in output or employment, or both, cannot reasonably be expected to be arrested even with the best of efforts; the third aim of government policy may then be to smooth the inevitable process of contraction. These classifications may overlap to some extent. Import restrictions, for example, may serve any one of the three purposes. Nevertheless, it is important that in formulating their policies for declining sectors the authorities should be clear as to which objective they wish to achieve.

ELIMINATING THE NEED FOR STRUCTURAL ADJUSTMENTS

Some Western European governments have recently imposed taxes on fuel oil in an effort to prevent further injury to their coal industries. This is an example of action aimed at reducing the need for structural adjustments. Similarly, article XIX of the General Agreement on Tariffs and Trade provides in the following terms for the suppression of disruptive forces in certain circumstances where these forces stem from government obligations to reduce barriers to trade:

If, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this Agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly
competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.

Similarly, the "peril point" provision incorporated in the United States trade agreements programme affords grounds for avoiding any relaxation of import restrictions that might cause or threaten serious injury to domestic producers.

All industrialised countries have powers, of one sort or another, to prevent or reverse an "injurious" expansion of imports. Yet, perhaps the most systematic experience of this approach to the problem has been gained in the application of the United States "escape clause", and this experience is drawn upon below to illustrate some aspects of this method of dealing with structural disruptions.

The "escape clause" procedure, a part of the import tariff legislation in the United States, is similar in form to the article of the General Agreement on Tariffs and Trade quoted above. Thus it supplements the "peril point" clause, in that it provides a method of reversing a reduction in an import duty if that reduction proves to have harmful effects on domestic producers. An industry or section of an industry can appeal to the Tariff Commission for the reversal of a tariff cut on the ground that it is experiencing, or is likely to experience, difficulties as a result of a tariff reduction previously granted under the trade agreement programme. Having investigated the circumstances in each case, the Tariff Commission can make a recommendation to the President in favour of reversing the tariff change. In turn, the President may grant or deny the application.\footnote{1} \footnote{2}


\footnote{2} On 11 October 1962, after this study had gone to press, President Kennedy signed the Trade Expansion Act which gives the President the power to negotiate reductions of 50 per cent. in existing tariffs, and even their complete abolition where they are now at a rate of less than 5 per cent. or in cases where the United States and the European Economic Community account for at least 80 per cent. of world trade in the product concerned (not including the trade of East European countries). Before bargaining begins, the Tariff Commission must hold hearings and advise the President on the economic effects of any proposed reductions. This replaces the former "peril point" procedure. Moreover, when a domestic industry suffers as a result of increased imports under the Act, a method of dealing with the situation alternative to the "escape clause" procedure is provided, adjustment assistance taking the form of advisory services, loans and tax relief for firms which have been injured, and of special unemployment, re-training and removal allowances for workers in such firms. The cost of any unemployment benefits or allowances that may be paid to workers affected by foreign competition is to be met in full by the federal Government.
It is clear that no one would wish to suppress all economic forces giving rise to structural change permanently. No one would claim that governments should have preserved the construction of stage coaches as an industry. Indeed, the question of resisting economic forces may arise only in a limited number of cases. For example, restricting imports of a commodity often constitutes only a marginal, not a major setback to "progress". And this disadvantage may be considered a fair price to pay in order to avoid disruptions in the domestic industry as a result of foreign competition. The question whether such negative measures are generally necessary in such cases can properly be considered only after the various alternative policies have been examined. Here it must be pointed out that their operation raises important practical difficulties.

First, since there is often more than one cause at the root of a given structural adjustment (see Chapter I), identification of the particular factor at which the proposed measures should be aimed can raise problems. For example, in the years 1948 to 1953 there was a sharp division of opinion among the members of the United States Tariff Commission as to the part played by tariff reduction in causing injury in particular cases. One group (the majority) wished to take into account other factors, such as purely domestic developments or technological change; a second group was more ready to ascribe difficulties exclusively to import competition. Moreover, many of the President's rejections of "escape clause" appeals were made on the ground that serious injury to the domestic industry had not been established to his satisfaction, or at least that the increase in imports was not the major source of the industry's difficulties. It has been claimed that a comparison of those escape clause applications which were rejected by the President with those which were accepted—

gives little or no clue that would explain why the President followed the Tariff Commission in some instances and not in others. Viewed from the factual data presented to the Commission, the President's decisions appear highly capricious.

Secondly, the difficulties involved in defining "injury" raise difficult problems. For example, one view held in the United States is that injury is present when the industry's "historical level" of production is threatened; another, that a fall in the industry's share of the market justifies a tariff reversal. Whether to apply the injury criterion to the industry, section of the industry, or individual firm also gives rise to complications.

1 KRAVIS, op. cit., p. 336.

An important question in the present context is whether injury to the labour force or to the industry is in practice given the greater weight. For instance, although the United States "escape clause" procedure was intended to alleviate damage in the form of a "downward trend of domestic production, employment, prices, profits or wages, in an industry adversely affected by tariff cuts", in practice it would seem that relatively little emphasis was at first placed on employment and wages. Reviewing the decisions made up to 1954, one author concluded that government action was urged—

only when an increase in imports had been responsible to a significant degree for the deterioration in the sales and profits of a domestic industry.¹

Yet, in view of the continued rise of labour productivity, the mere maintenance of production levels would imply a contracting labour force.

There is now a tendency in the United States to pay more attention to labour difficulties resulting from tariff cuts. Under the Trade Agreements Extension Act, 1958, any "organisation or group of employees" is now considered as "an interested party" entitled to make representations for invoking the escape clause.² A proposed National Trade Policy Bill ³ would have allowed workers adversely affected by tariff changes to seek readaptation aid—supplementary unemployment benefits, early retirement and re-training provisions—individually of any action by their employers.

### Maintaining the Competitive Strength of Industries in Difficulty

It is possible to protect an industry from the need for structural adjustment simply by giving it a large enough subsidy. The industry can then produce and sell its output at a price which, though uneconomic, will attract the necessary demand. The dangers of such a policy are obvious; it amounts, in effect, to suppression of a structural change at the taxpayers' expense. But subsidies and other protective devices may also be used, on a temporary basis, for more constructive ends. Temporary support may, for example, enable the industry to recover its economic strength. In particular, such a policy may afford relief from

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¹ KRAVIS, op. cit., p. 319. According to the same author, "a decline in production and low profits are the main tests of serious injury. A decline in prices or a rise in inventories is also evidence of serious injury" (p. 319).

² LETICHE, op. cit., p. 956.

forces which might otherwise set in motion a cumulative process from which no recovery would be possible.

With the formation of Benelux, a few Belgian industries experienced difficulties because their wages were higher than those paid in the Netherlands. However, a series of individual industry agreements establishing voluntary quotas during a short transitional period proved sufficient to allow the Belgian sectors to rationalise successfully.\(^1\) In this case the competitive differential appears to have been small. In the case of the European Economic Community and the European Free Trade Association, arrangements for the gradual lowering of protective barriers during a transitional period also afford domestic industries some time to adjust to changing patterns of trade. For industries which nevertheless prove to be adversely affected by tariff reductions, Article 20 of the Convention establishing the European Free Trade Association provides a further "breather":

If, in the territory of a Member State,

\(a\) an appreciable rise in unemployment in a particular sector of industry or region is caused by a substantial decrease in internal demand for a domestic product, and

\(b\) this decrease in demand is due to an increase in imports from the territory of other Member States as a result of the progressive elimination of duties, charges and quantitative restrictions in accordance with Articles 3, 6 and 10,

that Member State may, notwithstanding any other provisions of this Convention,

(i) limit those imports by means of quantitative restrictions to a rate not less than the rate of such imports during any period of twelve months which ended within twelve months of the date on which the restrictions come into force; the restrictions shall not be continued for a period longer than eighteen months, unless the Council, by majority decision, authorises their continuance for such further period and on such conditions as the Council considers appropriate.

In the United States, the A.F.L./C.I.O. recently proposed that—

After the escape clause action increasing the tariff, the tariff might gradually be reduced over a period of years so that the original tariff reduction might eventually be reinstated.\(^2\)

In effect, this modification would transform the United States escape clause procedure from a method of reversing an injurious trend into a "breather" device.

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\(^2\) A.F.L./C.I.O. Looks at Foreign Trade, op. cit., p. 132. This proposal was accompanied by the qualification that "the removal of protection should be flexibly and realistically geared to the ability of the industry to maintain or improve its position".
A "breather", however, needs to be accompanied by measures, either public or private, to restore the industry's competitive position or to ensure its orderly contraction. But even so the operation of the United Kingdom Government's cotton industry reorganisation scheme suggests that to supplement government or private reorganisation schemes with "breather" provisions by no means guarantees their success. This scheme comprised a set of measures designed to help the industry to halt the decline resulting from falling exports and rising imports of cotton goods. Indeed, it was intended that, after reorganisation, the industry would be "capable of producing substantially more if markets can be won".¹ Arrangements were accordingly made with Hong Kong, India and Pakistan to limit over a period of three years their exports of cotton fabric to the United Kingdom.

The Government hoped to restore the industry's competitive position by stimulating investment, thereby raising efficiency and reducing costs. To this end, it offered the industry two inducements. First, in order to ensure that excess capacity hindering re-equipment was reduced, compensation was to be paid at a rate fixed by the Government for any machinery that was scrapped, the Government paying two-thirds of the compensation and the remaining third being met by a levy on the industry itself. Secondly, a 25 per cent. subsidy was to be granted towards the cost of any new machinery installed before June 1964.

Prior to the scheme, excess capacity was thought to be in the region of 50 per cent. of the spindles and 30 per cent. of the looms.² It is generally agreed that the amount of machinery scrapped has exceeded most expectations, since it is somewhat above these figures; rather more than half of the spindles and approximately 40 per cent. of the looms have been scrapped.³ Largely on the basis of these figures, the scheme has been acclaimed a success.

It is, however, premature to say with any finality whether the scheme will result in the desired degree of re-equipment. At the time of writing there seems to be wide agreement that the re-equipment stage of the scheme has, at the very least, been lagging seriously behind. It may be noted that in the immediate post-war years, when the future of the industry was no more insecure than at present, legislation which offered a subsidy of 25 per cent. of re-equipment expenditure in general failed to achieve its objective:

² Ibid., paragraph 12; of the finishing capacity, 25 to 40 per cent. was thought to be surplus to requirements. No scrapping figures are yet available for this section of the industry.
Although £2.6 million subsidy was paid out on an expenditure of £10.2 million, it [was] impossible to detect any variation in the rate of equipment as a result.¹

Two considerations have been put forward to account for the present lack of response. First, despite the huge inroads, measured in terms of machines, which have been made into excess capacity, the fact that average machine utilisation is still low in comparison with other countries constitutes a threat to new investment; there is a movement in the Lancashire industry towards two- and three-shift operations, which may to some extent avoid the need for additional investment.

More important, the continued threat from Asian competition—when the "breather" eventually expires—has been cited by manufacturers as the cause of their unwillingness to invest in the United Kingdom cotton industry. This attitude is tantamount to an admission that re-equipment cannot be relied on to reduce unit costs to a point where the United Kingdom industry, on its present scale, could compete effectively with imports.

Subsidies seem to have done little to restore a declining industry's competitiveness in the case of the Belgian coal industry. During the 1950s this industry, initially at a competitive disadvantage by comparison with coal industries of other countries in the European Coal and Steel Community, was granted subsidies by both the Belgian Government and the High Authority in an attempt to modernise its operations. Yet between 1952 and 1956, while operating costs in all E.C.S.C. coal-mining activities rose by 9.5 per cent., in Belgium they rose by 16.8 per cent.²

In order to halt a decline, it may not be sufficient merely to close the original competitive gap. Any additional loss of efficiency induced by the initial decline must also be parried. More generally, for temporary support measures to be effective there must be some reasonable prospect that the industries assisted can become viable again. If the disturbance is due to the success of competing products, and provided that the difference between the required and the actual cost position is such that it can be bridged by re-equipment, temporary aid may be very useful. Where there is no such promise, government subsidies to the industry may well prove ineffective and wasteful.

Moreover, from labour's point of view, apart from the chance of failure, re-equipment introduces the problems raised by technical change in a stagnant market situation. As was noted in Chapter II, these circumstances may well lead to the dismissal of workers, regardless of whether or not the industry benefits. Happily, in the case of the United

¹ ROBSON, op. cit., p. 219. The legislation in question was the Cotton Spinning (Re-equipment Subsidy) Act, 1948.
² DIEBOLD, op. cit., pp. 203 and 210-212.
Kingdom cotton industry reorganisation scheme, workers have not
generally been adversely affected. In part this reflects the fact that much
of the machinery scrapped was unmanned. Also, there has been relatively
little re-equipment as yet. Finally, the operation of the scheme coincided
with a fortuitous recovery of demand. Consequently, the labour force
fell by no more than approximately 10 per cent. from October 1959
to October 1960—much less than anticipated in some quarters—and
dissolved workers were fairly easily reabsorbed.

Where government assistance can help to solve an industry's diffi­
culties, should assistance be granted to the whole industry or merely
to particular firms? Since a structural adjustment does not affect all
firms within an industry to the same extent, it may be considered that
more aid should be given to those experiencing the greatest difficulties.
Indeed, some West European governments are keen—to aid the small producer in his struggle for survival, either in the belief that
it is economically desirable to maintain an existing capacity, or as a matter
of social policy. Such government protection for the small producer—who, of
course, is usually also the high-cost producer—is especially important in France.¹

However, if the goal sought is the purely economic one of making an
industry competitive, aid is more appropriately channelled to the more
efficient firms. In contrast, a policy of “bailing out the incompetent” is
less likely to succeed and can give rise to a waste of national resources.²
The recent French Government proposals for the shipbuilding industry
show an awareness of these problems:

If the State were merely to allocate its financial aid among the shipbuilding
yards in proportion to the productive capacity of each, the less well-equipped
among them would no doubt be able to continue building ships for a little
longer; but the days of all of them—even the best-equipped—would assuredly
be numbered.³

Similarly, after 1956 only those Belgian coal-mining companies whose
efficiency gave some promise of being raised received subsidies.

POLICIES DESIGNED TO FACILITATE STRUCTURAL ADJUSTMENTS

In cases where the underlying factors are such that “fighting” a
disruptive economic force may be of little avail, the best policy may be
to encourage an orderly contraction of the industry’s activities. Although
the United Kingdom Government's cotton industry reorganisation
scheme was originally intended to halt or reverse the industry’s decline,

¹ SCITOVSKY, op. cit., p. 38.
² See C. WILCOX: “Relief for Victims of Tariff Cuts”, in American Economic
³ “L’industrie française de la construction navale”, op. cit., p. 11.
it may in fact prove more effective in helping the industry to contract smoothly, by promoting the orderly release of no longer needed land, buildings, management and workers. To that extent, the scheme may be used to illustrate the essentials of a policy designed to accommodate structural change by facilitating the required adjustments.

The test of the scheme's success, when viewed in this light, does not, of course, lie solely in the decrease in productive capacity and in the size of the labour force which it has brought about: any crude disruptive economic force might have achieved this. Much more significant is the fact that the contraction has not, by and large, resulted in undue hardship for the individuals concerned. The owners who received compensation for leaving the industry altogether obviously preferred this to the status quo; and the remaining firms welcomed the scheme, relieved, no doubt, by the reduction in the number of competitors. The workers also, broadly speaking, accepted it, those dismissed being paid redundancy compensation. The trade unions did raise some objections, but the most important of these—concerning a delay in the payment of redundancy compensation—related to a purely administrative question. Moreover, virtually all the labour and many of the buildings released from the industry are now being used in other sectors.

The "compensation" principle which helped to make the cotton industry scheme acceptable in the United Kingdom has some support in the United States too. There it has been suggested, for example, that—

A policy of tariff reduction will be rendered more acceptable if compensation for resulting loss can be guaranteed.\(^2\)

The French Government has offered to subsidise the shipbuilding industry temporarily, in return for the concentration of production within a few shipyards; and, in return for consolidating into fewer groups, the United Kingdom aircraft industry receives from the Government a contribution towards its development costs, together with the guarantee of some orders.\(^3\) Alongside a proposal that protection of the Australian dairying industry should be reduced, it was suggested that government aid should be made available to help those producers who had no expectation of profitability to withdraw from the industry, possibly through capital grants or loans designed to compensate them for capital losses and to help establish them in new economic activities.\(^4\)

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1 Compensation was paid at a premium rate for machinery scrapped in mills which ceased production completely.
2 Wilcox, op. cit., p. 885.
But, on the whole, schemes which deliberately seek, with or without compensation, to promote an industry's contraction appear to be rather rare—irrespective of the fact that policies which imply an acceptance of structural change and of the need for adjusting to it may, either by bringing about the gradual and painless disappearance of the industry or its contraction to a point where it is again viable, prove more realistic than those aimed at suppressing or combating disruptive economic forces. A few comments on such schemes, together with a number of suggestions, are made below.

First, the payment of compensation to the owners, where provided for, is the most novel element of such schemes and may encounter the greatest opposition. For it is not generally accepted that the owners of capital should be indemnified for investment failures. Rather, it is held that such failures constitute a risk inherent in the free enterprise system, and should be accepted as such. This view, however, overlooks a crucial problem—namely, that by trying to "hold out" management may be responsible for delaying, and therefore complicating, the process of adjustment considerably. Thus, compensation can be justified on grounds of expediency, if not principle: while it may be unwise to subsidise inefficient producers in an attempt to preserve their existence, to compensate them in return for "retirement" would, on the other hand, seem quite acceptable.

Secondly, it seems preferable for compensation to be paid wholly by the government. For if industry itself has to bear the burden, or any part of it, the likelihood of achieving a viable scale of operations is reduced accordingly. In the United Kingdom, where the cotton industry itself has to contribute to the compensation fund, it has been complained that this, in effect, amounts to penalising the more dynamic, efficient firms by requiring them to subsidise their less able competitors' withdrawal from the industry.

Thirdly, a smooth and gradual contraction of an industry's labour force makes a major contribution to an easy adjustment. But if the industry is to achieve stability once the contraction process has been completed, the closure of inefficient firms must be encouraged. And an industry contraction which involves the closure of whole firms, rather than a reduction in their average size, is not conducive to the smoothest possible form of labour adjustment. It is difficult to see how

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1 See above, Chapter VI. Unfortunately, the tendency to try to "hold out" does not imply a gradual contraction of the firm's labour force. The ultimate collapse of the enterprise may still be very sudden and cause the dismissal of a large number of workers.

2 See above, Chapter IV.
this dilemma can be avoided. In their plans for the cotton and shipbuilding industries, the British and French Governments have insisted that the reorganisation be speedily accomplished. The French Government expects the reorganisation of the shipbuilding industry to be largely accomplished by 1962. For the re-equipment phase of the United Kingdom cotton industry reorganisation scheme it was stipulated that the new machinery should be installed by 1964. As for the scrapping process—

It is an essential part of the Government offer that this inevitable contraction, now to be achieved deliberately in as short a time as possible, should result in the least possible hardship to workpeople who are displaced.¹

Although in this instance both these objectives were achieved, this was to some extent the result of fortuitous circumstances ², and it would be highly dangerous to expect a similar outcome in other circumstances, since a rapid contraction reduces the chances of a smooth labour force adjustment. It would not seem unreasonable if, in return for the compensation to which, in the last analysis, they may have little absolute claim, declining firms were required to avoid abrupt changes in the size of their labour force.

Fourthly, policies designed to ensure a smoother contraction may work more satisfactorily if during the decline the industry is afforded some protection. Temporary protection for this purpose is sometimes advocated:

The weak industries may have to go... but it is not practical or judicious to impose additional competition on them by tariff cuts, and if the problems of unemployment are serious enough, a case can be made out for reversing the trend toward free trade.³

In fact, this is a counterpart to the “infant industry” argument, which advocates temporary protection so that a new domestic activity can develop to a point where it can compete effectively in world markets. “Senile industry” protection would be similarly granted to a declining industry in order to ease the required adjustment process.

Suitability of Sectoral Economic Policies

Sectoral schemes are, by definition, confined to certain industries and therefore do not benefit workers employed in declining enterprises engaged in otherwise expanding industries. Consequently, it is clear at

¹ Reorganisation of the Cotton Industry, op. cit., paragraph 22.
² See above, p. 124.
³ S. E. Harris, in Hearings 1956, pp. 60-61. See also the testimony of E. S. Mason, in Hearings 1956, p. 20, and C. P. Kindleberger, in Staff Papers 1958, p. 79.
the outset that, while government measures on behalf of individual economic sectors may be a useful addition to the armoury of weapons for dealing with adjustment problems, they are not in themselves sufficient.

However, sectoral schemes have a further limitation in that they are not in practice extended to all industries that are in difficulty. In the case of measures aimed at suppressing or countering disruptive economic forces (but hardly in the case of "accommodating" a structural change) this may stem from their impracticability in many situations.

One reason why some industries receive aid, and not others, is the widely held view that sectoral support is justified only when the government is responsible for the disruption—e.g., in the case of a tariff reduction. A witness before a United States congressional committee was asked if the difficulties caused by the migration of the cotton industry away from the New England states did not merit readjustment aid just as much as disturbances caused by tariff cuts. He replied—

Not as strongly... because the change is a change occurring within the country, not resulting from a change in Federal policy.¹

Yet if government responsibility for difficulties encountered is to be the criterion for providing adjustment aid, it is difficult to understand why such action should be limited to instances of tariff cuts and a few other cases, such as support for aircraft industries. Governments may adversely affect the level of activity in industries and firms in many other ways. A purchase tax increase may reduce the demand for a commodity; the mismanagement of fiscal and monetary policies may also lead to dismissals.

It is more plausible to argue that governments have a duty, on behalf of society as a whole, for sharing out the burdens of structural adjustments, however these may be caused:

The problem is by no means limited to the import-competing industries, and there is no reason why remedies which are needed to improve the mobility of capital and labor among industries should be limited to situations where attention is called to the mal-allocation by an increase in imports.²

In short, it can be argued that, because of their limitations, sectoral policies as applied at present involve considerable social injustice. It is difficult to justify aid, direct or indirect, for one group of workers whose jobs happen to be threatened by a particular type of structural change, while workers displaced in other parts of the economy are neglected. On the other hand, it is also possible that the best may become the enemy of

¹ Hearings 1956, p. 130.
² Staff Papers 1958, p. 84.
the good in circumstances in which the best is not yet attainable. In the United States sectoral readaptation schemes have actually been rejected because they would not have applied to all sectors.\textsuperscript{1} If for political or even for administrative reasons it is not yet possible to generalise sectoral schemes and apply similar provisions for the benefit of all workers affected by structural changes, there may be a strong case for developing particular sectoral schemes in the hope that these will lead the way to general schemes.

In any attempt to make sectoral schemes more comprehensive, however, great care would have to be exercised in defining criteria for eligibility. In order to avoid placing an unduly heavy burden on the taxpayer, these might have to be defined rather strictly, industries encountering structural changes that were not exceptionally large or sudden being expected to adjust without special assistance. It would also be important to avoid permanently subsidising industries that could not or did not recover their competitive strength.

\textsuperscript{1} Staff Papers 1954, p. 54.
CHAPTER XI

MEASURES TO COMBAT REGIONAL UNEMPLOYMENT

In Chapter IV it was suggested that any spontaneous tendency for new firms to set up in industrially depressed areas because labour or other resources are available there is likely to be rather weak; and in Chapter VII it was stressed that many of the workers left without jobs in such areas are unwilling to change their place of residence. Thus governments have found it necessary to initiate policies to attract firms to these areas as well as to maintain the viability of those already established there. Governments have also initiated policies designed to facilitate the movement of workers out of these areas. Measures of the former kind are discussed in the present chapter; the following chapter is devoted to a consideration of some of the measures taken with a view to promoting the movement of workers to other areas.

Within various countries, policies have been developed to attract new firms, both domestic and foreign, to specially designated industrially depressed areas, or to enhance the profitability and job-providing capacity of existing firms in such areas. These policies take different forms from one country to another. In Belgium, for example, they are based on comprehensive legislation encompassing all or most of the programmes. In others, e.g. the Netherlands, they are embodied in a number of laws applying to certain areas or providing certain types of inducements. In still others, such as the Federal Republic of Germany and Sweden, they have been evolved with only very basic legislation. It should be noted that the programmes of special assistance to such areas sometimes overlap with, or are closely related to, other governmental programmes addressed to different objectives.

Since in most countries measures to locate firms in depressed areas can be fairly described as still being largely in the experimental stage, alterations in the detailed provisions are occurring rapidly and continually. Consequently, only the main features of such policies are described in the following section. This is followed by a discussion of some of the problems encountered.
EXAMPLES OF ACTION TAKEN

The United Kingdom pioneered the development of national policies designed to attract firms to industrially depressed areas and has perhaps carried such measures further than any other country. The Special Areas Act of 1934 was followed in 1937 by the appointment of a Royal Commission on the Distribution of the Industrial Population. The Commission’s report stated that the existing distribution of industry was one of the causes of localised unemployment, that the problems thus engendered were national in character, and that solutions to the problems—must be sought along the lines of national inquiry and national guidance.¹

A number of laws implying acceptance of national responsibility with respect to local unemployment problems have been passed since the Second World War, starting with the Distribution of Industry Act, 1945, and culminating in the Local Employment Act, 1960.

Various other countries faced with the problem of high unemployment in particular areas have more recently adopted legislation to deal with this problem. The Federal Republic of Germany’s basic laws date back to the early 1950s. In France a national policy of regional development was started in 1950; however, it was largely a matter of private initiative rather than public action until 1954.² Legislation to assist local economic development was adopted in Belgium in 1959. The United States Government undertook a very limited programme of assistance to areas of chronic serious unemployment in 1949. In 1956 the President described the fate of the “depressed areas” as “a matter of national as well as local concern”.³ In 1961, after unsuccessful attempts to enact similar legislation in 1958 and 1960, the Area Redevelopment Act became law.

National governments may seek to attract new firms to particular areas, or enhance the profitability and job-providing capacity of existing firms in such areas by means of grants, loans, tax concessions, licensing policy, privileges in regard to government procurement and other concessions, and also through the provision of advice and information services, and re-training programmes.

Grants

If grants offered to firms moving to designated regions are made sufficiently generous, there is no doubt that they will attract industry

to these locations. However, firms cannot be attracted to "depressed" areas regardless of the cost: should this prove to be prohibitive, alternative measures may need to be adopted. This point is discussed further on. So far as actual measures of this type are concerned, the following examples may be quoted.

The Government of the Republic of Ireland makes cash grants to firms establishing in "development areas", in some cases up to the full cost of the factory sites and buildings, and one-half of the cost of machinery and equipment, together with part of the cost of worker training programmes. In Northern Ireland grants may amount to as much as \(33\frac{1}{3}\) per cent. of the cost of factory construction; other grants are made towards machinery and equipment costs. The Government also lets factories at reduced rates, makes grants to cover the cost of moving machinery and equipment from another industrial site, and refunds to a firm part of its fuel and power costs.

In Great Britain grants may amount to 85 per cent. of the difference between the actual cost of construction of a private factory and the market value of the building on completion. This represents an attempt to compensate firms for the fact that the market value of a factory in a "development area" may be lower than in other parts of the country. The Board of Trade may, if it is satisfied that there are good prospects of an undertaking ultimately being able to carry on successfully without further help, make grants to enterprises for purposes other than building factories. The purposes for which these grants may be given are not stipulated, and they differ from building grants in that no legal limit is placed on the amount which may be granted for a specific project.

The Netherlands Government makes grants for new plants above a specified size on an industrial site owned by a municipality, or for plants extended by permanent new construction above a specified size, whether they are built on their own grounds or not. The subsidy can be granted to the entrepreneur or, if the municipality builds the building for the entrepreneur, to the municipality. If the municipality receives the grant, the yearly rent or hire-purchase instalments payable by the entrepreneur are reduced proportionately.

In Belgium grants may not exceed 20 per cent. of the cost of real estate and 7.5 per cent. of the cost of equipment, except during recessions, when these percentages may be increased to 30 and 10 per cent. respectively. No single grant may exceed 1 million francs. The French Government makes grants available up to 20 per cent. of the total investment costs borne by an enterprise. Investment costs for calculating grants may include new plant construction, new machinery, extension or conversion of existing plants, and transfer of equipment.
Government interest subsidies are also available for enterprises anticipating only a comparatively low return on investment and borrowing from private sources.

The Governments of Northern Ireland and of the Federal Republic of Germany also make grants to local communities wishing to improve public services. The United States Government is now authorised to make grants to state and local governments, and to certain private or public non-profit-making organisations or associations—

for land acquisition or development for public facility usage, and the construction, rehabilitation, alteration, expansion, or improvement of public facilities.¹

Loans

As an alternative form of government assistance, loans are less costly than grants, but \textit{a priori} less effective in attracting industry. Along with grants, loans are the most commonly used device to attract new firms to particular areas, or enhance the profitability and job-providing capacity of existing firms in such areas. The following are some examples of loan facilities provided in different countries.

The Federal Republic of Germany offers 5 per cent. 15-year loans for new construction, or modernisation or rationalisation of an enterprise. Working capital is loaned only under very special conditions. Three-and-a-half per cent. 15-year loans are available for new enterprises that expect to create at least one permanent job for a local person for every 10,000 Deutschmarks' worth of credit extended to them. If after two years an enterprise has not met this condition, it must make retroactive payments at the normal 5 per cent. interest rate.

In Great Britain loans may be made to private enterprises, provided that the Board of Trade is satisfied that there are good prospects of the undertaking ultimately being able to carry on successfully without further help. Loans generally provide from 50 to 100 per cent. of the capital required, and may be used for construction of plant or purchase of land or equipment. There are no statutory requirements governing terms of repayment; usually loans have been granted for periods of ten to 20 years, and never for more than 30 years. There is normally a period during which the payment of principal and interest, or interest only, is deferred, and there is no legal limit on the size of loans for specific projects.

The French Government makes loans available to firms for land, plant and equipment, and working capital requirements. Interest rates are variable, but are generally close to the prevailing market rate.

¹ Public Law 87-27, 87th Congress.
Repayment periods are also variable, but generally comparable to amortisation schedules of investment loans from commercial sources.

The United States Government is now authorised to make loans to firms and public agencies—

for the purchase or development of land and facilities (including, in cases of demonstrated need, machinery and equipment) for industrial or commercial usage, including the construction of new buildings, the rehabilitation of abandoned or unoccupied buildings, and the alteration, conversion, or enlargement of existing buildings.¹

Governments also act through intermediaries. In Belgium specified lending institutions are subsidised by the Government to make loans at low interest rates for the purpose of (a) directly financing the construction or remodelling of buildings, or the purchase of equipment; (b) financing intangible investment, such as research; (c) facilitating conversion to new types of production; and (d) reconstitution of working capital depleted by certain types of investment carried out at an earlier date. The interest rate may be reduced to a minimum of 1 per cent., and no limit is set on the amount of the loans. The Government pays the difference between the prevailing commercial interest rate and the rate charged to the borrower, up to a maximum of 4 per cent. Also, the Government may guarantee repayment of the loan. Similarly, in France government guarantees may be available for part or all of a loan contracted from a private source. The French Government also makes loans and grants interest subsidies to local authorities or other organisations for the acquisition and improvement of industrial sites and the construction of factories.

In the Federal Republic of Germany government low-interest loans are made to local communities wishing to improve basic public services. In Great Britain government loans are available to both public and private organisations for the same purpose. The United States Government is now authorised to make loans to state and local governments, Indian tribes, and certain private or public non-profit-making organisations or associations for—

the purchase or development of land for public facility usage, and the construction, rehabilitation, alteration, expansion, or improvement of public facilities.¹

**Tax Concessions**

Tax concessions have also been used for area development purposes. In Belgium tax exemptions are granted on as much as 30 per cent. of the profits earned by a firm during its first three years in a development area.

¹ Public Law 87-27, 87th Congress.
Enterprises which have received government loans or grants for the purchase or construction of factories are exempt from real estate taxes for a period of five years. The grants themselves are exempt from income tax; however, the amount of the grant must be deducted from total investment costs for depreciation purposes. Furthermore, until 1963 a firm's capital gains will be exempt from taxation if they are reinvested in a development area, provided the new investment is in real estate or equipment which will help to expand industrial, agricultural or trade activities.

In France slightly accelerated depreciation is permitted on certain forms of plant and equipment acquired after 1950. Fifty per cent. accelerated depreciation is allowed on plant and equipment acquired for research and development purposes. Deductions may be allowed in certain cases in computing capital gains taxes. Firms may be granted reductions of, or exemptions from, certain other taxes.

In 1953 the United States Government granted permission for rapid depreciation to firms building or expanding certain types of defence facilities. In Canada accelerated depreciation allowances are granted to businesses establishing in labour surplus areas. In Ireland it has been found that exemption from customs duties and from income, profits and local taxes of firms locating in and around Shannon airport have contributed to the area's rapid industrial development.

**Licensing**

Licensing has been used as a method of guiding industry to certain areas, through the withholding of licences for new construction or extensions in other areas. In the Paris area the construction of factories employing more than 50 persons or with a floor space in excess of 100 square metres, extensions of more than 10 per cent. of the floor space of existing factories and purchases of vacant factories all require the approval of the Minister of Housing and Reconstruction in consultation with a committee of ministers.

New industrial building projects in Great Britain require authorisation in the form of industrial development certificates, which may be refused in areas which are already congested, so as to promote the establishment of factories in surplus labour areas. The Netherlands, the Republic of Ireland and Norway use licensing policy in the same way. Until 1 January 1959 Sweden had a building licence requirement which was initially intended to curtail construction in certain areas because of material shortages and inflationary trends, but served indirectly to guide industry to labour surplus areas.
Government Procurement

Preferences given to firms in depressed areas by government purchasing agencies are probably important mainly as a way of enabling existing firms to maintain employment, but may also act as an inducement to other firms to enter such areas. Firms in West German border areas are given such preferences. In 1949 the United States launched a programme under which firms in depressed areas were to be granted preference in the award of government contracts, provided that the cost of procurement to the Government was not increased thereby. Preferential treatment has in addition been given to labour surplus areas under the "Buy American" Act, which provides that a foreign bid may be rejected when the domestic supplier offering the lowest price undertakes to produce the major part of the goods in areas of "substantial unemployment".

Other Concessions

In Great Britain the Board of Trade has the power to acquire land by agreement or condemnation, and to build on it factories for sale or lease at relatively low cost. It also has the power to acquire land which is abandoned, neglected or unsightly, and likely to remain so for a considerable period of time, and to improve it so that it may be brought into use or may improve property values or the appearance of the neighbourhood. Finally, it has the power to improve basic services, including water, electricity and roads, to accommodate new industry. Industrial estate management corporations, acting for the Board of Trade and receiving capital from government sources, have built factories and improved basic services. The grouping of factory buildings on industrial estates may permit economies of scale in construction and maintenance and in the provision of transport, power and other services and facilities on a communal basis.

The Belgian Government purchases or builds factories which it then sells or rents at reasonable prices. In the Republic of Ireland, Norway and Sweden government assistance is given towards the provision of basic public services for firms locating in certain areas.

Advice and Information Services

Advice and information services provided by governments are used to steer industry to areas where new development is desired—i.e., in many cases, to industrially depressed areas. In Sweden the Industrial Location and Research Division of the Royal Labour Market Board is the agency that carries out this function. The Division considers, first of all, the
requirements of the entrepreneur. It then proposes locations which meet the entrepreneur’s requirements and are at the same time desirable from the point of view of the national economy. Localities selected include those with a single dominant industry, rural areas losing too much manpower to the cities, areas providing employment predominantly for men or women only, and areas where existing industries are declining as a result of order cutbacks or factory shutdowns. A central office in Switzerland disseminates information on facilities granted by cantons and communes. In France the Directorate of Development publishes a schedule of available industrial buildings and advises industrialists investigating possible factory sites.

**SOME GENERAL CONSIDERATIONS**

A few comments are called for, first on the effectiveness of measures of the kinds discussed above, secondly on certain problems that arise in connection with all or most of these measures, and thirdly on the relative merits of measures designed to encourage industry to move into “depressed” or “labour surplus” areas and those which aim at encouraging the workers themselves to move to jobs elsewhere. No exhaustive discussion of these questions will be attempted, particularly as the experience of most countries with special measures to combat regional unemployment is rather recent. A more thorough international study than is possible within the scope of the present volume would, however, seem desirable.

*Effectiveness of Measures to Attract Firms to Areas of High Unemployment*

Opinions differ as to the extent to which policies designed to attract firms to industrially depressed areas have succeeded. Frequently, such policies are criticised for an apparent lack of effectiveness. As a typical example, it has been alleged that in the United States—

Neither accelerated tax amortization nor special Government contracts have reduced the level of unemployment in the distressed textile communities of New England.¹

But not all measures taken to attract industry to labour surplus areas are equally effective, and in this case the lack of success might reasonably be attributed to the use of relatively weak inducements. Improved results might be expected with the application of more far-reaching measures, such as loans to relocating firms as provided by recent United States legislation, notably the Area Redevelopment Act, 1961.²

¹ Mierneyk, op. cit., p. 647.
² However, no effect has yet been given in the United States to what is surely the strongest incentive, namely the provision of grants for such firms.
In general—

Simultaneous application of a number of measures, which are co-ordinated in such a way that they reinforce one another, has proved to be much more efficient in inducing the desired geographical shift of activity than isolated measures.¹

Yet even the most comprehensive policies can fail to bring about any appreciable change in the unemployment levels of depressed areas. This has been the experience of Northern Ireland, for example, where despite industry relocation measures among the most elaborate yet devised, involving the expenditure of £42 million since 1945, the problem remains, with persistent and relatively high unemployment.²

Relocation measures are also a long-standing policy in Great Britain. Between 1946 and 1957 government expenditure in development areas amounted to some £90 million; and more recently annual expenditure to encourage firms to move to high unemployment areas has tended to rise.³ These measures no doubt contributed to the fact that between 1949 and 1957 the relative severity of unemployment in the development areas compared with the rest of Great Britain fell from nearly two-and-a-half times to somewhat more than one-and-a-half times. However, as pointed out in Chapter VII, geographical labour mobility made a substantial contribution to this improvement⁴, and at one-and-a-half times the national level the relative severity of unemployment in development areas was rather disappointing in view of the large amount of government aid.

In the following section attention is given to some of the problems which have arisen in the application of relocation measures and which may partly explain why they have not been more effective. A few suggestions are also made as to ways in which some at least of these difficulties might be reduced.

Some Problems Encountered

In Chapter IV the discussion of "regions" and smaller "localities" suggested that measures to attract firms to depressed areas are more appropriately directed towards the latter. This approach does not by

³ Acton Society Trust: Redundancy No. 1, p. 19. See also The Economist, 22 Apr. 1961, p. 378, and The Financial Times, 4 July 1961. During the seven-year life of the 1960 Local Employment Act, the Board of Trade expects to spend up to £112 million.
⁴ See SYKES, loc. cit.
itself enhance the effectiveness of the measures in attracting new firms. But the “redesignation” of small localities can ensure that those firms which do respond will bring jobs to the most needy areas. When provision is made for wider geographical tracts—as is the case, for example, with the British development areas policy—localities with little unemployment within these areas benefit from government assistance, while others with high unemployment outside the designated regions are neglected. British policy has now been re-oriented in favour of small localities, called “development districts”. In the Netherlands, too, emphasis is placed on “development nuclei”, and in the United States individual cities figure prominently amongst the “areas” entitled to help under the new legislation.

In Great Britain the designation of small “development districts” has not passed without criticism. It is alleged that some localities with high unemployment but inherently unattractive to firms have been designated to no effect, while nearby towns to which new firms might move and unemployed workers commute receive no assistance. It would seem, therefore, that in choosing “development districts” account should be taken not only of the level of unemployment, but also of the concept of “poles of development”, and measures concentrated on localities, or more probably towns, where the level of economic activity shows promise of responding to the government’s assistance.

Modifying the “regional” approach to provide facilities for smaller localities need not increase the proportion of the labour force which benefits. In the case of Great Britain, the shift of emphasis from “development areas” to “development districts” was accompanied by a fall in the proportion of the population covered. Before 1958 the Government could apply relocation measures in such a way that about one-fifth of the population would benefit, although in fact they were being applied in such a manner that only 14 per cent. was being helped. It was originally intended that this same 14 per cent. of the population would reside in the newly scheduled development districts, although the actual figure is currently around 12 per cent.

Nevertheless, the fact that structurally unemployed workers are also found in non-designated areas must not be overlooked. In the spring

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1 The Economist, 8 Apr. 1961, p. 105-106.
2 This point is developed further on.
3 The Financial Times, 10 Feb. 1960. A proportion of about 12-15 per cent. of a country’s labour force being aided by relocation measures occurs surprisingly frequently. Roughly, this proportion is covered by measures in Switzerland and Belgium where, indeed, legislation forbade a figure of 15 per cent. to be exceeded. And in the United States areas of substantial labour surplus—essentially those to receive aid under the new legislation—account for about 12 per cent. of the country’s non-farm wage and salaried workers.
of 1959 United States areas of substantial labour surplus accounted for about 40 per cent. of workers unemployed for more than six months. It is clear, therefore, that many structurally unemployed workers will not benefit from the new relocation measures. Thus, even if measures to attract firms were completely effective in removing geographical unemployment differentials—which they are not—they would be insufficient to deal with all structural unemployment; for the effectiveness of these measures in attracting firms to the most needy areas depends on their "partiality", i.e. their exclusive applicability to a limited number of areas. Obviously, there would be little point in "designating" the whole, or even a large proportion, of the country.

In various countries action to attract firms to industrially depressed areas has been taken by state or local as well as by national governments. In the United States the states of Pennsylvania and West Virginia have taken such action. Pennsylvania has a $20 million revolving fund for extending loans to non-profit-making development agencies for the construction of new factories. West Virginia has a vocational training programme. Furthermore, many cities have initiated programmes. Scranton (Pennsylvania), for example, builds factories and lets them to firms. In Belgium local and provincial authorities may sell or rent buildings to industrial or handicraft enterprises, and local tax concessions may be granted. In Sweden provincial labour market boards give advice on factory location problems. In France local taxes may be reduced or eliminated.

In other cases local initiative in attracting new industries extends beyond the activities of state and municipal authorities. In the United States especially, high local unemployment has usually led to the formation of "community" development bodies, staffed and financed by private individuals and groups, and dedicated to the economic redevelopment of the area.

How effective are private local organisations in attracting new firms? Although some successes have been recorded the experience, by and large, is not very encouraging. For example—

We have heard for several years of the heroic local redevelopment projects of Scranton, Lowell, Lawrence, Wilkes-Barre and Pottsville, to name but a few.

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2 Ireland, seeking the inflow of foreign firms, is an exceptional case in this respect.

3 For a description of these bodies and their activities see Staff Papers 1954, pp. 411-426; GEGAN and THOMPSON, op. cit., p. 1456; and The New England Economy, op. cit., pp. 87-88. In the United Kingdom private initiative played an important role in the 1930s with the establishment of "trading estates", an idea adopted later by the Government.
Yet, year after year, these communities still turn up regularly on the substantial labor surplus list.¹

There are good reasons for the scant success achieved by such efforts. The regional characteristics described in Chapter IV—an aging population, low incomes and an unfavourable regional "image"—are conducive to a progressive decline of the depressed locality. They make it difficult for local bodies to provide, for example, basic industrial services and advertising, in order to attract firms. It has been pointed out that "the resources of the community are generally exhausted" after assistance has been given to one or two plants, and that "means of bringing to the community new enterprises frequently lie beyond the capacity of local governments or groups of citizens to effect".² The resulting cumulative decline closely resembles that already described with reference to individual firms. Furthermore, a sharing of adjustment burdens requires that the central government acting on behalf of the community as a whole, rather than local bodies, should be the principal agent. This principle is now recognised and adopted in the United States, for example, where federal assistance is available to distressed communities.

However, local bodies do have a part to play in promoting regional development. For example, a sound economic infrastructure, which is an important factor in attracting new firms, is best provided through the medium of local authorities (even though it should be financed by the central government). In the Federal Republic of Germany, Northern Ireland, Great Britain and the United States, central and local governments work together in this way. The interest and energy which local organisations display in welcoming new firms will also be a factor determining the long-term economic viability of the area—a consideration of great importance.

Relocation assistance has also been provided by sectoral organisations. The European Coal and Steel Community, fully conscious that unemployment benefits and re-training schemes are insufficient by themselves to ensure the complete readaptation of displaced miners, has taken steps to attract firms to depressed mining areas. However, the use of money derived from the steel industry to subsidise firms in other sectors has been criticised.

To a very great extent the effectiveness of government policies to promote the development of regions suffering from high unemployment depends upon the way in which the measures are applied. More precisely, the administrative vigour with which they are pursued can make or mar

² Ibid., and Staff Papers 1958, p. 85.
relocation policies. It has been claimed that the British Government’s reluctance to employ to their full potential all the weapons at its command was largely responsible for the decline in factory building in “development areas” during the mid-1950s. The President of the Board of Trade, referring to the 1960 Local Employment Act, agreed that, fundamentally, it is not the legislative powers which matter but the use made of them.

An over-complex and fragmented administrative machinery is one potential obstacle to effective implementation. It has been pointed out, in this connection, that—

Since a regional development policy demands, by its very nature, simultaneous action in the technical, economic, social, demographic, cultural and other fields, it is imperative to co-ordinate the bodies responsible for putting it into effect, both among themselves and with existing economic and social authorities.¹

Significantly, in Great Britain measures to attract industries to areas of high unemployment, after being somewhat dispersed, have now been co-ordinated under one ministry—namely, the Board of Trade.

The designation of areas in need of help may be virtually an automatic process, a level of unemployment above a stipulated percentage usually being the deciding factor. However, as is pointed out further on, not all such areas are equally ripe for development, and in these circumstances administrators, by choosing the more promising areas for industrial relocation purposes, can materially influence the success of relocation programmes.

Ideally, legislation to deal with depressed areas should embody a high degree of flexibility. When unemployment in one region has fallen to a more acceptable level, it should be possible to de-schedule the locality in order to divert attention to other localities where unemployment levels have risen. British administrators can now change the list of development districts according to need—and indeed have done so; formerly, this would have involved substantial difficulties. Such flexibility is also a feature of United States policy: section 13 of the Area Redevelopment Act, 1961, provides that—

Whenever the Secretary [of Commerce] shall determine that employment conditions within any area previously designated by him as a redevelopment area have changed to such an extent that such area is no longer eligible for such designation . . . no further assistance shall be granted under this Act with respect to such area and, for the purposes of this Act, such area shall not be considered a redevelopment area.

In Sweden administrative flexibility has been carried even further, no single criterion being used to yield a formal designation of areas in need

of new economic activities. The Industrial Location and Research Division of the Labour Market Board decides upon applications by localities for assistance on a purely *ad hoc* basis.

While some of the difficulties encountered by relocation policies are by no means insuperable, other problems have arisen, the solution of which may prove difficult if not impossible. One such problem is that they may lead to some lack of balance. Frequently “light” industries employing mainly female labour are the ones which move to depressed areas, since transport costs in their case are relatively less important. Economic development in Wales between 1951 and 1958 was accompanied by a 9 per cent. increase in the employment of women, whereas the number of male workers remained almost unchanged. More than half the workers employed in trading estates in north-eastern England are women.¹

Again there is usually a high proportion of branch factories among those which establish in depressed areas. This tendency is hardly surprising since industrial development often involves the expansion of existing enterprises either in their present locations or in new areas, rather than the establishment of new firms. The setting up of branch factories in areas of high unemployment is sometimes welcomed on the ground that it is preferable to set up branch workshops supported by undertakings already firmly established elsewhere, rather than to create entirely new concerns.

In fact, the presence of large numbers of branch factories in areas of high unemployment may prove a serious disadvantage. During a general recession there is often a tendency for the parent company to adjust to falling demand by closing the branch factory. In 1959 the *Times Review of Industry* reported the closure of three factories in South Wales and the likely closure of another two; all five were branch factories.² In these circumstances there would seem to be a real danger of reducing structural unemployment only at the expense of making the area more vulnerable to the cyclical variety.

*Labour Mobility or Industrial Relocation?*

There remains the question whether, and in what circumstances, measures taken either individually or in combination to attract industry to labour surplus areas, or steps designed to help workers move to areas with better employment prospects are the better policy. Preferences can differ sharply. For example, in the United States it has been stated that—

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Movement of workers to other areas is a last-resort solution; movement of jobs to workers is a preferable and more usual alternative.¹

In Sweden, on the other hand—
Measures to promote labour mobility are always attempted first.²

The High Authority of the E.C.S.C.—
came to the conclusion, shared by many, that movement of workers on a large scale should be avoided whenever possible. Bringing jobs to the workers by establishing other kinds of production in the area seemed a preferable course.³

In contrast, one British observer believes that—
No policy of steering industry can eliminate unemployment everywhere except at great cost.⁴

Opinions as to the most appropriate policy differ considerably not only between countries but also among the various groups within a country—depressed communities invariably supporting relocation policies.

In Chapters IV and VII it was pointed out that, in fact, both natural labour mobility and spontaneous industrial relocation go a considerable way towards solving regional unemployment problems. The main dispute centres on which of the alternatives the government should foster to remove residual unemployment disparities. While it is difficult to offer any final answer to this problem, an attempt is made in the following pages to suggest how a rough balance between the two approaches can be achieved or, at least, in which direction the present balance needs to be changed.

In Chapter V it was shown that if jobs are eventually made available in a depressed area, young workers who have already migrated often return. Newly arrived employers show a preference for these workers and also for workers just entering the labour force who, in the absence of local jobs, would probably move from the district. Unemployed older workers in the district are much less likely to be offered employment. In short, there is a tendency for relocation policies to counteract the natural labour mobility which would otherwise have occurred, with the consequence that the relocation policy's net contribution to solving the regional problem is much less than might be anticipated. Not only do many older workers remain without jobs, but society may also incur a

¹ *Staff Papers* 1954, p. 388.
² B. Olsson: "Employment Policy during the Recession", op. cit., p. 57.
³ Diebold, op. cit., p. 424. This author points out that industrial relocation is the policy mainly used in the United Kingdom and Belgium. In Belgium labour mobility is particularly restricted on account of linguistic and cultural barriers.
considerable economic burden. Whether the community can afford a regional policy which, instead of augmenting labour mobility, tends to supplant it is a vital question.

This inherent disadvantage of regional policies may be neutralised to some extent by stipulating that firms shall receive government aid only if they offer employment in their new location to specified groups of workers—the structurally unemployed. This has in fact been done in some cases. The E.C.S.C. has agreed to help an aluminium factory establish in the Borinage area on condition that it provide jobs for 560 miners out of the 900 dismissed from a local colliery. Aid has also been given to a boiler firm which will employ 150 dismissed French miners.

However, it would be inadvisable to impose unduly rigid conditions of this type on firms, since a limitation placed on their choice of workers would only add to the factors originally militating against their establishment in a depressed area. To require a firm to employ large numbers of older and perhaps less adaptable workers could jeopardise its operating efficiency and lead to its failure. Moreover, to the extent that they succeed, such restrictions seem likely chiefly to eliminate the “reverse” mobility of workers who have already migrated. Once firms are established, their manpower requirements are likely to be met to a substantial extent from new entrants to the local labour force, who might otherwise have moved.

The tendency of relocation policies to reduce labour mobility may well be the principal explanation for their relative lack of success even where firms do in fact respond to the incentives provided and move into depressed areas. For, although it is impossible to say with any finality how many new firms would have come in the absence of government assistance, relocation measures do seem to have had some impact on industrial location. In Northern Ireland, for example—as well as across the border in Ireland—elaborate relocation measures have certainly been instrumental in attracting some firms, and it has been estimated that 38,000 jobs have been provided in this way. The most likely explanation of somewhat disappointing final results is that the regional problem tends to become continuous because the arrival of new firms reduces labour migration from the area. The result is that the unemployment problem is not cured by a “once for all” influx of firms.

A hypothetical example may clarify the problem. If on a given date an area has 20,000 unemployed, it is not likely that the arrival during, say, the next three years of new firms offering just this number of jobs...
will "cure" the situation. First, an industry contraction which may have caused the initial unemployment may not have run its full course, and by the time 20,000 new jobs have been created a similar number may be required again. Yet, even when the dying industry is replaced by other activities, in all probability there will still be a need for an increasing number of jobs because of the growth in the area's population. Thus, where the influx of new firms resulting from government assistance is insufficiently rapid—and this need not imply that it is low in absolute terms—high unemployment percentages in the region can persist over long periods and may even rise. In such cases it is unrealistic to look for anything more than a very gradual improvement in the region's economic situation.¹

An examination of the relative cost ² of helping firms or workers to move suggests that in the majority of situations high regional unemployment levels are best attacked by the latter method. If it were proposed to rely entirely on relocation measures to remove disparities in regional unemployment percentages, this would require, essentially, that the growth of job opportunities in each area should match the expansion in the local labour force. Yet, since in the absence of labour mobility the main determinant of the latter is the natural increase in the size of the population, and since this is generally fairly uniform throughout a given country, or higher in rural than in urban areas, it follows either that each region would need to develop economically at roughly the same rate, or that rural areas would have to develop faster than urban areas. Such a pattern of economic development would differ considerably from the optimum, and as a result society would incur severe economic losses. The most efficient pattern of development, with the various regions expanding at different rates according to their relative economic advantages and disadvantages, requires that regional labour forces also grow at different rates. But this can only be achieved by an appropriate inter-regional movement of workers. Disparities in regional unemployment levels are an important reason why such movements take place.³

¹ This applies primarily to the larger geographical areas. The establishment of a single new factory in a small town with high unemployment can, of course, improve the situation overnight.

² It is important in this context to bear in mind the distinction between real and money costs. The money costs of different policies represent transfers from taxpayers to recipients which do not in themselves make the community as a whole better or worse off (though they may have consequences which indirectly do so; in any case, the amount of the monetary burden on taxpayers is a consideration to be borne in mind). The real costs of different measures are represented by the loss of production by comparison with what could have been obtained if the same resources had been used more efficiently elsewhere.

³ See above, Chapter VII.
If only partial reliance is placed on relocation measures, the real cost of the policy to the community is measured by the difference between the firms’ lower operating efficiency in “designated” areas and what they would have achieved in the optimum locations. It may occasionally happen that there is an irrational prejudice against locating an undertaking in a certain area, perhaps because an unfavourable “image” has persisted without good reason. Or certain disadvantages, such as a shrinking market, while real enough as long as an area is allowed to decline, may not persist in the face of a successful policy of drawing new industry to the area. In such cases there would be either no, or only a temporary, loss in operating efficiency. More typically, however, such losses in efficiency do occur, and may well be appreciable; otherwise, there would be no need to tempt the firms with substantial relocation subsidies.\(^1\) Frequently, too—and this is of great significance—once the factory is established in the depressed locality, the loss of efficiency is a continuous process and the real cost a recurring one. Furthermore, since (as was pointed out above) high regional unemployment may not be cured by “once for all” action, a continual stream of new factories may be needed. In the circumstances, the real costs incurred are not only permanent but tend to rise from year to year.

What real costs are incurred by relying exclusively on measures designed to encourage labour mobility? A discussion of such measures in Chapter XII will reveal that, while government action can increase geographical mobility, not all unemployed workers can be induced to move. Therefore the real cost of complete reliance on this approach would be the economic and social loss resulting from the continued unemployment of immobile workers.\(^2\) However, in this case—and this is the most significant distinction between industrial relocation and worker resettlement policies—the economic loss is limited in time: it only lasts as long as the unemployed non-migrants are below retiring age so that, in the aggregate, it dwindles with time. The real cost is also tempered by the fact that the majority of these workers are elderly and are lost to the labour force only for a small fraction of their working lives. The migration of the younger workers in their search for jobs forms the basis of the lasting and efficient redistribution of the labour

\(^1\) It is true that legislation often requires a firm applying for help towards moving to a depressed area to show that it will be economically viable in the new location. But the mere fact that it will be operating at a profit does not mean that it will be developing its full profit-making potentialities.

\(^2\) Also, the construction of new houses and other facilities for the migrant workers is a real cost. However, since much of the “social capital” of depressed areas tends to be old, considerable new investment might be needed even if workers did not migrate.
force necessitated by structural change. This is a "once for all" adjustment, since their children grow up where jobs are available.

Measures to increase labour mobility may be relatively cheaper even on the basis of purely "monetary" costs. During the summer of 1959 the British Government offered £5.5 million to 83 undertakings—enough to provide about 5,400 new jobs, at an average cost of £1,000 per worker, part of it normally recoverable. The Irish Government has approved grants totalling £3.25 million during 1960-61 for the provision of 6,250 jobs—i.e., about £500 per worker.

As will be seen in Chapter XII, the cost of making it financially worth while for a worker to move is unlikely to reach such levels. Furthermore, when it is considered that industrial relocation may have to be pursued year after year for the same area, it is evident that its abandonment would free considerable funds which could be used, in part at least, to provide additional compensation for unemployed workers who chose to stay in the district. The reasons inducing people to remain in their accustomed environment are, after all, worthy of respect and consideration, and it might be felt that only if higher unemployment compensation were given to these workers could an extension of resettlement provisions, at the expense of industry relocation, be countenanced.

It would, of course, be wrong to abandon all attempts to attract industries to depressed areas in favour of efforts to move workers. But the foregoing considerations do suggest that a distinction can usefully be drawn between depressed areas which are unlikely to provide the required number of jobs, now or in the future, without continued government aid, and those which promise, after an initial influx of firms, to grow on their own momentum. Some areas doubtless fall into the former category, but there are indications that in other cases "sustained" regional growth is possible as a consequence of the operation of the local consumption and structural effects. In Ireland the number of new firms promoted by outside interests has grown rapidly in recent years—from half a dozen in 1956 to about 30 in 1960—and in 1961 their number and average size will be larger than ever before. Significantly, between 1958 and 1960 the Irish economy expanded faster than in the whole of the previous seven years. With such a response to its overtures to new

1 The Engineer, 11 Sep. 1959, p. 146.
2 Even if policies to attract firms to depressed areas were abandoned, a relocation of industry might still be required for purposes of industrial decentralisation. In France and the Netherlands, for example, regional policies are strongly affected by a need to avoid congestion.
3 For an explanation of these terms see Chapter IV. The latter effect seems especially important in this connection, as evidenced by the alacrity with which accessory firms in Britain have followed car manufacturers to locations in Scotland and on Merseyside.
firms, it may be that eventually the Irish Government will be able to scale down, or even abandon, the very generous assistance it now provides.

On the other hand, a recent study¹ of South Wales—an old "development area"—yielded rather less hopeful conclusions. The authors draw attention, for example, to the disquietingly high turnover of firms in the region. However, as regards the area's prospects for future unaided growth, they conclude that the question "remains an open one".

To decide whether an area of high unemployment offers good possibilities of sustained growth is indeed not easy. Yet it seems not unreasonable to suggest that administrators should make such an attempt, since otherwise there is a danger that some depressed areas, whose problems might be best approached on other lines, will become an increasingly heavy burden on the economy. Two observers of the British scene—where industry relocation policies are well tried—come to the conclusion that—

It seems doubtful whether the advantages to be secured from the present policy outweigh the advantages of leaving firms free... to choose their own locations and to meet the full cost of their factories wherever situated.²

It is difficult to subscribe entirely to this conclusion since, although it may not be possible to revive some areas except at a prohibitive economic cost, surely others offer a reasonable chance of success. And if, on account of the very high cost involved, it is decided not to locate firms in certain depressed areas, it is incumbent on the community to assist the inhabitants in other ways.

However, it may be decided on purely social grounds to resort to the more costly solution—i.e., industry relocation—in these areas. It may be felt, for example, that certain communities are worth preserving because of their cultural contributions to society, or perhaps in order to avoid the psychological repercussions which their breakup might entail. Frequently, migration from depressed areas is in fact regarded not as a solution to, but merely as a further regrettable symptom of, the difficulties which they experience. For example, Belgian legislation lists migration alongside high unemployment as a criterion for determining areas in need of assistance. Similarly, a Canadian government committee, referring to the "serious problem" in the "Atlantic region", stated that—

Over the long run there are only two solutions: either the people move out to better opportunities elsewhere, or better opportunities are made available to

them where they are. The massive migration of the population is neither socially nor economically desirable, and we reject this possibility.¹

And Swiss regional policy is intended to stem migration from the depressed mountain areas to the plains. If there is a wide acceptance of such views, then perhaps society, especially an affluent one, should be able to afford the more expensive remedy—and it may well be very expensive—and concentrate on bringing jobs to the workers.

¹ Report of the Special Committee of the Senate on Manpower and Employment, op. cit., p. 876.
CHAPTER XII

MEASURES DIRECTLY AFFECTING DISPLACED WORKERS

Usually measures of the kind examined in this chapter—resettlement and re-training assistance, public works schemes and unemployment benefits—are applied by the State in favour of all workers who have to find new jobs. However, there are cases where more elaborate facilities are provided for certain groups of workers.

In Western Europe coal miners and steel workers receive additional unemployment benefits and are provided with special re-training and resettlement facilities as a result of their governments' commitments under the European Coal and Steel Community Treaty. In the United Kingdom provisions were recently made for cotton workers dismissed as a consequence of the Government's reorganisation programme to receive severance payments and supplementary unemployment benefits. The Canadian Government at one time established training centres specifically for displaced textile workers.

While such measures are to be welcomed for any assistance provided over and above that available under general schemes, they are nevertheless open to criticism on the grounds mentioned in Chapter X. First, where their application depends on the operation of a particular disruptive force—for example, technological change, as under the original European Coal and Steel Community provisions—an element of uncertainty is introduced. Secondly, their limitation to a few groups of displaced workers may imply a certain lack of social justice, which in turn may limit their effectiveness. Thus, in the early days of the European Coal and Steel Community—

Governments probably did not ask for adaptation aid in all cases in which it might have been used. They were somewhat reluctant to give special treatment to the coal and steel workers for fear of the demands that would be made on them by others. ¹

¹ DIEBOLD, op. cit., p. 420. Even more significant was the statement by government officials that "too much publicity should not be given to the fact that Community workers benefited from an especially favourable arrangement compared to their comrades employed outside the Community". (Ibid., p. 415.)
The evidence presented in Chapter VII suggests very strongly that most workers who change their residence do so not on account of acute economic distress, but simply in order to improve their circumstances. These workers are not dismissed from their former jobs, but quit them when they obtain better employment elsewhere. On the other hand, those workers who, having been dismissed, sooner or later seek work elsewhere probably constitute a minority of the total number of workers moving to another area.

State assistance towards the cost of moving is usually provided only for unemployed workers.\(^1\) This has the effect of channelling the assistance to the group of workers who need it most—although this group includes not only workers who have lost their jobs because of structural changes, but also workers who are only seasonally or cyclically unemployed, and for whom a permanent transfer of residence would be inappropriate.

In the United Kingdom two schemes are operated side by side to deal respectively with cases of permanent and temporary adjustments.\(^2\) In France facilities have been operated specifically to encourage transfer of the factors of production, including labour, away from obsolete activities; in principle, this would seem to exclude cases of temporary unemployment. In other countries the discretionary powers customarily given to the local employment offices for applying the schemes are probably sufficient to restrict their operation to cases of permanent adjustment.

In some countries financial assistance for the resettlement of displaced workers is limited to unemployed workers in labour surplus areas. A limitation of this sort was, for instance, imposed at one time in both Sweden and the United Kingdom. In the light of some of the considerations set forth earlier, the application of this particular criterion does not seem justified. First, areas thus designated may not include some localities where a labour surplus nonetheless exists. Secondly, even in an area of labour shortage an unemployed worker may find that only by moving to another region can he follow his former occupation.

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\(^1\) However, in the Federal Republic of Germany, for example, a rather broader criterion is applied: aid is available to all unemployed and to those employed persons who have been given discharge notice or who, for special reasons, such as unsuitable current employment or employment at inadequate wages, are in need of another job. In the United Kingdom key workers required by a firm moving to a development area are also eligible for transfer assistance. This is a useful adjunct to regional policies and might therefore be of considerable indirect benefit to displaced workers.

\(^2\) Under the second scheme, the workers in question continue to be registered at their home employment office and must be prepared to travel there for employment interviews.
While the available evidence suggests that, when faced by such a choice, only a minority of workers elect to move, nevertheless it seems unfair that these workers should be denied the aid which they would have received had they lived in another area. Sweden has now in fact abandoned the requirement that, to be eligible for resettlement assistance, the unemployed worker must be moving from a depressed area—in spite of which the Swedish Labour Market Board finds it necessary to provide such financial aid for only one out of every five workers whom it helps to find work in another locality.¹

Schemes to promote the resettlement of displaced workers often include aid towards coverage of their travel, lodging and installation expenses.² Travel allowances, which appear to be common to all such schemes, cover the fares of the worker and his family to their new place of residence, together with transport costs in respect of household effects. The lodging allowance subsidises the cost of the worker’s lodgings or the upkeep of his former home (in the event of temporary separation from his family); usually this subsidy is paid only for a limited time. The installation allowance is a small lump sum intended as a contribution towards the additional installation expenses which the worker incurs, or simply as an incentive to move.³ In some cases—as in France—no distinction is made between the latter two allowances, a single “transfer” allowance being paid instead.

Before examining the level of these benefits, some brief comments are required on the form which they assume. An allowance for travel expenses is obviously very appropriate. Of the other forms, installation allowances would seem to be preferable to lodging allowances. The latter, tied as they are to the period during which the worker is maintaining two homes, may tend to delay his complete readjustment. How ready many displaced workers are to return to jobs in their former locality has already been pointed out, and even where there is no likelihood of this the worker may be tempted to maintain his former home as long as a lodging subsidy is available. If increased financial help were

¹ B. Olsson: “The Results of Employment Policy in Sweden”, mimeographed translation of an article published in Fackföreningsrörelsen (official journal of the Confederation of Swedish Trade Unions), Nos. 5-6, 1961.

² Normally the allowances are in the form of a grant, but in some countries or in some circumstances the local employment offices which administer the schemes can require repayment. Current legislative proposals in the United States provide only for 50 per cent. of an unemployed worker’s travel and transport expenses to be met by the Government (Phyllis P. Groom: “Retraining the Unemployed”, in Monthly Labor Review, Aug. 1961, pp. 823-824).

³ In Belgium, in addition to a travel allowance, an installation allowance is to be paid, which varies with the size of the worker’s family (Moniteur belge, 23 Mar. 1961).

⁴ See above, Chapter V.
given in other ways, some reduction might be appropriate in the period—which in some countries may be as long as two years—during which lodging allowances are paid. The European Social Fund makes no provision for a lodging allowance. A system of housing priorities, of the kind discussed below, might be more effective than lodging allowances as a mean of promoting the permanent resettlement of workers.

In contrast, lump-sum "starting" allowances can be readily justified either as compensation for the "psychological" costs involved in a change of residence or, alternatively, as an outright incentive to mobility. Furthermore, if there is unemployment in one area while in another expensive machines stand idle for lack of labour, the cost to the community of continuing unemployment may greatly exceed the cost of any incentives required to induce unemployed workers to move. For example, if one identifies the contribution to national income of the marginally employed British worker with, say, the average industrial wage of about £750 per year, it follows that the community will recoup in a matter of weeks the cost of his resettlement.

An increase in the level of resettlement assistance would probably raise the number of displaced workers moving to other areas to find new jobs. Indeed, a comparison of Swedish and British experience would suggest that this response might be large. In both countries the costs of travel expenses are reimbursed. In addition, in Great Britain a worker temporarily separated from his family receives 35s. per week towards the upkeep of his home for a maximum of two years. In Sweden the same worker, with a wife and two children, would receive roughly twice as much for a period of three months, but the allowance would be reduced to two-thirds of its original amount for the next three months, and to one-third for a final three months. The British Government pays the worker £10 towards other expenses; the Swedish worker receives approximately twice as much. In 1959 the number of workers receiving assistance under these schemes was of the order of 2,000 to 3,000 in Great Britain; in Sweden in 1960 it was closer to 10,000, although the Swedish working population is only one-seventh the size of the British.

It is, however, difficult to believe that the seemingly more enthusiastic response in Sweden is due entirely, or even mainly, to the somewhat higher rates of financial assistance paid there. A consideration which is probably of equal importance is the degree of administrative vigour with which the measures are applied. Measures designed to encourage the

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movement of population out of particular areas invariably arouse some local opposition, and consequently local employment offices may well be reluctant to advertise the availability of resettlement aid.\(^1\)

There is little doubt that in Sweden the cautionary approach to which such public reactions generally give rise has been largely abandoned, and a great deal of emphasis is now placed openly on the desirability of labour mobility. Although the Swedish Government has powers to relocate industry, measures to promote labour mobility are always attempted first. Indeed, even the radio is used to advertise vacancies in various parts of the country. In contrast, in some countries very little effect is given to any resettlement provisions which exist.

Yet even if labour mobility can actually be increased by generous and widely advertised financial assistance measures, the number of workers ultimately assisted may still be quite small in relation to the total labour force. The principal explanation, no doubt, is that much of the reluctance to change residence is due to non-pecuniary reasons.\(^2\) Financial assistance cannot remove these difficulties. If it is sufficiently generous, the assistance may offset the drawbacks of a move in the eyes of some displaced workers—although at current levels it probably does not even meet the monetary costs of removal in most countries. But even at a rate where it would provide the workers assisted with an actual capital gain, it is still unlikely that many could be induced to move. In the words of a British authority—

"It would be idle to suggest that bigger grants would solve the problem of immobile labour, although they have clearly had some effect in Sweden.\(^3\)"

Although the contribution of generous resettlement schemes to the solution of structural labour problems may be quite small as measured by their effectiveness in increasing labour mobility, such schemes are nonetheless desirable. First, the problems of structural labour adjustment are such that even minor contributions to their solution are welcome. Secondly, helping the worker to move avoids the continuing cost to society which some other approaches involve.\(^4\) Resettlement allowances are also cheap as compared with unemployment insurance and public works. The average resettlement allowance paid to migrant

\(^1\) The variety of the opposition which can be aroused was illustrated by the scheme of the E.C.S.C. and the French Government to move a large number of displaced coal miners from the Centre-Midi to Lorraine. Local politicians, officials, commercial interests, religious bodies and trade unions combined to encourage the workers not to move (Diebold, op. cit., p. 408).

\(^2\) See above, Chapter V.

\(^3\) Odber, op. cit., p. 227; see also B. Olsson: "The Results of Employment Policy in Sweden," op. cit., p. 3.

\(^4\) See above, Chapter XI.
Swedish workers would have provided them, as alternatives, with less than two months' unemployment insurance or less than five days' employment on public works.

In short, workers who are willing to move to available jobs solve their unemployment problem in a manner that is usually relatively cheap, so far as society as a whole is concerned, but which may involve considerable disruption of their own and their families' lives. These facts strengthen the case for resettlement allowances which will not merely compensate them (in so far as the difficulties and disadvantages to which a move may give rise are amenable to financial compensation) but will provide them with a positive incentive to move.

Overcoming housing shortages would ease the difficulties of mobile workers in general; but a more specific contribution towards solving the problem can be achieved by gearing housing policy to the needs of workers affected by structural adjustments in particular. Thus in Sweden, for example, areas with expanding employment opportunities and a shortage of labour receive priority for building permits, and new houses have in some cases been reserved for unemployed workers who move in from areas of high unemployment.

Should the displaced worker be in a position to buy a house, his willingness to seek employment in other areas might be greater, but of course the majority of displaced workers are not able to contemplate this. A policy of government assistance towards house purchases might therefore have some merit. The United Kingdom measures mentioned in the following paragraph will go a little way towards encouraging home ownership among displaced workers.

Where a displaced worker in a labour surplus area owns his own house, the difficulties of selling it may make him reluctant to move. The importance of this factor will, of course, vary between countries according to the extent of home ownership among workers. In the United States it may be a factor of some importance; in Western Europe it can hardly be so as yet. Nevertheless, in the United Kingdom the Government will reimburse 50 per cent. of any legal fees, up to a maximum of £50, which such a worker incurs in the sale of his house. Similar help is also available for the purchase of a house in the new area.\(^1\) An indication of the limited scope of such measures in Western Europe at the present time is given by the fact that in 1959 a mere 94 grants were made under this heading in Great Britain.\(^2\)

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RE-TRAINING FACILITIES

Adult training facilities are not necessarily limited in their operation to workers who are unemployed or about to be dismissed. Indeed, government measures in this sphere may be more concerned with wider manpower questions such as improving the quality of the labour force or remedying particular shortages. Thus in Belgium a programme for vocational training organised by the National Employment Office makes training available on a national scale to employed as well as unemployed workers. In the Netherlands re-training centres accept any males over 18 years of age if they have not already received vocational training, or if their training is now outmoded, or if they are unable to obtain jobs in their own trades. In recent years the total number of trainees in French centres has been of the order of 30,000. Yet, in 1960 only about 3,500 of these were undergoing re-training.

Concentrating attention on the size of groups such as the latter, which more closely reflects the assistance provided for adjusting workers under training schemes, we find, for example, that in Belgium the number of unemployed workers re-trained in 1960 was only 1,900. Similarly, in the Netherlands a quarterly average of 2,900 workers were undergoing vocational "readaptation" in 1958. In Norway about 3,000 unemployed or partially unemployed workers participated in courses of vocational training in 1960/61. In Canada 4,600 unemployed workers were given training courses in 1959/60.

Yet, among the unemployed who offer themselves for re-training many may owe their unsatisfactory employment outlook to physical incapacity rather than to structural disruptions. For example, out of

1 This section is concerned with re-training facilities provided by public authorities. On re-training by individual undertakings see Chapter VIII.
2 The re-training scheme operated by the European Social Fund, however, affords facilities only to unemployed workers (regulations of the European Social Fund, articles 1 and 2). Some re-training programmes are open only to unemployed workers in depressed areas and may help to attract new firms. For example, $4.5 million has been set aside under the United States Area Redevelopment Act for training workers in redevelopment areas, although current legislative proposals would provide such facilities on a national scale.
4 Communauté économique européenne: Exposé sur l'évolution de la situation sociale dans la Communauté en 1959, June 1960, p. 203. Since 1954 about 17,000 French workers have been re-trained (Journal officiel de la République française, Avis et rapport du Conseil économique et social, No. 11, 3 May 1961, p. 459).
5 Office national du placement et du chômage: Communiqué mensuel, 12/60 (Brussels, Ministère du Travail).
7 Department of Labour: Annual Report 1960, p. 71. The above figure is approximately double that for 1956/57.
5,075 persons who in 1959 were trained in Great Britain, as many as 65 per cent. were in some degree disabled. At the very most, only 13 per cent. could be considered as victims of structural change. In fact, this 13 per cent. was said to embrace—all sorts of people who have hitherto not settled down.¹

Bearing in mind the hazards of generalising, it would seem that in view of the many structural adjustments which constantly have to be made in an industrialised economy, the contribution made by re-training facilities to the solution of structural labour problems is rather small. It does not seem that the reason, generally speaking, is a shortage of re-training facilities, although this may be the case in Sweden and Canada.² In Great Britain it would appear that facilities exist for training larger numbers of workers.

It might be thought that in some cases the cost of re-training workers might dissuade governments from encouraging them to seek re-training. These costs include not only wages paid during the training period, but also material and equipment expenses. Some idea of the importance of these latter items can be gained from the fact that, under the regulations of the European Social Fund, their cost is estimated at fully one-third of labour costs (including travel allowances).³ Furthermore, these costs have to be met throughout each worker’s training period, which in Great Britain, for example, is about six months, in the Federal Republic of Germany four to six months, and in the Netherlands five to 12 months. However, as with resettlement provisions, it is most likely that society will more than recoup such an outlay as a result of the successful readjustment of the workers. It would seem that in Canada, approximately 240 dollars are spent on re-training an unemployed worker, an amount which, at the current level of earnings in manufacturing industry, would be recouped in as little as three to four weeks.⁴ And in Great Britain, at least, Ministry of Labour placement officers have standing instructions to point out the existence of the courses to suitable men and women.⁵

Alternatively, it may be that the use made of existing facilities by displaced workers fails to come up to expectations. In this connection it must be recalled that the number of workers who require re-training

¹ Annual Report of the Ministry of Labour, 1959, op. cit., p. 46. The balance of 22 per cent. in the percentages given was composed of ex-regular members of the forces.
³ Regulations of the European Social Fund, article 5.
⁵ Acton Society Trust: Redundancy No. 1, p. 24.
as a prelude to readjustment will, under normal circumstances, not nearly approach the total number adversely affected by a given structural change.¹ When policies followed by the Swedish Government resulted in the redundancy of 10,000 building workers, a programme was organised to re-train them for the metal trades. But in the event, the labour market gradually absorbed the unemployed and only a small proportion attended the courses. Similarly, out of 1,100 workers discharged by three French steelworks only 40 were specifically noted as having taken the re-training course supported by the E.C.S.C.²

Some displaced workers find jobs in their old occupations; many others obtain employment in new occupations requiring little or no training or are transferred to other jobs within the same undertaking, after being re-trained by the latter. Where opportunities exist for immediate re-employment, it is only natural that workers should take them in preference to undergoing a re-training course. For, although the allowances paid by governments during the training period can be generous, only infrequently will they be as high as the earnings offered by an immediate transfer. For example, in the United Kingdom a single man living at home is paid £4 19s. per week; a married man with one child having to leave home for the training period, £6 1s. and the cost of his lodgings.³

Yet workers have been known to prefer unemployment even when exceedingly generous allowances are paid for re-training. In Belgium, despite the fact that the E.C.S.C., in conjunction with the Government, offered unemployed miners their full previous wage during re-training, only a small proportion of the miners receiving readaptation payments, in 1958 and 1959 were in re-training centres. In part, this may have been due to the high unemployment benefits received as an alternative (even though they still involved some financial loss by comparison with the re-training provisions). In part, however, it was due to the fact that the miners hoped to find jobs in other pits. Such reluctance to prepare oneself for a new occupation may be more typical of older workers: out of the 3,370 workers who completed training courses in the Netherlands in 1953, almost three-quarters were under 30 years of age.

A further explanation of the apparent reluctance of displaced workers to be re-trained is that they may have to leave home during the training period. With only 14 government training centres for the whole of Great Britain, for example, chances are that a worker seeking to be re-trained would have to accept such a move. Many re-training schemes,

¹ See Chapters V and VII.
in fact, include provision for lodging allowances. The problem might be to a considerable extent avoided if private enterprises were encouraged to carry out training on behalf of the State; provision is made for this in the regulations of the European Social Fund. In Sweden, re-training courses are started, cancelled or moved according to need. They may be set up in factories, regular vocational education institutions, empty premises of trade schools, or provisional locations such as a vacant garage.

Lastly, there is evidence that some displaced workers are not capable of being re-trained, at least not through the methods currently in use. For example, in the United States automobile industry many workers dismissed because of rationalisation either did not have aptitudes for the particular skills to be taught or were considered incapable of re-training.

Despite all these considerations, the scant use which appears to be made of re-training facilities by displaced workers remains something of an enigma. Given that governments are not unwilling to provide these facilities, and that the workers themselves are much more ready to undertake a change of occupation than, say, a change of residence, it is difficult to understand why in many countries the numbers re-trained remain quite so low.

This apparent failure to realise the full potential of re-training measures is all the more serious since in those cases where they have been used they have met with considerable success. The following table sets out the subsequent employment experience of Dutch workers who completed training in 1952 and 1953:

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage of total number trained</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1952</td>
</tr>
<tr>
<td>Employed in the job for which they were trained</td>
<td>67</td>
</tr>
<tr>
<td>Employed in some other job</td>
<td>18</td>
</tr>
<tr>
<td>Unemployed</td>
<td>4</td>
</tr>
<tr>
<td>Unaccounted for</td>
<td>11</td>
</tr>
</tbody>
</table>

Of the British workers who completed their training in 1959, 95 per cent. were placed in employment in the trade in which they were trained —77 per cent. immediately and 18 per cent. within a short time. In one

1 It is possible that the subsidy which firms would require from the State for training displaced workers would be less than the cost incurred by government re-training centres. The European Social Fund is prepared to pay towards capital and material costs in the latter, but in the case of the former it limits its contribution to the labour costs involved (regulations of the European Social Fund, article 5).


French region 88 per cent. of the workers trained in the preceding five years as bricklayers were following this occupation in 1956; corresponding figures for plasterers and plumbers were 80 and 72 per cent. In Sweden—

The occupational results of re-training have been extremely good. A great majority of the persons re-trained have been placed almost at once in jobs in the open market.1

On the other hand, the range of trades for which re-training is generally offered might be criticised as too narrow. Of persons admitted to French courses in 1954, 97 per cent. were trained for the building or metal trades, although an effort is now being made to broaden the scope of these courses. The same two sectors accounted for 68 per cent. of the Belgian workers rehabilitated in 1960 2, and for all the workers re-trained in the Netherlands in 1958.3 The British scheme has also trained many workers for the building industry.4 In Sweden, it was recently reported that, although 60 occupations were represented in the training courses, most of them were in the mechanical engineering field.5

One explanation may be that the trades chosen are those in which instruction is most easily and cheaply given in government centres. If a wider variety of openings could be provided by subsidising re-training within the industry itself, this would be another reason why schemes should be developed in this direction. This is in fact a practice in Western Germany, Sweden and France, for example, and current legislative proposals in the United States would provide on-the-job training.6 However, in the United Kingdom, training outside government training centres was as recently as 1959 open to “disabled persons and ex-Regulars” only.7 One reason why it might be advisable to reduce the preponderance which building trades have assumed in re-training schemes is the vulnerability of this industry to employment fluctuations: there is clearly little purpose in enabling workers to avoid structural unemployment only at the risk of exposure to the seasonal or cyclical variety.8

3 Bulletin trimestriel de statistique, loc. cit.
4 Acton Society Trust: Redundancy No. 1, p. 23.
6 Phyllis P. Groom: “Retraining the Unemployed”, loc. cit.
8 In the Belgian province of Luxembourg, attention has been drawn to the fact that “re-training is directed mainly towards the construction sector, even though this sector already has the highest level of unemployment!” (P. Rousseaux: La Province (footnote continued overleaf)
PUBLIC WORKS

It may be doubted whether the employment of structurally displaced workers on public works schemes can make a major contribution to their readjustment. In fact, public works distribute employment opportunities more effectively over time than over space, and in consequence they are more appropriate—and more frequently used—for dealing with cyclical and seasonal rather than structural unemployment.

Some depressed areas, forsaken by industry and passed over by governments in their choice of regions for development, will have little real need for the additional roads, schools, dams and electrification schemes which public works generally provide. Moreover, such schemes can constitute an indefinite source of employment in any one locality only at the risk of becoming "make work" projects. Not only would such a development be psychologically bad for the workers concerned, but it would also represent a failure to reabsorb the displaced workers into useful activities, and thus tend to neutralise any beneficial effects of the original structural change.

No doubt, for a given amount invested the volume of employment provided by public works schemes is usually high by comparison with other economic activities. However, in gauging the expensiveness of public works as a method of reabsorbing the structurally unemployed, it is preferable to compare their cost with that of other measures, such as resettlement schemes, having the same objective. The considerations set forth in the previous paragraphs suggest that such a comparison is not to the advantage of public works.

Furthermore, where public works are resorted to as a means of providing jobs for structurally displaced workers, difficulties may be encountered which limit the success of the plan. In particular, much of the work involved will be new to many of the workers and for some—especially the older ones—it may prove difficult. This is particularly true of construction work. In Sweden, for example, it has been found that—

There are unemployed who, owing to their previous occupations, special qualifications, age, or other personal circumstances, are not suitable for placement in road work, building, or forestry work.¹

Despite these shortcomings, public works schemes merit a place, if a fairly minor one, in the armoury of weapons aimed at solving structural unemployment problems, since they can help to provide workers with

¹ G. OLSSON: Employment Policy in Sweden, op. cit., p. 5.
temporary employment until a more permanent solution is found. In Sweden they are used for just that purpose. Moreover, in areas of high unemployment to which it is hoped to attract new industries, public works schemes, besides providing temporary employment for the unemployed, may also supply the infrastructure needed to attract new firms.

Thus, in dealing with structural change, public works schemes can, by providing temporary support for the workers—but not a permanent solution to the basic problem—fulfil a role similar to unemployment compensation. Where they can be quickly organised and where there is a real need for more social capital, they may in fact be preferable to the latter. Of course, public works schemes remain of considerable value in dealing with temporary unemployment problems such as those caused by general economic recessions or seasonal factors.

Unemployment Compensation

The greater the success achieved with measures to prevent unemployment, the lesser the need for action to relieve the hardships of those who do become unemployed. Leaving aside its power to stem the regional spread of an industry decline by stimulating consumption, unemployment compensation cannot be considered a positive measure in the sense of providing alternative jobs for displaced workers. It is, nonetheless, a very important ingredient in the mixture of policies that are needed to deal with unemployment problems. For, whatever measures are undertaken, now or in the future, frictional unemployment as a consequence of structural change cannot be entirely avoided. However, it is not sufficient merely to advocate the retention of unemployment insurance schemes; questions arise regarding the form which such schemes should assume.

The maximum unemployment period for which benefits are payable varies considerably. However, out of a group of 22 countries whose schemes have been compared, 15 had a maximum benefit period of six months or less. In situations of purely cyclical unemployment, where in

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2 See above, Chapter IV.
3 The European Economic Community has chosen, in its social provisions, to reinforce only those member government measures, such as facilities for re-training and resettlement, which are concerned with the actual readaptation of displaced workers. Unlike in the corresponding provisions of the European Coal and Steel Community Treaty, no provision is made for the payment of unemployment compensation.
4 See I.L.O.: Unemployment Insurance Schemes, Studies and Reports, New Series, No. 42 (Geneva, 1955), pp. 181-182. The majority of these 22 countries were industrialised ones.
the normal course of events the affected workers can expect to be back in
their old jobs within a reasonably short period, the operation of a six-
month time limit may not be too injurious to the welfare of the unem-
ployed. In contrast, unemployment as a consequence of structural
change can in some cases endure for periods well in excess of six months.
In the United States in July 1960, more than half a million workers had
exhausted their benefit rights.¹ The Temporary Extended Unemploy-
ment Compensation Act, 1961, by providing additional (but not un-
limited) benefits out of federal funds, will ease this situation. But the
measure is only temporary, expiring in 1962.

That many workers unemployed as a result of structural adjustments
exhaust their unemployment benefits does not imply that they are then
denied any form of state aid. Often they will be eligible for public
assistance. Unfortunately, in some cases this form of state support seems
to be rather uncertain in its operation. In the United States, for example,
Senator Douglas has pointed out that the federal system of grants-in-aid
for public assistance does not provide aid for workers who have exhausted
their unemployment compensation rights, and that state programmes for
general assistance vary widely and generally are inadequate to meet these
workers' needs.² Moreover, public assistance is a form of state aid to
which a certain social stigma is attached and, however suitable it might
be for other purposes, it is hardly an appropriate form of assistance for
individuals suffering involuntary unemployment. A case can therefore
be made out for removing the limit on the duration of unemployment
benefit, or at least for extending it.

An obstacle in the way of an extension would, of course, be the extra
cost involved. True, the numbers of unemployed whose requirements
exceed the present limits are usually, relatively speaking, quite small.
In Canada, for example, it was found that over a period of five years
only 3.5 per cent. of unemployed workers drew benefits for a period in
excess of 30 weeks. A Swedish survey showed that only 19 per cent. of the
unemployed were without jobs for more than two months; and in the
United States, from 1946 to 1953, those who remained jobless for more
than 26 weeks represented only 7 per cent. of the total. But those
workers who do remain unemployed beyond the statutory limit often
remain so for a considerable time, so that abandonment of the upper
limit placed on the duration of benefit might in fact entail appreciable
additional costs. Nevertheless, an extension of the period of entitlement
would seem justified on the ground that groups adversely affected by

¹ Labor's Economic Review, July 1960, p. 43.
structural changes should be entitled to compensation out of the benefits
which society as a whole derives from such changes.\(^1\) Governments
could accomplish this either by meeting the extra cost out of general
revenue or—if it were desired to maintain the insurance principle—by
increasing the size of contributions.

The payment of unemployment benefits for an unlimited period is
certainly not impracticable. Such schemes are already operating in
Australia, New Zealand, Yugoslavia, Belgium and France. In the latter
two countries the fact that the authorities can terminate payment of
benefits in cases where beneficiaries refuse to seek employment or where
offers of employment in the district are numerous minimises the risk of
abuse. Should the cost of an extension be considered too high, there
remains the possibility of removing the limit in the case of older workers
only; the Norwegian Government can now extend the unemployment
benefit period in respect of workers over 50. In view of the adverse
effects of structural changes on older workers, such a relaxation should
help considerably. Alternatively, those older workers dismissed as a
consequence of structural change who find it impossible to readjust might
be offered the opportunity of an early retirement. In the Federal Republic
of Germany an old-age pension is payable to a man from the age of 60,
instead of the normal 65, if he has been unemployed for at least one
year.

There is also a fairly general feeling that the level of unemployment
benefits is too low. For example, a Canadian Senate Committee,
pointing out that in 1960 more than half the number of beneficiaries
received $24 or less per week, commented—

We think it is unreasonable to expect individuals and families to live on this
level of income. We strongly recommend that unemployment insurance
benefits be increased substantially even if this means a much larger subsidy by
the Government.\(^2\)

Referring to what he considers to be unduly low levels of unemployment
benefits in the United Kingdom, one author writes—

\(^1\) The case for an extension of state unemployment compensation appears all the
stronger when it is realised that the burden endured by structurally unemployed
workers could probably be appreciably lightened even by its redistribution among
themselves. Since the majority of these are unemployed only for very short periods,
an extension of the "waiting period" (during which benefits are not payable) to, say,
two or even three weeks would finance a very considerable increase in the duration
limit. The difficulties faced by the more easily adjusting workers would be perceptibly
increased, but since the need for assistance is least during the initial stages of unem¬
ployment, the transfer of benefits to the long-term unemployed would almost certainly
lead to a net reduction in hardships. However, from the point of view of equity and
welfare, meeting the cost out of general revenue would seem a far preferable solution.

\(^2\) Proceedings of the Special Committee of the Senate of Canada on Manpower and
Employment, No. 24, Appendix submitted by the Governor of Saskatchewan (Ottawa,
Undoubtedly, social justice demands, if anything, that these agents of progress should be given an increased income to compensate for the unsettling of their lives rather than find themselves subject to a drastic reduction.\(^1\)

In fact, changes in the pattern of earnings which result from structural adjustments are such that considerable care needs to be exercised when fixing the form and level of unemployment benefits. When a worker loses his employment he may have to accept another job with lower pay. While it is generally felt that society has a duty to provide him with new employment, it would not be feasible to guarantee him his former earnings in perpetuity.\(^2\) This has two points of relevance to the present discussion. First, if unemployment benefits were to be payable for an unlimited period, then it would seem inappropriate to allow an unemployed worker to refuse a job on the ground that it would involve a fall in earnings.\(^3\) Secondly, although the vast majority of workers do not react in this way, there have been individual cases in which a comparison of potential earnings with the unemployment benefit has led a worker to make a deliberate choice in favour of the latter. Therefore the level of unemployment benefits may have to take account, as far as possible, of the fact that the displaced worker may have to accept a lower-paid job; otherwise, the necessary incentive for him to look for work may be lacking.

The two basic forms of benefit are graduated benefits (i.e., the payment of a percentage of previous earnings) and flat-rate benefits. The former method affords less incentive to the worker to take a new job when the only ones available pay a lower wage than that previously earned. This drawback will, of course, be accentuated where no limit is imposed on the duration of the benefit. Perhaps significantly, in only one of five countries where no such limit exists (Yugoslavia) is a system of graduated benefits applied: in Australia, New Zealand, Belgium and France a flat-rate benefit is paid. Yet even a flat-rate benefit, if sufficiently high in relation to average earnings, can hinder re-employment.

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2. However, as noted earlier, some redundancy schemes, in recognition of the hardship entailed by a fall in the level of living, provide for wages in such cases to be "made up" to the former level for a certain time, so as to give the worker an opportunity to gain promotion or a wage increase that will leave him not worse off than before. In other cases premiums are paid to employees for whom the disruption has involved a loss of earnings. However, these premiums can be rather small. For example, under the provisions for compensating operatives affected by the recent United Kingdom cotton industry reorganisation scheme, a 42-year-old operative who previously earned £10 per week, and who, after four weeks' unemployment, got a new job at £8 a week, received only £4 13s. for his loss of earnings.

3. In the United States, for example, "the clear intent of the law . . . is to permit a worker to refuse a job involving a substantial downgrading of his usual skill or pay level". However, "as his period of unemployment lengthens, he may be expected to lower his standards". (M. S. Gordon and R. W. Amerson: Unemployment Insurance (Berkeley, University of California, 1951)).
If it is considered especially desirable to prevent too sudden a deterioration in a worker's circumstances, an unemployment benefit which, commencing at a fairly high level, is then gradually reduced over time may provide a reasonably satisfactory solution. Such a scheme has been operated in France, where the flat-rate benefit is reduced by 10 per cent. for each year of unemployment. Yet, by its failure to take account of individual workers' earnings prior to dismissal, a progressively diminishing flat rate may have little success in tempering the shock for the more highly paid workers.

It may be felt that unemployment insurance schemes should seek to achieve a compromise between these various considerations—i.e., that they should provide adequate resources for the worker regardless of the length of his unemployment without, however, reducing his willingness to accept lower-paid work, and also without involving an abrupt fall in his income. Perhaps the type of scheme which would best meet this criterion would be one in which benefits were initially varied according to previous earnings, but tapered off to a point at which a uniform flat rate was paid indefinitely. Unemployment benefits which have been paid by the E.C.S.C. would seem to go some way towards this ideal. Under one scheme, benefits in the full amount of the previous wage are paid during the first four months of unemployment, the proportion being reduced to 80 per cent. during the second four months, and to 60 per cent. during the third four months. The scheme's shortcoming is its failure to provide for prolonged unemployment.

One should not, however, over-stress the case for limiting unemployment compensation in order to prevent malingering by individuals. The average standard of living and the rate of growth of income in many industrial countries are such that one may reasonably ask whether it would really matter a great deal if some few people preferred unemployment compensation to work and "got away with it". This might make for much less loss of welfare in the aggregate than a system under which all unemployed are entitled only to meagre compensation for a short period.

It has sometimes been suggested that a worker who can only be re-employed in a lower-paid job should receive compensation in the form of a government subsidy. The European Coal and Steel Com-

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2 It is pointed out in Chapter VIII that employers sometimes provided temporary earnings support when "internal transfers" involve downgrading.
munity has operated a scheme under which the earnings of such workers are made up to the net wage previously earned for a period of one year following dismissal.\(^1\) In the United States it has been suggested that unemployment benefits might be continued for a year after re-employment at a reduced rate equal, for example, to the difference between the current and three-fourths of the former rate of pay.\(^2\) While it would be difficult to defend the payment of such a subsidy on a permanent basis, there is a great deal to be said for a temporary measure of this sort. The fact that one worker receives a higher income for performing the same task as a second would be more acceptable to the latter if it were only temporary. It could be justified as a form of compensation for the readjustment imposed upon the first worker in the interest of society as a whole.

Under the regulations of the European Social Fund \(^3\), financial assistance is to be provided towards maintaining the former wage level of workers adversely affected by a process of product conversion or reorganisation, and the predicament with which this measure deals—in principle at least—is essentially a temporary one. Aid of this kind might have the effect of increasing the willingness of industrialists threatened by structural change to undertake product conversion. For reasons discussed in Chapter VI, however, the scope for and benefits of product conversion may be somewhat limited.

A few words may be added about methods of financing unemployment insurance schemes. In general, the faster the pace of structural change, the greater both the benefits derived by society and the amount of frictional unemployment are likely to be. This suggests that the contribution which society can make out of general revenue to unemployment insurance funds should be a substantial one. In fact, however, the contribution of the authorities to these funds varies from 100 per cent. in France and Luxembourg to nil in Austria, the Federal Republic of Germany, Australia, Italy, Yugoslavia and Greece.

Usually, an employer's contribution to the fund varies only with the size of his labour force or wage bill. However, in the United States an attempt has been made to discourage dismissals by varying the con-

\(^1\) Sixth General Report, op. cit., p. 190; and Seventh General Report, op. cit., p. 226.

\(^2\) Staff Papers 1954, p. 395.

\(^3\) Articles 9-15. Such assistance is to be given where there is a change in the production programme of an enterprise leading to the manufacture of a new item. The protection provided covers both workers completely laid off and employees temporarily occupied in less remunerative employment. The Commission will pay half of a member government's expenses incurred in applying this provision, provided that the government concerned had given prior consent to the firm's plan, and that the workers concerned had eventually been re-employed for at least six months.
tributions according to the dismissal record of individual employers—a method known as "experience rating". The variation of contributions "from industry to industry according to actuarial risks" has also been proposed for the United Kingdom. Also, where separate unemployment funds are established in different regions of the country—again, for example, in the constituent states of the United States—the contributions of employers and workers will vary with their location.

Several criticisms can be levelled at such schemes. First, the aim of unemployment insurance to spread the risks of unemployment is jeopardised; in effect, particular groups of the community have to carry a disproportionate part of the burden of structural adjustment. Secondly, differential employer contributions give rise to an increase in unit labour costs in a firm adversely affected by structural change. These will add to the many forces, examined at some length in Chapter III, which can make for a cumulative decline. Thus it has been pointed out that the United States system of "experience rating" can penalise the very industries which are particularly prone to unemployment. Even within industries, the effect of experience rating on the cost differentials of firms can be substantial. The contributions paid by different firms range in almost all United States industries from as little as 0.1 per cent. of the payroll to more than 2.7 per cent. Thirdly, in the case of regional variations, the outcome is unsatisfactory since contributions will tend to be above average in areas of high unemployment. This localisation of the burden will in turn tend to reinforce factors making for a cumulative regional decline.

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1 Acton Society Trust; Redundancy No. 2, p. 36.
2 Denmark, Finland, the Netherlands, Norway, Sweden and Switzerland also maintain separate local funds. In these countries, however, a system of reinsurance is in effect provided on a national basis by means of equalisation funds or through substantial state subsidies.
CHAPTER XIII

CONCLUSIONS

THE NEED FOR STATE ACTION

Many societies throughout the world have in the past chosen to resist change and have, as a result, stagnated for centuries and even millenia. Modern industrial society, by contrast, has accepted and adapted itself to changes that have given people longer lives, better health, more education and vastly more material wealth—and have given these things to a population many times larger than would have been conceivable 200 years ago. Spreading widely throughout the world, the spirit of change has generated a revolution of rising expectations—expectations that can be fulfilled only if structural change continues and spreads further.

Much of the required adjustment to structural change comes about spontaneously with little or no hardship. In other cases, however, the gains it produces are bought at the cost of much trouble and hardship. Typically, as this study has repeatedly emphasised, the gains in any particular case are widespread, while the costs fall upon a small group. Society benefits from changes that make available new goods or services, or goods derived from new sources or produced by new and more efficient methods. There is growing recognition that it has, in return, a responsibility for compensating the victims of change as far as possible, and for helping them to make a satisfactory adjustment to new conditions so that the benefits and costs of material progress may be more equitably shared. Apart from any moral obligation, society has a material incentive to act in this way, since such action can contribute greatly towards overcoming resistance to change which otherwise would slow down progress and the growth of wealth.

Private arrangements, and in particular redundancy procedures and other arrangements negotiated between managements and trade unions,

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1 It is worth pointing out that gains from economic changes may in some cases be disproportionately small in relation to accompanying hardships. An analysis of the precise conditions in which such changes represent a net gain to society might be of considerable interest.
have an important part to play in this connection; but they are not enough. Private individuals, for one thing, may lack sufficient incentive to undertake socially desirable measures. For example, although the re-training of displaced workers may be both socially and economically desirable, individual employers may well be unwilling to undertake this task, fearing that the workers will be "poached" or will move to other jobs. Again, without government aid manufacturers may be unwilling to locate in a depressed area, although this again might be socially desirable. Another reason why private arrangements are not enough is that, whenever structural changes affect the owners as well as the workers of an undertaking, as many do, private arrangements may merely mean a transfer from one adversely affected group to another. Society, which is the real beneficiary, makes no contribution. Furthermore, it should not be overlooked that it is mainly older workers who suffer from structural adjustments and that, for example, in a given trade union these usually form only a minority, so that less attention may be given in collective bargaining to provisions designed especially to further their interests than to those intended to promote the interests of the membership as a whole.

For such reasons it seems clear that it is mainly through the instrumentality and initiative of the State that a more equitable sharing of the benefits and costs of material progress can be brought about. Besides negotiating private arrangements, employers' and workers' organisations may participate in formulating and administering national measures to this end.

As the preceding four chapters have shown, a considerable measure of social responsibility in this field is already recognised and accepted. Indeed, this study has suggested no measures to deal with adjustment problems which have not already been tried in some countries in some form. But, with growing prosperity, the limits to what it is reasonable to do by way of help and compensation for the victims of change are continually being extended. In the many countries that have experienced rapid economic growth in the past ten years, measures that might have seemed liberal ten years ago would be niggardly today. Existing measures, therefore, need to be kept continually under review and developed and expanded as means and opportunity permit. Devoted to this purpose, even a small part of the annual increase in national incomes could make an enormous contribution towards relieving one of the major remaining sources of economic hardship in the more affluent industrial countries. If more has not been done to help the relatively small number of victims of structural change, it can hardly be argued that this is because these countries cannot afford to do more.
POSSIBLE LINES OF ACTION

For convenience, some of the lines of action described or suggested in this report are summarised below. These include two main types of measures—those which seek to facilitate adaptation, and those which seek to compensate the victims of change (though some measures seek to combine both purposes to some extent).

Measures to Facilitate Labour Adjustments

Redundancy Procedures.

The discussion in Chapter VIII of redundancy measures adopted by joint agreement between management and workers has suggested that wholesale development and extension of such measures would not satisfactorily meet the problem posed by structural labour force contractions. Indeed, certain redundancy procedures now in common use must, from this point of view, be judged with considerable reserve. For example, it is difficult to believe that large-scale resort to short-time working or even layoff procedures—useful as such measures may be in purely temporary emergencies—makes any very useful contribution to minimising the adjustment problems of workers involved in structural changes; conceivably, it might even aggravate the situation. On the other hand, there would seem to be scope for expanding or improving redundancy schemes in other directions. It does appear, for example, that more weight might be given to purely social considerations when deciding dismissals; that notice periods could often be longer; that internal transfers might sometimes be resorted to more extensively; and that private unemployment compensation and re-training facilities could be expanded.

It may be felt that the scope for measures of this kind is limited by the fact that ultimately they may lead to a loss of efficiency and an increase in the firm's operating costs, thereby complicating rather than helping to solve the workers' adjustment problems. Perhaps this argument might be met, to some extent at least, by novel applications of the insurance principle, whereby firms adopting such measures would receive compensation for a time out of a fund to which they would not have made any disproportionate contribution. Or subsidies might be payable out of general revenue. In either way, a good deal could be accomplished to ensure that all firms and industries applied a comprehensive set of redundancy measures and developed them to a reasonable degree. Progress in this direction is all the more important when it is remembered
that, for a variety of reasons, there is probably a bias towards least protection just where it is most needed. In countries where dismissal procedures are customarily a matter of law, government action may be needed to achieve the desirable degree of standardisation. In other countries, trade unions might be a more suitable organ for achieving greater uniformity in the protection which workers enjoy.

Severance payments, in particular, promise to be such a powerful tool for compensating individuals adversely affected by structural adjustment that here the case for state action appears to be particularly strong. Preferably, governments might formulate an obligatory reinsurance scheme with, perhaps, the State itself contributing to the fund from which payments to dismissed workers would be made. This would ensure that all workers would be equally protected in the event of dismissal and, if the scheme were suitably devised, declining firms need not be encumbered by any additional costs that would complicate their contraction—costs which in any case are more appropriately borne by the whole of society. Administrative procedures might, of course, have to take account of the possibility that certain firms might dismiss some workers and then take them on again after a period too short to involve real hardship.

Finally, if—as may be the case in some countries—measures to extend insurance or subsidies can only be contemplated as a relatively long-term objective, further improvements in private redundancy protection might be sought in the meantime. It is by no means clear that in all countries they have yet been developed to an optimum extent.

Measures on Behalf of Individual Industries.

Just as the measures reviewed above aim at easing the readaptation of workers by regulating the manner in which they are released by a contracting firm, so can sectoral policies of the type discussed in Chapter X contribute to the same goal, albeit in a more indirect way. Such policies may be aimed either at helping an industry prevent a decline or at ensuring a smoother and more gradual contraction process—although, of these two approaches, the former may be advisable only in a minority of cases. The disruptive competitive differential may be large and widening, and subsidising investment in an attempt to close the gap may well lead to a waste of resources. Moreover, even if some success is achieved technological improvements in a declining market are often not to the benefit of the industry's labour force. In contrast, state action to promote the orderly contraction of a "senile" industry, hitherto a relatively untried device, seems to offer a very useful means of easing labour's readaptation problems, and might well be applied on a
wider basis. There would seem to be considerable scope for further study of the desirable features of policies aimed at guiding the course of sectoral contractions.

*Industrial Relocation versus Labour Mobility.*

The discussion of the relative merits of industry relocation and worker resettlement policies in Chapter XI suggests that governments should experiment to a greater extent with the latter. The examination of the relative merits of these two policies has perforce been too general in nature to support any claim that the former be abandoned. Yet, until the response to resettlement measures has been more fully tested it would seem that, in the interest of national efficiency, countries which have already made much use of industry relocation policies should now give greater emphasis to the other approach. This might be accompanied by the extension of government re-training facilities. While it may be that the contribution of measures of the latter type to the readjustment of workers will always be limited, it does seem that in many countries their potentialities, such as they are, are far from having been exhausted.

*Role of General Economic Policies.*

Of all forms of government action, a policy directed towards the attainment of a high general level of employment and an adequate rate of growth in the economy as a whole can almost certainly make the greatest contribution to the solution of adjustment problems. To some extent, such a policy may obviate the need for labour force adjustments altogether, simply by enabling employers to switch from the production of goods in falling demand to that of new items. But, for a variety of reasons, this "solution" is likely to be of somewhat limited application. The chief contribution of a high general level of employment towards facilitating structural adjustments lies, rather, in the opportunities which it provides for those workers—the great majority—who are prepared to take up new occupations, perhaps in new areas. Despite the great improvements achieved since the 1930s, full employment policies are not yet crowned with complete success largely, it seems, because of fears of inflation and balance of payments difficulties. If acceptable ways of containing inflationary pressures could be found, this would undoubtedly ease the problems discussed in this study to a large extent. But to ensure high general levels of employment in the future may become increasingly difficult unless governments develop their employment policies in order to meet the problems posed by continued technological progress.
**Cost of Measures to Facilitate Labour Adjustments.**

Measures to facilitate readjustment and re-employment of displaced workers include steps aimed at maintaining a high general level of employment, the re-training and transfer of workers, measures to encourage and help them to move to jobs elsewhere, and measures to encourage and help employers to provide more jobs in lagging or distressed areas. All or most of the forms of action examined in this study are capable of further development both in principle and in detail to make them more effective in dealing with adjustment problems. Such measures, if they result in successful readaptation of the workers concerned, are more satisfactory for the latter than mere compensation for losses or hardships suffered. Measures to promote successful readjustment are usually more satisfactory for society too. This will nearly always be the case when the cost of such measures is of a temporary or once-for-all character: the costs to society of such measures as re-training schemes and removal grants are likely to be recovered in a very short time, thanks to the increase in national income that results from the productive re-employment of displaced workers. Indeed, it may well be that the amounts spent on such measures are much less than their value to the community as a whole. Thus, readjustment may be achieved without even having to draw upon the large fund of wealth produced by the structural change which caused the worker’s displacement.

But even liberal compensation provisions might conceivably be less costly to society than adjustment measures which involved high continuing costs due to the perpetuation of uneconomic operating conditions—as in the case, for example, of an uneconomic industry location. A likely result would be that workers other than those displaced or threatened with displacement would get jobs where their continued employment would depend upon a continuing subsidy or some other form of transfer from taxpayers or consumers, whereas if compensation measures had been resorted to instead, not only would such measures have been applied only to the workers directly affected, but the need for compensation would have come to an end at the end of the career (or, in any case, at the end of the lifetime) of the individual displaced worker. However, compensation provisions are not necessarily the only alternative to uneconomic adjustment measures. It may be possible to apply instead other kinds of measures that will not involve high continuing costs to society, and will therefore generally be considered a preferable alternative.

**Need for Comprehensive Policies.**

Some measures, for example the pursuit of a high general level of employment, may be more important than others for promoting the
readjustment of workers. Yet no single measure, out of those examined above, can ensure re-employment for all displaced workers who are capable of readjustment. Moreover, the effectiveness of each measure is sharpened when combined with others. The problems which this study investigates are more successfully dealt with when approached on as broad a front as possible.

It is also desirable that the benefits and assistance conferred by any single measure should be made available to as many displaced workers as possible. Of course, for some policies complete generality of application would be either impracticable or self-defeating. For example, no one would suggest designating all regions of a country as requiring new industries. Too often, however, the cause of a particular disruption, or the industry in which it occurs, though quite irrelevant to the difficulties experienced by displaced workers, are allowed to determine which workers shall be aided. Yet, if society does indeed have a responsibility for relieving the hardships of structural adjustment, it owes this responsibility to all displaced workers, and not to certain groups only. The partiality of existing policies should be remedied, wherever practicable, by extending their coverage.

Compensation for Victims of Change

Compensatory measures are needed for all displaced workers for a period sufficient to enable them to make a satisfactory adjustment. If some, particularly among the older workers, never are able to achieve such an adjustment even with the help of the best-calculated measures to attain that end and, as a result, face premature retirement, they have a claim to compensation for the rest of their working lives.

The main instruments for providing compensation are state unemployment benefits and assistance, and severance payments. To these it may be necessary to add special arrangements aimed at facilitating the early retirement of particular groups of workers if their problems cannot be dealt with by positive measures to promote their readjustment. Suggestions for the further development of such devices have been made in the study. Compensatory measures have, in fact, greater potentialities for further development than measures designed to facilitate readjustment. The latter can hardly be taken beyond the point where all displaced workers, amenable to and desiring readjustment, are or will be re-employed. Re-employment, however, is not in itself a sufficient objective in a society which fully accepts responsibility for compensating the victims of change. Increasing attention will need to be paid to those other repercussions of structural change, experienced even by workers
who are quickly re-employed, such as the financial losses which can accompany a change of job. Furthermore, compensatory measures can be extended to the point where a displaced worker is not merely compensated for the difficulties which he may have experienced, but is made better off than before. It is not too much to expect that structural change should benefit not only the vast majority, but the whole of society—including those who would otherwise be its victims.
APPENDIX

A CASE STUDY

In the preparation of this case study the I.L.O. was fortunate enough to have the co-operation of two West German companies concerned with the takeover of an establishment previously engaged in the manufacture of motorcycles. With their help, and with the co-operation of the local employment office in the city where the establishment was situated, it proved possible to obtain a broad picture of the employment experience of the affected labour force. The results of this case study are set out in Section II of this appendix. Section I is devoted to sketching recent developments in the West German two-wheeled vehicle industry—the setting in which the adjustment took place.

I. DEVELOPMENTS IN THE WEST GERMAN TWO-WHEELED VEHICLE INDUSTRY

Production and Employment Trends during the 1950s

Until the middle of the 1950s the two-wheeled vehicle industry participated in the rapid post-war expansion of the West German economy. As early as 1953, however, the production of motorcycles, which accounted for most of the output in this sector, began to fall. For two years the contraction in demand for motorcycles was effectively offset by the growing popularity of scooters and mopeds, but when in 1955 the demand for these products also diminished total production in the two-wheeled vehicle sector fell rapidly. From table 1 it can be seen that by 1958 production was less than half the peak reached in 1955.

TABLE I. PRODUCTION AND EMPLOYMENT IN THE WEST GERMAN TWO-WHEELED VEHICLE INDUSTRY, 1953-59

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Thousands of units</td>
<td>Index ¹</td>
</tr>
<tr>
<td></td>
<td>Motorbikes</td>
<td>Motorcycles</td>
</tr>
<tr>
<td>1953</td>
<td>159.7</td>
<td>333.1</td>
</tr>
</tbody>
</table>

¹ Weighted index, using 1953 prices.
Developments in the production of motorcycles alone were even more dramatic, their production in 1958 standing at only 13 per cent. of the level attained in 1952. The result of these developments was that, in the two-wheeled vehicle industry as a whole, the size of the labour force fell by 62 per cent. — from about 38,500 employees in 1955 to only 14,500 in 1958. In the one year 1955/56 the labour force was reduced by as much as one-third, losing about 12,500 workers.

Causes of the Fall in Demand for Motorcycles

In Western Germany, as in other industrialised countries, the growth of incomes during the post-war period and the associated improvement in the standard of living led to a shift in demand away from two-wheeled vehicles in favour of cars. In Western Germany prior to 1954 the ratio of the numbers of two-wheeled vehicles to the number of cars was fairly constant, at around 63 : 37. By 1958 the ratio had fallen to 46 : 54, and by 1959 it had reached 39 : 61.

While this factor was probably the major explanation of the decline, it was by no means the only one. In fact, trends in the West German motorcycle industry provide an example of the multiplicity and diversity of factors which can contribute to a single industry decline.

For example, the fact that within the two-wheeled vehicle sector motorcycles lost ground to mopeds and scooters illustrates how demand for one item can be adversely affected as a result of the technological development of a competing commodity and explains why the motorcycle industry was in difficulty at an earlier stage than other sections of the two-wheeled vehicle industry. The growing preference for mopeds may also have owed something to the fact that no driving licence was required for this type of vehicle.

Government action may be cited as an additional cause of the industry's decline. In 1955 the tax on two-wheeled vehicles was raised, while that on passenger cars was reduced.

Even the manufacturers themselves can be held partly responsible for the turn of events. For, in the first place, the severity of the ultimate decline owes something to what can now be readily recognised as excessive post-war investment in the industry. During this earlier period an over-optimistic assessment of the future demand for motorcycles, together with a ready availability of finance, helped to make the growth of this sector amongst the most rapid in Western Germany. Secondly, the performance of some of the industry's models proved to be rather unreliable, teething troubles occurring as a consequence of premature production. This situation was aggravated by the difficulties encountered in obtaining spare parts, in turn a result of the manufacture of too many varieties of motorcycles. These factors may explain in some degree why the contraction of the motorcycle industry was more pronounced in Western Germany than in other Western European countries.

A host of other factors — rising insurance premiums on motorcycles, inclement weather and an unfavourable public "image" of motorcycles — may also have contributed to the decline.

The Fate of Individual Establishments

At various points throughout the foregoing study, stress has been placed on the importance of directing attention to individual firms rather than to entire industries. Even during the rapid contraction of the West German two-wheeled vehicle industry, some firms actually expanded: in one such firm further growth was prevented only by a shortage of labour. Some data have
been obtained concerning the fate of the various establishments within the industry between 1953 and 1959. These data are set out in table 2. Sketchy as they admittedly are, they do provide some interesting indications.

### TABLE 2. CHANGES OF ACTIVITY OF FIRMS ORIGINALLY ENGAGED IN PRODUCTION OF TWO-WHEELED MOTOR VEHICLES, 1953-59

<table>
<thead>
<tr>
<th>Experience of establishments</th>
<th>Number of establishments</th>
<th>Percentage share of total value of 1953 production</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Small</td>
</tr>
<tr>
<td>I. In production in 1953</td>
<td>56</td>
<td>27</td>
</tr>
<tr>
<td>II. Still producing two-wheeled motor vehicles in 1959</td>
<td>18</td>
<td>1</td>
</tr>
<tr>
<td>III. Leaving the industry between 1953 and 1959</td>
<td>38</td>
<td>26</td>
</tr>
<tr>
<td>Converted to bicycle production</td>
<td>18</td>
<td>17</td>
</tr>
<tr>
<td>Converted to other production</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Sold to other industries</td>
<td>4</td>
<td>—</td>
</tr>
<tr>
<td>Insolvencies</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

|                                                                  | Total | Small | Medium | Large |                                  |

|                                                                  |       | 1 million DM per year. | 1-10 million DM per year. | 10 million DM or more per year. |

Particularly striking is the contrast in size between those establishments still producing two-wheeled motor vehicles in 1959 and those which had become insolvent during the previous six years. Less than half of the former group were small or medium-sized establishments, and only one of the seven units becoming insolvent was classified as large. This suggests that the firms which closed down completely tended to be the smaller, poorer ones; and, as the study has pointed out, this has important implications for the workers concerned.

Secondly, there appears to have been a tendency for the establishments turning to different products to concentrate on the manufacture of bicycles, the market for which was itself affected by the factors causing the contraction in the two-wheeled vehicle industry, and in consequence failed to expand. The data, in fact, show strong evidence of "crowded product conversion"—i.e., a sudden influx of new suppliers into the same industry, causing conditions of over-supply.

A feature of the establishments attempting product conversion was their relatively small size, 22 of them being classified as small and only two as large. It would, however, be wrong to infer from this that the larger establishments have less need for product conversion, being on the whole less afflicted by the decline. For, out of the seven large establishments that were obliged to leave the industry, only two took this escape route as opposed to 22 out of 26 small establishments. Perhaps the explanation lies in the fact that many larger establishments do not have the flexibility and adaptability which product conversion requires.

Another aspect of the size characteristic of converting establishments is that, while in terms of numbers of firms this "escape route" bulged quite

1 Many of these units had in fact previously produced some bicycles.
2 See Chapter VI.
large, in terms of numbers of workers protected its role must have been much less important. Unfortunately the employment data do not permit of an exact assessment, but output figures—which of course do not exactly measure employment effects—show that product conversion accounted for only 16 per cent. of the 1953 production capacity which left the industry.

In terms of production capacity, the sale of establishments to other industries afforded the most important escape route for the units leaving the industry. Although only four of the 38 establishments in question took this route, they were without exception large ones and together accounted for two-thirds of the total capacity leaving the industry. Of course one cannot, on the basis of experience in only one industry, proceed to ascribe an overwhelmingly important role to the sale of establishments in the disposal of excess capacity in industry in general. Nevertheless, it is of considerable interest to know what happened to the workers attached to one of the four establishments in question. Happily, it was possible to make a case study of one of these “takeovers”; the results are set forth below.

II. EMPLOYMENT EXPERIENCE OF WORKERS IN A LARGE ESTABLISHMENT

The Background

In order to allow for the fall in demand for its motorcycles, firm A, which was primarily engaged in this industry, decided in 1958 to close one of its two factories and to concentrate production in the other. Although the headquarters of the firm was situated in city X, alongside one of the two factories, it was nevertheless decided to concentrate production in the other factory, which was situated over 100 miles away. This decision was taken mainly on the ground that the second factory produced sewing machines as well as motorcycles, and also that it offered greater scope for future expansion (should the opportunity arise) than that in X.

Since the reorganisation was basically undertaken in order to achieve a retrenchment of production, there was no question of the firm transferring its former labour force from X. In fact, out of a total force of roughly 2,000 employees a mere 15 were transferred to the other plant. The plight of the remainder was eased by the fact that an electrical engineering firm—firm B—was seeking both extra workers and buildings with which it could meet the growing market for its products. Although firm B was not in fact located in X, it was prepared to purchase A’s factory and meet a considerable part of its labour needs out of A’s former labour force. Therefore, in contrast to the events which would have followed the abandonment of the factory—i.e., the scattering of its entire labour force—some of the workers at least could retain employment in their original workplace. Obviously these circumstances were of considerable help in easing the required labour force adjustment. We shall first deal with the group of workers taken over by B and subsequently with those obliged to seek new jobs on the open employment market.

Workers Taken Over by Firm B

The “Takeover”.

Prior to the spring of 1959, when A left its factory at X, the labour force had been reduced to 2,286 employees. Although this figure roughly corresp-
ponded with B's ultimate labour requirements at X, in fact only 1,116 workers, or about half of the old labour force, found employment with the new company. There were several reasons for this. First, there was no possibility of firm B starting operations on the scale that was its ultimate aim. This meant that at the outset its labour requirements were smaller than the size of A's labour force. Secondly, the differences in the type of work carried out by A and B were such that, having regard to the efficiency of its new factory, B could not take over all of A's employees. However, B made a real effort to adapt as many as possible of the workers. Six hundred of them were given a three to four months' re-training course at the main works situated outside X, during which, in addition to their wage, the workers received family and lodging allowances from the firm.

Age and Seniority Characteristics of the Labour Force Taken Over.
The foregoing study has emphasised the more extreme adjustment difficulties experienced by older workers caught up in structural changes. Therefore, it is natural to ask, first, whether in taking over part of A's labour force B showed any preference for younger workers, thereby compelling a large proportion of the older ones to seek jobs on the open market. As a first step in attempting to answer this question, it may be considered that older workers were at a disadvantage only if that part of the labour force taken over by B included relatively fewer older workers than the entire original labour force. Neither in the case of manual workers nor of clerical and technical staff does this appear to have been the case. Indeed, as can be seen from table 3, workers over 40 years of age formed a higher proportion of the group taken over by B than of the original labour force.\(^1\) In the case of manual workers, the respective percentages were 47 and 41; in the case of clerical and technical staff, the percentages were 49 and 46.

### Table 3. Age Distribution of Workers Taken Over by Firm B, as Compared with Original Labour Force in Firm A

<table>
<thead>
<tr>
<th>Age group (years)</th>
<th>Manual workers</th>
<th>Clerical and technical staff</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original labour force</td>
<td>Taken over by B</td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Percentage</td>
</tr>
<tr>
<td>Under 20 . . . .</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20-30 . . . .</td>
<td>129</td>
<td>7</td>
</tr>
<tr>
<td>30-40 . . . .</td>
<td>560</td>
<td>30</td>
</tr>
<tr>
<td>40-50 . . . .</td>
<td>422</td>
<td>22</td>
</tr>
<tr>
<td>Total under 40</td>
<td>1,111</td>
<td>59</td>
</tr>
<tr>
<td>40-50 . . . .</td>
<td>359</td>
<td>19</td>
</tr>
<tr>
<td>50-55 . . . .</td>
<td>197</td>
<td>11</td>
</tr>
<tr>
<td>55-60 . . . .</td>
<td>123</td>
<td>7</td>
</tr>
<tr>
<td>60 and over . .</td>
<td>82</td>
<td>4</td>
</tr>
<tr>
<td>Total over 40</td>
<td>761</td>
<td>41</td>
</tr>
<tr>
<td>Over-all total</td>
<td>1,872</td>
<td>100</td>
</tr>
</tbody>
</table>

\(^1\) This, however, as can be seen from the table, was not true of the highest age group (over 60 years of age).
The relatively favourable experience of older employees can, of course, be largely accounted for by their greater seniority. To allow for differences in seniority, the experience of older with that of younger workers within each seniority group—those having served the firm for less than five years, five to ten years, and so on—was compared. It was found that within seniority groups the chances of a worker being re-employed by B tended to be about the same irrespective of age. Indeed, in the case of manual workers and in the case of the lower seniority groups of clerical and technical staff, the correlation between the age composition of the original labour force and that of the groups taken over by B was remarkably close.

It appears, then, that the older workers received a measure of protection as a result of a tendency on the part of firm B to hire its labour force from among the more senior groups. It should be pointed out, however, that firm B owed no seniority responsibilities to firm A's labour force and, as table 4 shows, firm B in fact was far from relying completely on the seniority principle. It is instructive to gauge the amount of protection which older workers would have received had such a policy been followed. Table 5 presents estimates of the

**TABLE 4. COMPARISON OF TAKEOVER PERCENTAGES ON STRICT SENIORITY BASIS WITH ACTUAL PERCENTAGES TAKEN OVER WITHIN EACH SENIORITY GROUP**

<table>
<thead>
<tr>
<th>Years of service</th>
<th>Manual workers</th>
<th>Clerical and technical employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage on basis of strict seniority</td>
<td>Actual percentage</td>
</tr>
<tr>
<td>25 years and over . .</td>
<td>100</td>
<td>84</td>
</tr>
<tr>
<td>20-25 years</td>
<td>100</td>
<td>66</td>
</tr>
<tr>
<td>10-20 &quot;</td>
<td>100</td>
<td>62</td>
</tr>
<tr>
<td>5-10 &quot;</td>
<td>94</td>
<td>58</td>
</tr>
<tr>
<td>Less than 5 years . .</td>
<td>0</td>
<td>41</td>
</tr>
<tr>
<td>Percentage of all employees taken over . . . . .</td>
<td>51</td>
<td>51</td>
</tr>
</tbody>
</table>

**TABLE 5. COMPARISON OF TAKEOVER PERCENTAGES ON STRICT SENIORITY BASIS WITH ACTUAL PERCENTAGES TAKEN OVER WITHIN EACH AGE GROUP**

<table>
<thead>
<tr>
<th>Age group</th>
<th>Manual workers</th>
<th>Clerical and technical employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage on strict seniority basis</td>
<td>Actual percentage</td>
</tr>
<tr>
<td>Over 60 years .</td>
<td>98</td>
<td>15</td>
</tr>
<tr>
<td>55-60 years ...</td>
<td>88</td>
<td>61</td>
</tr>
<tr>
<td>50-55 &quot;</td>
<td>78</td>
<td>69</td>
</tr>
<tr>
<td>40-50 &quot;</td>
<td>67</td>
<td>65</td>
</tr>
<tr>
<td>30-40 &quot;</td>
<td>54</td>
<td>56</td>
</tr>
<tr>
<td>20-30 &quot;</td>
<td>26</td>
<td>39</td>
</tr>
<tr>
<td>Under 20 years .</td>
<td>8</td>
<td>42</td>
</tr>
<tr>
<td>Percentage of all employees taken over . . . .</td>
<td>51</td>
<td>51</td>
</tr>
</tbody>
</table>
percentage in each age group that would have been taken over had the seniority criterion been strictly applied by B in the selection of its labour force, and compares these data with the actual percentage of each age group re-employed by B. It can be seen that a stricter adherence to the seniority principle would have given older workers considerably greater protection than in fact they received.

Another important consideration, to which attention has been drawn in the study, is illustrated by table 5, namely that, even if a labour force contraction takes place strictly according to seniority, significant numbers of older workers may nevertheless find themselves unemployed. Such results merely reflect the fact that the correlation between age and seniority is by no means perfect.

Workers Not Taken Over by Firm B

Compensation Provisions.

For those workers not taken over by B, firm A made reasonably generous financial provisions based, in varying degrees, on the category of employee, seniority and age.

A total sum of 500,000 DM was paid as compensation to 315 of the employees. All former employees of 60 years and over received 50 to 100 DM per month, according to length of service, if after dismissal they claimed old-age pensions under the social insurance scheme; workers aged 55 to 60 years were helped according to the length of any unemployment suffered as a result of dismissal; workers under 55 years of age received a grant provided they had served the firm for more than 15 years.

Subsequent Employment Experience.

The dominating feature of this case study is that most of the circumstances favoured an easy readjustment. Not only was there a second firm willing to

| TABLE 6. EMPLOYMENT EXPERIENCE OF DISMISSED WORKERS NOT TAKEN OVER BY FIRM B |
|-----------------|-----------------|-----------------|-----------------|
| Workers         | Total number of workers | Occupational classification | Age classification |
|                 | Total | Manual workers | Skilled metal workers | Clerical and technical staff | Under 50 years old | Over 50 years old |
| Re-employed immediately . . | 551   | 417 159 134 | 511 40 |
| Unemployed for less than six weeks . . . . . . . . . . | 265   | 247 66 18 | 235 30 |
| Unemployed six weeks to six months . . . . . . . | 135   | 108 32 27 | 83 52 |
| Unemployed more than six months . . . . . . . . . . | 48    | 29 12 19 | 13 35 |
| Retirements and sickness . . . . . . . . . . . . . . | 59    | 46 13 13 | 2 57 |
| Total . . | 1,058 | 847 282 211 | 844 214 |

1 Out of the 1,170 workers not taken over by firm B, 15 were transferred by firm A to its second factory, and 97 could not be traced. Thus 1,058 effective cases remained to be studied.

1 See Chapter V.
employ a large proportion of the affected labour force; in addition, the local employment market was a large one and, even more important, it was one in which the demand for labour tended to exceed the supply. The favourable influence of these factors is apparent from the experience of the dismissed workers, as illustrated by table 6.

The table shows that, of the 1,058 workers not taken over by B, 816, or 77 per cent., had found new jobs within six weeks of dismissal. Out of this total, as many as 551 found employment immediately, 67 of them moving to a new area to do so.

Yet the figures underline the fact that even in favourable circumstances some, if only a minority, of a group of dismissed workers experience considerable hardship. Seventeen per cent. of the affected group—i.e., as many as 183 persons—were unemployed for a period in excess of six weeks. Of these, 48—or 5 per cent. of the total group—were without a job for more than six months.

Table 7, based on the data presented in table 6, shows that there was no pronounced variation in the employment experience of these workers according to occupational category.

TABLE 7. PERCENTAGE DISTRIBUTION, BY LENGTH OF UNEMPLOYMENT, OF WORKERS IN DIFFERENT OCCUPATIONAL CATEGORIES NOT TAKEN OVER BY FIRM B

<table>
<thead>
<tr>
<th>Duration of unemployment</th>
<th>Manual workers</th>
<th>Clerical and technical employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Skilled metal workers</td>
</tr>
<tr>
<td>Less than 6 weeks</td>
<td>83</td>
<td>82</td>
</tr>
<tr>
<td>7-26 weeks</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>More than 26 weeks</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

These are percentages of a total of 999 workers. The balance between this and the over-all total of 1,038 is accounted for by retirements and sickness.

It is true that 10 per cent. of the clerical and technical staff, as opposed to 4 per cent. of the manual workers, experienced long periods of unemployment, but at the other extreme 68 per cent. of the clerical, in contrast to 52 per cent. of the manual workers, were immediately re-employed. This difference may well be due to the fact that clerical and technical employees were given earlier notice of A's impending departure than were the manual workers.

TABLE 8. PERCENTAGE DISTRIBUTION, BY LENGTH OF UNEMPLOYMENT, OF WORKERS UNDER AND OVER 50 YEARS OF AGE NOT TAKEN OVER BY FIRM B

<table>
<thead>
<tr>
<th>Duration of unemployment</th>
<th>Under 50 years old</th>
<th>Over 50 years old</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 6 weeks</td>
<td>88</td>
<td>45</td>
</tr>
<tr>
<td>7-26 weeks</td>
<td>10</td>
<td>33</td>
</tr>
<tr>
<td>More than 26 weeks</td>
<td>2</td>
<td>22</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

See table 7, footnote 1.
In contrast, a tabulation of the data according to the age of workers reveals that marked vulnerability of older workers so frequently referred to throughout the study.

While 88 per cent. of the workers under 50 years of age were unemployed for less than six weeks or were re-employed immediately, less than half of the workers over 50 were in this more fortunate category. At the other end of the scale, 22 per cent. of the older workers were unemployed for more than six months, as compared with a mere 2 per cent. of the younger workers.

As many as 615 of the workers, or 58 per cent. of the total group of 1,058, enlisted the help of the local employment office in their search for jobs. However, as can be seen from table 9, two-thirds of those immediately or ultimately re-employed located jobs themselves. But the contribution of the local employment office should not be minimised. For, in the first place, any contribution

<table>
<thead>
<tr>
<th>TABLE 9. WORKERS RE-EMPLOYED WITH AND WITHOUT THE HELP OF THE LOCAL EMPLOYMENT OFFICE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Re-employed without the help of the local employment office</td>
</tr>
<tr>
<td>Re-employed with the help of the local employment office</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

1 This figure excludes the 67 workers leaving the district in search of employment. The remaining difference between this figure and the total of 1,058 is accounted for by 95 cases of retirement, sickness and unascertained outcome, and 15 of continued employment.

to the labour adjustment process, regardless of its size, is to be welcomed; and in this case the contribution of the employment office was very substantial. Secondly, the local employment offices will find themselves mainly concerned with the residual, more intractable, elements of the problem—the workers who find it most difficult to readjust. This is borne out by the above data: the local employment office made but a small contribution to finding jobs for the workers most easily reabsorbed—i.e., those re-employed immediately, only 22 per cent. of whom received its assistance; but of those who endured some unemployment, as many as 46 per cent. were helped by the local employment office. Similarly, while 82 per cent. of the dismissed workers in the over-50 age group applied to the local employment office, only 52 per cent. of the younger workers did so. Nevertheless, the outstanding feature which the above data illustrate is the importance of the role of self-help among displaced workers.
## INDEX

_The letter n. after a page number indicates that the reference is to a footnote._

### A

Addy, P., 24 n.
Adjustment required, scale of, 51-52
Advice and information services, 150-151
Allowances, resettlement, 166-170
Amerson, R. W., 180 n.
Area Redevelopment Act, United States, 145, 151, 156, 171 n.
Attempts to increase efficiency, 69-71
Australia, 24, 139, 179, 180, 182
Austria, 62, 182

### B

Beacham, A., 92 n., 163 n.
Belgium, 12, 37, 43-45, 55, 63, 87, 93, 95, 98, 102, 122, 125, 135, 137, 138, 144, 145, 146, 148, 150, 153 n., 154, 163, 167 n., 171, 175, 179, 180
Benelux, 135, 176 n.
Bescoby, J., 113 n.
Bloch, G. W., 109 n.
Bradley, P. D., 113 n.
Bright, J. R., 24 n.

### C

Canada, 31, 64, 65, 102, 103, 112, 124, 127 n., 149, 163, 165, 171, 172, 178, 179
Carstairs, A. M., 46 n.
Causes of change, diversity of, 14
Causes of structural change, 11-14
Nature of the adjustment problem, 18-20
Changes in skill requirements and earnings, 55-59
Cole, A. V., 46 n.
Commission on Foreign Economic Policy, United States, 11 n.
Compensation for victims of change, 190, 191
Comprehensive policies, need for, 189, 190
Contraction:
Factors affecting the size of, 32-34
Process of, 30-42
Rate of, 30-32
Cost increases:
In declining industries and firms, 37-41
Labour implications of, 41-42
Cost of measures to facilitate labour adjustments, 189
Council of Europe, 156 n.
Criteria for dismissal, 108-110
Czechoslovakia, 6

### D

Declining demand, employers’ reactions to, 69-84
Declining industries and firms, cost increases in, 37-41
Demand, growth and employment, 126-130
Denmark, 102, 183 n.
Dennison, S. R., 152 n.
Depressed localities, movement of new firms to, 49-50
Diebold, W., 37 n., 59 n., 94 n., 95 n., 97 n., 98 n., 108 n., 124 n., 125 n., 137 n., 158 n., 165 n., 169 n., 173 n., 181 n.
Dismissals, 27-29
Criteria for, 108-110
Displaced workers, measures directly affecting, 164-183
Displacement of labour, 21-23
Diversification, 73-82
Diversity of causes of change, 14
Douglas, Senator, 178
Downing, R. I., 139 n.

### E

Economic Commission for Europe, 69 n., 152 n.
Edwards, R. S., 163 n.
Effectiveness of measures to attract firms to areas of high unemployment, 151-152
Efficiency, attempts to increase, 69-71
Eliminating the need for structural adjustments, 131-134
Employers’ reactions to declining demand, 69-84
European Coal and Steel Community, 12, 15, 16 n., 37, 59, 94, 118, 120, 124, 137, 155, 158, 159, 165, 169 n., 173, 177 n., 181
European Economic Community, 11, 13, 77, 132 n., 135, 171 n., 177 n.
European Free Trade Association, 13, 77, 135
European Productivity Agency, 24 n., 55 n., 63 n., 128 n.
European Social Fund, 168, 171 n., 172, 174, 182

F

Fabricant, S., 23, 39 n., 40 n.
Factors affecting the size of contraction, 32-34
Female workers, problems of, 64-65
Finland, 183 n.
Firms and localities, 47-49

G

Galbraith, J. K., 129
Gegan, V. F., 58 n., 96 n., 100 n., 154 n.
General Agreement on Tariffs and Trade, 131-132
General economic policies, 123-130, 188
General level of employment, need for a high and stable, 123-126
Geographical mobility of labour, 93-99
Germany, Eastern, 6
Germany, Federal Republic of, 16, 21, 24, 30, 48, 51, 52, 55, 61, 77, 80-83, 92, 97, 102, 104, 109-111, 126, 144, 145, 147, 148, 150, 155, 166 n., 172, 175, 179, 182, 193-201
Girard, A., 94 n.
Gomberg, W., 113 n.
Gordon, S., 180 n.
Government procurement, 150
Grants, 143-147
Greece, 182
Groom, P. P., 167 n., 175 n.

H

Hansen, A. H., 127 n.
Hardships associated with labour mobility, 59-60
Harris, S. E., 15 n., 71 n., 141 n.
Herz, E., 118 n.
Hildebrand, G. H., 45 n.
Hong Kong, 136
Humphrey, D. D., 13 n.
Hungary, 6

I

Incidence of structural labour adjustments, 51-65
India, 77, 136
Individual economic sectors, measures on behalf of, 131-143
Individual industries, measures on behalf of, 187-188
Industries and regions, 43-46
Industries in difficulty, maintaining the competitive strength of, 134-138
Internal labour transfers, 25-27
International Confederation of Free Trade Unions, 88
International Labour Conference, 89
International Labour Office, 5 n., 6 n., 24, 89 n., 126 n., 177 n., 193
Investment diversification, 74-78
Ireland, Republic of, 78, 146, 149, 150, 154 n., 159, 162, 163
Italy, 43, 182

J

Japan, 35, 74, 77, 118, 122

K

Karmel, P. H., 139 n.
Kindleberger, C. P., 141 n.
Kravis, I. B., 132 n., 133 n., 134 n.

L

Labour:
displacement of, 21-23
geographical mobility of, 93-99
spontaneous adjustment of, 90-93
Labour adjustments:
associated with technical change, 21-29
cost of measures to facilitate, 189
measures to facilitate, 186-190
Labour implications of cost increases, 41, 42
Labour mobility:
hardships associated with, 59-60
occupational and industrial, 99-101
versus industrial relocation, 157-164, 188
Lester, R. A., 183 n.
Licensing, 149
Loans, 147, 148
Local Employment Act, United Kingdom, 1960, 145, 156
Localised impact of structural change, 14-18
Luxembourg, 182
INDEX 205

M

Mace, A., 45 n.
Maintaining the competitive strength of industries in difficulty, 134-138
Mason, E. S., 141 n.
Meade, J. E., 135 n.
Measures directly affecting displaced workers, 164-183
Measures on behalf of individual economic sectors, 131-143
Measures on behalf of individual industries, 187-188
Measures to attract firms to areas of high unemployment, effectiveness of, 151-152
Measures to combat regional unemployment, 141-164
Measures to facilitate labour adjustments, 186-190
Mergers, 71-73
Miernyk, W. H., 14 n., 57 n., 64 n., 83 n., 93 n., 99 n., 151 n.
Mintzes, J., 135 n.
Movement of new firms to depressed localities, 49-50
Murchison, C., 81 n.

N

Natural wastage, 35-37
Need for a high and stable general level of employment, 123-126
Need for comprehensive policies, 189, 190
Need for state action, 184-185
Netherlands, 35, 43, 55, 63, 77, 98, 102, 135, 144, 146, 149, 153, 162 n., 171, 175, 183 n.
Nevin, E. T., 92 n., 163 n.
New Zealand, 179, 180
Norway, 43, 102, 149, 150, 171, 179, 183 n.
Notice, periods of, 110-112

O

Occupational and industrial labour mobility, 99-101
Odber, A. J., 158 n., 169 n.
Older workers, position of, 60-64
Olsson, B., 63 n., 98 n., 158 n., 167 n., 168 n., 169 n.
Olsson, G., 102 n., 172 n., 175 n., 176 n., 177 n.
Organisation for Economic Co-operation and Development, 78 n.
Organisation for European Economic Co-operation, 31 n., 125 n.

P

Pakistan, 136
Pattern of structural changes, 11-20
Periods of notice, 110-112
Platt, R., 35 n., 105 n., 107 n., 109 n.
Please, S., 121 n., 180 n.
Poland, 6
Policies designed to facilitate structural adjustments, 138-141
Position of older workers, 60-64
Problems of female workers, 64-65
Process of contraction, 30-42
Product conversion, 78-82
Public works, 176-177

R

Rate of contraction, 30-32
Raushenbush, S., 23
Reddaway, W. B., 23, 40 n.
Redundancy procedures, 102-122, 186-187
Rees, A., 113 n.
Regional problem, 43-50
Regional unemployment, measures to combat, 141-164
Resettlement allowances, 166-170
Re-training facilities, 171-176
Riches, N., 96 n., 98 n.
Robson, R., 39 n., 74 n., 81 n., 91 n., 137 n.
Rousseaux, P., 95 n., 98 n., 175 n.
Salant, W. S., 34 n.
Salter, W. E. G., 40 n.
Scale of adjustment required, 51-52
Schultz, T. W., 62 n.
Scitovsky, T., 13 n., 70 n., 138 n.
Sectoral economic policies, suitability of, 141-143
Senator Douglas, 178
Severance pay, 112-116
Short-time working, 104-106
Skill requirements and earnings, changes in, 55-59
Smith, A. D., 23, 40 n.
Somers, G. G., 60 n., 62 n., 100 n.
Soviet Union, 25 n.
Spontaneous adjustment of labour, 90-93
State action, need for, 184, 185
Strackbein, O. R., 133 n.
Structural adjustments: eliminating the need for, 131-134
policies designed to facilitate, 138-141
Structural change: causes of, 11-14
localised impact of, 14-18
nature of the adjustment problem, 18-20
pattern of, 11-20
workers' attitudes towards the need for, 85-90
workers' reactions to, 85-101
Structural labour adjustments, incidence of, 51-65
Suitability of sectoral economic policies, 141-143
Sweden, 43, 49, 63, 89, 98, 102, 144, 149, 150, 154, 156, 158, 166-170, 172-178, 183 n.
Switzerland, 31, 49, 102, 151, 153 n., 164, 183 n.
Sykes, J., 46 n., 95 n., 97 n., 152 n.

T
Take-over of factories by new management, 82-84
Tax concessions, 148-149
Technical change, labour adjustments associated with, 21-29
Technological redundancy at the firm level, 23-25
Thompson, G. E., 45 n.
Thompson, S. H., 58 n., 96 n., 100 n., 154 n.
Townsend, H., 163 n.
Trade Agreements Extension Act, 1958, United States, 134
Trade Expansion Act, United States, 132 n.
Transfers, 106-107
Turner, H. A. 113 n.

U
Unemployment compensation, 177-183
United Kingdom, 13, 14, 17, 18, 23, 28, 30, 31, 32 n., 33, 34, 36-40, 42-44, 46, 47, 50, 51, 53, 55, 57, 58, 60, 62, 65 n., 70, 72, 74, 76-78, 81-83, 86, 88-95, 97, 98, 100-102, 105-107, 109-112, 114-116, 118, 120, 124, 136-141, 145-150, 152-157, 159, 162, 163, 165, 166, 168-170, 172-175, 179, 180 n., 183
United Kingdom National Association of Unions in the Wool Textile Trade, 90

V
Vaccara, Beatrice N., 33 n., 42 n.

W
Wilcock, R. C., 48 n., 53 n., 59 n., 60 n., 96 n.
Wilcox, C., 13 n., 138 n., 139 n.
Wilson, D., 183 n.
Wiseman, J., 124 n.
Workers' attitudes towards the need for structural change, 85-90
Workers' reactions to structural change, 85-101

Y
Yugoslavia, 179, 180, 182