

The Hidden Problem of Worker Dislocation in North Carolina

by

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The robust overall growth and low general unemployment that have characterized the North Carolina economy in recent years can very well lull policy makers and citizens into a false sense of security about the economic prospects for North Carolina. A recent study by researchers in the University of North Carolina's Office of Economic Development identifies some potential threats to the economic future for a significant portion of the state's population. In general, the aggregate data mask what Secretary of Commerce Rick Carlisle has characterized as "a churning economy." Statewide, new start-ups and business expansions have been plentiful in recent years, sufficient, in fact, to absorb many of the displaced workers. Of course, there is no guarantee that the location and skill requirements of the new jobs that are created match the location and skills of workers that are displaced. That leads to "islands of distress" in a "sea of prosperity." Moreover, a churning economy is particularly vulnerable in an economic recession. Then, there are cyclical as well as secular layoffs and plant closings, but a slower rate of new job creation. These "clouds on the horizon" must be recognized and addressed by policy makers.

THE ECONOMY THROUGH ROSE-COLORED GLASSES: WHAT THE AGGREGATE DATA MASK

The 1990s have been a decade of economic prosperity for the United States. The situation in North Carolina appears even rosier, at least according to aggregate economic indicators. At the start of 1999, the unemployment rate for the state was 3.5 percent, which was more than a full point lower than the national average. From 1990 to 1996, the gross state

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	<i>all entries in percent</i>	
	N.C.	U.S.
Unemployment rate, 1990	3.5	4.5
Growth in gross product, 1990-96	23	14.9
Annual growth in per capita personal income, 1990-96	3.5	2.2

These aggregate levels of growth and expansion are masking underlying threats to economic prosperity in North Carolina

product for North Carolina expanded by 23 percent, whereas the gross domestic product grew by less than 15 percent for the nation as a whole. Per capita personal incomes have also been growing faster in North Carolina: 3.5 percent per year, compared to the national average of 2.2 percent annually over the same time period. The aggregate data also make the problem of worker dislocation (layoffs due to plant closings and downsizings) seem minor since roughly seventy percent of dislocated workers were able to find re-employment within six months.

However, these aggregate levels of growth and expansion are masking underlying threats to economic prosperity in North Carolina. The Office of Economic Development report focuses on several potential problems within the state's economy. First, North Carolina is experiencing an increasing number of dislocations. At the same time that overall growth rates have been high and unemployment rates low, the annual number of dislocated workers in North Carolina has increased considerably, almost doubling (from 14,900 to 28,000) between 1990 and 1998. Data through October 1999 indicate that 27,815 workers will have been displaced in the state by December 1999, and there are still two months left for more closings and downsizings to be announced. The number of affected workers is likely to be considerably higher considering the economic disruption to the eastern part of the state in September and October.

The "churning economy" is problematic because of the unemployment that lurks within it. When the economy cools off, due to the inevitable business cycle or natural events, like floods, it loses its ability to absorb dislocated workers. Reported unemployment rates then rise. But the problem is even worse because many of the displaced workers become discouraged and drop out of the labor force (and do not then appear in official unemployment statistics).

The existing and bottled up unemployment that hides within the aggregate data is insidious because it does not affect everyone the same. We find the problem more acute in poorer, rural counties of the state; among lower-income, less-educated North Carolinians (including a large number of minorities) who lack the skills needed to compete in the job market; and among older workers.

ISLANDS OF DISTRESS IN A SEA OF PROSPERITY

This concentration of unemployment and related problems among a subset of demographic groups and regions, in the face of overall growth, creates “islands of distress within a sea of prosperity.”

Consider, for example, the plight of older North Carolinians – those at least 55 years of age – who represented about 13 percent of the displaced worker population in 1996. Less than 60 percent of the workers in that age category who were displaced in 1995 and 1996 were able to find jobs within a year, compared to approximately 75 percent of other displaced workers.¹ Why is this the case? Many entered the workforce at a time when technical skills and post-secondary education were less valued. Those workers were able to advance as they learned their trade over many years on the job, in such industries as apparel, textiles, furniture, and tobacco manufacturing. But, the skills those workers acquired on the job are not particularly transferable to other industries, and since they do not have other skills or credentials, they are not easily re-employed. Older workers tend also to be reticent to move to where good jobs are more plentiful.

Re-employment for older workers is confounded by some other factors. Wage rates for the types of jobs that older workers could obtain (in services) are almost always lower than for the jobs they lost. Understandably, the workers’ tendency is to reject those jobs and continue their search. However, severance pay is not necessarily available, and unemployment insurance is neither generous nor particularly long-lived, so the workers eventually accept those lower-paying, unskilled jobs. Unless they find a second source of income, the re-employed workers still have difficulty meeting fixed bills for housing, transportation, food, and other necessities.

Older workers’ loss of employment has yet another consequence: it affects their retirement. The companies that shut down or downsized may not have protected the pension accounts sufficiently. Even if they did, the workers may have been counting on an additional year or two of pay-ins (during their peak earning years) to finance their retirement. Without the ability to contribute they may need to work longer than

Severance pay in North Carolina is often tied to length of time employed in a given job. However, there are cases in which long-time employees lost their jobs because their company became insolvent, with consequences for both severance pay and company-controlled pension plans

They initially planned. Some pension plans pay out based on the last years' earnings. If workers' hours were reduced in the last year or two of a firm's operations, retirement income would also have been affected.

Older workers are not the only demographic group disproportionately affected by lay-offs and plant closings in North Carolina. African-American women are also over-represented in the total number of workers that are displaced, as evidenced by the following facts:

?? Non-white women (predominantly African-American) represented 13 percent of the total North Carolina population in 1995 and 1996, but 33 percent of the dislocated worker population.

?? 6.5 percent of the African-Americans who experienced a mass layoff were women. White workers were almost equally represented by gender (49 percent were men, 51 percent were women in 1995).

African-American women are over-represented in the total number of workers that are displaced.

It is true that African-American women are heavily employed in the industries that have been subject most to mass layoffs during the last decade – specifically, textiles, apparel, and tobacco manufacturing. But that alone does not account for the disparity. There may also have been some discrimination against African-American women when lay-off decisions were made (a possibility suggested by the literature rather than by our findings).

Case studies of several communities in North Carolina provide additional insights into the problems faced by African-American women. Consider, for example, the case of Durham county.² There, as elsewhere, African-American women (most with young children) are by far the largest demographic group that experienced layoffs in 1995 and 1996. When those workers were laid off they lost both their job and their ability to afford child care. That made it difficult to look for work and to obtain the training required to qualify for available jobs. Those women have stressed repeatedly (to the service providers we interviewed) the need for low- or no cost child care for dislocated workers, perhaps located on the premises of the training facility.

Displaced workers in the case study locations also identified the lack of convenient and affordable transportation to and from job training and work programs as a significant

Children ride buses for free, and the elderly, disabled, and students pay reduced fares. Unemployed workers are required to pay full fare when they go for training or job interviews.

The most affected regions by mass layoffs and closings are also the poorest and most devastated by flooding this year

barrier to re-employment. Lower-income, less-skilled workers – including many of the African-American women – are most affected since they are transit-dependent. The issue is not the presence of public bus service -- Durham has one of the best systems in the country³ -- but rather, the limitations of a fixed route system that serves only the most-traveled routes, and with limited night and weekend hours of operation.

Respondents also noted that the full fare of \$0.75 per direction becomes costly when they have to make several trips each day, including separate trips for child care, to training facilities, to the employment security commission office, and to possible job sites. (In Durham, the elderly, students, and the disabled can ride for half price. There is no arrangement for dislocated workers without an income to ride at reduced rates.)

“Islands of distress” refers not only to groups of displaced workers, but also, to regions of the state, since the distribution of displaced workers – in all demographic categories -- is not uniform.⁴ For example, in 1995, the Global Transpark region accounted for 24.5 percent of the 12,718 displaced workers reported by the Employment Security Commission -- far higher than its share of population.⁵ The Northeast Partnership region also has had a disproportionate impact. Controlling for the size of the labor force, that region ranked second in terms of the share of its labor force affected by mass layoffs in 1995 and 1996.

These numbers are especially disturbing in light of the recent flooding that hit those two regions the hardest. The economic dislocations that follow the devastation will create even more unemployment and further widen the gap between the poor eastern counties of North Carolina and the Piedmont crescent. That stark reality justifies the intense policy effort that has begun to take shape.

The concentration of dislocations in the Global Transpark region is due, in part, to the seasonal nature of the agricultural work that is prevalent there, and in part, to industry restructuring. Re-employment prospects are hampered because the dislocated workers in the Global Transpark region are among the least educated in the state. In 1995, 36 percent of them did not have a high school education, compared to 27 percent for the rest of the state. From the cohort of workers that were displaced in 1995, those without a high school education were roughly 6 percent less likely to be employed than those with a high school education.

In the Northeast Partnership region, white displaced workers received 91 percent of their previous wage; African-American displaced workers earned only 74 percent.

On average, workers in the Northeast region lost \$13,688 over two years because of displacement, or some 44 percent of the income they would have continued to earn.

Older workers in the Northeast lost almost \$20,000, or 64 percent of their income.

The gathering clouds include a rise in contingent work, the impact of clusters, and spatial and skills mismatch.

No age group of dislocated workers in the Northeast Partnership region had a re-employment rate following displacement greater than 75 percent after two years. Two years following the quarter of displacement, only 43 percent of dislocated workers 55 or older were employed (15 percentage points lower than the state average).

When the dislocated workers in the Northeast finally found new employment, their pay was lower than in their previous job – especially for minorities. The white displaced workers were paid 91 cents on the dollar in their new jobs. African-Americans received only 74 percent of their previous wage. The combination of a long spell of unemployment and a lower wage in the new job results in significant economic losses for those workers. The UNC report estimated an earnings loss for the average displaced worker in the Northeast region of \$13,688 over two years, or over 44 percent of the income they would have received if they had not been displaced. For workers over the age of 55 in the Northeast region the total two-year earnings loss amounts to \$19,796 or over 64 percent of the income they would have received if they had not become displaced.⁶

CLOUDS ON THE HORIZON

The previous discussion would seem to suggest that the Piedmont crescent -- the Research Triangle, Piedmont Triad, and Carolinas partnership regions -- have robust economies that do not require policy attention. Recall, however, the image of the churning economy which masks underlying and latent weaknesses. Those weaknesses are like clouds on the horizon, gathering mass, threatening to develop into a tempest. Considering the deluge we have had in the state, we must avoid that storm.

What are those gathering problems? One relates to the type of work that is being created to replace the jobs in traditional industries that have been lost. An increasing number are part-time and temporary, what economists call “contingent work.” Businesses find this type of employment beneficial because it increases their ability to respond to changes in economic conditions. When demand is robust, they can hire workers quickly, often not having to pay benefits. When demand slackens, they can downsize quickly by not renewing the workers’ contracts. In that way, they are not obligated to pay severance and their unemployment insurance

experience rating is not affected. Because demand has been robust for several years in the Piedmont we have not had many dislocations in the contingent workforce. That will change when we experience a slowdown.

Because related firms tend to cluster in the Piedmont regions (around Research Triangle Park, the Triad, and Charlotte), there is likely to be a snowball effect when closings and downsizings begin to accelerate. The fall in demand in one business will create problems for the nearby suppliers, and soon, they too will have to lay off personnel.

This eventuality would be less troubling if interviews did not reveal a lack of institutional capacity to deal with an upswing in dislocations in the Piedmont crescent. The Durham case study indicated that staffing, and funding for training, counseling, and related services for dislocated employees are barely appropriate for today's expanding economy, and will be woefully stressed when the next recession hits.

Another cloud on the horizon is the spatial mismatch between workers in low-growth counties looking for work and employers in high-growth counties looking for workers. Jobs, especially at the entry level, are being left unfilled in the Piedmont, as evidenced by the low unemployment rates (1.2 percent in Wake County and 1.8 percent in Mecklenburg county in May 1999). At the same time, workers in the more rural parts of the state do not have enough appropriate employment opportunities, as evidenced by their higher unemployment rates (5.9 percent in Rutherford county and 6.7 percent in Tyrell county). Should we induce the workers to move, or intensify efforts to diversify the location of new jobs? The first approach is difficult when workers have a strong sense of place and deep roots – as many rural North Carolinians (especially older workers) do. The latter approach is the *raison d'être* for the William S. Lee tax incentive program, which provides more tax relief for businesses locating in the more distressed counties.

There are also spatial mismatches within economic regions. In the Research Triangle region, for example, workers lack convenient and affordable public transportation to the site of most jobs -- in Research Triangle Park. That either precludes them from employment there, or requires them to spend inordinate amounts of time commuting. Housing prices near the Park have risen to make the option of living near the job less possible for lower-level workers.

Spatial mismatch causes several problems. First, the high demand for employees in certain parts of the state causes

wages to rise in that area and in turn increases costs to firms located there. Second, the high levels of unemployment in other parts of the state are slowing economic development and keeping wages down for residents in those regions. Policy intervention to solve this problem could have dramatic benefits for the state as a whole.

Another type of mismatch is not spatial at all, but skill-related. In the discussion of older workers above, mention was made of their outdated skills. That is true to different degrees for all dislocated workers. The high quality jobs that are being created in North Carolina -- or that would come here if the labor force were ready for them -- require different knowledge and skills than most dislocated workers possess. North Carolina has an extensive network of community colleges that work with high schools, employment offices, and employers, to provide training and education for dislocated (and other workers). Interviews suggest some weaknesses, however, in that system: more emphasis on traditional degree courses as opposed to shorter certification courses, too much on-site versus distance opportunities, a lack of flexibility in developing new courses when opportunities arise, and a lack of funding because of the way community colleges are budgeted

POLICY IMPLICATIONS

How can we build bridges to those islands of distress, and prevent those clouds from thickening? The foregoing discussion suggests a number of policy interventions, focused on the most affected demographic groups (such as older, women, and minority workers), regions (notably the Northeast and Global Transpark Partnerships), and key institutions, such as the community college system.

We discuss the context and rationale for our policy recommendations elsewhere (*Building Bridges: Policies to Address the Hidden Dislocated Worker Problem in North Carolina*). The recommendations are:

- ?? Employers should be given incentives to offer more on-the-job training, and for hiring older worker
- ?? Job training programs, sponsored by JTPA, should be shortened and scheduled more flexibly to accommodate workers laid off at any time

- ?? Community colleges should offer fast-track certification courses and other shorter training programs
- ?? The state should help older workers not otherwise covered to obtain
- ?? The state should consider continuing Unemployment Insurance (UI) benefits beyond the start of new employment for some low-income workers
- ?? North Carolina should consider a statewide earned income tax credit for lower-income workers
- ?? The state should be prepared to act as employer of last resort when qualified workers (especially older workers) are not hired by private businesses
- ?? The Attorney general' s office should enforce anti-discrimination laws to ensure that employers do not single out any minority group for layoffs
- ?? The targeted incentives provided by the William S. Lee tax act should be supplemented with infrastructure investment programs targeted to distressed regions
- ?? State, local, and private agencies should develop job training programs that teach entrepreneurial skills
- ?? Reexamine the way community colleges are funded – providing resources after-the-fact, rather than before
- ?? Create a rolling reserve fund in the JTPA program for use after mass layoffs
- ?? Make sure that JTPA services are available to recent immigrants whose first language is not English
- ?? Offer JTPA programs in venues other than community colleges
- ?? Schools should develop alternative curricula geared toward students not bound for college
- ?? Full funding should be given to the proposed school equity plan

ENDNOTES

¹ Since our population of dislocated workers only encompasses those who filed for unemployment insurance, this group of older workers includes only those who actively searched for new employment. Due to this, the actual percentage of older workers that found re-employment is likely to be significantly lower than 59 percent.

² Durham county is predominately urban. Its metropolitan region includes Raleigh, Chapel Hill, Cary, Carrboro, and several other municipalities, as well as the Research Triangle Park. It is the wealthiest county in the state with an average annual income of over \$27,000.

³ The Durham Area Transit Authority (DATA) received APTA's 1997 award as the best bus system in the United States in its size classification.

⁴ North Carolina is divided into seven economic development regions: Advantage West, Carolinas Partnership, Global Transpark, Northeastern, Piedmont Triad, Research Triangle Park and Southeastern. These diverse geographic sub-regions each has a unique combination of human, economic, and natural resources.

⁵ The Global Transpark region was the worst affected, even when adjustments are made for the size of its labor force.

⁶ The methodology behind these estimates can be illustrated for the Advantage West region, which has similar results. If we make a conservative assumption that the average worker would have continued to make the same income for the two years following the quarter of layoff if s/he had not been laid off, we can estimate the total lost income over the two year period due to displacement. By multiplying the average income by the percent of workers that found re-employment, we are able to get the average income for displaced workers. For example, the average displaced worker in Advantage West made \$5,146 the quarter before s/he was laid off. Assuming s/he was able to maintain this income for two years rather than being laid off, his or her total income would have been \$41,173. We know that 48 percent of those dislocated were able to find employment in the first quarter following displacement at an average wage of \$1,751. So for the average displaced worker, lost income in the first quarter due to displacement would be $\$5,146 - (0.48) * \$1,751$ or \$3,394. Applying this same approach for the two years following layoff results in a total amount of lost income of \$18,589 equal to an income loss of 45 percent for the average worker. Using this same approach, we estimate the earnings loss for older workers to be over \$22,000 or almost 55 percent of the income they would have received if they were not laid off.