

# Displaced Workers

## Differences in Nonmetro and Metro Experiences in the Mid-1990s

Karen S. Hamrick

### Introduction

Economic restructuring can cause economic dislocation as workers lose their jobs. Technological advances, firm downsizing, and shifts in consumer product demand cause restructuring as these factors change the pattern of job-skill demand. Displacement occurs even though the economy is expanding. Indeed, large layoffs by major companies continued during the record expansion and tight labor market of the 1990s. Workers may experience hardship in the form of joblessness and lower earnings once a new job is found. During 1995-97, 3.4 million workers lost their jobs due to economic restructuring.

This report first examines the displaced worker experience during 1995-97 in metro and nonmetro areas using data from the Bureau of Labor Statistics survey on displaced workers.<sup>1</sup> Are nonmetro workers displaced more or less often than metro workers? Is the hardship for nonmetro displaced workers greater or less than for metro displaced workers? This report also analyzes programs and legislation designed to assist and protect displaced workers. Are nonmetro workers well served by these programs and protections?

### What Is Displacement?

Displaced workers are “individuals with established work histories who have lost their jobs through no fault of their own and who are likely to encounter considerable difficulty finding comparable employment” (Browne, 1985). Displacement is considered structural unemployment, not unemployment due to economic cycles or due to the normal matching process between workers and employers, but instead unemployment due to skills or geographical demand-supply mismatches. Fallick (1996) defines displacement as having three characteristics: (1) there is a structural cause for the job loss; (2) those displaced

have limited ability to attain a comparable job soon after job loss; and (3) displaced workers have a strong attachment to the sector of their lost job.

Past research suggests that metro-nonmetro residence is an important factor for understanding the displaced worker experience. In the early to mid-1980s, disproportionately more displaced workers were from nonmetro areas than from metro areas (Swaim, 1990). Nonmetro displaced workers also experienced greater hardship from losing their jobs than did metro displaced workers. Because nonmetro areas lagged metro areas according to several economic indicators during the 1980s—lower employment growth, higher unemployment rates, and slower growing incomes and earnings—nonmetro displaced workers were more likely to experience difficulty finding a new job and maintaining their previous earnings level.

However, the general economic situation in rural areas during the early 1990s was much improved over that of the 1980s. After the recession of 1990-91, nonmetro areas showed strong economic performance and outperformed metro areas by several measures during the recovery years of 1991-94. In particular, nonmetro employment growth was strong and unemployment was low. In 1995, however, nonmetro employment growth slowed, while metro employment growth increased. Nonmetro employment growth dipped in 1997-98 as the global financial crisis caused a decline in the growth of U.S. goods exported. As goods exports rebounded in late 1998 and the crisis ended, the shock to the nonmetro labor market subsided. This favorable economic environment in the 1990s raises questions about the level of hardship experienced by nonmetro displaced workers in the 1980s.

### Displaced Workers: What Do We Know?

Hipple (1999) found that, nationally, job displacement in the 1980s occurred primarily in the goods-

<sup>1</sup> See Endnotes beginning on p. 33.

producing industries. By the mid-1990s, a broader range of industries was affected. However, workers in goods-producing industries, and nondurable goods manufacturing in particular, continued to have a higher rate of displacement than workers in the service sector. A broader range of occupations was represented as well, with an increased risk of displacement for white-collar workers. He also found that, over the past decade, job loss due to plant closings or moves was fairly constant, accounting for roughly half of displaced workers, while the proportion reporting that their position or shift had been abolished doubled to 39 percent in 1995-96. Comparing the 1995-96 experience with 1993-94, he found that “[n]ot only were long-tenured workers less likely to lose their jobs in the 1995-96 period, but those who did were more likely to find new jobs, and they spent fewer weeks without work. Moreover, among those reemployed in full-time jobs, earnings losses were much less severe than those found in the previous period.”<sup>2</sup>

Farber’s (1997) article is a comprehensive presentation of the concept of displacement, the data issues associated with displaced worker research, and his own research employing both univariate and multivariate analysis. His particular focus is on analyzing displacement by the reason for job loss: plant closings, slack work, position/shift abolished, or other. He found, using probit estimates of displacement rates, that older workers and more educated workers were less likely to be displaced. He also found that older workers were less likely to be displaced due to slack work or “other” reasons; workers with a college education were less likely to be displaced by plant closings or slack work; and college-educated workers were more likely to be displaced because their position was abolished. Those who were displaced had a large probability of not being employed when surveyed, and when they found a new job, it was, on average, at lower real earnings than that of their lost job.

Two recently published literature reviews comprehensively summarize research questions on displacement, recent research results, and policy issues: Kletzer (1998) and Fallick (1996). Kletzer concluded from her review of the literature that job loss rates of the mid-1990s were the highest of the 14-year period of the Displaced Worker Supplement data; that less educated workers are more likely to be displaced than more educated workers; that historically displacement mainly affected the production occupations, but more recently job loss has spread more evenly across occu-

pations; that goods-producing industries had a higher risk of displacement than service industries; that black men were more likely to be displaced than white men; that displaced workers have different demographic characteristics than other unemployed workers; that more educated workers are more likely to be employed after displacement; that displaced women were less likely to be employed after displacement than displaced men; that real earnings were on average 13 percent less on the post-displacement job; that longer job tenures were associated with more earnings loss; that many displaced had difficulty finding full-time work and were working part time; and that import competition is associated with displacement.

Fallick’s review of the literature found that “worker displacement is a widespread, counter-cyclical event. While there has been no secular rise in the frequency of displacement over the 1980s, displaced workers have come to look more like the general work force. Tenure at a job still reduces a worker’s chances of becoming displaced, and displaced workers continue to come disproportionately from industries and States doing relatively poorly and from occupations that require less education. However, the protective influence of tenure has decreased, and displacement rates have converged across industries and occupations” (p. 8). He also found that “displaced workers experience more joblessness than other workers, but the adverse effects of displacement appear to fade away after about 4 years. The same is not true of the substantial reductions in earnings, again relative to nondisplaced workers, which appear to persist for a very long time. Sector-specific human capital appears to play a major role in explaining both the earnings losses and patterns of re-employment of displaced workers, as evidenced by the influences of tenure and mobility. But individual- or firm-specific factors, such as unionization and prior earnings, cannot be discounted” (p. 12).

An older literature review by Hamermesh (1987) continues to be useful in defining the research questions. He discussed both research on the demand-for-labor side, such as the probability of a plant closing, as well as the supply side, the worker losses resulting from displacement. He outlined the issues as (1) counting displaced workers and measuring displacement; (2) understanding why plants close and why workers do not accede to wage cuts to allow the plant to stay open; and (3) estimating the losses from displacement.

## The Rural Perspective

Swaim (1990) examined metro-nonmetro differences of workers displaced during 1981-86. He found that there were disproportionately more nonmetro workers among the displaced. The length of joblessness following displacement was longer for nonmetro workers than for metro workers and nonmetro workers' earnings were less when they found a new job. Nonmetro displaced workers were also more likely to lose their health insurance benefits. The nonmetro displaced had a higher unemployment rate when surveyed than the metro displaced, and they were, on average, less educated than metro displaced. Swaim concluded that displacement was a greater source of hardship for nonmetro workers than for metro workers during 1981-86.

My previous research on displaced workers (Hamrick, 1999) examined differences in metro-nonmetro displacement during 1993-95. I found that nonmetro workers were displaced at the same rate as metro workers and experienced slightly less hardship than metro workers after displacement.

Two case studies focused on large layoffs in rural areas. Beneria (1998) did a case study of the impact of the Smith-Corona plant relocating from Cortland, New York, to Tijuana, Mexico. In 1992, Smith-Corona announced that it would move its plant that employed 1,200 workers in Cortland, a town of 20,000 residents. Smith-Corona laid off 850 workers over the next 3 years. Beneria surveyed these workers during 1993-96. Cortland received assistance from a variety of State and Federal programs, including the Trade Adjustment Assistance program (described below). Many of the laid-off workers found new jobs, some at higher skill levels. However, a majority experienced large earnings losses and lower income levels. Women had the greatest earnings losses, despite their higher degree of participation in the training programs than men. Beneria also found that "the demand-side problem is reinforced by its location in a rural area with a stagnating or deteriorating economy. Earnings losses can be substantially larger when a 'congestion effect' operates due to a large number of workers searching for a job in a small labor market.... This points to the importance of local initiatives, perhaps with help from the state and Federal level, to reinvigorate investment and local development."<sup>3</sup>

Leistriz and Root (1999) studied five rural communities in Minnesota and North Dakota that faced the closure or downsizing of a major employer between 1994 and 1998: Altura, MN, Courtland, MN, Worthington, MN, Bowman, ND, and Grafton, ND. The authors state that the fact that low unemployment rates have been maintained by Minnesota and North Dakota, "... does not mean that all communities are doing well, or that there aren't difficult periods ahead for individuals who are displaced from their jobs or their resident communities. Our dynamic economy reflects the decline of some industries and subsequent job loss in some communities, while simultaneously, other industries experience relatively stable periods of prosperity."<sup>4</sup> Grafton was considered the most successful of the five communities in dealing with the loss of jobs. A State Developmental Center cut 500 jobs over several years. The community leaders found new uses for the vacant Developmental Center buildings and created a new industrial park, attracting new employers.

## Need for Research on Nonmetro Displaced Workers

Because of the relatively high rates of layoffs in the midst of a tight labor market, there is a continuing need to comprehensively analyze the nonmetro displaced workers' experience. The research presented here fills this need by providing not only descriptive analysis, but also estimates of probability of job loss, probability of employment after job loss, and earnings loss for nonmetro residents. This analysis on nonmetro areas has not been undertaken for several years and so provides an update of Swaim's research (1990) on the nonmetro experience in the 1980s.

Because nonmetro workers have different demographic characteristics than metro workers, and because nonmetro jobs have a different industry distribution than metro jobs, nonmetro displaced workers' assistance needs are probably different than metro displaced workers' needs. One question addressed here is whether or not nonmetro workers are well served by Federal programs and legislation designed to assist and protect displaced workers. No other research has addressed this question.

## Displaced Worker Supplement Data

Data used here are from the 1998 Displaced Worker Survey (DWS) supplement of the Current Population Survey (CPS). The CPS is a monthly survey of about

47,000 households, which is conducted by the Bureau of the Census for the U.S. Department of Labor, Bureau of Labor Statistics (BLS). The DWS was started in 1984, and is conducted every other year. BLS releases the data. The 1998 DWS was conducted in February 1998, and all respondents were asked, "During the last 3 calendar years, that is, January 1995 through December 1997, did (you/name) lose or leave a job because a plant or company closed or moved, (your/his/her) position or shift was abolished, insufficient work, or another similar reason?" If yes, the respondent was asked a series of questions concerning the job lost and subsequent labor market experience.<sup>5</sup> These questions on displacement were in addition to the demographic and labor force data collected in the basic monthly CPS.

BLS defines displaced workers as those 20 years old or older, who lost or left jobs because their plant or company closed or moved, there was insufficient work, or their position or shift was abolished. Workers on temporary layoff, those who quit, or those who were fired for cause are not considered displaced. Workers displaced from both full-time and part-time jobs are included. Because BLS includes insufficient work as a reason, displacement as measured has a cyclical component.

This analysis includes only long-tenured workers, those displaced workers with 3 or more years of tenure with their employer. The purpose of this restriction is to exclude short-tenured workers whose job loss may be due only to a poor match between employer and worker. The 3-or-more-years restriction also ensures that those included have an established work history and an attachment to their industry sector and their occupation and thus presumably have developed industry- and employer-specific skills that make it costly for them to take another job.

This analysis is restricted to workers under age 65, because workers age 65 or older would be eligible for full Social Security benefits, softening the hardship from displacement. Consequently, displaced workers under age 65 are more of a concern from a policy standpoint. In addition, less than 5 percent of all displaced workers are age 65 or older.

Workers displaced in nonmetro areas cannot be precisely identified in the DWS. (See box for definition of metro/nonmetro.) Metro/nonmetro status of the respondent's residence at the time of the interview was recorded but not previous residence for those who had moved in the previous 3 years. However, most displaced workers—84 percent of nonmetro and 88 percent of metro—had not moved. Analysis of nonmovers (not presented here) revealed essentially the same results as those presented in table 1 for all displaced workers. The lack of data on previous residence of movers does not substantively affect the findings presented here.

### Definition of Metro and Nonmetro

Metro areas or Metropolitan Statistical Areas (MSA's) are defined by the Office of Management and Budget (OMB) as core counties containing a city of 50,000 or more people or an urbanized population or at least 50,000 with a total area population of at least 100,000. Additional contiguous counties are included in the Metropolitan Statistical Area if they are economically and socially integrated with the core county. Nonmetro areas are counties outside metro area boundaries. After each decennial census, OMB reevaluates the metro/nonmetro status of each county. In 1993, OMB issued a new metro/nonmetro classification based on the 1990 census. In this last reclassification, 13 counties that had been metro were reclassified as nonmetro, and 111 counties that had been nonmetro were reclassified as metro, resulting in a net 98 new metro counties. Also after each decennial census, BLS and the Census Bureau redesign the CPS sample to better reflect the population. The new CPS sample and the new OMB metro/nonmetro classification were phased into the CPS during April 1994-June 1995. Because of this phasing-in process, producing consistent CPS metro/nonmetro figures for 1995 is not possible from the publicly available CPS data. In February 1998, when the DWS was administered, the CPS reflected the 1993 OMB metro/nonmetro classification.

**Table 1—Displaced workers, 1995-97**

	Nonmetro	Metro	U.S. total
		<i>Thousands</i>	
Displaced workers <sup>1</sup>	500	2,915	3,415
		<i>Percent</i>	
Male	57.5	52.5	53.2
Nonwhite	9.5	15.5	14.6
Hispanic <sup>2</sup>	5.6	10.8	10.1
		<i>Years</i>	
Age	42.3	42.2	42.2
		<i>Percent</i>	
Age distribution:			
20-24 years	2.7	3.2	3.2
25-34 years	25.1	22.3	22.7
35-44 years	28.0	34.2	33.3
45-54 years	29.1	26.6	27.0
55-64 years	15.0	13.6	13.8
Education level:			
Less than high school diploma	15.8	10.3	11.1
High school diploma	44.2	30.9	32.9
Some college	29.8	31.3	31.1
College degree	7.6	19.5	17.7
Advanced degree	2.7	8.0	7.3
Why displaced?			
Plant or company closed or moved	50.6	46.2	46.8
Insufficient work	25.5	20.2	21.0
Position or shift abolished	24.0	33.6	32.2
Year displaced:			
1995	26.7	28.5	28.2
1996	33.4	34.7	34.5
1997	39.9	36.9	37.3
Usually worked full time on lost job	90.0	88.8	88.9
Low-skill occupation on lost job	55.0	49.1	49.9
Received written advance notice of job loss	37.9	46.3	45.1
Received unemployment insurance benefits	50.1	48.1	48.4
Exhausted eligibility for unemployment insurance benefits	43.5	47.2	46.7
Moved to a different city or county since lost job	16.3	12.2	12.8
Of those who moved, move was to look for work or take a different job	58.1	59.8	59.5
		<i>Years</i>	
Tenure on lost job	9.2	9.3	9.3
		<i>Percent</i>	
Tenure distribution:			
3-5 years	35.2	31.9	32.4
5-10 years	35.1	32.4	32.8
10-20 years	17.2	24.5	23.4
20+ years	12.5	11.2	11.4
Currently unemployed	10.1	10.0	10.0
Currently employed	73.4	78.7	77.9
Currently not in labor force	16.5	11.5	12.1
Household income less than \$15,000 at survey	22.0	12.1	13.6

<sup>1</sup> Displaced workers aged 20-64, with 3 or more years of tenure on their lost job.

<sup>2</sup> Hispanics may be of any race.

Source: Calculated by ERS using data from the Displaced Worker Survey supplement, February 1998 Current Population Survey, Bureau of Labor Statistics.