

Plant Closings: A Local Economic Planning Dilemma

The dichotomy which exists between long-range economic planning activities and short-term "knee-jerk" reaction planning can be a major disrupter of a local planning agency's economic development program. In an industrial community the rumored or impending shutdown of a major employer is exactly the type of situation which can force the local planning staff to shift its activities on very short notice into a crisis status. Usually there is a lack of useful information about the affected workers and about the current situation in the local job market. This combination of data needs makes the provision of timely programming and relief a difficult, if not impossible, objective. For some time now Durham, N.C. has been experiencing economic uncertainties and planning difficulties associated with the rumored closing of the Liggett and Myers tobacco plant. Still one of Durham's largest employers, with a present workforce of approximately 1600, the company laid off 410 production workers in October 1979. The move served to reinforce speculation about the parent company's (The Liggett Group) future plans for its Durham operations. Because of L & M's declining position in the domestic cigarette market and the well-publicized failure of sale negotiations between The Liggett Group and a potential North Carolina buyer, it is evident that L & M's local position is somewhat tenuous. The Durham experience with L & M is, and will continue to be, a valuable example for other communities, and for policy-makers seeking to formulate effective program planning that is applicable to similar situations.

THE NATURE OF THE PROBLEM

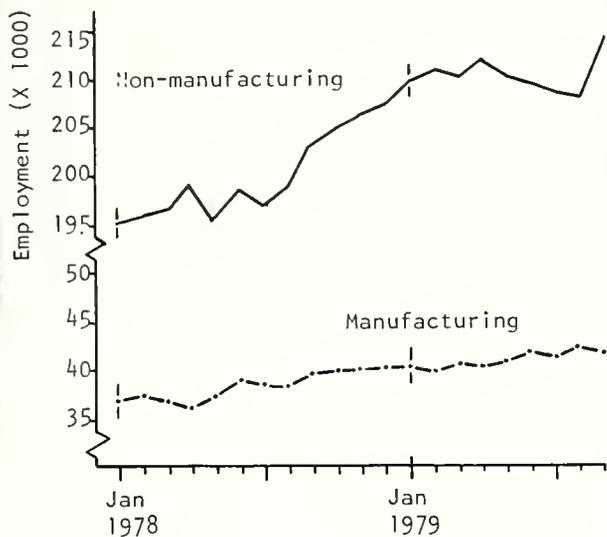
Durham lies in the Raleigh-Durham SMSA, which includes the cities of Raleigh, Durham, and Chapel Hill, along with Orange, Wake, and Durham Counties. Also known as the Research Triangle, the area has experienced rapid growth in high technology, non-manufacturing, service industry employment during the previous 25 years. Growth-pattern data collected on the SMSA since January, 1979 shows that while manufacturing employment has grown during the period, non-manufacturing employment has increased at an even greater rate and makes up the vast majority of the labor market in the

area (Fig. 1). The preponderance of non-manufacturing jobs in the SMSA can be attributed to the state government center in Raleigh, the large university community in the area, and the Research Triangle Park. Within Durham, however, a plurality of the employed labor force is in manufacturing and other blue collar jobs; indeed, the city has always been the industrial component of the Raleigh-Durham-Chapel Hill region. According to recent data collected by R.L. Polk and Company, 7,232 of Durham's 1978-79 labor force of 34,657, or fully one-fifth, were engaged in blue collar work. Figure 2 shows Raleigh-Durham SMSA employment broken down even further. Manufacturing is divided into durable and non-durable goods production, while non-manufacturing is analyzed by trade, services, and governmental uses. These are not all of the non-manufacturing categories, but they are the largest. Tobacco production and processing falls into the non-durable good manufacturing category. Little growth has taken place in this segment over the last 21 months. Most new employment is becoming available in the non-manufacturing sector which requires a higher skill level than the manufacturing sector. In terms of the potential effects of a shutdown at L & M, this data indicates that it is highly unlikely that many of the workers could be placed in new or existing jobs in the Durham area.

Figure 3 shows the unemployment rates for Durham County and City. The city and the county rates both remain below the national rate over a given time period, yet both rates have been increasing over the last year and a half. This may be attributable to the changing nature of the jobs being offered in the Durham labor market. With proportionately fewer jobs available in the manufacturing sector, unskilled laborers may find themselves unable to compete for other jobs. As can be seen from Figures 4 and 5, most of the growth in the labor force has occurred within the city.

Leland C. Barbour will complete the Masters of Regional Planning program at the University of North Carolina at Chapel Hill in May 1981, with a concentration in transportation and economic development planning. He is currently participating in the North Carolina Transit Management Intern program with the City of Fayetteville.

FIGURE 1
EMPLOYMENT
(RALEIGH-DURHAM SMSA)



This is not uncommon, but it could be another contribution to a higher level of competition for existing jobs in the Durham labor market.

What the closing of Liggett and Myers could mean in direct financial impacts is nearly impossible to measure or predict accurately. There are certain aspects of the L & M operation, however, which make some rough observations possible. As stated earlier, Liggett and Myers has been paying wages much above the local average for relatively low-skilled positions. It is reasonable to assume that workers in these jobs have made personal financial commitments, such as the purchase of a home or an automobile, based on their current level of income from L & M. If the plant was to close and these workers were to find immediate reemployment, it is likely that their new jobs would pay wages well below what L & M paid. This will mean that many workers will be faced with personal financial crises.

In addition to the direct effect on the plant's workforce, a shutdown would have an impact which would be felt throughout the community. If all 1600 workers at the L & M plant were laid off and were able to find new employment the very next day at jobs which paid half the Liggett wage, the net loss of income in the local economy would be over 13 million dollars per year (assuming the workers are being paid the tobacco industry average of \$8.03 per hour). This thirteen million dollars is being spent throughout the community to support various other businesses, and thus some secondary layoffs resulting from the economic

slowdown could be expected. If the national average employment multiplier of 1.68 is applied, it indicates that as many as 2700 other people could eventually lose their jobs because of the shutdown.

The literature on plant closings points out that there are psychological costs from shutdowns in addition to the more tangible economic costs. These psychological costs are more difficult to assess because of their non-quantifiable nature. Workers who have lost their jobs in a plant closing are generally less happy with their new jobs. This can be attributed to lower wages, skill utilization, and job satisfaction, along with poor employer/worker relations. The burden of these costs seems to fall most heavily on middle-aged and minority workers. Middle-aged workers may feel too old to pick up the pieces and start over again, while minority workers might not be able to find a new job with attractive qualities.

PUBLIC SECTOR RESPONSE TO THE PROBLEM

Several interviews were conducted recently with individuals who will have the responsibility of dealing with any plant closings that might occur in Durham. Their responses contain many insights into the difficult nature of the problem.

Phil Skinner is the Placement Supervisor for the Durham Office of Employment and Training. Mr. Skinner explained his office's activities concerning the Liggett and Myers situation. The following is a paraphrased summary of Mr. Skinner's remarks:

Liggett and Myers faced an important test in March when the union contract had to be renegotiated. In the past, L & M has put up little resistance to the union, and this might explain some of their current problems. As for the possibility

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that someone might come in and buy the plant and maintain production, I don't think this will happen. The other tobacco companies like R.J. Reynolds will probably keep away because of the union. At this time my office isn't really doing anything in preparation for a shutdown; we are not organized to deal with problems before they happen. Some of the workers from the October layoff have come into our office for help in finding new work. The

longest any of these workers had been with L & M was eight years, but the workers still employed by L & M have been with the company ten or twenty years, and probably have few skills that are useful outside of the tobacco industry. It would be useful to know what other skills the workers do have. New industry has been kept out of this area because of a lack of available labor, and if we knew what kind of people were going to be freed by L & M then we could use these numbers to help recruit new industry. This would probably be of more interest to the Chamber of Commerce than anyone else. I think it would also be useful to know the wage demands and the willingness to move of the workers at Liggett.

Ann Colenda is the Labor Market Analyst for the Durham Office of Employment and Training. A summary of Ms. Colenda's remarks follows:

As for programming (in case of the Plant closing) I don't think there is anything we can do now. We know basically what kind of person is still working at L & M, and if we went in collecting information and having people fill out forms we would only start a panic. The company hasn't even said that they will close yet. I can't deal with people until they come into the office. I think the one thing I would like to know is how many will be able to retire in the near future.

Dwight Yarboro is a planner with the Durham Planning Department. When Mr. Yarboro was inter-

viewed, he stated that the Planning Office was doing nothing which involved Liggett and Myers and that any programming would be done through the Community Development section of the City Manager's office. Dawn Hall, Assistant City Manager, said that any programs offered by the city would be through the Employment and Training Office. Upon further checking, it was revealed that the city, through the Employment and Training Office, has submitted an application to the U.S. Department of Labor for funds to retrain some of the 410 workers laid off by L & M in October. Specifics of the proposal were not available.

Jim Camp is the Economic Director for the Durham Chamber of Commerce. Mr. Camp is responsible for the Chamber's industrial recruitment efforts. Mr. Camp was asked about his opinion concerning Liggett and Myers given that unemployment in Durham historically has been below the national average, and that, as Mr. Skinner stated in his interview, new industry has been kept out of Durham because of a lack of available labor.

We are always working with major employers in the area. As for Liggett and Myers, we can't program for what hasn't happened. We don't have the money or the staff time. We have conducted a small business seminar which was aimed at teaching people how to set up their own business, and this was attended by some of the workers from the most recent L & M layoff. I don't really expect Liggett and Myers to close, so I haven't given much thought to what might be done if they did. In the event they did close, the most useful information would concern the skills available and wage and hourly rates being paid.

The common attitude among all of those interviewed was that nothing can be done until a formal announcement is made to the effect that the plant will close. In addition, the apparent level of ability of any of the agencies to deal with such an announcement in an effective manner is woefully low, and the relatively unclear ideas that were expressed concerning useful data that could be collected indicates an overall lack of forethought concerning the potential effects of a plant closing. Finally, all of the agencies that might be called upon to deal with this problem are set up in such a way that they can not use intuition to plan for the future. As stated by Dawn Hall, "... everyone's got a budget, and we can't afford to spend money unless we know we'll get results."

DATA MODEL FOR PROGRAM PLANNING

In order to program effectively for any group of clients, the planning agency first must identify and characterize the group. Under current program planning, the planner finds out who

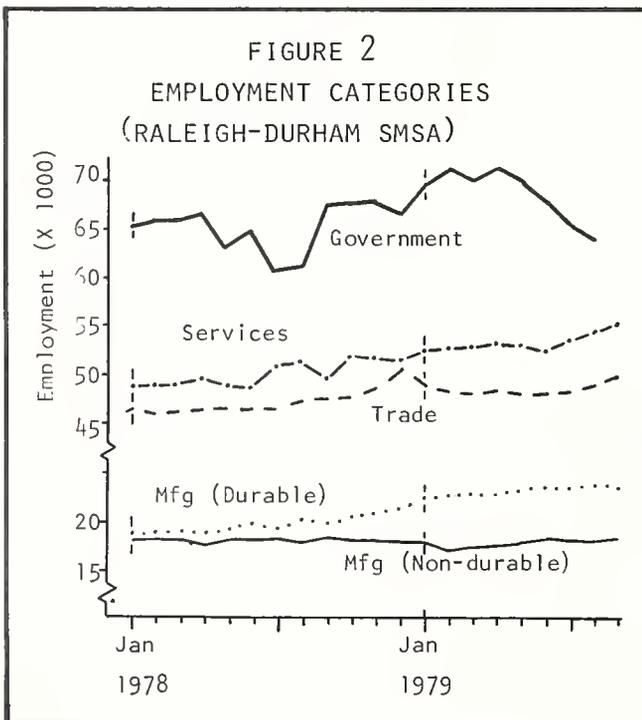
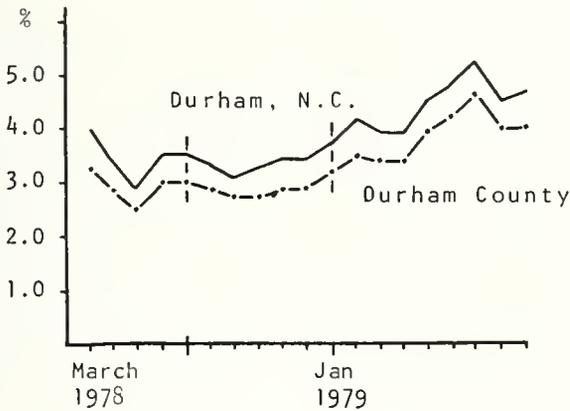


FIGURE 3
UNEMPLOYMENT RATE



Wage demands and willingness to relocate. If workers are willing to move to find new employment, the demands on the local economy to absorb unemployed workers will be reduced and local planners can program to match workers with desirable jobs in other locations. Likewise, knowledge about minimum wage levels desired by unemployed workers will allow the agencies responsible for dealing with plant closing to locate jobs which pay well enough to meet the workers' continuing financial needs.

The information outlined above is straightforward, but not easy to obtain. Unfortunately, under the circumstances which surround the potential closing of a plant like Liggett and Myers, the company seems to be interested most in saving face within the community as long as possible. It is apparently not in the company's best interest to cooperate with efforts to collect worker data which, in the event of a shutdown, would facilitate the preparation of programs to meet the workers' immediate needs. Aside from legislation requiring corporate disclosure of plans to close, local governments are left with no authority by which to gather infor-

the clients are after a shutdown occurs, and then it takes weeks or even months to establish programs to meet the needs of these people. The following is a list of information and a brief explanation of its usefulness to someone establishing programs for workers displaced by a plant closing. It is based partially on information from the interviews.

INDIVIDUAL WORKERS' CHARACTERISTICS

Age, Sex, Marital Status, Number of Children under 18. This information will allow the planner to get a picture of who the worker is and how he/she might be expected to react to a plant closing. Young, single workers are most likely to move to find new employment, while a married worker with several children dependent upon him/her might not be able or willing to take on the added financial burden of moving to find employment.

Occupancy status and time lived at current address. Is the worker renting or buying his/her home? Workers who have made commitments to large mortgages or who have lived in the same neighborhood for an extended period of time might find the emotional and financial ties too difficult to break and might settle for local work that is below the level of skill and/or wages to which they are accustomed.

JOB CHARACTERISTICS

Education, Vocational Training, Employment Tenure, Income. By comparing the current job characteristics with the worker's income, the planner can assess the likelihood that the worker will be able to find work that pays a comparable wage, given the worker's skill level.

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mation before the closing occurs. If it were possible to obtain all of the information suggested in this section, the planner would have a base from which to begin programming to serve the displaced workers. By knowing who the workers are and how they can be expected to respond, programs could be designed with the needs of these people in mind. If the workers are predominately young and eager, then retraining might be quite successful. Older workers might not be willing to invest time in a new career and may choose to work at another job until they can retire.

CURRENT PROGRAMMING CAPABILITIES

Just as there exists a general lack of data about workers who might be affected by an L & M shutdown, there is also a very low level of information about what types of programs would be afforded to aid them after a shutdown should occur. The recent layoff of 410 workers, however, was an occurrence significant enough to initiate similar mechanisms to those that would be utilized in the event of a total shutdown. A look at the programs which are currently being used to aid the most recent layoff victims will give a reasonably accurate picture of what to expect if the plant should close.

On October 20, 1979, Cliff Hood, Vice President for Academic Services at Durham Technical Institute, announced an "intensive two day ses-

sion designed to improve the job-seeking skills of the former Liggett workers." The session was organized to include counseling on finances and job opportunities, and the participants were taught how to write a resume and prepare for job interviews. Liggett and Myers agreed to pay the registration fee for any laid-off worker who attended the course.

This type of program will probably be repeated in the event of a plant closing. The 410 workers affected by the October 1979 lay-off had been with the company for as long as eight years, but employees who are still with L & M have been working, and thus out of the job market, for an even longer period of time. If a shutdown occurs these workers will probably experience more difficulty trying to reenter the job market than those in the first group, especially since the Durham labor market is becoming increasingly non-manufacturing and service-oriented.

On October 25, the AFL-CIO announced plans to make some of their job training programs available to the workers laid-off from L & M in October. There were no specifics available about the nature of these programs, and there

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has been no confirmation as to whether any programs have been started. The union noted at the time of the announcement that "it will be extremely difficult to place people, particularly those without good skills, into jobs that pay anywhere near a union contract." (*The Durham Morning Herald*, 1979).

In the event of a total shutdown at Liggett, it is likely that the union will play an important role in the job transition of the workers. The problem with union programs designed to retrain workers is that older workers have been found less willing to invest the time in education for a new job. Younger workers seem more willing to make the transition.

At the time of the October lay-off, Liggett and Myers announced that the workers would receive one week of pay for each year worked, in addition to any vacation pay earned. The workers were also told that they would be subject to recall for two years. In the event of a total shutdown, the severance pay will probably be calculated on the same basis. Obviously there will be no recall. When plant closings have occurred in the past, some companies have tried to relocate some of the workers in their other plants. It is doubtful that The Liggett Group would transfer many workers to production in their other divisions

because of plant locations, local labor supply, and required skills. (The Liggett Group owns J&B Scotch, Wild Turkey Bourbon, Alpo Dog Food, Red Man Chewing Tobacco, and several smaller interests.)

The major problem that will not be met by any of these programs is the financial crisis experienced by the laid-off worker. This isn't the crisis of being merely unemployed, but is instead the continuing problem of trying to meet previous financial commitments when forced to take a lower paying job. As stated previously, since the Liggett and Myers plant is unionized, the wages paid are quite high when compared to those received for comparable non-union work. This means that it is possible that many people who are able to find work after a lay-off will be unable to meet their financial obligations with their new incomes. The result will be a completely different set of problems which will only prolong the effect of the initial lay-off.

CONCLUSION

The final point of this study involves redirecting the focus away from the effects that an L & M shutdown would have on the Durham community. A more fundamental issue concerns the inability of the current infrastructure to respond to this type of crisis until the closing actually occurs.

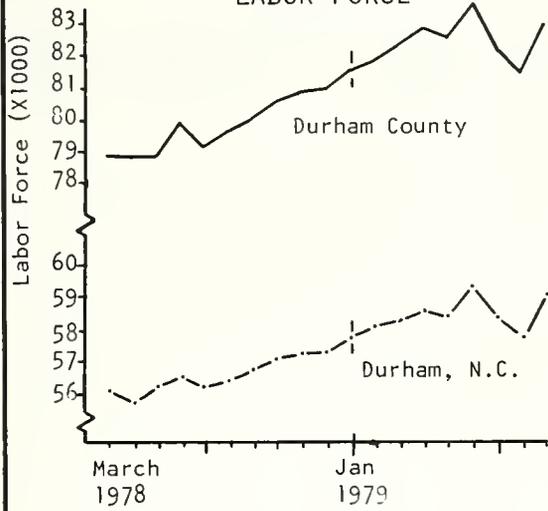
From the interviews presented earlier, it is evident that no responsible agencies are presently structured to address plant closings before the fact. This problem is to be found in any bureaucracy and is probably too entrenched to have any reasonable hope for change. It was also seen that, given the ability and authority to gather a minimal amount of information, agencies responsible for setting up programs to help workers displaced by a plant closing could direct their efforts specifically to the needs of their clients.

The key element here seems to be time. If public agencies were to have advance warning that a closing was going to occur, and if they had

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available data about the workers to be displaced, then programs could be set up to help workers as soon as they lost their jobs. Currently the agencies can not start designing their programs until the closing has already taken place. The time lost, which may be weeks or months, is costly both to the individual workers and to the community as a whole.

FIGURES 4&5
LABOR FORCE



Several states have passed disclosure legislation which requires industries employing a certain number of workers to give notice to the workers, to the local government, and, at times, to state agencies in the event of plans to close. The legislation varies from state to state, but the net result is the same; communities faced with plant closings are not caught off guard in the event of a shutdown.

While it is beyond the scope of this article to detail the various legislative efforts being made, the need for such disclosure legislation on a local basis has been well documented. Plant closings are not unique to the snowbelt. They are events which pose a very serious threat to community stability throughout the country. Durham is a town that may well be on the verge of paying the price for having an economy dominated over the long term by a single industry. And while Durham's gradual diversification may make the economy more stable in fifteen years, the closing of a plant the size of Liggett and Myers could set Durham's economy back noticeably.

North Carolina should consider enabling legislation which would make the transition that Durham may soon be experiencing less painful, for Durham is not unlike many other cities in North Carolina which may be facing similar crises. By giving communities advance notice of plant closings, other industries can be recruited to the area to lessen the impact of the shutdown, and, as stated earlier, programs can begin to address the problem before it ever occurs. If this type of legislation were passed, Durham and other communities could plan for crises instead of reacting to them.

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