PLANT CLOSING LAWS: A BLUEPRINT FOR DESTROYING U.S. JOBS

A dangerous anti-jobs blueprint is heading for the Senate floor. It is a proposal expected to be offered as an amendment to S. 490, the Senate's trade bill. Technically known as S. 538 or the "Economic Dislocation and Worker Adjustment Assistance Act," the amendment would require businesses of 50 employees or more to give 90 days' notice and businesses over 500 to give 180 days' notice to their workers, unions, and local and state governments of their intention to close a plant or lay off more than 50 workers. Businesses would be required to negotiate with workers and government to develop alternatives to plant closings, and companies could be required to prove their case in order to close the plant or lay off workers.

Unprecedented Restrictions. Proponents of these unprecedented restrictions argue that they will save jobs. This is absolutely wrong. They would lose jobs and slam the brakes on America's job-creating firms. America's free enterprise job-creating system, now the envy of the industrial world, would be transformed into clones of Western Europe's stagnant, government-controlled economies.

The hallmark of the American economic system is its flexibility, the freedom of businesses to enter and leave the market as they see fit. This freedom allows labor, capital, raw materials, and real estate to be redistributed quickly from less efficient and profitable enterprises to more promising ones. Business and job turnover in the U.S. is 8 to 10 percent per year, the highest of any major industrialized country. This not only is a sign of freedom, it is a sign of economic vitality. Approximately 550,000 U.S. businesses close down annually. But only about 50,000 or 10 percent of these go bankrupt. In the rest, businessmen sensibly move resources from less profitable ventures, where employment and expansion prospects are dim, to more profitable areas. This keeps the U.S. economy highly competitive, and leads to more and better jobs. Only by allowing unsuccessful companies to close or cut back, are resources made available for more promising alternative ventures.

Fewer Innovations, Less Competitive. By signalling to firms that they may not be able to switch resources rapidly, plant closing restrictions will discourage creation of new businesses. If entrepreneurs, in addition to the normal risks of starting ventures, are to be locked into a plant and forced to maintain a payroll even if the activity proves hopelessly impractical, American firms will hesitate to build plants and hire workers in the first place. To make matters worse, the more innovative a new enterprise is, the more risky it is. New restrictions on plant closings thus would mean fewer American innovations and a less competitive America.

The tight restrictions on plant closings and layoffs called for in S. 538 are the rule in Western Europe. What has happened to the job situation there is indisputable from the evidence. While the U.S. has created nearly 25 million net new jobs in the past dozen years, the European Community has created absolutely no net new jobs. While unemployment in the U.S. is around 6.3 percent, joblessness in most West European countries remains at double digit levels.

A recent U.S. Chamber of Commerce study of a hypothetical but typical light manufacturing plant in the U.S. employing 600 workers illustrates the destructive employment effects of S. 538. If such a plant wished to transfer 400 workers to other facilities and lay off 200 workers, in order to close a plant to improve efficiency--or just survive as a company--the 180-day notification requirement would cost the company $10 million. If the firm already was in financial difficulties, such a burden might well provoke collapse and the loss of all 600 jobs.

Increasing Unemployment. Restrictions on plant closings also discourage the addition of new employees to existing firms. When demand for a West European firm's product increases, for instance, it tends not to add workers to meet the demand, since it would be nearly impossible to lay them off at a later date if demand were to decline. Thus, when faced with increased customer demand, these businesses are forced by layoff restrictions to consider the potential losses they will suffer if employment rolls remain too high in the future. In this way, plant closing regulations not only add to unemployment, they depress national economic output since production facilities as well as workers remain idle even when demand for products is high. For this reason, plant closing restrictions would also tend to drive foreign investment out of the U.S.

By placing the power to close privately owned business facilities in the hands of government officials and unions, S. 538 would weaken significantly the fundamental property rights at the heart of America's free enterprise economy. This system has given Americans the employment opportunities and prosperity they now enjoy. America leads the world in new job creation and technological development. It will not be able to do so if plant closing laws destroy the economy's flexibility.

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For further information:

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