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THE CLOSING OF PROFITABLE PLANTS: AN AREA FOR GOVERNMENT RESTRICTIONS?

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INTRODUCTION

Sixty-eight bills, which, if passed, would restrict the ability of a firm to relocate or close a plant, have over the past two years been introduced in twenty-four states.[1] "Plant closing" legislation has been an especially pressing political issue this year in California, Connecticut, and Montana. The 1982 Connecticut bill has four key features. It would require a firm to give a year's notice of its intention to move a plant out of the state, to provide a two-month notice of its intention to close a plant or lay off workers, to give one week's severance pay for each year of employment, and to continue the medical benefits of laid-off workers for ninety days.[2] Other state bills require firms to provide up to two years of severance pay, to make restitution payments to the communities in which they have

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1 Bernard W. Frazier, "Plant Closing Legislation: Comments," paper presented at a Liberty Fund symposium in Charleston, South Carolina on "Free to Close: The Economics and Politics of Private Disinvestment," May 9-11, 1982. My own survey in the spring of 1981 found twenty-one states had considered such legislation over the preceding two years. The provisions of these bills are summarized in Richard B. McKenzie, The Right to Close Down: The Political Battle Shifts to the States (Los Angeles: International Institute for Economic Research, January 1982), appendix.

2 "Plant-Closing Bill Passes First Hurdle," Torrington, Connecticut Register, March 17, 1982; and "Connecticut Considers a Plan to Make 'Runaway' Industries Do More for Their Workers Than Say Goodbye," New York Times, March 15, 1982.

operated, and to pay tax penalties to the state.[3] Bills introduced in Congress in the past, in addition, have provided for federal aid to failing businesses and to workers interested in buying their plants.

These bills are founded on many diverse arguments, the most important of which is that firms are inclined to close "profitable" plants. In introducing his original plant-closing bill in Congress in 1974, Representative William Ford (D-Mich.) offered the following caveats:

> My own congressional district suffered the effects of the runaway plant in 1972 when the Garwood plant in Wayne [Michigan] moved and left 600 unemployed workers behind.... Mr. Speaker, the reason these firms are moving away is not economic necessity but economic greed. For instance, the Federal Mogul Co. in Detroit signed a contract in 1971 with the United Auto Workers and six months later announced it would be moving to Alabama. A spokesman for the company was quoted as saying they were moving "not because we are not making money in Detroit, but because we can make more money in Alabama."[4]

Representative Ford's concern that firms are closing profitable plants has been echoed repeatedly by proponents of restrictions on private disinvestment. Such an argument effectively serves two functions: It suggests that private firms are behaving not only irresponsibly but irrationally as well, even according to a major criterion -- i.e., profitability -- of the market system; second, the argument shifts responsibility for plant closures onto management-capitalists and away from workers. After all, should not "productive" workers be protected from disinvestment moves that are inefficient, if not stupid? That is the sort of question-begging implied in Representative Ford's remarks.

The purpose of this paper is to analyze the economic and political case for plant-closing restrictions by specifically dealing with three central contentions of its proponents. First, firms are closing profitable plants. Second, firms are "ruining" otherwise profitable plants by using them as "cash cows" (the meaning of which will become apparent). Third, the modern wave of industry conglomeration has reduced the ties of firms to the communities in which their plants are located and, consequently, has led to the closing of plants that, in the absence of the conglomerate movement, would have remained viable concerns.

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3 McKenzie, op. cit., appendix. The City of Philadelphia was also considering a "plant closing" bill in the spring of 1982. See "Philadelphia First? Warning Workers on Plant Closings," Philadelphia Inquirer, May 27, 1982.

4 U.S. House of Representatives, Congressional Record, 94th Congress, 1st Session, June 10, 1974, p. 18559.

PROFIT AND LOSS

By radical socialists, profit is held in considerable disrepute. It is often characterized as an unnecessary money grab on the part of capitalists, a form of "surplus value" extracted from the sweat of labor, which may be viewed as the sole source of value of all goods and services produced and traded in a market system. Capital (at least the assets of "basic" industries) must be controlled by the state to avert the exploitation of labor by capitalists, who presumably can coerce workers to produce a total product value that is in excess of worker wages. Marxism expounds this view of profit.

Social reformers, whose professed allegiance may still reside in the "free enterprise system," but who are disenchanted with what are viewed as the "excesses" of an unfettered economy, seem to see profit up to a point as a necessary evil, a kind of "fair" compensation for the capitalists' frugality and investment wisdom. This type of profit is judged more for its morality than incentive effects. Profit beyond the generally unspecified moral limit is, however, not only unfair but unnecessary in the sense that it does not affect the distribution and efficient use of resources. To one extent or another, in one form or other, these perceptions of profit undergird proposals for plant-closing restrictions, as reflected in the comments of protagonists, Barry Bluestone and Bennett Harrison:

> In our kind of so-called free enterprise system, workers as a class neither own nor control capital to any significant degree. The people who do have every incentive to exercise their control with the objective of making as much profit as they can and, in the process, accumulating as much wealth as possible. To meet this objective, employers must keep their cost of production down, which requires them to coax as much productivity out of their employees as available technological conditions will allow. The entire process is handled, in all but the very smallest shops, by a cadre of professional managers hired by the owners of the capital.[5]

According to this view, production is driven to a more or less fixed level by the coercion implied in ownership of physical capital; profit is the "cream" that capitalists skim by force from a more or less fixed output; any business relocation that is made based on profit is a zero-sum move (meaning that what the capitalists receive in profit is extracted from "highly-exploitable labor")[6] at best and a negative-sum move at worst (since the

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[5] Barry Bluestone and Bennett Harrison, Capital and Communities: The Causes and Consequences of Private Disinvestment (Washington, D.C.: The Progressive Alliance, 1980), pp. 3-4.

[6] Ibid., p. 7.

accompanying conflict between labor and management as well as competition among firms for market shares and among workers for jobs and wages must divert resources from productive uses).

The controversy over plant-closing restrictions is, in part, a conflict over the social role of profit. To advocates of an economy relatively free of governmental restrictions, profit, that which remains on the proverbial "bottom line" after accounting expenses have been deducted from sales, is partially a form of compensation, like wages, that must be paid to owners of capital for the services of capital: it is a necessary price, like wages, that is ultimately established by competitive forces. This minimum profit level (viewed by economists as a normal production cost, again like wages) is no more or less ethically corrupt than the wages of workers who are paid for the sweat of their brow and the services of the "human capital" contained in their skills. Profit is what it is -- necessary compensation, which cannot be determined outside of some market process in which people can reveal what they are willing to do, that is, how much or how little they are willing to accept as "minimum" compensation for the services of the resources at their disposal.

Profit over and above this minimum level, the common notion of profit serves another important function: it directs the use of resources to their most productive and valuable uses. Although unnecessary in the sense of being "more than enough," it is what everyone, capitalists and workers alike, seeks. It, too, is necessary as part and parcel of the strategic incentive and information system that a free society, through free markets, must maintain to remain free.

Of course, proponents of restrictions are not impressed with this allocative role of profit because they do not wish to maintain an open and free system -- for everyone, that is. They operate on the delusion that somehow the political process can be opened for the purpose of constricting the freedom of others without, in the long-run, having similar constrictions placed on themselves. They seem to think that, by way of the political process, profit can be suppressed or, better, diverted to workers and that capitalists will not exploit an open political arena to achieve their own end -- more profit. Again, the view that making profit is a "grab" by capitalists comes through in the often voiced delusion that profit can actually be redistributed (which implies that it will not be destroyed in the attempts at redistribution). An underlying presumption is that profit exists, like rocks on the Appalachian Trail, independent of the competitive market process in which it is created, and can be collected by anyone, under almost any political arrangement, for distribution to the masses. Proponents of restrictions fail to appreciate the extent to which profit is <u>created</u> (in an aesthetic sense) in the process of being sought. The search for and attainment of profit cannot be disentangled conceptually or objectively.[7]

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[7] For a complete statement of the view of the competitive market process and profit being touched here, see Israel Kirzner, <u>Competition and Entrepreneurship</u> (Chicago: University of Chicago Press, 1975).

The contention that "money-grubbing capitalists" will sacrifice truly profitable plants is a blatant contradiction. Of course, there are times when the bottom line of a firm's income statement for a soon-to-be-closed plant will be written in black ink. But, the plant may be closed for the same reason that workers quit: the compensation reported on the bottom line is below what is required to keep the plant open. The plant that closes because its profits are below the "minimum" is in a sense not covering all of its production costs, including the legitimate cost of rewarding the owners of capital; it is, in effect, incurring losses. Requiring such firms to keep their capital in place, when they would otherwise move it, is tantamount to requiring workers to stay in their jobs when higher rewards elsewhere persist (indicating their productive skills are more valuable in other endeavors).

At other times, firms may appear to be in the black when they are actually in the red, that is, not covering all of their out-of-pocket expenses. Modern inflation misleads people into thinking that businesses are more profitable than they in fact are. Because costs of plant and equipment used on profit and loss statements tend to be based on their historical prices, and not their higher replacement prices, and because revenues are computed from current sales at current prices, profit of businesses tends to be substantially overstated, perhaps by as much as 30 or 40 percent, during prolonged periods of double-digit inflation. Some businesses reporting profit during recent inflationary times in the U.S. are actually losing money (but are paying taxes on their accounting "profit").[8] They are not covering the costs of doing business and what Peter Drucker calls the costs of "staying in business."[9]

Then there are times when accounting techniques employed by multiplant firms distort their profitability. Dayton (Ohio) Tire Company (a subsidiary of Firestone Tire and Rubber Company) was, at the time of its closing in 1980, showing a profit on paper. Using an accounting system common among large corporations, Firestone, on paper, "bought" tires from its Dayton plant at a price above plant costs. The plant, accordingly, showed a "profit."

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8 This theme is developed more completely in Richard B. McKenzie, "What We Have Learned from Inflation: Ten Short Lessons" (Clemson, South Carolina: Economics Department, Clemson University, 1980).

9 Peter Drucker, Managing in Turbulent Times (New York: Basic Books, 1979). The replacement cost of plant and equipment in current prices is greater than what is set aside in the form of depreciation allowance for existing plant and equipment computed on historical purchase prices. The cost of using existing plant and equipment is, therefore, higher than that which is allowed; profits are lower than that which is allowed on accounting statements, meaning that taxes, if they are paid, are higher than they "should be." In such inflationary times the government is actually confiscating the capital of firms, not just their "profits."

However, after adding in the costs of warehousing and marketing incurred by other divisions of Firestone, the total cost of the bias-ply tires produced at Dayton exceeded the price that could be charged in the market.[10] In short, the production of tires at Dayton was not profitable.

Firms must always keep an eye on their competition and must constantly look to the future. At times, a firm may close a plant because of greater cost savings at another location. It knows that if it does not take advantage of lower production costs elsewhere, someone else surely will; and this someone else will be able to undersell and outcompete other producers. To be truly profitable, a plant must also be able to cover the very real costs associated with absorbing the risks of keeping its capital in place.

Why would a firm, interested in profits, close a profitable plant? That is the central question for proponents of restrictions. The typical answer is superficial: "the firm can make more money elsewhere." But, such a retort belies logic; the firm could even make more money elsewhere _and_ keep the "profitable plants" (subject to closure) open. That is known as expansion. Proponents of such an illogical view must believe that firms that close profitable plants have extensive control over price and that any extension of their firms' supplies, by way of firm expansions of the number of plants, will lead to price and profit reductions.

Monopoly power requires barriers to entry into markets. However, the mere existence of "more profitable" opportunities elsewhere means that the firm's markets are, unless guarded by government fiat, open and can, and will, be invaded by other profit-hungry firms. Such a circumstance is hardly descriptive of a "monopolized industry"; the barriers do not exist. The so-called monopoly firms must adjust their production to the lower cost, "more profitable" locations, or see their profit eroded by competition.

At best, any attempt by government to restrict firms from removing, by relocation or disinvestment and reinvestment, their capital from its current employment will be a short-lived sedative. Plant-closing restrictions that truly save jobs in the long run must be accompanied by entry restrictions, which is a certain way of monopolizing industries and enabling industries to obtain the monopoly profits they seek.

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10 From a telephone conversation with Bernard Frazier, director of governmental relations, Firestone Tire and Rubber Company, June 1980. One test of whether or not the Dayton plant was profitable is to ask if the workers, or anyone else, were willing to buy the plant and equipment and continue its operation as a tire company. After all the buyer would then be beneficiary to the profits. Although the facility was offered for sale, it was eventually closed for lack of a buyer.

"CASH COWS"

In Capital Flight, Bluestone and Harrison, along with Lawrence Baker, continue their attack on corporate America:

> Another more subtle form of disinvestment which often occurs is the severe reduction of operations at an old facility by a multi-branch corporation, which then gradually shifts machinery, skilled labor, managers, or marketing responsibilities to newer facilities elsewhere. Such a multi-branch corporation may also leave an older plant's capital stock in place but simply reallocate the plant's profits to another, newer, facility. This "milking" of a profitable plant is especially common among conglomerates (where the term "cash cow" is sometimes used to describe the object of such a profit drain) and is responsible for ruining many sound companies. In fact, this last management technique... is one facet of an amazing corporate activity which occurs not infrequently: the shutting down of healthy, profitable plants -- not just money-losers.[11]

The "milk" (cash flow) a firm secures from a "cash cow" is obtained directly from a plant's profits and indirectly from the depreciation allowance subtracted from sales, along with its expenses, to determine profits. Recorded profits are reduced by the depreciation allowance, but the firm still has access to the untaxed revenue (which can be reinvested in the firm's other plants or in the acquisition of other companies or product lines). Because the existing plant and equipment are not replaced, the productive ability of the "cash cow" deteriorates with time until, finally, it must be closed.

Does this "milking" of "cash cows" shorten the life or ruin otherwise profitable plants? Certainly, firms make mistakes; they conclude incorrectly that a production facility cannot maintain its competitive market share, when in fact the contrary is the case. However, mistakes are to be expected in all social systems. The relevant question is whether or not the market system intentionally, and with malice aforethought, seeks to drain firms of their productive capacity and whether or not corrective adjustments can be expected. When profit is the assumed motivating force, which is the fixed presumption of advocates of restrictions, no plant will be intentionally "depreciated away" if, in the long run, its operation is expected to be profitable. A truly profitable plant is one in which the income stream exceeds the cost of operation, including the cost of replacing the firm's plant and equipment. A firm that milks a profitable cash cow will receive investment funds, but it could

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11 Barry Bluestone, Bennett Harrison, and Lawrence Baker, Capital Flight (Washington, D.C.: The Progressive Alliance, 1981), p. 14.

generate even more investment funds by keeping it in operation: it could reinvest the depreciation allowance and the profit. By simply milking the supposed cash cow, the firm has only the depreciation to reinvest.

Plants are allowed to depreciate away for one overriding reason: replacement of buildings and equipment at current prices and continued operations will mean future company losses. From this perspective, a company that operates a "cash cow" is, if anything, extending the life of the plant, not cutting it short. The company is using the buildings and equipment (both of which are scarce resources) to their fullest -- the economical thing to do. From a social perspective, might we not also ask, is it not better to have plants and equipment, which are no longer economical to replace, sit idle or be used only until they are no longer productive?

Furthermore, if a firm mistakenly begins to milk a profitable plant, other profit-hungry entrepreneurs could be expected to move in to buy it at a price roughly approximating the present discounted value of the depreciation allowance and to operate it at a profit. The company's workers or their union might be willing to make an offer. To assume that a profitable plant would be closed, when such resale prospects exist, is tantamount to assuming that everyone who is free to enter the market and purchase the firm would make the same mistake in assessing the future profitability of the plant. In short, the logic undergirding the cash cow argument is mind-boggling -- and in fact, contradictory.

As proponents of restrictions contend, taxes do affect investment decisions. No argument on that score. The North, without question, is having its growth rate marginally reduced by the progressive income tax system used by the federal government and its generally higher state and local tax rates. The average income tax rate is marginally lower in the South, where incomes are lower, than in the North.[12] However, contrary to what is heard from defenders of restrictions,[13] the tax code can prop up and extend the life of many failing firms. A failing firm is often recording losses because of its depreciation allowance.

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[12] See C. L. Jusenius and L. C. Ledebur, A Myth in the Making: Southern Economic Challenge and Northern Economic Decline (Washington, D.C.: Department of Commerce, Economic Development Administration, November 1976), for a discussion of the average tax rates of states and regions. See also, Richard B. McKenzie, Restrictions on Business Mobility: A Study in Political Rhetoric and Economic Reality (Washington, D.C.: American Enterprise Institute, 1979), pp. 26-30, for a summary of Jusenius and Ledebur's work on taxes.

[13] William Ford, op. cit., p. 18559.

The tax advantage of purchasing a failing firm stems from three principal sources: first, the reported losses can be deducted from the profits of the acquiring firm, reducing the tax liability of the acquiring firm (the greater the losses of the acquired firm resulting from depreciation allowances, generally, the greater the tax benefits to the acquiring firm); second, the failing firm can be purchased at a price depressed by its losses; and, third, the acquiring firm can secure the cash flow from the depreciation allowance, which is nontaxable revenue. The reduced taxes on the profits of the acquiring firm and the depreciation allowance can spell profit for the acquiring firm (a flow of funds in excess of the purchase price). Again, however, the life of the firm that is acquired is extended, not shortened, <u>because of the tax system</u>.

This analysis does not mean that the tax system contributes to economic efficiency. On the contrary, other firms might suffer because of the tax code. Because capital will be directed into the milking of "losers," funds will be more expensive to otherwise profitable firms, especially new, potentially profitable firms. Ironically, high tax rates on corporate income provide a subsidy to workers and owners of failing firms: they increase the resale value of the firm and extend the job tenure of its wokers.

PLANT DESTRUCTION BY CONGLOMERATES

The case for plant-closing restrictions is never more palpably confused than over the issue of the "destructive consequences of corporate giants." On the one hand, advocates contend that technical changes in production processes have

> ...both promoted, and have in turn been promoted by, what is without question the most fundamental characteristics of capitalist economic development: the tendency toward the concentration of economic power and control of larger and larger multi-plant, multi-regional, and finally, even multi-national corporations whose everyday activities shape and reshape the political-economic environment and even to some extent the cultural boundaries of the whole society. In the past, this power was used to concentrate production in units of ever-greater scale, the inefficiencies from which helped to promote even further concentration of control in each industry in the hands of a smaller and smaller number of leading firms.[14]

Such corporate giants are supposed to be able to secure the monopoly profit graphically portrayed in the lectures of every

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[14] Bluestone and Harrison, <u>op. cit.</u>, p. 156.

teaching economist in the country, and they are supposed to be able to accomplish that end by pitting worker groups across the globe against one another for the "social wage" and by restricting supply, and, ergo, the motivation for plant closures. On the other hand, "competition between [sic] the largest international corporations [for labor and market shares] has reached an unparalled intensity."[15] We must wonder how these "giants" become so big if they are everywhere and at all times exploiting labor with low wages (why would labor work for the "giants"?) and consumers with high prices (why would consumers buy from the "giants"?).

Similar logic (or the lack of it) is revealed in the charge that the growth of conglomerates is necessarily an important cause of plant closures, due itself to the "remoteness of conglomerate control of local plants":

> Large corporations -- and conglomerates in particular -- will and frequently do close profitable plants of previously acquired businesses for a variety of reasons directly related to the nature of centralized management and control. In other cases, the "remote control" of operations by a home office far removed from the production site, or unfamiliar with the industry in which a subsidiary is competing, actually creates the unprofitability of the plant or subsidiary which then leads to an eventual shut-down.[16]

The inefficiencies of remote control supposedly stem from several sources:

1) Requirements that new acquisitions "carry additional management staff sent from headquarters, personnel not previously needed by the subsidiary..."; [17]

2) Requirements that subsidiaries pay fees to their parent companies for "management services"; [18]

3) Rules that force subsidiaries to purchase inputs from "distant providers, even if the subsidiary's managers know where they can cut costs by purchasing locally"; [19] and

4) Clumsiness of the headquarter's interference with the "local managers who know the situation best."[20]

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15 Ibid., p. 157.
16 Ibid., p. 199.
17 Ibid., p. 206.
18 Ibid., p. 207.
19 Ibid., p. 208.
20 Ibid., p. 208.

In general, although conventional wisdom stresses the efficiency of mass production, "mounting evidence ... points to the opposite conclusion: that the managers of giant corporations and conglomerates often create inefficiency through 'over-managing' their subsidiaries, milking them of their profit, subjecting them to at best strenuous and sometimes impossible performance standards, interfering with local decisions about which the parent's managers are poorly informed, and quickly closing the subsidiaries down when other more profitable opportunities appear."[21]

If conglomerates are so destructive of newly acquired subsidiaries, how can they secure the funds to out-price other "local" bidders for their subsidiaries and how they can be induced to hang on to their subsidiaries when they are running them into the ground and when others could turn them into going concerns? If capitalists are truly profit mongers, will they invest in conglomerates that intentionally destroy profitable plants? After all, conglomerates must pay competitive prices for their acquisitions, and such prices approximate the present discounted value of the future profit stream. To intentionally destroy such profit would mean that the conglomerate had embarked on an irrational course: paying for the profit (in terms of the purchase price) and then proceeding to destroy the profit and the resale value of the plant. Proponents of restrictions may retort that conglomerates can outbid other local buyers because they have the funds (from profits and capital markets), but the wholesale destruction of profit would mean that they would not have the profit and could not find willing investors in the capital markets. One must question how a conglomerate (starting out small as almost all businesses must) becomes a conglomerate following such a course.

If the conglomerate's headquarters were to intentionally impose unnecessary costs on its subsidiaries, as outlined above, making them unprofitable and subjecting them to closure, it would appear that local buyers would be able to buy the firm from the conglomerate. The conglomerate should be willing to sell at a price reflecting its computed profits, which should be less the profits that would supposedly exist when the unnecessary costs of the conglomerate were eliminated by local ownership.

Actually, logic suggests that conglomerate ownership, with its broad base of operations, should lead to the continued operation of many plants that would, with local ownership, have to close. Many firms are subject to seasonal and cyclical swings in sales, revenues, and profits. They might continue a facility's operation in spite of current losses because their sights were on the long-run profitablity of their company. A locally-owned firm, with limited access to capital market and without the cushion of profits from other product lines on a different

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21 Ibid., p. 210.

business cycle, might be forced to close a temporarily unprofitable plant -- for lack of funds to carry it through its financial storm. A conglomerate would solve such problems. It would reduce the risk of investment by spreading the investment over a number of varied ventures and increase its access to financial capital, enabling it to "subsidize" temporarily unprofitable plants and adding a measure of stability to worker jobs.[22]

This does not mean that conglomerates will not close profitable plants; mistakes can always be expected in an imperfect and uncertain world. It simply means that systematic plant closings by conglomerates should not be expected. A disproportionate share of plant closures (or large plant closures) may be associated with conglomerate ownership, but that does not mean that conglomerate ownership, in the final days of the plants' lives, was the cause of the plants' dissolution. Many conglomerates can be in the business of acquiring firms that would otherwise fail, hoping that their management services and access to financial markets will enable them to revive a sufficiently large percentage of the failing firms to make the whole salvage effort worthwhile. In such cases, the lives of all of the plants are extended, some for very short periods, others indefinitely.

Proponents of restrictions on closings suggest that conglomerate owners, far removed from the community in which the plant is located, do not have the welfare of the workers in their "utility functions" -- which, translated, means that conglomerate owners care less about worker welfare than do local owners of plants. Frankly, the argument is pure supposition. Both in-town and out-of-town owners have to meet the competition in the final products and financial markets. Both groups are pushed by the forces of competition to operate in very much the same way. If, for example, Philadelphia owners were willing to accept a lower rate of return, because of the satisfaction of having done something good for the hometown, then it would appear that Philadelphia investors could and would outbid nonresident conglomerates for control of Philadelphia firms.

CONCLUSION

When examined in the light of common sense, the economic case for restrictions on plant closings discussed here is inconsistent and contradictory, based largely on a modern version of Marxian historical determinism and labor exploitation that has been discredited by the rise of worker wages throughout history. The bottom line is simple: no profit-maximizing firm would close profitable plants. They would sell them off first.

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22 I am indebted to Yale Brozen for making this point evident to me (from personal correspondence December 27, 1981).

As noted, a number of proposals to augment disinvestment decisions of private firms authorize someone, e.g., the Secretary of Labor, to provide financial aid to displaced employees who would like to buy a closed plant and continue its operations.[23] Such a provision is based on the presumption that many profitable plants are closed. If that were true, then employees would not need the aid; private investors should be willing to provide the necessary financial capital. Indeed, employees and their unions should be able to raise the necessary money among themselves. After all, working people do save and invest. Private pension funds have hundreds of billions of dollars in assets, and a profitable plant should be a good investment.[24] If funds could not be raised privately, it would appear that the plant was not profitable, and taxpayers, who would then have to foot the bill for the purchase, would be taken for another welfare ride.

Furthermore, without government aid, the proposed restrictions on firms very likely will reduce the chance that employee-owned and managed businesses can be financially successful. If a plant-closing law is in force, the employees -- as owners -- will then be the ones who have to assume the risks and costs that the proposed restrictions impose on the firm. They will be the ones who will be responsible for giving, say, a one or two-year notice of a planned plant closing, fifty-two weeks of severance pay, and the restitution payments to the community. They will be the ones to see their savings go up in the smoke of company losses that may be incurred during the extended period of time the firm must wait before they can close their doors.

The chances, for example, of the Dayton Tire workers converting their plant into a profitable concern were slim at best, especially without the management skills, the licenses and patents, the warehousing and distribution capabilities, and marketing talents that would probably not be sold along with the plant but be retained by Firestone. If the workers owned the plant, they would have to look squarely and soberly at the stark facts of the bias-ply market faced by Firestone and ask whether they were willing to take the implied market and government imposed

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23. This federal legislation is summarized in McKenzie, The Right to Close Down, appendix.

24 Many of the proponents of restrictions seem to think that businesses are almost totally owned by higher-income groups, not people of the working classes, and that the costs of the restrictions borne by businesses will inevitably be imposed on higher-income groups. However, while it is true that high income groups own a disproportion of the country's corporate stock, workers and unions, through the investments of their savings and pension funds, have a substantial stake (up to one-third of the financial control) in the profitability of businesses. Restrictions on plant closings could seriously affect the retirement of present and future members of all income classes. See Peter F. Drucker, "Pension Fund 'Socialism,'" Public Interest (Winter 1976), pp. 3-46.

risks. With the proposed restrictions on the books, it appears that, without government aid, the employees will be less willing to put their money where their hearts are. Certainly, if they take time to reflect on other job opportunities, many will have second thoughts over investing in their own firm. That is why workers should carefully consider proposals for government aid to failing businesses. Such aid means that taxpayers -- workers included -- will be investing in businesses in which they would not voluntarily invest and over which they will secure no ownership rights.