European job creation in the wake of plant closing and layoffs

Confronted with massive layoffs in recent years, firms, and often governments, have taken a variety of initiatives to stimulate business growth and job creation

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Over the past decade, millions of American workers lost their jobs through plant closings and work force reductions. According to the U.S. Department of Labor, between January 1979 and January 1984, 11.5 million adult workers were laid off because of plant shutdowns or relocations, abolition of shifts or positions, or slack work. Nearly 5.1 million of these people were considered displaced, having held their former jobs for 3 years or more.[1]

By January 1984, 1.3 million of these workers were still unemployed, and of those, 500,000 had been out of work for 27 weeks or more.[2] Hundreds of thousands more had taken pay cuts and part-time jobs simply to regain employment.

Europe, too, has undergone a massive economic shakeout over the past few years, generating little or no employment growth (in contrast to the increase in jobs in the United States). At the end of 1984, unemployment rates were at double-digit levels in the Netherlands (15 percent), Great Britain (13 percent), and France (10 percent).[3] This economic turmoil has drastically affected certain communities as well. Particularly in the United Kingdom, areas characterized by "mono-industrialism" suffered unemployment levels far above 20 percent.

By comparison, the United States outperformed Europe in creating jobs for its people from 1970 to 1984. From 1974 to 1984, the U.S. economy generated more than 26 million jobs. Of the four largest European nations—with a combined labor market slightly larger than the United States in 1970—West Germany lost close to 1.5 million jobs and Great Britain, 820,000, while France and Italy did better, creating around 380,000 and 1.3 million jobs respectively.

While layoffs and shutdowns proceed on both sides of the Atlantic, the response of government and corporations to the problems created has been significantly more vigorous in Europe than in the United States. American corporations tend to provide, at best, severance pay, relocation assistance, retraining, or job counseling, or a combination of these benefits, for the workers they dislocate. And while the Federal Government will authorize $195 million in 1986 to aid displaced workers through Title III of the Job Training Partnership Act, the program falls far short of helping all those in need, and fails to ensure that enough jobs are created or sustained to employ those trained.

In contrast, European corporations—often working in concert with local, regional, and central governments—in recent years have gone beyond traditional types of assistance to workers and communities.[4] While the programs vary considerably as to methods and scope, they share a common goal of stimulating job creation and new business growth in the wake of economic downturn. By examining both the achievements and limitations of these innovative efforts, American corporations can expand their repertoire of strategies for alleviating the problems of economic dislocation.[5]

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Effects of streamlining

Across Europe, industrial sectors are experiencing thorough restructuring. In France and Great Britain, for example, nationalized firms have cut their labor forces and increased their productivity through eliminating less profitable facilities and investing in modern machinery. Corporate leaders see most of these changes as positive: many industries are leaner and more competitive, and new types of labor-management cooperation, such as quality circles, are emerging.

Yet, this industrial streamlining has proven devastating to thousands of workers and communities dependent upon corporations for employment. Continued stagnation in employment growth has provoked widespread alarm over the future of job creation. By the end of the decade, more than half of the unemployed in European countries will be long-term unemployed youth.[6]

However, Europeans in business, government, and labor increasingly are seeing entrepreneurship as the key to solving these labor market problems. Public and private corporations are fostering a wide range of business development options, in concert with such adjustment assistance measures as training, early retirement, severance benefits, job placement and development, and financial and employment counseling.

Great Britain, France, and Italy offer the most promising examples of corporate job creation to address economic dislocation. Because the roles of government and unions differ considerably from country to country—and even from plant closing to plant closing—the initiatives discussed in this report will be examined in the context of their national economic circumstances. Having assessed the successes and failures in each country, we then will note the patterns that cut across national boundaries and discuss the implications for U.S. public policy.

Great Britain

Great Britain has endured continued high levels of unemployment since 1980. While the government of Prime Minister Margaret Thatcher has pursued some direct employment measures, it is corporations that have spurred the most successful initiatives. In the process, these companies have learned the value of forming partnerships with local and regional governments and voluntary organizations to achieve their goals.

BSC Industry, Ltd. This program, begun nearly a decade ago by the country's nationalized giant, British Steel Corporation, serves as Europe's showcase example of job creation and new business formation. BSC Industry was established as a wholly owned subsidiary of the company to create jobs in communities and regions hit by steel mill closures (British Steel slashed its work force from 225,000 workers in 1975 to 71,000 employees in 1985).

BSC Industry initially focused on recruiting other large firms to distressed areas. This approach has gradually given way to a broader range of efforts targeted to smaller firms and would-be entrepreneurs. The subsidiary, which became independent of British Steel in 1984, now operates in 18 steel-mill closure areas. Its activities include marketing new images for depressed steel communities ("opportunity areas") to provide a supportive climate for indigenous business development and to attract outside employers; providing comprehensive business assistance, including seed financing and loans, to new and existing firms; converting outdated facilities into incubators (or "workshops") for entrepreneurs; and encouraging the formation of independent and public-private partnerships—known as Local Enterprise Agencies—to bring together community resources in a united effort to regenerate distressed steel communities. BSC Industry has merged its technical assistance operations with those of the Local Enterprise Agencies.

From 1975 to 1984, British Steel committed about £40 million to BSC Industry's activities. The results have been impressive: 2,000 companies have been assisted in creating 30,000 new jobs, with another 20,000 jobs to be filled in the near future. Eight entrepreneurial workshops house hundreds of businesses. The organization's loan programs provide crucial gap financing that the private sector has been unable to provide to more than 200 firms, with £8 million to £9 million out at any one time; 90 percent of the loans are equal to or less than £25,000 (approximately $17,361).[7]

Scottish Development Agency. This is another organization taking a broad approach to the problem. The Scottish Development Agency was formed in 1975 by the merger of the Scottish Industrial Company with the National Investment Bank. It focuses on local small business development through factory building, management and marketing assistance, gap financing, and youth entrepreneurship development. One project, the Clydebank Enterprise Fund, has loaned nearly £700,000 (around $486,108) to 50 local companies, most of them new business start-ups; over £2 million have been leveraged.

Private corporate activity. United Biscuits, British American Tobacco, and the glassmaker, Pilkington Brothers, have followed BSC Industries' approach and now offer financing, comprehensive business assistance, and unused land and buildings to small firms in communities hit by shutdowns. In plant closure situations, United Biscuits has financed local economic and community development feasibility studies, as well as provided "challenge grants" to match local job creation resources. It supports project Fullemploy, which provides intensive training, mainly for ethnic minorities, for retail and sales work and boasts a 70-percent placement rate.

France

In France, larger firms must receive government approval before closing plants. Companies must offset the resulting job loss with job creation efforts. Thus, in contrast to Great Britain, the central government and unions in France serve as the main catalysts for responses to economic downturn. Nevertheless, a number of French firms like the Thomson Group, the BSN Group, St. Gobain, Rhone Poulenc, Elf Acquitaince, and others, have gone far beyond mere adjustment assistance.

SOFIREM. The country's nationalized coal company, Charbonnages de France, has pioneered efforts to rebuild distressed industrial communities through its job creation subsidiary, SOFIREM (Societe Financiere pour Favoriser l'Industrialisation des Regions Minieres). The central government empowered SOFIREM to offer a financial package of equity, loans, and subsidies to entice large firms to distressed coal communities. In addition, SOFIREM helped create 30 businesses in 1984 and another 30 in 1985, and plans on fostering another 70 over the next 2 years. Its Industrial Fund uses 300 million francs (approximately $43 million) annually for constructing buildings, promoting exports, providing training, and conducting feasibility studies.[8]

SOPRAN. Rhone Poulenc, a large chemical company, created SOPRAN (Societe pour la Promotion d'Activites Nouvelles) as a separate company in the late 1970's to create employment for workers it laid off. Along with providing adjustment assistance—early retirement for former employees 55 years and older and transfer rights to displaced employees—SOPRAN is currently helping about 40 people start their own firms. More than 1,200 new jobs have been created through SOPRAN'S efforts—about half of them going to former employees, a much higher ratio than BSC Industry has achieved. Each job has cost Rhone Poulenc roughly 65,000 francs ($9,312), a small sum compared with the cost of similar programs in other countries.[9]

St. Gobain. This company, which produces products for automobiles and construction, provides transfer assistance to displaced employees and technical and financial assistance to developing, small- to medium-sized firms. Working through five decentralized regional delegations, the St. Gobain Development Service has helped 230 businesses, creating 5,050 jobs, over the past 3 years. Of these firms, about 150 were established, growing companies, while 50 were start-ups, and 30 were new businesses attracted.[10]

Loans are typically extended for 10 years at the modest interest rate of 6 percent. The size of the loan is geared to the number of jobs involved, with the company aiming to spend 10,000 to 50,000 francs ($1,432 to $7,163) per job. If a former employee of St. Gobain is hired, the loan is changed into a direct grant.

Italy

Montedison. In Italy, as in France, the central government and unions provide most of the impetus for corporate job creation. A major exception is Montedison, a large diversified firm, that, on its own, has undertaken broad efforts to aid small- and medium-sized firms. Montedison helps small businesses in economically depressed southern Italy to qualify as its suppliers. It also assists new and established businesses throughout Italy, regardless of whether they are in industries related to Montedison's products or needs. Unlike many other European business assistance programs, Montedison shies away from financing in favor of providing such services as regulatory assistance, infrastructure design, and foreign marketing.

ENI. The giant petrochemical conglomerate ENI (Ente Nazionale Idrocarburi) has worked since 1978 on promoting industrial diversification and providing alternative employment for laid-off employees. Its activities center on aiding small and new businesses. Working in eight "crisis areas," ENI has helped create 1,000 jobs and has provided vocational training for another 3,400 workers.[11]

Implications and possibilities

Perhaps most importantly, these new European initiatives show that corporations and governments can considerably expand their efforts to launch enterprise and job creation programs in response to industrial restructuring. In America, best corporate practices focus only on picking up the pieces after closures, whereas the European efforts cited the way to moving from mere reaction to proaction.

Second, the most successful of these efforts indicate ways for corporations to integrate social responsibility into mainstream business operations. By synthesizing their longer-term business strategy with their employment and adjustment concerns, corporations can find ways to serve their goals of launching new products and services, developing new business ideas, improving employee morale, encouraging entrepreneurial initiative, and maintaining good public relations. The success of SOFIREM in France and Montedison in Italy demonstrates how closely these concerns can be integrated.

Third, as the Organization for Economic Cooperation and Development has noted, companies have found that their natural partners in employment initiatives are local government and voluntary organizations.[12] Prior involvement in community affairs and knowledge of the local political situation and its actors are crucial. From the partnerships between schools and industry that United Biscuits has forged, to the Local Enterprise Agencies that BSC Industry created, Great Britain has taken the lead in this area.

Fourth, the European actions suggest possibilities for union and community negotiations over closings. The initiatives serve as precedents for crafting either formal closure agreements or flexible responses to the impending problems that closures will generate.

Finally, a closely related point is the importance of prior notice of layoffs and shutdowns. This not only gives companies time to build partnerships with unions and communities; it is essential for giving firms enough lead time to develop and launch new businesses. Being a day late may mean being a dollar short. SOPRAN reports that is takes at least 18 months to get a new plant into operation.[13] Graham Ledger of United Biscuits in Great Britain notes that his company gave a 3-year closure notice for its Liverpool facility, and, "We think we did it right."[14]

Limitations

Like its achievements, Europe's problems with job creation are instructive. The chief barrier which European corporations have confronted is the nature of entrepreneurialism; it cannot solve all problems, nor should it be expected to do so. In particular, most initiatives have failed to integrate large numbers of blue-collar workers and their concerns into operation. Even BSC Industry has had very limited success in creating new jobs for displaced steelworkers.[15] Indeed, the program's leaders see its role as creating jobs in closure-affected communities, not as finding employment for displaced steelworkers.

This means that small and new business development must be complemented with more traditional strategies. For example, the Clwyd County Council and British Steel Corporation Industry in Great Britain and SOFIREM and St. Gobain in France have succeeded in attracting major new firms to their areas to supplement their work in indigenous business development.

Management problems pose a second major limitation. Many initiatives rely on inadequate assessments of local assets and liabilities. Then, too, the responses to problems tend to become formulaic; over and over, the same techniques—seed capital, workshops, and technical assistance—are used. New, riskier programs—such as the Clywd County Council's Project Live Wire for training young people as entrepreneurs—offer the promise of breaking the mold.

A third limitation arises from the very depth of the economic dislocation problem. In many communities, the amount of job creation is dwarfed by the numbers of jobs lost. The Organization for Economic Cooperation and Development (OECD) argues that it is impossible to estimate the number of jobs created by these initiatives. For instance, it is difficult to even define the terms "durable" job and "new" job. However, the Organization states that "it is hard to imagine that corporate job creation schemes have to date yielded much more than 100,000 new jobs in the whole of Western Europe."[16] Furthermore, it is virtually impossible to measure the number of second- and third-wave jobs created when new businesses start up.[17] In any case, these new initatives can only deal in limited ways with the underlying causes of closures and dislocation. (See box.)

Problems in corporate dealings with unions and local communities present a fourth limitation. Understandably, both labor and management often feel compelled to debate the plant closure decision itself, preventing the timely development of contingency plans for creating new jobs. Similarly, many projects fail to involve other community actors and neglect the creation of new, community-based institutions to carry forward a longer-term renewal strategy.

Finally, disseminating these models to the United States requires considerable translation. European corporate leaders see themselves as responsible to a broader set of stakeholders than do their American counterparts, who tend to weigh shareholder concerns more heavily.

New corporate roles

While altruism plays a role in the European initatives discussed, time and again, corporate leaders in the three

Initiatives for Local Employment Creation

The growth of the Initiatives for Local Employment (ILE) program has been spearheaded by the failure of traditional solutions developed by central governments which attempt to produce satisfactory responses, let alone solutions, to the unemployment problems. The ILE program is run by a small team within the Organization for Economic Cooperation and Development (OECD) secretariat. Its function is to encourage cooperation, exchange, and analysis between the different participants in the program who meet regularly as the ILE's directing committee. The program's secretariat proposes and undertakes research and action; encourages and organizes the exchange of ideas, experience, and people; and assists countries in realizing the objectives of the program.

Taking part in the program are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Turkey, the United Kingdom, and the United States, and the Commission of the European Communities. Japan is an Observer Member.

The sharing and exchange of information and experience is a central and continuing part of the ILE program's work. This activity will increasingly provide a network of interested innovators with information drawn from seminars, case studies, and special studies. This information will be diffused through a liason letter as well as through a series of publications—ILE Notebooks. In the long term, it is planned to establish an advanced communications system linking internationally a wide network of groups and individuals involved in local employment initiatives.

The ILE program welcomes any initiatives, ideas, proposals, or information. Also, any requests for documentation or arranging contracts should be addressed to:

OECD ILE Programme
2, rue du Conseiller-Collignon,
75116 Paris
France

countries cited corporate self-interest as a motivating factor. Targeted business investment can help diminish pressing social problems that, if neglected, eventually can undermine business profits and long-term investment opportunities.

Such investments may prove especially important in layoff situations where firms plan to maintain operations. This not only generates goodwill among labor and the community, but also helps prevent the local business climate from unraveling to the point where the costs of doing business increase and retaining quality management and employees becomes prohibitive. As an executive of the British firm Pilkington Brothers noted, "You can't operate behind barbed wire. You can't operate in an area with 30 percent unemployment. You have to deal with the problem."[18]

Most of the job-creating tools, including incubators, technical and financial assistance, and entrepreneurial training, are already in place in the United States; in fact, options such as venture capital are far more abundant here than overseas. What is needed by American leaders is an understanding of how specifically to apply these tools in ameliorating the devastating effects of layoffs and shutdowns. This report provides an introduction to these development tools. The detailed work on their application should be written by corporate and government leaders themselves. □

——FOOTNOTES——

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[1] *Techology and Structural Unemployment: Re-employing Displaced Adults,* OTA-ITE-250 (U.S. Congress, Office of Technology Assessment, 1986), p. 1.

[2] *Ibid,* p. 7.

[3] Corporation for Enterprise Development, *Job Creation In The Wake of Plant Closings* (Washington, 1985), p. 1.

[4] Obviously, U.S. companies have been very active in the corporate responsibility and enterprise development fields for a number of years and have, in fact, been in the vanguard. American corporate philanthropic practice dwarfs that of Europe. (One of the principal reasons is that Europe's much more extensive safety net has not encouraged the development of this sector.) Yet, despite U.S. pathbreaking actions in urban development, antipoverty initiatives, and so on, these efforts have not focused on the issues of economic dislocation. Instead, initiatives from corporations like the Control Data Corporation to create small business incubators have been responses to the broader problems of new technology development and small business assistance. The sole U.S. exceptions are the Brown and Williamson Corporation which paid for a reuse plan for a closed facility in Petersburg, VA, and Levi Strauss and Company which hired The Corporation for Enterprise Development to develop an economic development feasibility study in two communities in rural Tennessee where they closed branch plants.

[5] Readers interested in more on this subject should know that the Organization for Economic Cooperation and Development in Paris publishes a wealth of books, articles, monographs, and memoranda on employment policy, labor market demograhics, and enterprise development. Its Initiatives for Local Employment Creation (ILE) program collects and disseminates information on local employment information, including publishing a newsletter. (See box; and for more information, contact: Chris Brooks, OECD, Local Employment Initiatives Programme, Monaco Annex, Rue du Conseiller, Collignon, 75775 Paris, France.)

[6] Organization for Economic Cooperation and Development (OECD), *High Level International Conference on the Role of Large Firms In Job Creation and Entrepreneurship,* SME/ILE/85-13 (Paris, November 1985), p. 1.

[7] Interview with Brian Margarett, Wales Director, British Steel Corporation Industries, 1985.

[8] Interview with Bernard July, SOFIREM, 1985.

[9] Jocelyn Gutchess, *Employment Security In Action: Strategies That Work* (New York, Pergamon Press, 1985), p. 147.

[10] Interview with Monsieur Guiu, General Director, St. Gobain Developpement, 1985.

[11] Interview with Gustavo DeSantis, Research Director, Ente Nazionale Idrocarburi (ISVET, ENI), 1985.

[12] OECD, *International Conference,* p. 2.

[13] Gutchess, *Employment Security,* p. 153.

[14] Interview with Peter Shepherdson, General Manager, New Opportunities, Pilkington Brothers, 1985.

[15] OECD, *International Conference,* p. 8; and Gutchess, *Employment Security,* p. 153.

[16] OECD, *International Conference,* p. 3.

[17] *Ibid.*

[18] Shepherdson interview.