Congressional Research Service

Unemployment Through Layoffs and Offshore Outsourcing

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January 11, 2008

Congressional Research Service
7-5700
www.crs.gov
RL30799

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

Unemployment can come about in a number of ways, but the form of unemployment that policymakers have shown they are most concerned about involves workers who have involuntarily lost jobs through no fault of their own. Unemployment through layoffs ebbs and flows with the business cycle, but involuntary job loss is ever-present because firms displace workers for reasons other than temporarily weak demand. Employers also layoff employees for reasons specific to the firm or the industry in which the firm lies (e.g., corporate restructuring and seasonality).

One means of restructuring work—namely, outsourcing—has spread from employers contracting out functions to other affiliated or nonaffiliated employers in the United States, to employers contracting out activities to affiliated or nonaffiliated employers located outside U.S. borders. The latter business practice is referred to as offshore outsourcing or offshoring.

Offshoring is driving much of the current interest in job loss and economic insecurity more generally. It also is driving the demand for statistics on the number of employees who have lost their jobs because firms decided to move work abroad as a result of an internal corporate reorganization or financial difficulties for example. No database exists that provides anything approximating a complete count of workers separated from payrolls because their company relocated their functions beyond U.S. borders.

Starting in mid-decade, the U.S. Bureau of Labor Statistics (BLS) Mass Layoff Statistics program began to query firms in the private nonfarm sector that call long-lasting large-scale layoffs about whether these events involve the offshoring of work. In addition to excluding layoffs at small firms and in the public sector, the series does not cover layoffs in which fewer than 50 employees are terminated. It thus likely to understate layoffs associated with offshore outsourcing generally and with those involving white-collar workers in the service sector particularly (e.g., accounting clerks at financial services firms, radiologists at medical services providers).

This report briefly reviews the various databases that provide information on layoffs. It then more closely examines results from the above-described BLS program. In brief, the BLS series shows that outsourcing—particularly of work moving offshore—is uncommon in extended mass layoffs and accounts for fairly few separated workers. Relocation of work most often occurs within the United States and within the same company. Most workers separated in extended mass layoff events involving domestic or offshore outsourcing had been employed by manufacturers. Employer restructuring (bankruptcy, business ownership change, financial difficulty, and reorganization within a company) typically accounts for a majority of these layoffs as well. In extended mass layoffs associated with the movement of work offshore, jobs most often are shifted to Mexico and China.

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Introduction

Unemployment can develop in a number of ways, such as an individual (re)entering the labor force and being unable to immediately find a job or a person quitting a job at one firm before having obtained a job at another firm. The form of unemployment that policymakers have shown they are most concerned about occurs when businesses layoff employees. Congress has demonstrated its desire to help workers who have involuntarily lost their jobs through no fault of their own, and are presumed to face an indeterminate spell of unemployment, by its provision of income support under the Unemployment Insurance (UI) program and the Trade Adjustment Assistance (TAA) program, training for dislocated workers under the Workforce Investment Act (WIA) and TAA, and advance notice of mass layoffs and plant closings under the Worker Adjustment and Retraining Notification Act (WARN).

Although involuntary "no-fault" displacement from jobs is always with us, this form of unemployment increases when the economy is sluggish and decreases when the economy is robust. In other words, there is a cyclical component to layoff activity. However, firms lay off workers not only due to temporarily weak demand throughout the economy, but also due to factors specific to them or their industry (e.g., company reorganization and seasonal work). The current interest in involuntary job loss springs from the practice of U.S. firms sending work to firms located in other countries—commonly known as offshore outsourcing or offshoring.

This report focuses on unemployment through layoffs. It first briefly provides a context for the offshore outsourcing phenomenon and its relationship to gross and net employment change. The report next examines the available sources of data on layoffs to determine whether they provide information on the reasons that underlie those events. It then analyzes the trend in, severity of, and explanations of extended mass layoffs. The report concludes with a discussion of those extended mass layoff events that involve movement-of-work actions (to other U.S. locations of the company that has called the layoff, to other U.S. firms, to foreign-based affiliates of the U.S. company, and/or to foreign businesses).

Restructuring Work for Competitive Purposes

U.S. firms have, in the past few decades, been restructuring their operations to be more competitive in the global marketplace by:

- downsizing their workforces;
- outsourcing functions, ranging from performing janitorial services to developing computer software, to firms located within and outside the United States; and
- utilizing contingent workers, such as independent contractors and temporary workers.

The term "downsizing" was coined during the 1980s to describe a practice among, typically, very large "old economy" manufacturers to become more efficient international competitors by each laying off thousands of employees—sometimes in multiple rounds of mass layoffs—and closing entire facilities. Since then, downsizing has spread to "new economy" manufacturers (e.g., computer hardware producers) and to companies in the service sector (e.g., telecommunications firms and financial enterprises).

Similarly, the practice of employers contracting out activities has spread from relocating work to other companies in the United States, to moving work to firms located outside the United States. It has been suggested that employers have been able to achieve efficiencies through offshore outsourcing due to improved internet, telephone, and transportation links with countries (e.g., India) whose educational systems have expanded the worldwide supply of well-educated workers who possess information technology (IT) and other white-collar skill sets.[1]

As a result, the kind of U.S. workers susceptible to involuntary job loss has changed. Whereas displacement once occurred primarily among traditionally layoff-prone blue-collar factory workers, the risk of job loss has increased among traditionally stable white-collar workers. Consequently, concern about job security has spread from blue-collar to white-collar workers, who make up the majority of all employees in the labor market.

By definition, restructuring achieved through downsizing produces a net loss of jobs at firms. This is not necessarily the case at companies that utilize contingent workers or outsource work. If these employers are laying off workers, they may be hiring a greater, equivalent, or lesser number of people.

Overlaid on these ongoing changes in how firms organize their operations is the business cycle. During the long economic expansion that characterized much of the 1990s, for example, net job growth and layoffs occurred simultaneously according to data from the U.S. Bureau of Labor Statistics (BLS). More than 20 million private sector nonfarm jobs were added between 1991 and 2000. Nonetheless, in 2000, employers permanently displaced almost two million workers from their private sector jobs through mass layoffs.

Job losses usually have not persistently exceeded job gains at the national level, thereby yielding a net decrease in employment, except during recessions. However, after employment contracted by almost 300,000 jobs in the private nonfarm sector during the 2001 recession, 1.9 million more jobs were lost than gained in 2002.[2] In contrast, although remaining high by historical standards, the number of workers who permanently lost their private sector jobs through mass layoffs dropped by nearly 300,000 in 2002. Despite employment starting to grow during 2003, signaling the end of the "jobless recovery," the net change in employment for the year was negative (some 400,000 private nonfarm jobs). In contrast, the number of workers permanently displaced from their private sector jobs as part of mass layoffs continued to fall in 2003. Not until 2004 did the private nonfarm economy record a net increase in employment of almost 1.5 million jobs, while the number of employees separated from payrolls through mass layoffs continued to trend downward.

Sources of Information on Layoffs

Data series measure layoffs in different ways. One, for example, tracks at the national level the number of persons who are unemployed by broad reason for their joblessness. Another focuses on the number of workers displaced in lengthy (permanent) mass layoffs, which are considered to be

[1] For more information, see CRS Report RL32292, *Offshoring (a.k.a. Offshore Outsourcing) and Job Security Among U.S. Workers*, by Linda Levine.

[2] For more information, see CRS Report RL32047, *The "Jobless Recovery" From the 2001 Recession: A Comparison to Earlier Recoveries and Possible Explanations*, by Marc Labonte and Linda Levine.

more difficult to recover from for the affected workers and geographic areas. Only one tries to determine whether layoffs are associated with the relocation of work (within the same firm but to its other U.S. locations, to other U.S. firms, to foreign-based affiliates of the U.S. company, and/or to foreign businesses).

Layoffs

Current Population Survey (CPS)

The CPS is a monthly survey of households from which the unemployment rate is derived. It includes a question on reason for unemployment. Unemployed persons are categorized as *job losers* if they report they are on a temporary layoff (meaning that their employer has given them a date to return to work or that they expect to return to their jobs within six months) or they have permanently, involuntarily lost their jobs. Individuals are not asked why they were laid off.

The other reasons for unemployment are having left a job voluntarily, having completed a temporary job, and newly entering or reentering the labor force. In all cases, the individual must currently be looking for a job to be classified as unemployed. Thus, if job losers become discouraged about their reemployment prospects and stop searching for work, their reason for being jobless would not be tallied.

Job Openings and Labor Turnover Survey (JOLTS)

BLS initiated JOLTS in December 2000. It collects data on job openings and labor turnover from a sample of establishments subject to state UI laws as well as federal agencies subject to the Unemployment Compensation for Federal Employees program. More specifically, JOLTS provides monthly data on total employment, job openings, hires, quits, layoffs and discharges, and other separations by month with a two-month lag.

Of interest in terms of this report are the figures on separations due to layoffs and discharges. These involuntary terminations are defined in JOLTS to include layoffs with no intent on the employer's part to rehire their former employees and layoffs that have lasted or that the employer expects to last more than seven days; discharges that arise from downsizing, mergers, closings, and firings or other discharges for cause; and terminations of permanent, short-term, or seasonal employees. Employers are not asked about the reasons underlying the layoffs and discharges.

Mass Layoffs

Employer Announcements of Large Staff Cuts

A more frequently and regularly reported source of information on substantial staff cutbacks has been announcements of impending actions that are issued by individual firms. However, several drawbacks exist in using the timely layoff announcements to gauge the actual circumstances of workers, firms, and communities. Companies make announcements about their expectations, but these may or may not come to pass as planned. Although firms sometimes include statements in financial reports about how their restructuring plans have been implemented, there is neither readily available nor comprehensive information on their actual outcomes. In addition, layoff announcements commonly are interpreted as calling for involuntary job cuts, but some employees accept early retirement or voluntary severance offers while others accept transfers to jobs within their own firms or to reorganized entities. Moreover, the announcement of a layoff in a given month does not mean that affected workers are displaced immediately or terminated as a group. Instead, a layoff might involve varying numbers of people being released at different intervals over many months or years. This scenario would have considerably less of an adverse impact on a community's labor market, which could more easily absorb the displaced workers who had not found new jobs before their termination.

The impetus for issuance of these announcements was passage of the Worker Adjustment and Retraining Notification Act (WARN, P.L. 100-379), which went into effect in 1989. The act requires firms with 100 or more employees to provide notice to employees or their union representatives and to local/state government officials 60 days before initiating a major layoff or closing a plant. Because smaller businesses do not have to issue these notices, some unknown number of mass layoffs cannot be detected from this source.[3]

A comprehensive database of these announcements does not exist because there is no legal requirement that the notices be filed with a single entity. Some of these announcements are reported by the media or other information-gathering organizations. These reports might include only the most newsworthy layoff events (e.g., those involving the nation's or a geographic area's largest employers). Moreover, these reports might not mention the hiring expectations of some of the same firms that issue layoff announcements. There is likely to be considerable variability in what, if any, information is provided about the reasons for the anticipated layoffs.

Mass Layoff Statistics (MLS) Program

Under the Job Training Partnership Act of 1982 (JTPA), the U.S. Department of Labor (DOL) was charged with obtaining information about mass layoffs and plant closings. The Employment and Training Administration (ETA) used JTPA funds to have the BLS develop the Mass Layoff Statistics (MLS) program. The program was terminated in 1992 for budgetary reasons. After ETA gave it funds to do so in 1994, BLS resurrected the MLS program in 1995, with some improvements (e.g., coverage of all states) that make 1986-1992 data noncomparable with more recent data. The DOL announced in December 2002 that the MLS program was terminated again due to lack of a funding source, but in P.L. 108-7, the omnibus FY2003 appropriations bill, Congress included money in the BLS budget for resumption of the series.

The MLS program consists of two series:

- In its monthly series, BLS defines a mass layoff as an event involving 50 or more workers from a single establishment who file initial claims for UI benefits. The only information available on a monthly basis is the number of layoff events and the number of initial UI claimants disaggregated by state and industry group separately.
- In its quarterly series, BLS provides more detailed information on extended (permanent) mass layoffs, which are defined as those above-described layoffs that last more than 30 days. Additional information is obtained by querying

[3] For more information on WARN, see CRS Report RL31250, *The Worker Adjustment and Retraining Notification Act (WARN)*, by Linda Levine.

employers that have layoffs lasting beyond 30 days, including the reason for the layoff and whether it involved the movement of work. Covered establishments in both series included employers throughout the economy until 2004. For budgetary reasons, the extended mass layoff series began covering only nonfarm employers in the private sector. The mass layoff series, which is based solely on administrative records, continues to include agricultural and government employers.

Data over time from the monthly and quarterly series are shown in **Table 1**.

Table 1. Short- and Long-Term Mass Layoff Activity

	Mass Layoffs		Extended Mass Layoffs		
Year	Events	Initial UI Claimants	Events	Initial UI Claimants	Separated Workers
1996	14,111	1,437,628	4,760	805,810	948,122
1997	14,960	1,542,543	4,671	879,831	947,843
1998	15,904	1,771,069	4,859	1,056,462	991,245
1999	14,909	1,572,399	4,556	796,917	901,451
2000	15,738	1,835,592	4,591	846,267	915,962
2001	21,467	2,514,862	7,375	1,457,512	1,524,832
2002	20,277	2,245,051	6,337	1,218,143	1,272,331
2003	18,963	1,888,926	6,181	1,200,811	1,216,886
2004	15,980	1,607,158	5,010	903,079	993,909
2005	16,466	1,795,341	4,881	834,533	884,661
2006	13,998	1,484,391	4,689	836,151	894,739

Source: U.S. Bureau of Labor Statistics data on mass layoffs covering employees in all industries and on extended mass layoffs covering employees in the private nonfarm sector (i.e., excludes agriculture and government).

Note: The number of separated workers often is larger than the number of initial UI claimants because not all separated workers file for benefits. In contrast with the figures on separated workers, which are provided by employers with extended mass layoffs or worksite closings, the figures on initial UI claimants are from the regular UI reporting system and may include claimants who are not part of a mass layoff or closing.

In light of the increased interest in offshoring and the lack of data, BLS began in 2004 to ask employers who called extended mass layoffs questions about whether movement of work—either within or outside the United States—was associated with these events. Because the MLS quarterly series excludes layoffs of government employees, layoffs called by small firms, and layoffs in which fewer than 50 employees are terminated, it is likely to understate job loss associated with offshoring generally and job loss involving white-collar workers in the service sector particularly (e.g., accounting clerks at financial services firms, radiologists at medical services providers). Thus, no database exists that provides anything approximating a complete count of workers separated from payrolls because their company relocated their functions beyond U.S. borders.

With these caveats, the BLS series shows that outsourcing—particularly of work moving offshore—is uncommon in extended mass layoffs and accounts for fairly few of the workers terminated in these actions. In 2006, for example, 54,166 workers were involved in the 242 extended mass layoffs that involved movement of work within and outside the United States. These workers accounted for some 10% of all workers let go in long-lasting large-scale layoffs conducted for nonseasonal/nonvacation reasons. Employer restructuring (bankruptcy, business ownership change, financial difficulty, and reorganization within a company) typically is the reason underlying a majority of these layoffs. Most workers separated in extended mass layoff events involving domestic or offshore outsourcing had been employed by manufacturers, oftentimes transportation equipment manufacturers.[4]

Relocation of work most often occurs within the United States and within the same company. In 2006, employers provided complete information on 227 movement-of-work actions associated with the 242 extended mass layoffs that involved work relocation within and outside the United States.[5] Only 13,067 laid off workers were let go in out-of-country relocations of work. They accounted for 39% of all workers separated in extended mass layoffs involving movement of work for which complete information is available and 2% of all workers terminated in nonseasonal/nonvacation extended mass layoff events. In these offshore relocations of work, jobs most often are shifted to Mexico and China.

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[4] BLS, *Extended Mass Layoffs in the Fourth Quarter of 2006 and Annual Totals for 2006*, February 13, 2007.

[5] The number of actions can be greater than the number of layoff events because one layoff can involve multiple movements of work (e.g., some work shifting to another facility of the same company within the United States, some to another U.S. firm, and some to the company's own subsidiary in another country). Out of a total of 334 separate movement of work actions identified among the 242 extended mass layoff events in 2006 that involved work relocation, employers were able to provide complete information on 227.