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The Effects of Redundancy at a New Zealand Airline

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This study assesses the effects of a mass redundancy at a New Zealand airline on a group of ground stewards. Nearly a fifth of the stewards were still unemployed five years after being laid off. More than half had invested money in small busineses, but only half of these were financially successful. Almost 90 percent of the former stewards earned less in 1996 than they had in 1991 before their redundancy. Median earnings declined approximately 40 percent. Most workers still felt very resentful towards the airline, mainly because of the manner in which they had been laid off. These results have implications for how management should manage layoffs and for the types of policies governments should adopt to reduce the incidence of layoffs and allay their effects on affected workers.

Introduction

A New Zealand airline laid off 139 ground stewards and 20 catering assistants in August, 1991. The ground stewards involved were employed at the airline's Catering Centre at Auckland International Airport. The principal business of the Catering Centre was the provision of food and beverages to the airline's flights and those of approximately 20 other international carriers. In early 1991, another company established a presence at the airport and, because of this competition, the airline identified a need to reduce its costs, in particular those costs associated with the terms and conditions of its employees' employment. Ground stewards, whose duties included the transportation, loading and unloading of catering equipment, meal carts and other items, were specifically targeted.

Negotiations for new employment contracts commenced informally in April, 1991, in anticipation of the expiry of the ground stewards' collective agreement in July, 1991. Minimal progress was made and so the company advertised for independent contractors to do the ground stewards' work. The staff were not advised of a deadline after which the company intended to contract out their work and were consequently dismissed in August, 1991, without proper or adequate notice. All 159 employees subsequently lodged personal grievances against the company for unjustified dismissal. The Employment

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Tribunal referred four of the applications to the Employment Court, which delivered a judgement in the applicants' favour in 1993. The airline threatened to appeal the Court's decision and so the employees reluctantly accepted an offer to settle out of Court, almost three years after the dismissals had occurred.

This study compares the stewards' employment and earnings situation at the airline just before the layoff to their situation five years later. It also examines the success or failure of businesses they started after the layoffs. Finally, the study explores the stewards' views of their former employer and the reasons for these views.

Legal requirements for redundancy in New Zealand

Since the early 1980s, redundancies have become commonplace in New Zealand. For instance, Russell, McVeigh, McKenzie, Bartlett and Co (1995) found that 9,507 employees had been laid off from 400 firms in just one year, during a period when the economy had been expanding and most firms had been hiring. Moreover, Littler, Dunford, Bramble, and Hede (1997: 68) found, in a study of 1,321 large firms, that 48 percent of the New Zealand and 57 percent of the Australian firms in the sample had down-sized.

Despite redundancy's growing importance as a social and economic issue, the New Zealand government has not enacted redundancy legislation like that in Western Europe or North America, requiring employers to provide advance notice of layoffs, compensation, and/or outplacement services. Prior to the 1990s, the main New Zealand union and employer federations were not inclined to press for redundancy legislation, preferring instead to negotiate the issue themselves (Szakats and Mulgan, 1985). In addition, chronic labour shortages until the late 1970s made the prospects of redundancy and long-term joblessness unlikely. As a result, the New Zealand government did not make redundancy legislation a priority, irrespective of which party was in power. Major redundancy legislation was proposed, first in 1975 with the Severance and Re-employment Bill and then in 1981 with the Employment Protection Bill, but not passed into law. The 1975 Bill was drafted following tripartite discussions commenced in 1972 and supported by the Labour Government. However, the National Government elected to power in 1975 decided not to proceed with the enactment. The 1981 Bill was, on introduction, ruled out of order and then withdrawn, because it necessitated the appropriation of public funds. Parliament did pass the 1974 Wage Adjustment Regulations, but until their repeal in 1986, these were used to restrict the levels of, rather than guarantee a right to, redundancy payments.

Over the last decade, interest in redundancy legislation has grown as dole queues have lengthened and the incidence of organisational restructuring has increased. However, the National Governments elected to power in the 1990s rejected calls for a new redundancy law by arguing for a free market approach to the issue based on the sanctity of freely agreed terms and conditions of contract. In their view, employees and unions are free to negotiate redundancy provisions in their contracts and more than capable of determining whether pay or other conditions are worth sacrificing to obtain redundancy protections (Capital Letter, 1992). Correspondingly, courts should not legally infer any additional rights, duties, and interests, including rights to redundancy compensation or advance notice of redundancy, based on expectations or common understandings rather than explicit agreement (Grantham, 1996).

The National Government of the 1990s amended legislation to reflect its convictions that redundancy is a contractual issue and redundancy compensation is income like any other kind. For instance, s.46(3) of the 1991 Employment Contracts Act specifically forbids the Employment Court and Employment Tribunal from setting compensation in a dispute. The 1992 Redundancy Payments Act eliminates the income tax exemption previously accorded to redundancy payments and fringe benefits. The 1991 Social Security Amendment Act denies unemployed workers access to benefits until they have spent their redundancy compensation.

Previous research

Unemployment duration and post-layoff earnings

Redundancy normally results in long, protracted periods of unemployment, because it often takes a long time for laid off workers to find employment appropriate to their qualifications, training, and work experience. Ruhm (1991: 320-1) found that 83 percent of redundant workers experienced at least some unemployment, 35 percent were jobless for more than six months, and 13 percent for more than a year, with the average period unemployed lasting 24 weeks. Results for Podgursky and Swaim's (1987: 216) study for an earlier period were similar. Median weeks unemployed were 26 weeks for blue-collar workers and 10 weeks for white-collar workers. Seventeen percent of the blue-collar group was unemployed for longer than six months and 10 percent for longer than a year. Fifteen percent of the white-collar group was jobless for more than six months and four percent for longer than a year. More recent evidence suggests that, if anything, jobless spells have been getting longer for laid off workers, in tandem with the general rise in unemployment across most richer countries (see, for example, Flatau and Hemmings, 1993).

Results are similar in a New Zealand study of textile mill closures in Mosgiel and Ashburton in 1981. Almost a year after the first redundancies, 14 percent of the Ashburton workers had moved away, 36 percent had another job in town, 27 percent were still hunting for a job, 17 percent had dropped out of the labour force, and seven percent had retired (Houghton, Hoy, Gold, and Higham, 1981: 42). Correspondingly, 21 percent of the Mosgiel workers had left town, 48 percent had found jobs in Mosgiel or Dunedin, 10 percent had not but were still searching, nine percent had dropped out of the workforce, and eight percent had retired (Houghton, Hoy, Gold, and Higham, 1981: 131). Presumably, the overwhelming majority of workers who had left town had managed to obtain employment elsewhere. A large minority of workers was therefore without work nearly a year after the first redundancies. Furthermore, approximately a fifth appeared to have given up hope of obtaining work by either retiring early or withdrawing from the workforce.

Most displaced workers are under immediate financial pressures to find work quickly, but a permanent or long-lasting contraction within their former occupation or industry is likely to force them to search for a job elsewhere. New occupations and industries are likely to require different kinds of human capital: new qualifications, work experiences, and training. Displaced workers are unlikely to have what's required for new jobs at the same organisational level and pay they enjoyed in their previous organisation. As a result, re-employment typically means having to accept a more junior position and a loss of earnings. Only those few people fortunate enough to find a job in their old industry or occupation typically return to work earning anything resembling the same wage (Addison and Portugal, 1989; Ong and Mar, 1992). Previous research suggests that redundant workers usually accept permanent pay cuts of 5 to 50 percent (Ong and Mar, 1992; Ross and Smith, 1993; Ruhm, 1987; Stevens, 1997). For instance, Ruhm (1991: 321) found that displaced workers were earning 16 percent less than a control group one year after the displacement had occurred. Even four years later, the displaced group was earning 14 percent less than the control group. Similarly, Jacobson, Lalonde, and Sullivan (1993) and Babcock, Benedict, and Engberg (1994) found that re-employed layoff victims were earning approximately 25 percent less than employees who had not been laid off four and ten years after the layoffs had occurred, respectively. What's worse, the re-employment wages of laid off workers tend to fall more the longer they have been out of work (Addison and Portugal, 1989). For instance, Seninger (1997: 1174) determined that a 10 percent increase in unemployment duration decreased the re-employment starting wage by 1.2 percent.

Layoffs and business formation

Research suggests that there are both "pull" and "push" reasons for business start-ups (Dean, Meyer, and DeCastro, 1993). The "pull" explanations emphasise the attractiveness of business ownership to potential entrepreneurs, particularly in terms of the independence, sense of achievement, and income growth it can provide (Holmes and Zimmer, 1994; Gatewood, Shaver, and Gartner, 1995). The "push" explanations focus instead on escape from either unemployment (Sage, 1993) or employment in a poorly paid or unfulfilling job (Cromie, 1987). For instance, one fifth of New Zealand entrepreneurs cited escape from unemployment as the primary reason for starting their business, up from one tenth ten years ago (Lawrence and Hamilton, 1997: 79). As a result, most studies show that a rise in unemployment leads to an increase in new businesses (see, for example, Campbell, 1996; Highfield and Smiley, 1987; Tervo and Niitykangas, 1994; Lawrence and Hamilton, 1997; Westhead, 1990).

Business ownership clearly provides one route out of unemployment, and so it would be tempting to conclude that self-employment is a realistic option for laid off workers.

However, most businesses founded by the unemployed are not successful in generating sufficient income for their owners or in providing additional employment within their communities. Moreover, the oldest and youngest, unskilled workers, those who typically spend the longest time unemployed, are the most likely to have unsuccessful businesses. Successful entrepreneurs are usually middle-aged, former managers or professionals who have experience and skills relevant to their business's product market. These individuals also tend to spend little or no time unemployed when they decide to seek re-employment rather than open a business. For this reason, government programmes that subsidise business start-ups by the long-term unemployed have generally failed to promote job creation or increase output (Bendick and Egan, 1987; Preisendorfer and Voss, 1990).

Layoff procedure and perceptions of fairness

Redundancies normally reflect external factors beyond an individual worker's immediate control, such as a recession, a shift in product demand, a change in technology, or an organisational restructure. They are rarely, if ever, the individual worker's fault. For this reason, layoffs are normally unfair from an equity perspective, because the positive inputs the worker has provided an organisation, including good performance and commitment, are generally inconsistent with the negative outcomes resulting from a layoff, including a loss of income and social status (Skarlicki, Ellard, and Kelln, 1998). However, the inequity of positive inputs and negative outcomes will not by itself lead to resentment and criticism of the managers responsible. Folger (1986) argues, using a referent cognitions model, that management is unlikely to be condemned, unless the outcomes of a decision and the procedures used to make that decision are both considered unfair. "If the depriving party acts in a procedurally fair manner, recipients have fewer reasons for reacting negatively to adverse outcomes." "When procedural justice is low and outcomes are negative, however, individuals have the strongest basis for thinking that different outcomes should have resulted, and thus the highest likelihood of experiencing and expressing resentment" (Brocker, Konovsky, Cooper-Schneider, Folger, 1994: 398). Procedures are fair when they are consistently applied, not biased in favour of management or any other group, allow representation by the affected parties, follow moral and ethical standards, can be reversed on appeal, made on the basis of accurate information (Leventhal, Karuza, and Fry, 1980). They are also fair when they are administered in a way that shows genuine concern for, and sensitivity toward, any negatively affected party (Bies and Moag, 1986; Folger and Bies, 1989; Tyler and Bies, 1990).

Studies of layoff victims, layoff surivivors, "lame ducks" who have received notice of layoff (see, for example, Brockner, Konovsky, Cooper-Schneider, and Folger, 1994; Davy, Kinicki, and Scheck, 1991; Konovsky and Folger, 1991), and third party observers (Skarlicki, Ellard, and Kelln, 1998) all indicate that procedural fairness affects how management is perceived in a layoff situation. For example, if management involves employees in the layoff process and in the search for alternatives to layoff, other parties are unlikely to view management negatively. Similarly, if management demonstrates some concern for the victims by providing a clear, honest explanation for the layoffs and by treating them with respect and compassion, criticism of management is likely to be muted. Acting in an ethical manner by, for example, providing advance notice of a layoff also helps to absolve management of responsibility for a layoff situation and preserve good relations with other parties. Moreover, research suggests that this is true irrespective of the social and economic effects of the layoff and of management's attempts to mitigate these effects through redundancy payments and outplacement assistance.

Research methods

Sample

The sample for this study consisted of the 139 ground stewards laid off by the airline at its Catering Centre at Auckland International Airport in 1991. The sample frame was provided by union records and comprised a list of all ground stewards made redundant. The catering assistants were not surveyed, because of difficulties in obtaining their contact details.

Data collection

A self-administered questionnaire was mailed to 132 of the ground stewards. Seven of the original 139 could not be contacted, because they had emigrated to Australia, Chile, Western Samoa, or the United States of America. The Flight Attendants and Related Services Union (FARSA) agreed to address and mail the questionnaires, because the Privacy Act prevents the Union from divulging the whereabouts of the former stewards.

Fifty-one of the 132 questionnaires were returned, for a response rate of 38.6 percent. Twenty-one of those contacted (41.1 percent) elected to provide names and contact details. One questionnaire was returned unopened and another was unusable.

All ground stewards in the sample are males and, at the time of the layoff, ranged in age from 22 to 59 years old. The majority was in relationships and had families. Although most had European ancestry, the stewards were from national backgrounds as diverse as the Pacific Islands, India, Yugoslavia, Ireland, the USA, Chile, and the Netherlands among others.

Measures

Most of the questionnaire comprised closed or fixed-alternative questions with a four-point scale. However, an open-ended question was used to invite comment from the employees on how the Company had handled the dismissals. Five former stewards who had purchased unsuccessful businesses were contacted by telephone and invited to respond to a series of standardised questions concerning their decision to buy or found a business.

Research results

Table 1 shows how long it took for the redundant stewards to re-enter employment or start a new business. It shows that a small minority, eight employees, found jobs quickly, less than one month after being laid off. At the other extreme, eight employees remained either permanently unemployed or withdrew from the workforce.

Table 1

Months unemployed	Number of stewards	Percentage of stewards
0-1	8	15.7
1-3	8	15.7
3-6	15	29.4
6-12	5	9.8
12+	7	13.7
Withdrew from workforce	8	15.7

Table 2 compares the annual incomes of the 51 former ground stewards in 1991 and 1996. It shows that most were considerably poorer five years later. In 1996, 32 former stewards had incomes below $35,000, whereas none did in 1991. In contrast, 16 former stewards had incomes of more than $60,000 in 1991, but only four individuals did in 1996.

Table 2

Gross annual income in $	Number of stewards in 1991	percent	Number of stewards in 1996	percent
Zero - 10000	0	0.00	3	5.88
10001-15000	0	0.00	5	9.80
15001-20000	0	0.00	4	7.84
20001-25000	0	0.00	4	7.84
25001-30000	0	0.00	9	17.65
30001-35000	0	0.00	7	13.72
35001-40000	4	7.84	5	9.80
40001-45000	2	3.92	4	7.84
45001-50000	5	9.80	2	3.92
50001-55000	17	33.33	2	3.92
55001-60000	7	13.72	2	3.92
60001-65000	12	23.53	0	0.00
65001-70000	3	5.88	1	1.96
70001-75000	1	1.96	0	0.00
above 75000	0	0.00	3	5.88
TOTAL	51	100.00	51	100.00

Table 3 compares the 1996 incomes of the various groups of stewards: the 15 employees, the five business owners who had returned to employment, 23 business owners, and eight out-of-work beneficiaries. Fourteen of the fifteen employees were financially worse off five years after the redundancy. Their median income was $30-35,000, down approximately 40 percent from 1991. Even the one individual who reported a similar nominal income was poorer, once allowances are made for the two percent annual inflation rate over the five-year period. The former business owners now back in employment were even worse off. Their median income was $10-15,000, down more than 60 percent from 1991 and no better than the eight jobless beneficiaries. The individuals still in business earned more than any other group five years later, but even their median income was just $35-40,000. Three owners earned more than $75,000, but ten earned less than $30,000.

Table 3

Gross annual income in 1996	Employees	Employees, previous business owners	Business owners	Beneficiaries
Zero - 10000	1	1	0	1
10001-15000	0	2	0	5
15001-20000	0	0	2	0
20001-25000	1	0	3	0
25001-30000	4	0	5	0
30001-35000	3	1	1	2
35001-40000	3	0	2	0
40001-45000	1	0	3	0
45001-50000	1	0	1	0
50001-55000	1	1	0	0
55001-60000	0	0	2	0
60001-65000	0	0	0	0
65001-70000	0	0	1	0
70001-75000	0	0	0	0
above 75000	0	0	3	0
TOTAL	15	5	23	8

Respondents were generally very critical of how the airline had handled the layoffs. Forty-eight of the 51 respondents thought that the company had handled the dismissals "very inappropriately." Only one person felt that the company had acted "appropriately." Most felt that the company could have done much more to provide them with assistance and advice. Table 4 indicates that 32 people would have appreciated redundancy money investment advice and 30 would have liked small business management training in addition to the personal budgeting advice and stress counselling the company actually provided. The five unsuccessful business owners indicated that the fear of squandering the redundancy money had driven them into making unnecessarily hasty business investment decisions, which could have been avoided if the company had provided proper business training and investment advice. Four of these individuals also suggested that, had the company given reasonable notice, they would have used the time provided to search for alternative employment rather than invest in a business.

Table 4

Employee Preferences for Employer-provided Training and Counselling

Type	number	percent
Budgeting advice for personal finances	23	45
Redundancy money investment advice	32	63
Stress counselling	27	53
Small business management	30	59
Retraining/up skilling for previous trades	22	43
Payment of fees for academic study	25	49
Other (CV preparation)	1	02
None of the above	1	02

Profound feelings of bitterness were apparent when the respondents were asked to "describe how you feel towards the airline as an employer and the methods it used to make you redundant." Most of the responses were offensive and are therefore not repeated here. However, two comments, couched in moderate terms, illustrate the nature and depth of the feelings typically expressed.

1. Prior to the corporate take-over "it was a pleasurable place to work. After that, the decline was rapid and, by the time we left, the atmosphere was lousy."

2. The airline "would be one of the very worst employers in New Zealand. They have a very antagonistic approach to their employees ... Very much a take, take attitude. They used the Employment Contracts Act to the absolute fullest and then some. Their actions were extremely underhanded, deceitful, immoral and downright disgusting and obviously cunningly thought out and planned for a long time."

Discussion

Our results suggest that redundancy typically results in longer periods of unemployment than those documented in previous studies. We found that 39 percent of the ground stewards were unemployed longer than six months and 29 percent were unemployed for longer than a year, including 16 percent who had withdrawn from the workforce permanently. Several differences between the ground stewards and other workers might explain why the stewards were unemployed longer. First, the airline provided the stewards with no advanced warning of their redundancies, giving them no time to search for alternative employment while still employed. In contrast, the Mosgiel workers had three months warning that their plant was about to close, enabling many workers to find jobs before they were laid off. Second, the stewards lost their jobs when the unemployment rate was above 10 percent and any kind of job was hard to find. In contrast, Mosgiel's workers were laid off in 1980 or 1981 when the unemployment rate was less than five percent and well-paying, alternative employment opportunities were easier to find. Third, the stewards had been earning relatively high union wages and so probably spent more time trying to find jobs offering anything like comparable pay.

The ground stewards' post-layoff earnings had declined nearly 40 percent by 1996, from $50-55,000 to $30-35,000. For those employed five years later, earnings had declined even more steeply from $55-60,000 to $30-35,000. This is a more severe decline than that documented in most studies, in which earnings losses of 10 to 20 percent were more common and 5 to 10 percent were not unusual. The worse situation of the stewards probably reflects the fact that their training and work experiences were highly specific to the airline industry and would not therefore have transferred easily to, or been as highly valued by, firms in other industries. However, even if their skills had been transferable, most stewards would have still had to take a pay cut in moving from well paid union jobs in an oligopolistic industry to non-union jobs in more competitive industries.

Our results provide evidence for the "push" explanation for small business ownership. Unemployment did lead to the founding of many new businesses. In our sample, 28 out of 51 respondents indicated that they had either started or purchased a business following their redundancy. Furthermore, our results confirm that many of these businesses are not generally very successful. Five had failed after five years and their owners were once more in the workforce. Ten others were not very successful in that their owners were earning incomes of less than $30,000 per year. Consistent with past research, eight of the 13 business owners earning incomes of more than $30,000 per year had previous business or management experience. In contrast, only two of the ten business owners earning less than $30,000 per year had business or management experience.

Recent evidence suggests that treating redundant workers in a procedurally fair manner by, for example, providing them with advance notice or clear and satisfactory explanations for their layoffs, helps to maintain the goodwill of the layoff victims and the survivors who remain. The stewards obviously felt that the airline did not act in a procedurally fair manner and their most acrimonious condemnations of management concerned this issue rather than the consequences of the layoffs. They were particularly critical of what they perceived as management's uncaring attitude and its unwillingness to provide notice, discuss the reasons for the layoffs, or involve the workforce in a discussion of alternatives to mass redundancy.

Policy implications

Management

Managers should be aware that making employees redundant does have severe, long-term consequences, particularly when the affected employees have been traditionally well compensated for industry- or firm-specific skills and experiences. The evidence suggests that most laid off workers have difficulty finding another job and as many as one fifth permanently leave the workforce without ever having been re-employed. As a result, managers who care about the welfare of their employees should consider less harsh alternatives to redundancy. Since the 1950s, Japanese firms have used reductions in hours worked, hiring freezes, internal transfers, and voluntary retirements, among other measures, to avoid having to lay people off (Harcourt, 1996). New Zealand firms could achieve some degree of employment flexibility in the same fashion.

If layoffs are necessary, management can do much to preserve the goodwill of surviving employees, layoff victims, and the general public by handling layoffs in a procedurally fair manner. The research indicates that treating employees with courtesy and respect and involving them in the layoff process can do a lot to allay any criticism of management. In addition, providing a candid and detailed explanation for any layoffs does much to satisfy the employees' need for fair treatment.

Research also suggests that redundant employees appreciate the counselling services that some employers provide. Help with learning how to cope with being unemployed, finding a new job, and living on a lower income are clearly appropriate. Perhaps less obviously, investment and small business management advice might also prove beneficial in two key respects. First, this advice could discourage former employees from making ill-conceived investments in risky business ventures, particularly when they have little or no business experience. Second, it could better prepare former employees for the decisions needed to make their businesses a financial success.

Public Policy

The widespread use of redundancies in recent restructuring has almost certainly helped to raise unemployment levels, raise benefit expenditures, lower tax revenues, and worsen the government's overall fiscal position. In effect, organisations have externalised many of the costs associated with internal change and this has been primarily at the expense of redundant workers and secondarily taxpayers. The government could attack this problem in two ways. First, it could diminish the attractiveness, and therefore the incidence, of redundancy as a labour adjustment device by ensuring that organisations internalise more of the costs. Second, it could help to alleviate the effects of layoffs on redundant workers when layoffs cannot be prevented by other means.

The government could use two strategies to force organisations to internalise redundancy costs. It could pursue the European practice of forcing firms to pay redundancy compensation. This would certainly discourage firms from laying workers off and would help to compensate the victims for any major income losses. However, some research indicates that high redundancy costs discourage additional hiring and so worsen the unemployment problems of new entrants and re-entrants into the workforce (Buchele and Christiansen, 1998; Fallon and Lucas, 1993; Lazear, 1990). In addition, the level of compensation is likely to be too miserly for workers unemployed permanently or for a long period and too generous for workers able to obtain jobs immediately or unemployed for just a few weeks. This problem might be reduced if compensation were contingent on seniority, so that mainly older workers, who usually have the most seniority and spend the longest time unemployed, receive the most generous payments. In contrast, very employable younger workers would receive only small compensation payments. This would limit the rise in labour costs and help to ensure that firms remain willing to hire new entrants.

The government could instead introduce an American-style experience-rated, unemployment insurance system. Under this system, laid off employees would be entitled to earnings-related compensation from a government-administered fund as an alternative to unemployment benefit. Employers would pay for the compensation through an experience-rated payroll tax or premium. With experience-rating, employers would be required to pay more, the larger the compensation payments to their employees. In principle, this incentive structure should discourage firms from laying off their employees and encourage them to help any laid off workers find jobs quickly. In practice, American studies of state unemployment insurance systems confirm that layoff rates (Card and Levine, 1994) and local unemployment rates (Moomaw, 1998) generally fall as the degree of experience-rating rises.

Some layoffs are inevitable, particularly when plants are forced to close. In these circumstances, the government can help by requiring firms to provide two or three months advance notice of any redundancy. Advance notice gives workers the opportunity to find work while still employed, thereby avoiding any period of unemployment. Searching for a job while still employed may also be easier and faster if prospective employers see employment as an indicator of good work habits and high productivity. Furthermore, advance notice allows workers to search for better paying positions, without the immediate financial pressure of unemployment to accept the first job offered.

American studies of advance notice usually focus on the effects of the 1988 Worker Adjustment and Retraining Notification Act, which requires firms employing more than 100 employees to provide at least 60 days advance notice of any plant closure or relocation (Fallick, 1996). Most of this research indicates that advance notice greatly reduces the likelihood of unemployment, but the effect on unemployment duration is small once workers become unemployed (Addison and Blackburn, 1995; Swaim and Podgursky, 1990). Evidence from Ontario, Canada, also indicates that three to six months of advance notice reduces the median duration of unemployment from 37 to 15 weeks, primarily by allowing more workers to move from employment to re-employment without an intervening spell of unemployment (Jones, and Kuhn, 1996: 600). Searching for work while still employed is particularly helpful to older or white-collar workers, but has few advantages to the unskilled or young (Addison and Blackburn, 1995; Addision and Portugal, 1992; Belzil, 1996). In addition, notified workers do find better paying jobs (Nord and Ting, 1991), from which they are also less likely to be laid off (Addison and Fox, 1993), than non-notified workers. Ruhm (1994: 3) has found that "workers receiving the type and duration of advance notice now mandated by law ... earn approximately 10 percent per week more than their counterparts, 3-5 years after the displacements."

Even with advance notice, many redundant workers still suffer at least some period of unemployment. What can governments do in the circumstances? Research suggests that government aid for small business start-ups is not particularly helpful to the unemployed. Experienced managers generally make the most successful business owners, but they normally have their own capital to invest. When they do not, most can find new jobs relatively quickly. Helping them thus has little impact on unemployment. Older, unskilled workers are the most likely to suffer long-term unemployment, and yet lack the skills required to manage a financially successful business. Most of their businesses either fail or make insufficient profits to provide lasting financial independence (Bendick and Egan, 1987; Preisendorfer and Voss, 1990).

Rather than help the unemployed establish new businesses, governments would be better advised to assist the employees in obtaining re-employment. The Swedish active labour market policy provides an excellent working model of how this can be very effectively achieved. First, free and/or heavily subsidised re-training programmes can help prepare the unemployed for new occupations in new sectors of the economy. Paying any mobility expenses can also assist the unemployed with re-locating to regions where job opportunities are superior. Second, government employment agencies can take a much more active role in finding unemployed workers jobs and matching them with advertised postings, much as private employment agencies do already for some occupational groups. Third, the government can subsidise private-sector job creation for the long-term unemployed or act as employer of last resort by providing part-time, public sector jobs (see Harcourt, 1996).

Conclusion

Layoffs have lasting negative effects on workers. In our study, nearly 20 percent of laid off airline employees were still unemployed five years later. Even those who had found new employment or had invested in a small business were earning little more than half of their previous earnings. Results from other studies suggest less severe effects from layoffs, but are still broadly consistent with our findings. Managers thus have a moral obligation to try to avoid layoffs, if at all possible by considering other options such as job sharing, a shortened working week, or even pay cuts. Governments also have a moral obligation to provide managers with incentives to adopt these alternatives by instituting redundancy compensation or an experience-rated unemployment insurance scheme. Given that some redundancies are inevitable, governments are also morally obliged to assist laid off workers in finding and preparing for re-employment. They could, for example, mandate an advance notice period which would help redundant workers find new jobs without ever becoming unemployed.

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