

Expert says layoffs could worsen economic woes

November 24 2008

Widespread layoffs that stem corporate financial losses but leave workers out in the cold would deepen the looming recession that sparked them, a University of Illinois labor expert warns.

Displaced workers with no paychecks or prospects could add a potentially catastrophic drag to a U.S. economy already facing its worst downturn in decades, says Joel Cutcher-Gershenfeld, the dean of the School of Labor and Employment Relations.

But he says businesses can cushion the blow of layoffs that are inevitable in the months ahead as companies align labor supply with sagging demand.

In the first of a series of commentaries on labor and the crippled economy, Cutcher-Gershenfeld urges employers to provide a softer landing for both workers and the economy through programs ranging from severance packages to retraining benefits.

"We're not asking businesses to do this out of charity," he said. "There are ways to approach layoffs that maintain options with the displaced workers, deepen loyalty with remaining workers, give meaning to stated corporate values, and help avoid an accelerated collapse in the economy. Instead of knee-jerk, across-the-board job cuts that will have a contagion effect on the economy, respond with programs that mitigate the harm to workers, while leaving businesses and society better situated to recover when there is an upturn."

Alone, each company's decision to scale back workers makes sense in a sour economy, Cutcher-Gershenfeld said. But collectively, a flurry of layoffs will accelerate a downward spiral if employees are simply cut loose, he said.

Providing safety nets may seem more costly than just letting workers go, but could save money in the long run, said Cutcher-Gershenfeld, whose research includes labor-management relations, public policy and economic development.

"I think what's at stake is a slow, lingering, deep recession versus a somewhat faster, somewhat less deep recession," he said. "You'll be able to gauge it in human lives."

Labor's links to the economy are only now being considered after a more than yearlong financial meltdown, but companies can learn from the lessons of past recessions, Cutcher-Gershenfeld said.

During the 1980s recession, for example, the auto industry partnered with unemployment offices, community colleges and others to achieve a nearly 90 percent placement rate for more than 200,000 displaced auto workers, he said.

Retraining is just one of the options, Cutcher-Gershenfeld said. Employers also can help workers and minimize economic damage through separation payments, extended health-care benefits, investing in start-up businesses launched by displaced workers and a host of other workforce-friendly programs.

He said a proactive approach to layoffs is good for workers who remain, as well as for those who were cut loose and for the overall economy.

"When an employer pays to help a displaced employee find work or

retrains them, the workers who are left have a much higher level of motivation and commitment," Cutcher-Gershenfeld said. "They don't have what we call 'survivor guilt,' and instead think their employer treated people fairly, so they can expect fair treatment if it happens again."

Many of the nation's largest corporations take the high road to help employees land on their feet during economic downturns, he said. Ford and the United Auto Workers, for example, have agreed to give displaced workers either a separation payment or a deal that includes half pay, benefits and four years of college tuition.

"The other side is there are plenty of employers who see layoffs as the first thought rather than the last alternative if you can't do anything else," Cutcher-Gershenfeld said.

Even smaller firms with less wealth can do their part through creative programs, such as creating a regional consortium of companies whose economic fortunes are counter-cyclical that could essentially share a common workforce, he said.

More than 1.2 million Americans have lost their jobs this year, and Cutcher-Gershenfeld fears even more lost jobs ahead with the nation's economy caught in a downward spiral that has crushed consumer confidence.

If displaced employees suffer, the crisis will worsen, he said. But companies can ease the slide by taking care of workers, and accelerate the rebound following the downturn.

"What could be more worthy as a goal?" he said.

Source: University of Illinois at Urbana-Champaign

Citation: Expert says layoffs could worsen economic woes (2008, November 24) retrieved 27 April 2024 from <https://phys.org/news/2008-11-expert-layoffs-worsen-economic-woes.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.