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Unemployment Through Layoffs and Offshore Outsourcing

Linda Levine
Congressional Research Service

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Abstract

[Excerpt] 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.

Until the eleventh postwar recession began in December 2007, offshoring had driven much of the interest in job loss and economic insecurity more generally. Some members of the public policy community have been suggesting that offshoring has contributed to the sluggish pace of job growth thus far in the recovery period since the recession's end in June 2009. But, 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 2004, 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 statistical series does not cover layoffs in which fewer than 50 employees are terminated. It thus is 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 examines the trend in mass layoff activity generally before focusing on quarterly outsourcing data derived from the above-described BLS program on extended mass layoffs.

In brief, mass layoff activity is up markedly which reflects the lingering impact of the 2007-2009 recession on the labor market. With regard to outsourcing—particularly of work moving offshore—the BLS series shows it 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 layoffs involving domestic or offshore outsourcing had been employed by manufacturers. In extended mass layoffs associated with the movement of work offshore, jobs most often are shifted to Mexico and China.

Keywords

unemployment, layoffs, offshoring, outsourcing, job loss, Bureau of Labor Statistics

Comments

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Unemployment Through Layoffs and Offshore Outsourcing

Linda Levine
Specialist in Labor Economics

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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.

Until the eleventh postwar recession began in December 2007, offshoring had driven much of the interest in job loss and economic insecurity more generally. Some members of the public policy community have been suggesting that offshoring has contributed to the sluggish pace of job growth thus far in the recovery period since the recession's end in June 2009. But, 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.

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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 strong cyclical component to layoff activity. The 2007-2009 recession was thus the likely reason for many of the mass layoffs in those years.

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). Before the onset of the eleventh postwar recession in December 2007, policymakers interest in involuntary job loss chiefly focused on the practice of U.S. firms sending work to firms located in other countries—commonly known as offshore outsourcing or offshoring. Some members of the public policy community have been suggesting since the recession's end in June 2009, that the business practice has contributed to the sluggish pace of job growth thus far in the economic recovery.

This report focuses on unemployment through layoffs. It sets forth the publicly available sources of information on layoffs and determines whether they provide data on the reasons that underlie those events (e.g., weak product demand, financial difficulty). The report next briefly provides a context for the offshore outsourcing phenomenon and its relationship to gross and net employment change. It then analyzes the trend in, severity of, and explanations of extended mass layoffs before concluding with an examination of those layoff events that involve movement-of-work to foreign-based affiliates of the U.S. company that called the layoff or to foreign businesses, for example.

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. It describes a practice among very large "old economy" manufacturers to become more efficient by laying off thousands of employees—sometimes in multiple rounds—and closing entire facilities. Since then, downsizing for the sake of increased international competitiveness 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 business practice of contracting out activities has spread from firms relocating work to other companies in the United States, to moving work to companies located abroad. 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 possessing 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 in service-providing industries. 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, however. At the same time these employers are laying off workers, they may be hiring a greater, equivalent, or lesser number of people.

Overlaid on these changes in how firms organize their operations is the business cycle. Job losses usually have not persistently exceeded job gains at the national level, thereby yielding a net decrease in employment, except during recessions. While the net number of jobs rose and the number of mass layoffs fell from 2004 to 2007, the onset of the eleventh postwar recession in December 2007 meant a reversal of these trends. Employment on nonfarm payrolls plummeted during the recession that ended in June 2009, and the number of layoff events involving at least 50 workers as well as the number of workers involved in these mass layoffs who filed initial UI claims soared.[2]

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 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.

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

[2] U.S. Bureau of Labor Statistics, data from the Current Employment Statistics and the Mass Layoff Statistics programs.

Layoffs

Current Population Survey (CPS)

The CPS is a monthly survey of households conducted by the U.S. Census Bureau from which the Bureau of Labor Statistics (BLS) derives the unemployment rate. The CPS includes a question on reason for unemployment. Unemployed persons[3] are categorized as *job losers* if they report they are on a temporary layoff (i.e., their employer has given them a date to return to work or 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.[4]

Job Openings and Labor Turnover Survey (JOLTS)

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

Mass Layoffs

Employer Announcements of Large Staff Cuts

A source of information on substantial staff cutbacks has been announcements by individual firms of upcoming actions. However, several drawbacks exist in using the 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, the announcement of a layoff in a given month does not mean that affected workers are displaced immediately or terminated as a group.

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.

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[3] To be classified as unemployed members of the labor force, individuals must currently be looking for jobs. People who become discouraged about their reemployment prospects and stop searching for work are no longer considered part of the labor force.

[4] The other reasons for unemployment are having left a job voluntarily, having completed a temporary job, and newly entering or reentering the labor force.

A comprehensive database of these announcements does not exist because there is no requirement in the WARN act 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 largest employers). There is likely to be considerable variability in what, if any, information is provided about the reasons for the anticipated layoffs.

Challenger, Gray & Christmas, Inc., an outplacement firm, has become the leading provider of layoff information derived from company announcements of staff cutbacks. It compiles the data on a monthly basis from a variety of sources including newspapers and wire services, trade publications, Securities and Exchange Commission filings, and company announcements.

During the first 11 months of 2010, companies announced staff cutbacks totaling 497,969—substantially fewer than had been announced during a comparable period in 2009.[5] For all of 2009, Challenger reported that U.S. firms announced their intention to cut payrolls by 1,288,030 employees. Although the latest recession ended in June 2009, the total for the year was still higher than the 1,223,993 job losses announced in 2008, which was the first full year of the recession that began in December 2007. By way of comparison, firms had announced their intention during the 2001 recession to lay off about 2.0 million. The total fell somewhat (to 1,466,823) in 2002, the first year of the recovery.

Mass Layoff Statistics (MLS) Program

The Job Training Partnership Act of 1982 charged the U.S. Department of Labor with gathering statistics on mass layoffs and plant closings. Because of improvements made to the MLS program (e.g., expansion of coverage to all states), data from 1985 to 1992 are not comparable with statistics for more recent years, however.

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 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 since then has covered 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.

[5] "Employers Announced 48,711 Job Cuts in November" *Daily Labor Report*, December 1, 2010; "December Job Cuts Fell to Lowest Level Since Recession Began" *Daily Labor Report*, January 7, 2010; and "Employers Announced 1.2 Million Job Cuts in 2008, Most Since 2003," *Daily Labor Report*, January 8, 2009.

As shown in **Table 1,** both mass layoff series unsurprisingly spiked in 2001, when the first recession of the 2000s occurred. Mass layoff activity again increased sharply in 2008, reflecting the onset of the decade's second recession in December 2007. The data reflect a worsening situation in 2009, despite the recession's end in June of that year. The two series have showed marked improvement thus far in 2010.

Table 1. Short- and Long-Term Mass Layoff Activity, Selected Years

	Mass Layoffs		Extended Mass Layoffs[a]		
Year	**Events**	**Initial UI Claimants**	**Events**	**Initial UI Claimants**	**Separated Workers**
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	4,885	951,155	935,969
2007	15,493	1,598,875	5,363	978,712	965,935
2008	21,137	2,130,220	8,259	1,670,042	1,516,978
2009	28,030	2,796,456	11,827	2,439,840	2,108,803
2010[b]	17,633	1,670,466	5,1278	939,172	883,394

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

a. 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.

b. The Mass Layoff figures run from January to November of 2010. The Extended Mass Layoff figures cover the first three quarters (January-September) of 2010.

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-providing sector particularly (e.g., accounting clerks at financial firms, radiologists at hospitals). 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 in mind, the BLS series shows that outsourcing—particularly of work moving offshore—is uncommon in long-lasting large-scale layoffs and accounts for fairly few of the workers terminated in these actions. In 2009, for example, 61,994 workers were laid off as part of the 351 extended mass layoffs that involved movement of work within the same company or to a different company within or outside the United States. These workers accounted for 4% of all workers let go in long-lasting large-scale layoffs conducted for nonseasonal/nonvacation reasons. Organizational change (i.e., restructuring of a company and business ownership change) was the reason underlying more than 60% of these layoffs. Most workers separated in extended mass layoff events involving domestic or offshore outsourcing had been employed by manufacturers, oftentimes transportation equipment as well as computer and electronic products manufacturers.[6]

Relocation of work most often occurs within the United States and within the same company. In 2009, employers were able to provide specific information on 317 movement-of-work actions. Only one in four of these actions involved moving work outside the United States. These 81 actions involved the layoff of 10,378 workers. Mexico and China were reported to be the countries to which work was relocated in over one-half the events.[7]

Author Contact Information

Linda Levine
Specialist in Labor Economics
llevine@crs.loc.gov, 7-7756

[6] BLS, *Extended Mass Layoffs in 2009*, Report 1025, December 2010.

[7] Ibid.