The recitation of legislation passed in the Third World intended to combat or at least curb child labor must be viewed against the reality that the labor of youth can make the difference between survival and extinction for tens of thousands of household units in India, Latin America, Asia, and Africa. Private efforts achieve something, but the positive results are dwarfed by the magnitude of the problem.

Norman Lederer
Director of Education and Training
District 65, United Auto Workers
Woodbridge, New Jersey

Plant Closings and Worker Displacement: The Regional Issues. By Marie Howland. Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 1988. x, 172 pp. $18.95 cloth, $11.95 paper.

From virtually the beginning of research and analysis on plant closings and worker displacement, the principal focus has been on worker and community adjustment in local labor markets. Why and where plants close has received much less, often only cursory attention. This first-rate study not only concentrates on the patterns and determinants of plant closings, but integrates that part of the research with its analysis of worker displacement. The result is a welcome but not completely successful discussion of policy implications that demonstrates the potential linkage between analysis and strategy.

The core of the analysis of plant closing patterns and determinants is contained in three chapters, one of which discusses the Dun and Bradstreet data used for that portion of the study. Three industries, all of which have been undergoing interregional employment shifts from the “rust belt” northern states to the Sunbelt, and in which there have been a significant number of plant closings, were analyzed. The Dun and Bradstreet data, once clear of error and adjusted to account for problems of interpretation, cover virtually 100% of estimated employment in the metalworking machinery, electronic components, and motor vehicle industries. That data base also permits analysis of the components of employment change on both an establishment and a location base.

The substantive findings on interregional employment shifts and the incidence of plant closings support the conclusions of earlier investigations. Interregional differences in employment growth in the three industries were due to differences either in the start-up of new plants or in expansions, not to interregional differences in rates of plant closure. Plant closing rates did not differ significantly across regions, and in fact were slightly higher in high-employment growth areas.

The findings on the economics of plant closing are more novel, but at the same time either inconclusive or puzzling. For example, the probability of a plant closing was more strongly associated than any other factor with the establishment's status as a branch or subsidiary and was inversely related to plant size. Regional differences in costs, particularly labor costs, appear to influence plant location, but had little apparent influence on the decision to close a facility.

The treatment of the costs to and adjustment of displaced workers utilizes the January 1984 Current Population Survey data, in which such workers were identified. There are few surprises in this part of the study, though it is useful to have the findings based on a broader, more representative sample than has been possible in most case studies. Two findings on post-layoff adjustment differ from the generalizations of other studies. The author finds that the re-employment success of displaced workers is more sensitive to local employment conditions in their former industry than to the overall state of the local labor market. Because this part of the study is based on observations only in SMSAs, as the author points out, that finding would not apply in smaller communities where the shut-down plant is usually the only one in its industry. The other finding at variance with those of other studies is that advance notice does not significantly affect the financial losses due to displacement.

Linking policy implications to the results of substantive research is one of the more difficult exercises undertaken by studies such as this. In this study, the policies proposed bear only a tenuous relationship to the empirical findings. On several important issues, the absence of strongly contradictory evidence is taken as a license to propose measures that have no other apparent warrant than the author’s beliefs. For example, takeover of plants by local interests is suggested because the factors associated with profitability were shown not to have had a significant bearing on plant closure. The acceptable profit rates of branch or subsidiary plants in individual cases as well as generally could not be ascertained, how-
ever. On another policy question, mandatory advance notice is advocated, despite the finding that it had little effect on the financial losses to displaced workers.

The author's recommendations for additional research on the plant closings problem, on the other hand, more than compensate for the failure to distinguish matters of opinion from empirically grounded policy. A number of very useful suggestions for more research on the dynamics of industrial decline and plant closings are offered. Research on the effectiveness of programs to assist displaced workers, on which there is still too little solid information, is also outlined.

Apart from caveats on public policy, the contributions to the literature on the economics of plant closings and labor displacement of this study are valuable. Its careful approach should be extended to other industries undergoing significant structural change. By exploring the potential of new data sources, it may point the way toward a firmer basis for grounding public policy that addresses this important subject.

Robert L. Aronson
Professor Emeritus, Labor Economics
New York State School of
Industrial and Labor Relations
Cornell University

The Economics of Pension Insurance. By Richard A. Ippolito. Published for the Pension Research Council, Wharton School, University of Pennsylvania. Homewood, Ill.: Irwin, 1989. 270 pp.

Pension reform legislation in the United States is usually dated from the mid-1960s bankruptcy of the Studebaker automobile company and the failure of its underfunded pension plan, when benefit checks stopped coming for many already-retired people and prospective retirees were deprived of their future benefit promises. Congressional response to this publicized pension plan failure took the form of ERISA, the 1974 Employee Retirement Income Security Act, embodying two key reforms. First, ERISA regulated the terms of the pension promise so that employers offering a retirement plan had to abide by specific information, vesting, funding, and investment rules. Second, and in some analysts' eyes more important, ERISA established the Pension Benefit Guaranty Corporation (PBGC). This agency was to be a governmental insurance entity charged with making good on companies' retirement promises under defined benefit pension plans, even when the plans had insufficient assets to cover liabilities. Thus governmental pension insurance was born.

Today the PBGC is a very large organization indeed: the agency provides pension insurance for 24 million workers promised roughly $900 billion in eventual retirement benefits, it covers about 228,000 pension plans, and on an annual basis the corporation pays average benefits of about $2,700 to each of 110,000 participants. These facts and many others are presented in Richard Ippolito's new book on the powerful economic institution that the PBGC has become in the 1980s, and these alone would be enough to make the book interesting reading for pension experts and others interested in social insurance more generally.

In addition to offering a host of hard-to-find pension facts, Ippolito has a much more ambitious objective in this book: to present and defend nothing less than a full-fledged proposal to completely overhaul the nation's entire pension insurance scheme. Whether or not one agrees with his views (and many do not, including two people offering dissenting options at the end of the volume), Ippolito should be listened to: for years he ran the research office at the U.S. Department of Labor's Pension and Welfare Benefits Administration, and he is currently the PBGC's Chief Economist. (Ippolito's views are not necessarily those of the Administration or the PBGC, he hastens to note.)

Ippolito divides his book into two sections, one positive and the other normative. Parts I and II, complemented by Appendices A–E, amass useful data regarding the universe of pension plans, defined benefit pension formation and termination patterns, and PBGC premiums, claims, and financial exposure experience during the 1980s. Much of this information will be new even to people well-read in the pension field, since some appears in print here for the first time and other material was available previously only in internal PBGC documents. In addition, data filtered through an economist often look different from the same data viewed by others. As an example, Ippolito shows that over half of all ongoing pension plans have liabilities exceeding assets, after standardizing for discount rates. This demonstration directly contradicts statements in the popular press that underfunding is a problem of the past. Also invaluable is Ippolito's summary of myriad pension reforms affecting single employer pension plans, along with his discussion of the 1987 Omnibus Budget Reconciliation Act imposing new rules that will prob-