SORTING OUT RESPONSIBILITIES FOR TRAINING THE WORK FORCE

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Discussion Paper No. 70
May 1983
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ISBN: 0 949838 71 3
ISSN: 0725-430X
ABSTRACT

This paper considers the circumstances in which it is appropriate for a government to subsidize training and examines the current mix of programs administered by the Australian Commonwealth's Department of Employment and Industrial Relations (DEIR). Three reasons why a government might decide to subsidize training are offered: (1) to promote economic growth, (2) to redistribute income and employment opportunities, and (3) to facilitate economic adjustments.

In financial year 1981-82, approximately $200 million was spent by the DEIR for employment and training programs. Most of the funds were spent on programs to subsidize apprenticeship training and to provide work experience, training, and other assistance for long-term unemployed youth, Aboriginals, and the disabled. These activities address the first two goals.

Few of the programs are oriented towards helping adult displaced workers prepare for other jobs. The major type of assistance provided by the Commonwealth for retrenched workers is the payment of unemployment benefits. The issue of whether subsidization of retraining opportunities would improve the operation of the Australian economy is examined. A key problem raised is the difficulty of identifying unemployed workers for whom retraining would be the most effective route to becoming reemployed.
I. INTRODUCTION

This paper considers the circumstances in which it is appropriate for a government to subsidize training and examines the current mix of programs administered by the Australian Commonwealth's Department of Employment and Industrial Relations. Under what circumstances can government subsidization improve the performance of an economy? The current range of programs in Australia reflects, in part, the needs of an economy accustomed to much lower unemployment and higher growth rates than have been experienced in recent years. In considering whether a different mix of programs might be warranted, it is useful to ask just what it is that they are intended to accomplish.

Three possible reasons are presented for the Australian Commonwealth or other levels of government to subsidize training: 1

1. to offset the failure of the private market to produce sufficient training to maximize economic growth

2. to improve the distribution of income and opportunities

1. For discussion of these reasons in the context of the U.S. labour market, see National Commission for Employment Policy (1981). Another major economic policy goal, macroeconomic stabilization, is not directly addressed with training subsidies. However, training programs could improve a nation's terms of trade between inflation and unemployment, for example, by reducing inflationary pressures resulting from skill bottlenecks. Moreover, the timing of training program enrollments and expenditures could be used, in part, as a stabilization instrument.
to facilitate economic adjustments

Last year the Department of Employment and Industrial Relations spent approximately $280 million for employment and training programs. A listing of the major programs and their expenditures is provided in the appendix. These programs are used to illustrate the range of activities that a government can undertake to expand training opportunities. The composition of the budget also provides some indication of the relative emphasis being placed on the three goals, although each program can be directed toward more than one goal.

There are, of course, other government functions that directly effect the quality of the work force available to employers. In particular, the Commonwealth and other public authorities in Australia spend considerably more through education systems than through training schemes. The rapid growth in recent years of expenditures on Technical and Further Education institutions and Colleges of Advanced Education is an especially important development in the provision of vocational education. It would be interesting to use the framework presented in this paper to examine these activities.

2. Program descriptions and objectives presented in this paper are based largely on Minister for Employment and Industrial Relations (1982). Expenditures for 1982-83 were originally estimated to increase by 21 percent. However, programs subsequently introduced (employment subsidies for older workers and job creation schemes associated with the wage pause) will substantially increase total costs. The new programs are oriented toward counter-cyclical, rather than structural, objectives.

3. In 1979-80, $6.7 billion was spent on education by the public sector, including $2.6 billion by Commonwealth authorities, mainly through grants to states [ABS (1982b), pp. 263-273].
One reason for focusing the paper on government responsibilities regarding training is that it is not as clear cut as other functions. In Australia, as in the United States and elsewhere, it is generally accepted that governments are responsible for providing a minimum level of free education to children. There can be battles fought over what that level should be, which government is responsible, and whether the government bears any financial responsibility for the education of students who attend non-government schools. But the fundamental principle of governmental responsibility for provision of a minimal level of education is well established. However, there does not appear to be any well-established principles regarding the government's responsibilities for worker preparation beyond school.
II. ECONOMIC GROWTH

A conventional criterion used by economists to determine whether government intervention is warranted is that it should correct a failure of the market place to maximize national output. It is well-recognized that one source of economic growth is a trained work force. Most training beyond the formal education system probably occurs on the job, in the form of learning by doing. In Australia (unlike the United States), apprenticeships are still an important source of trained workers as well.4

Nonetheless, there are a number of reasons why workers and their employers may invest less in training than is optimal for society as a whole. Workers may not be able to obtain funds to finance training. Employers are understandably reluctant to risk investing in the skills of workers who might leave and take their skills with them. Theories of human capital suggest that on-the-job training that provides skills that are generally useful in the labor market are provided by employers in circumstances in which they can shift the cost to the worker-trainees in the form of lower wages; the workers implicitly agree to this arrangement because the skills they acquire make them more productive and hence more marketable later. Likewise, skills that are only useful in the firm in which they are acquired must be provided at no cost to the

4. An ABS survey of private and government employers conducted in 1977 found that, among 406,000 workers working in trades, there were 347,000 qualified workers; working with them were 68,000 apprentices [ABS (1978)]. No information was available regarding the proportion of the qualified group who obtained their qualification through an apprenticeship.
worker-trainee because they will not have increased their earnings potential elsewhere. The outcomes of the training decisions made by workers and their employers are not necessarily those that would provide the optimal amount of training for the economy as a whole.

Governments can and do intervene to lower the cost to employers of training and hence stimulate more investment in human capital than would otherwise occur. The largest training program administered by the Commonwealth Government is the Commonwealth Rebate for Apprentice Full-time Training (CRAFT). In financial year 1981-82, financial assistance was provided through CRAFT totalling approximately $85 million for 100,000 apprentices. It is intended to offset some of the training costs of apprenticeships incurred by employers, thereby encouraging them to use this traditional mechanism for training skilled workers. Other Commonwealth programs that appear to have as their major objective economic growth through increasing the skill level of the work force are much smaller. The various activities included under the heading, "Skills Training Program," involved expenditures of about $16 million last year; 10,000 people entered the programs.

5. For further discussion of the economics of apprenticeships and the market for apprentices in Australia, see Scherer (1981). Scherer notes that the CRAFT subsidy, in effect, pays the wages of apprentices for off-the-job training, amounting to about one-seventh of the wages of first-year apprentices and a smaller fraction of subsequent wages.
III. REDISTRIBUTION OF INCOME AND OPPORTUNITIES

Not only can training increase the total product of the economy, it can also influence who receives that product. Government-supported training can thereby change the distribution of income and opportunities. This is the equity reason offered for governments being involved in the preparation of the labor force. It appears to be the dominant one in explaining the current composition of training programs available through the Commonwealth (other than CRAFT). It was certainly the origin of the major training programs in the U.S. as well. Training programs, at least in principle, offer a means of raising the earnings of people who would otherwise be disadvantaged in the labor market. In the short run, training is almost certainly a more costly way of redistributing income than a government could achieve through a simple income transfer system. But, if successful, the investment would result in a long-term change in the earnings distribution.

Universal free education in Australia and elsewhere is likely to have resulted in a reduction in the inheritance of income inequality from one generation to the next, thereby achieving equity, as well as economic growth, objectives. It is reasonable to assume that young people from poor families would have been less likely than others to be able to afford an adequate education; even in the absence of tuition, poor youth are still faced with more
economic pressure to leave school earlier.6

Most of the employment and training programs listed in the appendix, other than the ones noted above, primarily address equity goals. Nearly $80 million was spent last year on youth work experience and training programs and youth affairs assistance and $25 million for special training programs for Aboriginals and the disabled. The largest single program in this category is the Special Youth Employment and Training Program (SYETP), which subsidizes employers to hire and train young job-seekers who have experienced long-term unemployment. Last year approximately 50,000 young people were hired under this scheme, at a cost to the Commonwealth of $54 million.

The SYETP subsidy scheme illustrates a critical question that arises in any attempt to redistribute income or opportunities: redistribute to whom? In this program the eligibility criteria involve duration of unemployment, not income. Essentially, an employer can receive a subsidy for employing a young job-seeker who has been unemployed for four of the past 12 months for up to four months and a subsidy for twice the period if he or she has been unemployed for eight months. In this way, if the subsidy is effective, more job opportunities would be available for young people who have experienced extended unemployment. A similar scheme in the U.S. uses the family income of the youth during the most recent six months, rather

6. The Tertiary Education Assistance Scheme (TEAS) provides means-tested stipends to full-time tertiary education students. TEAS was introduced as a method of facilitating higher education for young people from low-income families. For an examination of equity issues associated with TEAS, see Gruen (1982).
than duration of unemployment, as the major criterion. To the extent that one's goal is to reduce the extent to which poverty is inherited, the American approach seems preferable. On the other hand, there is considerable evidence that the burden of youth unemployment is heavily concentrated on the long-term unemployed and that the probability of leaving unemployment decays with prolonged unemployment.\textsuperscript{7} To the extent that the goal is to equalize the incidence of unemployment, regardless of family income, the SYETP criterion is quite sensible. The point is that the goal of equity is open to many interpretations.\textsuperscript{8}

\textsuperscript{7} For example, during the 12-month period ending in February 1981, 655,000 persons under age 25 spent one or more weeks looking for work; 175,000 of these job-seekers looked for at least 6 months. These long-term unemployed youth, though only 27 percent of all youth who experienced unemployment, accounted for about 53 percent of the total number of weeks of unemployment incurred by youth. Calculated from ABS (1982a), Table 22.

\textsuperscript{8} For a discussion of alternative concepts of equity in the context of TEAS, see Gruen (1982). For an analysis of SYETP's impact on the Australian labour market, including further discussion of its eligibility criteria, see Smith (1983).
IV. FACILITATE ECONOMIC ADJUSTMENTS

Economic growth necessitates the destruction of some jobs and the creation of others. Although this process may be in the interest of the nation as a whole, it is reasonable that workers in the first group will object and resist change. Workers whose skills would become obsolete if a change were implemented risk loss of income and status. There are many ways that governments can, in effect, spread the costs of change, so that workers threatened with job loss do not bear the brunt of the losses. These include retraining, relocation assistance, provision of labor market information, job search assistance, and temporary income maintenance.

As far as I can discern, the Australian Commonwealth Government has no major program for funding the retraining of adults who lose their jobs beyond what is available in the regular education systems. The skills training program, noted above, provided training for around 18,000 workers last year. The Commonwealth Employment Service provides occupational information and other types of labor market exchange functions without charge. In addition, there is a scheme to relocate displaced workers who receive job offers elsewhere. But the major type of assistance provided by the Commonwealth is the payment of unemployment benefits to most job-seekers who have lost their jobs. In 1981-82 834,000 persons received over $1.2 billion in benefits; not all of them were displaced workers (e.g., new labour force entrants are eligible), but over 40
percent were aged 25 and older.9

The question here is whether subsidization of retraining opportunities would improve the operation of the economy and, if so, whether the government should help to pay for it. "Improve" could be either in the sense that more rapid economic growth would result or that the benefits (and costs) of economic growth would be more equitably divided. Economic growth might be enhanced if:

(1) the availability of free or subsidized retraining opportunities reduced workers' resistance to change (i.e., the provision of retraining were an effective bribe), thereby facilitating the introduction of new technology or other growth-enhancing adjustments;

(2) the retraining provided a skilled work force for the new jobs generated by change; or

(3) workers displaced from their jobs would be made more productive by being retrained, but would underinvest in the absence of a subsidy.

Each of these is plausible, but it isn't clear whether they are applicable to the Australian economy. Would subsidized training be more effective than comparably priced unemployment benefits in lowering resistance or facilitating retraining in circumstances where retraining is needed? That is, if the Commonwealth were to spend more money to help displaced workers,

9. Department of Social Security (1982), pp. 111-112. Because unemployment benefits are means-tested, some displaced workers are not eligible; married women, in particular, are less likely to qualify for benefits.
would it be better to simply give them the money to use for retraining or any other purpose?

The same question arises in the case of the main equity-based argument raised in support of retraining displaced workers. That argument is: workers displaced from their jobs have, through no fault of their own, lost property (the value of their specific skills that are no longer in demand), may lose income while searching for new jobs, and may need to accept lower-paying jobs. Here, again, if one accepts this as a legitimate claim on government funds, should the claim be paid in unrestricted transfer payments (unemployment benefits) or in subsidized training? Moreover, the property right equity basis, itself, may be questioned. To what extent is it the role of government to protect workers against the adverse consequences of being displaced? This is especially difficult in circumstances in which one reason why the job disappeared was that wages had risen to more than the employer was willing to pay.

Finally, in considering whether retraining for displaced workers is a worthwhile expenditure, the question of how to identify which unemployed workers need retraining must be addressed. Some retrenched workers will find other work with little, if any, unemployment, without retraining or other special assistance; others will take a long period to find a job and that job might not be as good as the one they left; and others may never find another job. Unfortunately, little is known about how to predict which category a retrenched worker will be in nor whether retraining would be the most cost-effective route to
becoming reemployed. Recent statistics on unemployment beneficiaries demonstrate that, even during this recession, some people are able to leave unemployment quickly. For example, 60 percent of the unemployment beneficiaries age 25 and over who terminated benefits between November 1982 and February 1983 had been receiving benefits for less than three months [Department of Social Security (1983)]. On the other hand, 7 percent had been receiving benefits for over a year.

Two recent studies of retrenched workers in Victoria illustrate the identification problem and the diversity of post-retrenchment experiences, even among people who had lost their jobs in the same place and at the same time. In one study, the labour market experiences of 42 workers who had been retrenched from a timber processing firm in 1978 were examined between 15 and 23 months following their retrenchment [Connell and Martin (1980)]. Only 3 of the 42 (7 percent) were still unemployed, although equal numbers had retired and were involuntarily employed on a part-time basis. Half of the respondents who were employed at the time of the survey had either found jobs immediately after retrenchment or within two months. Other survey findings illustrate the kinds of labour market adjustment problems retrenched workers could have, even if they were successful in finding other work. For example, several were working in jobs below their skill level and several had had

10. No information is provided concerning which beneficiaries had been retrenched nor does this indicate how long it will take those who had not yet terminated benefits to do so. Also, some of the terminated beneficiaries may have left the labour force. In mid-February, there were about 380,000 persons age 25 and over who were receiving unemployment benefits.
a series of short duration jobs; 14 percent of the employed respondents had experienced at least six months of unemployment since retrenchment.

The other retrenchment study followed the adjustment processes of 72 people who had been retrenched from a colour TV factory in 1977 and 1978 [Connell (1981)]. When contacted between one and two years after retrenchment, 16 (22 percent) were unemployed, 10 had left the labour force, and 46 had jobs. Many of the employed had had several short-term jobs in the interim and the majority had taken at least three months to find their first job. Neither of these studies could be considered as predictors of the post-retrenchment experiences of "typical" displaced workers. Each involved a small sample and many of the retrenched workers were not found or did not respond. Moreover, as these studies illustrate, the success of displaced workers in adjusting depends, in part, on their personal characteristics and on labour market conditions. Thus, many of the retrenched workers in the timber processing firm were qualified carpenters; they tended to have less difficulty finding other work. On the other hand, over two-thirds of the retrenched workers in the TV factory were female, most of whom had been employed as process workers; they were less likely than the males to find other jobs and more likely to leave the labour force.
V. CONCLUSION

The development and maintenance of a skilled, flexible labor force is clearly in Australia's interest. Three possible goals that might warrant government support for training have been identified: to promote economic growth, to redistribute income and opportunities, and to facilitate economic adjustments. Commonwealth employment and training programs mostly address the first two of these goals, and in particular, the preparation and placement of young people. Whether sufficient resources are being directed toward these goals and whether they are being most effectively spent are important issues. It is also important to consider whether more should be done to help workers from declining industries and occupations to prepare for other types of work and, if so, how to do it.
<table>
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<tr>
<th>Program</th>
<th>Budget</th>
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<td>Trade Training Program</td>
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<td>Skills Training Program</td>
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<td>Youth Training Program</td>
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<td>School to work transition</td>
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<td>Youth Affairs Assistance</td>
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<td>Special Training Program</td>
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<td>Training for the disabled</td>
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