



# Labour Market Matters

## Special points of interest:

- Low returns to training programs for long-tenure displaced workers suggests that other methods to aid long-tenure displaced workers should be explored.
- Study finds that firm-level training tends to be higher during downturns, as well as in sectors doing relatively better than others.

**“[E]ven if returns to training were significantly positive – which evidence does not generally support – the investment in training necessary for long-tenure displaced workers to recover their earnings shortfall is staggering”**



Stephen Jones  
(McMaster University)

Volume 4, Issue 12

December 2012

## Training programs no panacea for displaced long-tenure workers

It is well-documented that workers displaced from long-tenure jobs tend to have difficulty finding new employment, and face even greater difficulty finding a job without suffering a substantial loss in earnings. Workers with significant prior tenure typically undergo substantial earnings losses, with mean losses of 25-35 percent for those with at least five years' tenure. Such earnings losses have been found to be persistent even five years after the displacement. Earnings losses suffered by displaced long-tenure workers tend to be large and may be permanent.

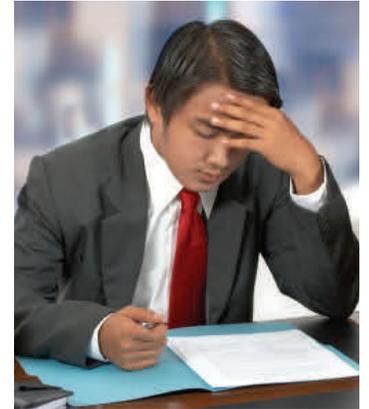
Policies to address problems faced by displaced long-tenure workers tend to be centred on education, training and skill development. A report by CLSRN affiliate Stephen Jones (McMaster University) entitled **“The Effectiveness of Training for Displaced Workers with Long Prior Job Tenure”** ([CLSRN Working Paper no. 92](#))\* cautions that research shows returns to training for displaced workers that are low, being significantly less than the returns to formal schooling which lie in the 6-9% range. On a cost-benefit basis, the body of evidence does not show that training pays off for most of the displaced population.

The effectiveness of training is a complicated question to answer. Displaced workers differ in many ways, not all observable, and any one displaced worker can only be observed either with training or without training. Policy needs to

answer the counterfactual question of what *would have happened*, if this particular worker had made the other choice, to assess the net effect of training. Using results from field experiments and from econometric work based on non-experimental data that tackle this counterfactual problem in various ways, Jones surveys and assess a variety of strategies that have been employed to determine training effectiveness.

Overall, from a vast literature in Canada, the US and elsewhere, Jones finds that most training programs have had results on earnings that are modest to poor. It is not clear that past training for displaced workers has paid off as an investment. Jones suggests that even if returns to training were significantly positive – which evidence does not generally support – the investment in training necessary for long-tenure displaced workers to recover their earnings shortfall is staggering.

Since evidence on training programs for displaced workers shows limited promise, it is important to search for other creative ways to ensure that the costs of economic restructuring do not fall disproportionately on a narrow group. Given that earnings losses for displaced long-tenure workers tend to be permanent, the relatively short duration of EI is not sufficient to assist the displaced following displacement. While a longer time frame for EI work histories might benefit long-tenure



*While most policies addressing displaced workers focus on training, research does not show that training pays off for most of the displaced population.*  
Image: Stuart Miles/freedigitalphoto.net

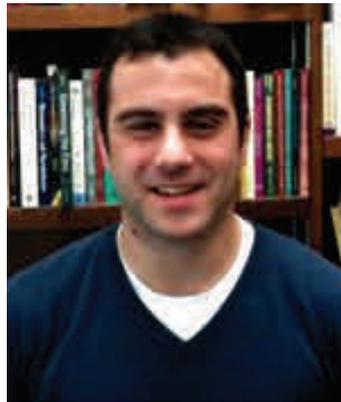
displaced workers, no temporary EI framework can solve the problem of generally permanent earnings losses among displaced long-tenure workers. Jones suggests that it is for these types of reasons that many have proposed serious evaluation and potential piloting of a Wage Insurance (WI) program for long-tenure displaced workers. Given the disproportionately large losses long-tenure workers face compared to short-tenure workers, a compensatory policy (as opposed to a training and job search-assistance based policy) focused on long-tenure displaced workers could be an effective and efficient way of balancing out the disproportionately large losses faced by long-tenure displaced workers.

\* This paper was commissioned as a [Mowat Centre EI Task Force Background Paper](#)

## Impact of economic fluctuations on firm-level training decisions

How does a firm's decision to engage in employee training react to economic fluctuations? During downturns, lower productivity (a "negative productivity shock") can be associated with increased training, as the opportunity cost to train workers is lower. However, increased productivity (a "positive productivity shock") can be related to the adoption of new technologies that may require training, which can create increased return to skill. Currently, there is little evidence to prove which of the two scenarios holds more accurately over the other. In a paper entitled "***The Impact of Aggregate and Sectoral Fluctuations on Training Decisions***" ([CLSRN Working Paper no. 45](#)) CLSRN affiliates Vincenzo Caponi (Ryerson University), Cevat Burc Kayahan (Acadia University), and Miana Plesca (University of Guelph) examine how the firm-level decision to train depends on aggregate and sectoral output fluctuations, and find that more training tends to happen during downturns, and that training is

generally higher in sectors that are doing relatively better than others.



**Cevat Burc Kayahan**  
(Acadia University)

Using data from the Canadian Workplace and Employee Survey (WES) from 1999 to 2006, the researchers find that a one-percentage point increase of overall output relative to the baseline trend decreases the probability of training by 1.5 percentage points and decreases training expenditures by \$7 per worker. A one-percentage point increase in the share of a sector's output increases the probability of training by 0.7 percentage points and increases training expenditures per worker by \$19 for the firms who train. These results are robust to different output specifications.

The study finds that training tends to be counter-cyclical (more training during downturns). The researchers believe this happens because the opportunity cost of training (foregone output) which is lower in downturns thereby lowering the firm-level "cost" to

***"[A] one-percentage point increase of overall output relative to the baseline trend decreases the probability of training by 1.5 percentage points and decreases training expenditures by \$7 per worker. A one-percentage point increase in the share of a sector's output increases the probability of training by 0.7 percentage points and increases training expenditures per worker by \$19 for the firms who train."***

train. On the other hand, the study identifies a new channel that relates training with idiosyncratic sectoral shocks. Firms from sectors doing well relative to the rest of the economy have an incentive to train more, while firms from sectors experiencing a relatively negative shock have an incentive to train less. The authors contend there are two mechanisms at work here. First, if a given sector is doing well relative to rest of the economy ("positive sectoral shock"), this may be related to the adoption of new technologies. Firms will invest in training to operate these new technologies. Secondly, workers tend to reallocate from the sectors doing relatively worse into the ones doing relatively

better; the influx of workers who are new to a sector may require training in sector-specific skills. The researchers document empirically that firms who innovate or adopt new technologies tend to train more, and that there is an increase in training incidence by firms in sectors doing relatively better, even after controlling for the adoption of new technologies. The probability of a worker to get trained is higher when the worker is new to a sector.



**Miana Plesca**  
(University of Guelph)

The aggregate and sectoral output fluctuations and their effect on firm-level training decisions documented in this study can inform policy-makers whether observed trends in training are healthy, as dictated by economic circumstances, or whether firms under-invest in training and therefore government intervention could be a potential course of action.



**Vincenzo Caponi**  
(Ryerson University)

### Endnotes

*Labour Market Matters* is a publication of the Canadian Labour Market and Skills Researcher Network (CLSRN). The CLSRN is supported by the Social Science and Humanities Research Council of Canada (SSHRC) under its Strategic Research Clusters program. Opinions expressed in this publication do not necessarily reflect the views of the SSHRC.

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