The Impact of Aggregate and Sectoral Fluctuations on Training Decisions

Vincenzo Caponi
Ryerson University

Cevat Burc Kayahan
Acadia University

Miana Plesca
University of Guelph

October 2009

Abstract

The literature has not yet resolved whether the effect of macroeconomic fluctuations on training decisions is positive or negative. On the one hand, the opportunity cost to train is lower during downturns, and thus training should be counter-cyclical. On the other hand, a positive shock may be related to the adoption of new technologies and increased returns to skill, making training incidence pro-cyclical. Using the Canadian panel of Workplace and Employee Survey (WES), we document another important channel at work: the relative position of a sector also matters. We find not only that training moves counter-cyclically with the aggregate business cycle (more training during downturns), but also that the idiosyncratic sectoral shocks have a positive impact on training incidence (more training in sectors doing relatively better). These findings help us better understand training decisions by firms.

JEL Classification: J24, E32
Keywords: Training; Human capital; Business cycles; Sectoral shocks.

This research was financially supported by a grant from the Canadian Labour Research Network (CLSRN). We thank Louise Grogan, Gueorgui Kambourov, Chris Robinson, seminar participants at the University of Guelph and Mount Allison University, as well as participants at the CLSRN 2008 Workshop, the 2008 Atlantic Canada Economic meetings, and the 2009 Canadian Economic Association meetings, for very helpful discussions.