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The Effectiveness of Training for Displaced Workers with Long Prior Job Tenure

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The Effectiveness of Training for Displaced Workers with Long Prior Job Tenure*

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Abstract

Workers displaced from long-tenure jobs often have difficulty finding new employment and can take a substantial drop in earnings when they find reemployment. These losses are large and persistent, and can easily dwarf the transitory losses from the initial period of nonemployment. Policy response for these long-term problems has centred on education, training and skill development. This paper surveys and assesses a variety of strategies that have been employed to determine training effectiveness, using results from field experiments and from econometric work based on non-experimental data.

Findings from this large research enterprise are not encouraging. Both experimental and non-experimental research shows that the returns to training for displaced workers are low, almost surely less than the (well-estimated) 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.

Alternative means to compensate the losers from economic adjustment might include modified or expanded EI coverage, without any necessary link to training expenditures, and perhaps consideration of alternative policies, such as Wage Insurance. Since evidence on training programs for displaced workers gives only 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.

Keywords: labour market adjustment, training, displaced workers

JEL codes: J60, J63, J63, J65, J68

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Executive Summary

Workers displaced from long-tenure jobs often have difficulty finding new employment and can take a substantial drop in earnings in the new job. Canadian evidence shows that displaced workers with at least five years' tenure on the old job have an average earnings loss of 25-30 per cent, even many years after the initial job separation. These losses are large and persistent; they dwarf the transitory losses from the initial period of nonemployment. Policy response for these long-term problems has centred on education, training and skill development. How effective are such policies likely to be?

This turns out to be 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. The paper surveys and assesses a variety of strategies that have been employed to determine training effectiveness, using results from field experiments and from econometric work based on non-experimental data.

Unfortunately, findings from this large research enterprise are not encouraging. Both experimental and non-experimental research shows that the returns to training for displaced workers are low, almost surely less than the (well-estimated) 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.

Alternative means to compensate the losers from economic adjustment might include modified or expanded EI coverage, without any necessary link to training expenditures, and perhaps consideration of alternative policies, such as Wage Insurance. Since evidence on training programs for displaced workers gives only 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.