



# Canadian Labour Market and Skills Researcher Network

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### Employee Training in Canada

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## Abstract

In this paper we first analyze the determinants of training using data from the 2003 International Adult Literacy and Skills Survey (IALSS). We find that education plays a key role in the receipt of all forms of training except in the case of employer-sponsored training. We also find substantial differences across demographic groups in the relationship between literacy skills and training. In the second part of the paper we merge the 1994 IALS to the 2003 IALSS and perform an analysis of the impact of the Quebec policy introduced in 1995 by which employers are required to devote at least 1% of the payroll to training activities. In the case of males we find no effect of the policy on the incidence of employer-sponsored training. On the other hand, Quebec females did experience a very large relative increase in training incidence between 1994 and 2003. However, the magnitude of the estimates is much too large to be plausibly caused by the policy given its modest scale. We show evidence of a significant relative increase in female employment rates in Quebec that could explain part -but probably not all-of the large increase in female employer-sponsored training.

*JEL Code:* J24, J38, M53

*Keywords:* Literacy, Employer training, Payroll tax

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## Executive Summary

In an earlier study<sup>1</sup> we used the International Adult Literacy Survey (IALS) 1994 to study the relationship between various types of literacy measures and employee-training, and showed that they were indeed closely linked. Our aim there was to investigate the determinants of the differences in the incidence and intensity of employee training in Canada and in the United States. Like others, we found an unadjusted employee-training divide between Canada and the United States ranging from 4 to 9 percent depending on the type of training. However, when we corrected for standard covariates such as age, gender, education levels and firm size, and also for immigrant and ESL status, we generally did not find a significant negative effect of being Canadian vs. American in terms of the incidence and intensity of training.

In this paper we first want to pursue the study of the links between the levels and types of literacy (document, prose and quantitative) and employer-sponsored training using the 2003 International Adult Literacy and Life Skills Survey (IALSS) in order to address broadly the same set of questions addressed in Fortin and Parent (2006) with an eye to comparing the results across the two survey years which are nearly ten years apart. For example, has the role of literacy proficiency on the provision of training changed? In our earlier study, we had found two major differences between the U.S and Canada in the way the various literacy skills interact with the provision of training terms. The first one was that the U.S. employees, males in particular, who exhibit more deficiencies in terms of quantitative literacy, were actually more likely to be trained, whereas it was the opposite in Canada. The second major difference between Canada and the United States was the fact that document literacy was never found to really matter for employee training in the United States, for either males or females. In Canada, it is found to be a very important correlate of all forms of training for females. Focusing on Canada only, in this paper we want to further investigate the issue of literacy and how it relates to training across demographic groups. One of the main findings of the analysis done using the 2003 IALLS is that we still see persistent differences in training intensity and incidence across demographic groups in Canada, with French-speaking Canadians still trailing much like they did ten years ago. Even within Quebec, Francophones trail in terms of general as well as job-related training, so the deficit in training does not appear to be merely a Quebec-wide phenomenon. However, our other key result is that there is actually little evidence of a discrepancy in training incidence for Francophones in Quebec in the case of employer-sponsored training. This is in contrast to what we measured in our earlier paper.

Given the significant deficit of Francophones for all other types of training except the employer-sponsored category, this last result is at least suggestive that the "1% of payroll" training policy in Quebec has proved to be binding for many employers. To formally investigate this hypothesis, in the second part of the paper we exploit the relative consistency in the questions pertaining to training to merge both the 1994 IALS and the 2003 IALSS so as to perform an evaluation of the "1% of payroll" training policy implemented in Quebec in the mid 1990's.

Our main result from this attempt at evaluating the Quebec policy is that we find no evidence of any relative increase in employer-sponsored training incidence in Quebec for males. For

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<sup>1</sup> Fortin, Nicole and Daniel Parent (2006) "The Training Divide: A Canada-US Comparison of Employee Training" Working Paper 2006 B-09, HRSDC-IC-SSHRC Skills Research Initiative, Industry Canada.

females, we find strong evidence of a large relative increase in the incidence of employer-sponsored training between 1994 and 2003. However, the enormous magnitude of that relative increase, especially given the fact that the policy intervention was fairly modest in its scope, leads us to conclude that some other unmeasured factor has been the driving force behind the increasing incidence of employer-sponsored training for females in Quebec. We briefly explore what that factor could be. We show that over the same time period female employment rates in Quebec showed a remarkable increase relative to Ontario females. We argue that although this increase in employment rates is likely to have contributed to the increased incidence of female employer-sponsored training in Quebec, it appears unlikely to be the sole explanation. It could be that firms employing females are more careful to label as training the activities they had always performed before, but then one would need to find solid evidence that this relabeling is a female-only phenomenon. Data coming from the employer side would seem to represent a necessary complement to the analysis done here with individual survey data before we can ascertain exactly what has been the key determinant behind the large increase in reported female training.

In conclusion, we view our results for males to be a more accurate reflection of the impact of that policy. In a way, the lack of any measured impact of the policy may not be so surprising. First, it is almost certain that the training questions contained in the IALSS fail to capture all relevant dimensions of employer-sponsored training. In short, what an employee may not consider to be a "training event" might actually be considered as such by an employer. Second, in a related vein, as a reaction to the policy firms may simply have become more careful to record training-related expenses as a consequence of the introduction of the law, thus leaving a small role for additional policy-driven training. Third, forcing firms to "train or pay" might result in some firms deciding to simply pay the tax and avoid the costs of diverting resources toward more training if more training is deemed redundant. Indeed, we provide evidence that some employers do prefer to pay the tax.