



## ***The Role of Literacy in the Wealth of Individuals and Nations***

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### **KEY FINDINGS:**

- The higher the level of initial education a worker has achieved, the more likely the worker is to receive employer-sponsored training, which on average raises productivity and wages. This makes it difficult for less educated workers to remedy their deficiencies and widens the productivity and wage gaps between them and the better educated.
- Employer-sponsored training raises workers' wages and improves their employability more than other forms of training (e.g., general training in the classroom), and these effects endure for many years.
- Better educated and trained workers are less likely to quit, are less likely to be laid off, and experience shorter unemployment spells if they are, all of which improve their long-term earnings.
- The occupations requiring the greatest amounts of formal company-sponsored training are the craft, sales, managerial, and professional/technical occupations. The sectors that increasingly require better trained employees are the fast-growing service industries (e.g., finance, public administration, and professional services).

### **KEY RECOMMENDATIONS:**

- Much better data are needed on training costs to estimate rates of return on training investments. In the absence of good estimates, policy conclusions have to be drawn about whether employers are under- or over-investing in employee training.
- Left to itself, the labor market will reinforce, rather than reduce, the disparities in education and training among workers. These differences are most effectively alleviated by improving the quality of primary and secondary education for all students, thus creating a labor force with the foundation skills that attract employers' retraining investments.

### **INTRODUCTION**

Historically, technological change and the internationalization of markets have (a) reduced the number of jobs in goods-producing industries relative to service industries, (b) increased the relative importance of higher skill occupations within sectors, and (c) broadened skill requirements within occupations. In other words, technological change generates a greater demand for more educated workers and for the continuous retraining of these workers.

Employer-sponsored training is largely invisible to the policy community in the United States because it is badly and infrequently measured. The existing case studies of individual firms are often flawed, collect limited information, or are too specific to be of wide application. Hence, inferences about

corporate training investments are usually drawn from cross-sectional or longitudinal surveys (e.g., the Current Population Survey and the Panel Survey of Income Dynamics). In 1989, six background papers and peer reviews drawing on those sources were commissioned for a conference on employer-sponsored training, sponsored by Teachers College, Columbia University. This report updates the syntheses of those papers and reviews.

### **METHODOLOGY**

This report describes the scope and effects of employer-sponsored training in the United States in order to highlight (a) how economic and technological change interact with employers' responses to the new environment's demands; (b) how employer-sponsored training affects the functional distribution of educational attainment,

productivity, and earnings; and (c) whether the United States underinvests or overinvests in training.

The first part of the report defines employer-sponsored training and points out that differences in the ways American and European firms hire and fire will affect their training investments. (For example, higher turnover in the United States would tend to deter investment in retraining because employers can capture less of the returns.) The second part looks into which employers train their workers, and whom they train. The third part analyzes the interaction between technological change, hiring decisions, employer-sponsored training, wage profiles, and the rates at which workers quit. The fourth part measures the magnitude of employer-sponsored training and points out that because training costs are so poorly measured, it is difficult to determine whether the United States is overinvesting or underinvesting in training. The final part summarizes the findings and argues for targeted skills development rather than a general increase in years of education.

## IMPLICATIONS

Employer-sponsored training reinforces, rather than reduces, the differences in educational attainment among new employees. Those who start their careers lacking basic education and job skills are likely to fall farther and farther behind.

It does not follow, however, that the solution is to increase everyone's level of education. Such a policy is financially unsustainable and unnecessarily blunt. For one thing, years of education and the likelihood of receiving training are not perfectly related. For another, if the possession of certain skills is what matters, regardless of years of education, then intervention should focus on developing those specific skills in the workers who lack them.

Until more accurate estimates of the returns on investment in training are available, it would also be inadvisable to expand such investment. If human capital is subject to diminishing returns, increased training investments beyond a certain level will yield rates of return below those for other forms of investment.

## FURTHER READING

- Lillard, L., & Tan, H. (1986). Private sector training: Who gets it and what are its effects? (R-3331-DOL/RC). Santa Monica, CA: The RAND Corporation.
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