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CALIFORNIA'S EMPLOYMENT TRAINING PANEL-- WHO BENEFITS?

by David Stern

In 1982 California launched a bold new program to provide job training financed by Unemployment Insurance (UI) tax revenues. (See LCR No. 89.) The new Employment Training Fund receives \$55 million a year. A seven-member Employment Training Panel (ETP) distributes the money to businesses for training workers who are currently unemployed and receiving UI benefits, have exhausted UI benefits, or are still working but will be "potentially displaced" and then would receive UI benefits. Businesses select the trainees, and may provide the training themselves or have it done by a school or training agency to their own specifications. The law stipulates that some of the money shall not be paid until after trainees have finished training, been hired, and remained on the job for some probationary period, usually 90 days.

This program could be the beginning of a transformation of UI. Instead of merely providing partial income maintenance to unemployed workers, the UI system now begins to offer training that can help workers escape unemployment or even prevent it before it happens. (About 30 percent of the participants in training sponsored by ETP will be retrained before they are laid off.) Tying the training more tightly to actual jobs purports to make it more efficient than other training programs. *Business Week* recently praised the program under the headline, "There Really Are Jobs After Retraining" (January 28, 1985). ETP appears to benefit workers who want jobs, companies that want trained workers, and training providers that want clients. It seems unlikely that any powerful group will oppose renewal of the program beyond its current expiration date at the end of 1986. That is all the more reason to ask some hard questions.

A Windfall to Big Business--Suppose the Bank of America were remodeling its offices and the state offered to pay for construction materials. Is that an appropriate use of tax money? In reality, the ETP has actually awarded the Bank of America \$5 million to remodel its operations. The bank will use the money to retrain tellers, operations assistants, and clerical workers as computer operators, commercial loan officers, personal banking officers, and computer banking assistants; also to train managers to operate new computerized systems. Even *Business Week* questioned "whether employers should receive government funds to retrain existing employees." But as the Bank of America sees it, refusing the money "wouldn't be protecting our stockholders." If the money is available, it's hard to justify turning it down.

But what justifies making it available? *Business Week* claims that "California's program is leading the way in getting private employers involved in job training." Nonsense. A recent Carnegie study estimated that employers nationwide spend about \$40 billion a year on direct costs of training. If California gets its share of that, then California employers are spending about \$5 billion a year on training--about 100 times what ETP spends. The Bank of America alone had hundreds of trainers on its staff. Why should UI pay them to do what they ordinarily do? Big businesses, with well-staffed training departments, may be getting a windfall from the ETP.

Why Not Give Workers the Initiative?--Projects supported by the ETP currently must be initiated by employers. If an employer is unionized, the law requires union approval before funds are granted. Training agencies can be paid to provide the training only if they can demonstrate that they provide what employers want. ETP treats employers as its clients, giving them effective control.

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It is conceivable that individuals themselves may have ideas about how to protect their own employment security through retraining. Ultimately, employment security in a fast-changing economy requires that retraining be made available to all workers, not only those whose employers take the initiative. Unions have begun to play a more active role in organizing training programs for members displaced by plant closures or technological change. That role could be expanded under ETP, to include training for employed union members, and also for non-members who are unemployed or "potentially displaced."

Is ETP Training Too Specific?--A \$3 million ETP award to Rockwell International in Los Angeles is paying for electrical and structural assemblers and installers to learn to produce space shuttles, satellites, and B-1 bombers. If Rockwell lost some of these defense and aerospace contracts, would these workers be employable elsewhere? If training is too specific, it is not transferable to other employers.

The demand for workers with very specific skills is very limited. If more workers acquire these skills, employers may be able to reduce wages, and may not hire many additional workers. In contrast, the demand for general skills and knowledge is widespread. If more workers learn the rudiments of electronic circuits, for example, employers may be able to reduce wages a little, but they may hire a lot more workers.

The Bottom Line: Increasing Employment--The ETP claims that a number of companies have been induced to locate or expand or continue operation in California because subsidies are available for training needed workers. However, no one knows how often, if ever, training subsidies have been a decisive factor. Whatever the job-creation effect has been, it is offset to some extent by the job-destruction effect of the higher UI tax, which is a tax on labor. What is the bottom line?

It may be tempting to believe that ETP is reducing unemployment because nearly all its trainees find jobs. But if those jobs would have existed without subsidies for training, then the availability of ETP subsidies does not increase total employment or reduce unemployment; it merely redistributes unemployment. This is a possible objection to any training program. Training can increase total employment only by attracting new jobs into the state, preventing existing jobs from leaving, or reducing the amount of time it takes for employers to find people to fill job vacancies. ETP is trying to increase total employment in these ways, but no one yet knows how well it is succeeding.

ETP is breaking new ground, but it should not rest on its shovel yet. To show that using UI as an instrument of active labor market policy really is a good idea, ETP must avoid relying on job placement as its only measure of success. Increasing total employment and preparing workers for constant change are the real rocks to crack.

-- David Stern