ON-THE-JOB TRAINING — A PERMANENT INSTITUTION

the role of training in the National economy

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In the midst of national campaigns to provide jobs for the disadvantaged which had the overtones of a concerted patriotic drive, *Business Week* reported, "Many employers are less worried about the trainees making good in entry jobs than about job-shopping after training." This statement in the issue of January 20, 1968 appeared at a time when business organizations were starving for workers at all levels and in all classifications. Moreover, state and federal governments were appealing to businessmen to help save the country from dreaded riots by providing employment for the dangerously discouraged and dissatisfied unemployables.

If such a reaction was widespread enough to merit such prominent mention in this time of stress, what is the normal attitude toward On-The-Job Training of entry workers? How much effect does such reluctance to teach skills have on the economy during times unmarked by the dual stimulation of assured profit, and contribution to civic welfare? The Council of Economic Advisors indicated that they felt that the resulting shortages of skilled workers could make the difference between prosperity and recession when they took steps to supply industry with some of the necessary skilled workers by advocating the passage and implementation of the Manpower Development and Training Act of 1962.

The process of learning while earning is as old as the idea of working for a living, and the restriction of the privilege is reflected in such ancient institutions as trade guilds, associations of artisans, and even the active limitation of the spread of reading ability. The present trend toward a reluctance and refusal to train workers has another element for the employers who have adopted this attitude would be well served by an excess supply of skilled workers, and it is not to their interest to limit the supply.

SMALL VS. LARGE FIRMS

A thorough search for solid statistical measures of the extent of the opposition to in-plant training revealed that this ground has yet to be properly explored. Some studies in Kalamazoo have shown that medium-sized and smaller companies have special problems in training skilled workers. These stem mainly from their inability to meet the remuneration, fringe benefits, working conditions, and status provided by positions in larger organizations. A very small study of the number of workers quitting for better jobs showed a perfect correlation between the number quitting and the size of the firms. The smaller the company, the more the employees were apt to leave for other jobs. This means that smaller corporations find it less profitable to bear the expense of carrying workers throughout the training periods because there is too much risk that they will leave when they begin to make a return on the training investment.

Larger firms are able to select the elite of the high school graduates who are not college bound. The remainder settle for work with smaller firms hoping to work their way up the ladder in these organizations or qualify for work with larger institutions when they have proven themselves. The subsequent defections of trained workers has contributed to the refusal to train, and to skill shortages which have plagued our industries since the beginning of World War II.

The Manpower Division of the Department of Labor published a report entitled "Training of Workers in American Industry" in 1962. Its statistical sample of more than 8,000 responding business establishments represented findings for 711,000 organizations employing over 37,000,000 workers - more than half the nation's labor force. It was found that only one of every five establishments sponsored some type of formal training. Two quotations pertain to this discussion.

> The proportion of establishments with training programs was directly related to establishment size; the larger the number of employees in an establishment, the greater was the probability that a training program was in operation.

Only 11 percent of the smallest establishments as contrasted with almost all of the largest establishments, sponsored some type of training, as shown below:

Number of employees	Percentage of establishments with training programs
4 - 19	11
20 - 99	25
100 - 499	41
500 - 999	70
1000 - 2499	85
2500 - 4999	90
5000 or more	96

SKILL SHORTAGES

The collection of data concerning skill shortages is still in the experimental stage. This material is gathered from a variety of sources which give direct information and help to indicate trends by indirect reflection of industrial events.

The following are the sources which help to indicate skill shortages. The unfilled job openings registered with federal and state employment services are a direct indication of a part of the total. Indirect clues come from these statistics. Shortages are indicated when unemployment among workers in an industry falls below 3%. Increases in average weekly hours of work in an industry, quit rates, and rising labor costs also indicate prevailing skill shortages.

Since evidence of skill shortages is in such an undeveloped stage, it is obvious that such attitudes as were revealed in the *Business Week* article have not been subjected to any rigid statistical treatment. Therefore a hypothetical situation will serve to illustrate how opposition to training on the part of a significant number of employers may have a disproportionate effect on the economy.

On completion of his training period, the young man has his pay raised to the level of a skilled worker. He takes his newly-acquired credentials to the personnel department of the largest producer in the vicinity. Now this organization, which may even have rejected him when he graduated from high school because of his undistinguished academic record, is willing to reconsider his application because of his demonstrated aptitude and experience. He is hired and quits his old job before he has actually produced a profit for his employer.

TRAIN OR PIRATE?

If this has happened enough times, the employer is about ready to reject the philosophical attitude that such a loss is part of the cost of doing business. He may now institute a search for an experienced worker, and hope to engage in a little piracy on his own. He would use all the avenues at his disposal, newspaper advertising, personal contacts, public and private employment agencies, people in the industry and other sources. What happens when he cannot find anyone who is willing to work at the rate which he can afford to pay?

Disillusioned with training, discouraged in his search, he takes another look at his overall business situation. He weighs the idea of gambling another two years of pay checks on a novice against the possibility of closing down a segment of his plant. First, he can resort to more overtime to maintain production. Then he can discharge some of the unskilled personnel who were supporting the skilled worker. His accountant assures him that his profit will not be reduced. The accountant also calls his attention to the fact that he can now get along with less sales promotion, and may even be able to lay off a salesman without loss of profit. This may cripple the prospects of future expansion, but let expansion and the future take care of themselves, for no one knows what may happen.

ECONOMIC IMPACT

While this business enterprise suffers little or no loss, the economy of the country does lose. The team of workers drops from the taxpaying rolls. They cease to stimulate economic activity in the market to the proper extent, and the gross national product is deprived of their contribution. The Council of Economic Advisors has calculated that the impact of each wage earner on the economy is approximately equal to two or three times his salary.

The volume of production of the specific item is decreased with consequent upward pressure on prices. Most important to the dynamic economy of this country, the amount of sales effort is decreased. It is impossible to overemphasize the significance of sales promotion in this country whose economy is maintained at an unprecedented, almost undreamed pace by artificially stimulated conspicuous waste, and the satisfaction of wants arising from creative selling.

LONG RANGE

To estimate the long-range effect of a persistent resistance to training it is necessary to consider a period which might approach the normal. During the period of economic history which may be compared with the future, the last five years of the decade of the fifties is distinguished by a lack of economic disturbances resulting from war or the aftermath of war. What was going on in the area of industrial training during those comparatively unruffled years?

During the entire period Secretary of Labor Mitchell was constantly delivering speeches concerning the need for more skilled workers, and the drastic need for more training. The *New York Times* of November 24, 1957 quoted him "The abilities of these new workers will not be fully realized if the nation continues to trade the long term values of intelligent, and well-planned, and well-directed training programs for wasteful expediency." In the same speech he predicted that ten million more skilled workers would be needed by 1965. He was joined in his campaign by Ewan Clague, the Commissioner of Labor Statistics, who told a group gathered at an occupational outlook conference that extensive additions should be made to in-plant training programs to increase the numbers of technical workers.

Perhaps the most significant items were contained in a Labor Department report in November of 1956. Many industries were seen to be using an unusual amount of overtime work to meet production demands. Some New York manufacturers of industrial machinery were turning down orders because of the lack of machinists. Such a situation may be well nigh calamitous for the industrial machinery would have led to the production of consumer items, and the ripples from such economic disturbance reverberate much farther than was indicated in the hypothetical case in which only one layer of workers was terminated.

CAPACITY VS. UNEMPLOYMENT

These economic effects may be shown statistically by comparing the Unemployment Index for the years 1955-1959 with the Federal Reserve Boards Percentage of Utilization of Manufacturing Capacity. There is an almost perfect correlation between these figures. It may be argued that cause and effect are reversible, and that unemployment led to unused plant. This reasoning, however, leads to no fruitful results whereas the reverse is consistent with the remarks of Messrs. Mitchell and Clague and with the subsequent actions of the Council of Economic Advisors which eventually led to the passage of the Manpower Development and Training Act of 1962. This Act was originally designed to allow the Federal Government to assist in the training of skilled workers who were sorely needed to motivate the wheels of industry in order to increase employment.

The importance of this comparison is more evident when it is considered that a 4% rate of unemployment is considered the approximate optimum, whereas 6% is the mark which indicates a need for Federal assistance. Conversely when 96% of the work force is drawing pay checks the economy is healthy, whereas a 94% rate indicates sickness. Thus if enough employers decide to let their facilities remain inoperative to cause a mere 2% fluctuation in the employment rate, the economy is in trouble. The chart indicates that this was definitely the case in 1958 when 26% of the nation's industrial plant was inactive, and the unemployment rate rose to the disastrous level of 6.8%. How much understaffing of manufacturers of basic machinery does it take to reduce the level by the vital 2%?

Year	Unemployment Index	Percentage of *Unutilized Manufacturing Capacity
1955	4.4	10
1956	4.1	12
1957	4.3	16
1958	6.8	26
1959	5.5	18

*Unutilized is used here instead of FRB's utilized for comparison with Unemployment Rate.

VALUE OF TRAINING

Perhaps as a result of the progress of the programs under the Manpower Development and Training Act, there is a new appreciation of the value of training. *Business Week* of February 24, 1968 carries a full column advertisement announcing that New York State offers to help manufacturers pay their on-the-job training costs "in ways that cannot be met by federal funds." The *Readers' Digest* of June 1963 tells of three instances in which training helped to create jobs by stimulating business, and such training was just getting started at the beginning of that year.

Up to this time these programs have been set up on a temporary basis with little or no recognition of a permanent need for such stimulation of employment and industry. Since there is a need to help small and medium-sized business overcome the well-justified fear of competitors who lie in wait for their trainees to mature, the wide experience which the government is gaining in these programs should serve as the basis establishing such assistance as a permanent system.

SUPPORT FOR TRAINING COSTS

One amendment to present operations would make this palatable to those who want to reduce federal paternalism. The government should assist businesses in their on-the-job training programs as it does now, namely by paying the instructional costs and helping the trainee to sustain himself and family during the educational period. When the trainee begins to produce a profit, the employer should reimburse the government for the training expenses on a time schedule which would allow the government to recover its expenditure during the period of employment with one firm that has proven to be average. If the newly-skilled worker chooses to leave the original employer, then the payments to the government would be discontinued.

This plan prevents loss for the training employer if the worker leaves him, for, if the costs are properly allocated, the government will have paid for all of the training expenses, and the employer would only have paid for the actual goods and services produced by the trainee during the on-the-job training period. Thus the economy as a whole will gain the benefits of the training. It is true that the government would lose the prospective reimbursement, but the long run gains for the national economy would far outweigh such losses.

Two thoughts come to mind immediately concerning such a plan. First, it is rather obvious that some employers will cooperate to switch skilled workers in order to end the payments. In this case it might be arranged that the second employer might take over the payments. The first is not an insurmountable obstacle, and the second probably would run afoul of some kind of law because it seems akin to a chattel state for the worker.

The answer to this and all other objections is that the administrators of the present programs have shown an amazing degree of adaptability in carrying out their mandates. The programs have been changed from skill suppliers to social welfare programs. Thousands have been trained in hundreds of occupations. The State and Federal Departments have worked with the largest industrial organizations, the largest labor unions, and a great variety of social agencies. They have demonstrated the ability to adapt to all sorts of political, social and economic difficulties and tasks.

The need for training seems to have been demonstrated beyond a reasonable doubt. Reverting to the original quotation from *Business Week*, amplification of the quotation will bring thorough conviction that employers must be helped:

PUSHING HARDER
FOR GHETTO JOBS

The Administration hopes to get employers for 10,000 persons from big city ghettoes by mid-May to ease frictions and aid Democrats. As inducement it offers less paper work.

Many employers are less worried about the trainees making good in entry jobs than about them job-shopping after training. Fragmentary reports from previous training programs have indicated that trainees often begin looking for more money once they get the initial experience and confidence. As far as government is concerned this is fine. But many companies don't agree.

Under the circumstances why would employers want to sign up? Mostly they don't since any program to take on the least qualified — the ghetto jobless — invites frustration, turmoil, and trouble, plus higher costs.

But Labor Department officials cite "increasing civic responsibility" as one reason many companies are considering ghetto hiring, and they say that competition for workers is a recognized factor. Where workers are hard to get, or potentially costly, the government-subsidized programs become more interesting.

Under this proposed plan the government would guarantee that the employer would incur no instructional expense until the trained worker became a source of profit. This would make training more interesting to employers and would increase the number of trainees while decreasing the number of machines allowed to idle because of the resistance to training.

FUTURE FOR TRAINING

The proper functioning of the American economy requires that more workers be trained to perform to the hilt their roles as producers, taxpayers, and stimulators of currency circulation. The deficiency in training may resemble a clot in the bloodstream, but it is more like a maladjustment of gears, cams, wheels, and cogs which rush along to the tune of clashing gears. The machinery continues to operate, but the maladjustments cause gear teeth to chip, and parts to rip. In the economy the broken parts are represented by the unrealized abilities of the unemployed, and underemployed, the business enterprises which suffer and even collapse, and the various segments of the economy which stagger along or break down.

At many crucial stages in American history those forces which lend a modicum of rationality to our system take adjustive action to make the gears mesh and purr optimally, and it is high time that the traditional methods of training for industry be modernized as a result of the recognition of the importance of justifiable — on a profit and loss basis — resistance of small businessmen to the undertaking of the expensive process of training skilled workers. Corrective action is overdue.

RIA STUDIES TRENDS IN PERSONNEL DEPARTMENT ROLE

Many companies are finding it necessary to reassess the role of the Personnel Department in their corporate structures, according to a survey of 2,200 Member Companies just completed by the Research Institute of America. The variety of demands, requirements and responsibilities that make up the package labelled "Personnel" have been growing by leaps and bounds.

The Institute's study provides the first profile of personnel practices in small and medium-sized companies: how they organize and staff their personnel units, how much responsibility they give their personnel executives, what they spend and what they get for their money. From the survey emerged four factors which have a heavy bearing on the character and effectiveness of a Personnel Department.

Predictably, company size is the single biggest factor determining the size and scope of a Personnel Department. The larger the company, the more formal a structure would be needed merely to handle the routine functions of record-keeping, etc. And, quite understandably, in industries where unions have a long history, the existence of a union often has a definite influence on a company's decision to establish a formal Personnel Department, usually with professionals on the staff.

However, two entirely different factors play a subtle part in determining whether the personnel unit becomes a mere record-keeping office or a prime policy-molder. For one thing, the attitudes -- conscious or unconscious — of top management towards the Personnel function, in general, unwittingly shapes the character, size and strength of this function within the company. The title given the head man, his salary, his function in union negotiations, the chain of command determing to whom he reports and the number of full-time people under his command indicate how top management regards the department and its function. Unwritten company policy not only determines what the level of these "symbols" of office will be, but these, in turn, often pre-determine the impact which the personnel division can have within the company. What's more, since yardsticks for assessing performance are rare, management's satisfaction with the department and its work is not always related to the actual effectiveness of the department.

The Institute's survey also indicated a trend of increasing appreciation of the value of employing a professional person in the personnel function. Contrary to the old argument that professionals cost too much, companies have found that the difference in salary is more than made up by the savings resulting from a professional's efficient and economical expertise in fulfilling the personnel function.