

## Who should pay for the training of labour?

Economic growth can be achieved through factors such as increasing the supply of raw materials, updating technology or productivity.

I am going to be concentrating on the technology and productivity aspects. To be able to implement workers to maximise the potential of the technology and be more productive, they must be sufficiently skilled and trained to the standards required, by these factors, who will do this training?

This essay as the title suggests is set to determine who should pay for the training of the labour force.

Should the individual, the employer, or perhaps the government, (through various schemes) fund the future training of employees in the United Kingdom?

Looking at who will be most benefited from this training and wages we may be able to conclude whether it is the employer, the employee or the government who will benefit most.

‘a man educated at the expense of much labour and time... may compare to one of those expensive machines. (Source Stephen W Smith, 1994)

Human Capital may be defined as part of investment expenditure although generally this term is related to technological factors such as machinery... (Source Stephen W Smith, 1994)

If we look at the concept of training then we see that it is an investment to train employees up so that they are able to produce more as they will have more knowledge and skills to do that job.

The Basic Human capital model is by Becker (*‘Human Capital’*, 1975) this model looks at the quality of the labour supply. This model helps to analyse the determination of wage differences in the labour market among other things

Looking at the neoclassical model the rewards to labour are strictly dependant upon its productivity ( $W=MRP$ ) (source Stephen W Smith, 1994 pg 75)

Different production is due to difference in training of otherwise homogenous workers.

Human capital emphasises the importance of education and training in employment.

This can be split into two types of training, this first being general training which would be useful within the firm but also outside of it too, this is training such as education received at schools, colleges and universities. The second type of training is Job specific training which would seem to be useful only within the firm that is doing the training as the skills may only be applied to that job, and no other.

*Enterprise training is more closely tailored to the specific needs of enterprises than is initial education. It is provided in response to immediate occupational skill shortages resulting from technological and organisational restructuring ... (www.oecd.org)*

An important motivation for individuals to invest in training would be that the new skills raise productivity linking them to higher earnings potential.

There are two main alternative theories to the Human Capital model these are Screening and signalling, also the agency theory.

If we look at the screening and signalling theory then for example employers are looking for the better educated workers and are willing to pay a higher price for added skills.

In his signalling model Spence suggests that firms faced with hiring decision may pay more for better educated workers even if education has no effect on productivity...*(source Stephen W Smith, 1994)* Could it be more value efficient for the firms to train the workers themselves?

Potential employees will acquire high levels of education to signal their ability to employers and at the same time these employers are using education as a screen, to increase the hiring of productive workers by only hiring potential employees that have high levels of education.

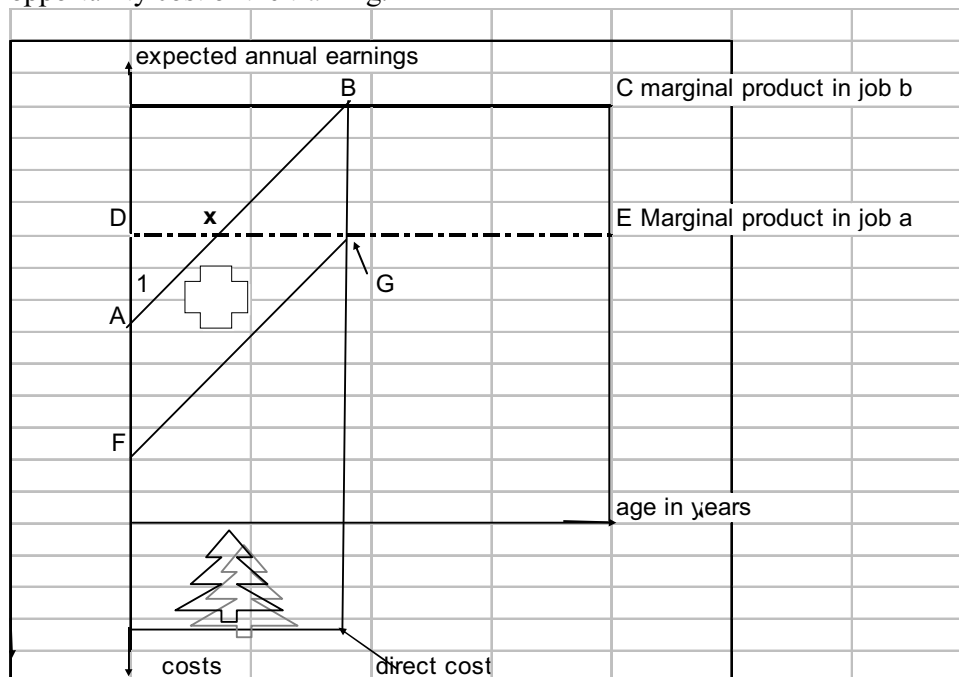
The agency theory suggests to us that the employer is seeking to benefit or punish the employee in accordance their performance possibly production wise.

This theory basically means that the training and education have less effect upon the wage determination than the human capital theory and the signalling and screening theory would suggest. This theory suggests that the more productive workers are, the more benefit (in wages) the firm is likely to give them and for those workers that do not produce as well, or slack the firm may punish by either making them unemployed or not giving bonuses.

It is focused upon giving the firm giving the employees incentives to perform better, whether this can apply to jobs that require a lot of training such as operating complicated programs on a computer, in this case without the training no matter how good the incentive is the job cannot be completed without the relevant training. In this case then employees may try to already achieve the skills required by the job.

The agency theory suggests that wages are paid below the Marginal Revenue product of labour, and the Performance related pay is introduced to the firm this is to ensure that  $W = MRPL$ .

For an individual there is a need to weigh up the costs and benefits of investing into training, these are the split into the direct costs such as tuition fees, books required, etc, and also consider the indirect costs such as the wages foregone in the actual time of training. Would the benefit received in the future be able to compare the benefits that would be foregone in the time of training? distinctively explained by the opportunity cost of the training.



If workers pay the full cost of training then they receive wage equal to FG while training, so their opportunity cost is represented by DAX and their direct costs are FGBA. AB indicates their marginal product during training and BC represents their marginal product after training. If the workers pay the cost of training then, BGEC is their post training returns. If the firm pays for the training then they will pay the workers equal to their opportunity cost represented by DE. They will incur costs equal to the area with the tree, and indirect costs to the area with the cross. The post training benefits enjoyed by the company are BCEG.

*(Source Robert F Elliot 1990)*

Training provided by the current employer has a positive impact on the wage level, whereas training provided by the previous employer has no impact on current wages. Often, wage increases arising from training occur via promotions. ([www.oecd.com](http://www.oecd.com))

One of the main findings of the OECD Growth Project is that human capital is a key engine of economic growth ([www.oecd.com](http://www.oecd.com))

Training provided by the government can be introduced through works councils in the local government, although this would be a costly way to integrate a higher level of training to UK employees.

Although the government already plays a role in training for employees through mediums, including the Small Business Service, Jobcentre Plus and the Skills for Business Network. They are currently working to establish The Skills Alliance and Regional Skills Partnerships.

*(Source [www.bbc.co.uk/news](http://www.bbc.co.uk/news))*

Looking at the way the government intervenes in France,

“France created a compulsory investment scheme in the early 1970s, with a tax rate first of 0.8%, currently of 1.5% of the total wage bill. This is mainly a “train or pay” tax, where a firm need difference between its actual expenditure and the legal minimum. This implies that the bulk of the levy is payable only in the absence of the firm’s own training efforts to invest in training up to the required level, if it does not want to pay the difference between its actual expenditure and the legal minimum.”

*[www.oecd.com](http://www.oecd.com)*

The government may also be able to introduce a levy/grant scheme as one that is in place in Spain, in Spain it is required that 0.7% of the payroll is taxed by the government but companies are able to recuperate it by applying for grants to train their employees.

*Source: [www.oecd.com](http://www.oecd.com)*

Another way for the government is included in the training in the UK is by collective bargaining with trade unions to guarantee a certain right to training leave pay that is undertaken by the trade union members.

Overall looking at the above facts I suggest that employers should pay for the training of their employees.

There are some disadvantages including that fact that older workers may be reluctant to undertake training forced upon them, if they are not going to have better future job opportunities in the future.

Employer provided training has a more positive impact on wage levels then if they were trained previously in another job, or if the employee went to the training them selves, so it benefits the employee to undertake the training the employer provides. One of the main findings of the OECD Growth Project is that human capital is a key engine of economic growth

Productivity levels in training-intensive sectors are higher than in other sectors.

Off-the-job training appears to have a greater impact on productivity than on-the-job training. Neither the type of provider of training nor the duration of programmes has a significant impact on productivity.

([www.oecd.com](http://www.oecd.com)).

We have to realise that it shall differ according to the firm and job in question whether it is to the companies benefit to pay for the training or does the individual benefit more; in general it seems the firm benefits more due to loyal more productive workers.

The economy benefits from having more highly skilled workers, maximising productivity. Also the individual is likely to benefit if a rival firm is willing to take them on for a higher wage because of their training. If the firm pays for the training that this may create employee loyalty and make the employee less likely to move to a competitor firm,

A disadvantage to the employer is that the individual is likely to benefit if a competition firm is willing to take them on for a higher wage because of their training received at the current firm.

There is a need to look at the time value of money, which shows us that depending on the rate of interest what would be the worth of the money received today, both the firm and the individual must decide whether it is worth their time value. If an employer won't train an employee as perhaps rival firms are doing then that employee may leave that firm to work for the rival firm.

But overall training will benefit both the employee and firm, and help growth in the economy.

Training produce's a pool of skilled workers, which may be more attractive to employers looking for new employees. As if these employees are made unemployed they are more likely to find a job at a higher wage then of those unemployed without the previous training.

## **Bibliography**

Becker (1975) *Human capital: a theoretical and empirical analysis* , second edition  
National bureau for economic research, New York

Robert F Elliot (1990) *Labour Economics a comparative text*, McGRAW-HILL book  
company Europe.

Stephen W Smith, (1994) *Labour Economics*, Routledge, London

<http://.news.bbc.co.uk> 20<sup>th</sup> November 2003

[www.oecd.org](http://www.oecd.org) 15<sup>th</sup> November 2003