

THE UNIVERSITY OF CHICAGO

Graduate

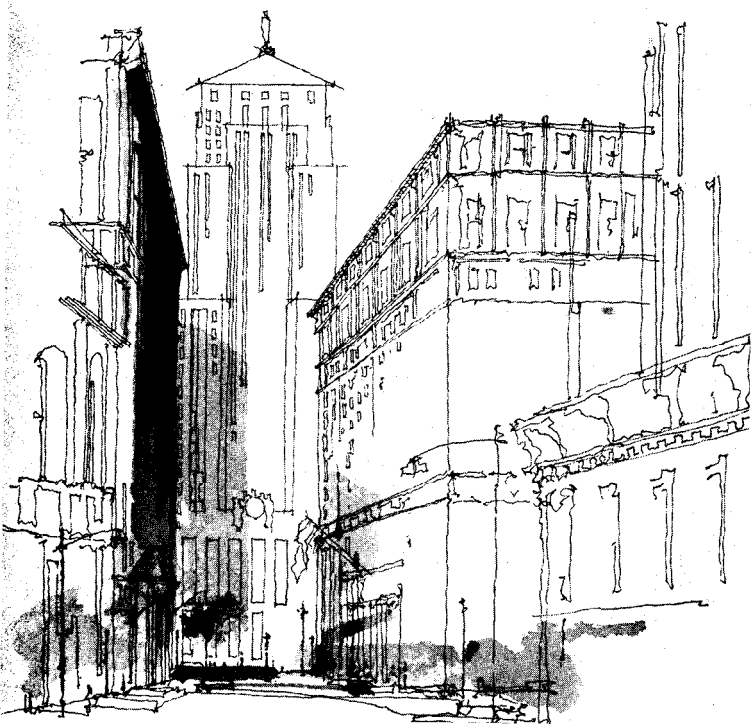
school

of Business

Selected Papers. No. 4

Retraining
the
Unemployed

BY ARNOLD R. WEBER



ARNOLD R. WEBER

of Industrial Relations and Director of the Doctoral Program at the Graduate School of Business of the University of Chicago. He received his Ph.D. from the Massachusetts Institute of Technology and served as a faculty member at that school before coming to the University of Chicago.

Mr. Weber is a member of the Labor Panel of the American Arbitration Association and of the Advisory Group on Automation of the National Institute of Labor Education. He was Director of the McKinsey Foundation Seminar on Collective Bargaining in 1960, and is a consultant to the Armour Automation Fund Committee. He is the author of various articles on collective bargaining, trade unionism, and adjustments to technological change.

Recently, Mr. Weber has been administering a retraining program for displaced workers in Fort Worth, Texas, under the auspices of the Armour Automation Committee. This essay grows out of the Fort Worth experience and other research he is conducting in the general area of retraining.

Retraining the Unemployed

In the next few years that time worn axiom about teaching old dogs new tricks will be subjected to one of its severest tests. With the passage of the Manpower Development and Training Act of 1962, the federal government has made a major commitment to the task of retraining workers to meet the labor force requirements of a rapidly changing economy. The Manpower Act augments previous government programs in the area of retraining and presages additional ventures of a similar nature.

This burgeoning interest in retraining reflects a serious concern with the persistence of relatively high levels of unemployment, even during the prosperity phase of the business cycle. In only one month during the last five years has the seasonally adjusted employment rate fallen below 5 per cent of the labor force: since July, 1960, the level of joblessness has been 5.3 per cent or more.

The picture is equally uninspiring when attention is focused on the long term or "hard core" unemployment. Twenty-one months aft-

er the trough of the 1960-61 recession had been reached, over 900,000 workers were without jobs for fifteen weeks or more. Over one-half of these had been idle for at least twenty-seven weeks. In the first nine months of 1962, the long-term unemployed comprised between 24 per cent and 33 per cent of all jobless workers. Moreover, in recent years each complete turn of the business cycle has been associated with an increase in hard core unemployment.

A substantial part of this increase in persistent unemployment is attributed to technological change and what economists decorously refer to as "structural" factors. New technology has rendered obsolete many traditional jobs and has had a particularly heavy impact on unskilled and semi-skilled workers. Competition from abroad and the development of new products have undermined the market position of established domestic industries such as coal and textiles; and geographical shifts in population have induced the dispersion of manufacturing units from the historical industrial centers to other parts of the country.

Paradoxically, the same forces that have left a residue of long term unemployment have also created pockets of labor shortage. Firms moving to new areas often find that the local labor market cannot provide a sufficient number of workers qualified in the skills necessary for efficient operations. Unfilled openings exist in such service trades as automotive repair. The Department of Labor has cited unsatisfied demands for workers in gyrodynamics, data telemetry, human factor science, and other exotic callings. In addition, experts foresee a sharp upgrading of the skill requirements of the nation's labor force in the next ten years with resultant shortages of varying durations in many occupations.

Against this background of present and future labor shortages in the midst of chronic unemployment, retraining has been advocated as

a logical remedial device: clearly, so the argument goes, both problems might be solved by equipping unemployed workers for actual or anticipated labor market demands.

In fact, federal support for occupational training may be traced to the Smith-Hughes Act, which was passed in 1917 to promote vocational education in "agriculture and the trades and industries." Under this legislation, cooperating states are provided funds on a matching basis to train teachers of vocational education and to pay teachers' salaries.

Current programs for retraining go beyond these secondary activities. Expanded support for retraining was first linked to efforts to ameliorate the plight of depressed areas which, by definition, have been the loci of substantial hard core unemployment. The Area Redevelopment Act of 1961 specifies that the federal government may assist such communities to retrain unemployed workers as part of a comprehensive plan for local economic development. Each person enrolled in an approved program receives a training allowance, pegged to the level of unemployment benefits, for a maximum period of sixteen weeks. The Act provides for annual appropriations of \$14.5 million for retraining activities and is scheduled to expire in 1965. By July, 1962, approximately 6,500 unemployed (or underemployed) workers had enrolled in ARA training programs in thirty-one states from Alaska to Florida.

The enactment of the Manpower Development Bill in March, 1962, signaled the most ambitious government venture in the field of retraining. Although Congress was clearly responding to the unhappy picture of the current unemployment situation, the Act embraces a broader vision of comprehensive manpower planning. Under its terms, the Secretary of Labor is directed to study the consequences for the labor force of immediate and long run economic change. With this information, an "early

warning system" may be developed so that the nation might achieve technological progress "while avoiding or minimizing individual hardship and widespread unemployment. . . ."

To reach this goal, federal agencies are authorized to initiate a variety of occupational training programs. Unemployed workers receive priority in referral, but other persons with a need for the acquisition of new skills are also eligible. On-the-job training, as well as formal classroom instruction, is encouraged. Subsistence benefits can be paid for a maximum of fifty-two weeks; the amount of the allowance again is related to the level of state unemployment benefits. Congressional fears that retraining programs might provide a haven for youthful malingerers lead to the inclusion of a provision specifying that full allowances can be paid only to unemployed heads of families who have been employed previously for at least three years. Reduced benefits are available for trainees between nineteen and twenty-two years of age.

Within this framework, the retrainee will be given the close attention usually reserved for bonus rookies in spring training camp. He will be tested and counseled by agencies of the Department of Labor to determine his qualifications and aptitudes. Once accepted for training, he will be referred to programs set up or approved by the Department of Health, Education, and Welfare in conjunction with the vocational education unit of his state. Upon completion of the program, intensive efforts will be made to place the trainee in a suitable job.

To finance these activities and the payment of training allowances, Congress was asked to allocate \$435 million for the period ending June 30, 1965. Beginning in 1964, the individual states will assume 50 per cent of the cost of the training benefits and the entire expense of running specific programs.

Additional federal expenditures for retraining are likely to be forthcoming in the immediate future. As a *quid pro quo* for organized labor's support of the Kennedy administration's program, the Trade Expansion Act of 1962 includes a provision for retraining workers who are "adversely affected" by tariff reductions. Again, the cost of instruction and a weekly subsistence allowance for the retrainees will be borne by the government. One estimate indicates that as many as 100,000 workers may be eligible for retraining under this program in the next three years.

The Scope of Retraining

Altogether, at least a half billion dollars will be expended for public retraining in the next three years. While some officials view this development as a triumph of legislative wisdom, other observers are skeptical, if not downright critical, of the entire undertaking. As a general text, these criticisms question the investment of such extensive resources in an economic weapon of unproven effectiveness.

Retraining, it is frequently contended, cannot create jobs-unless you count the expected boom in the employment of specialists in vocational education. Essentially, this judgment is correct; retraining programs are not likely to increase the total number of job opportunities in the economy. Large scale, persistent unemployment ultimately can only be dissipated by maintaining the appropriate levels of aggregate demand and production, a goal best attained through government monetary and fiscal policies. Indeed, the experience with retraining in Sweden and France indicates that training activities are most effective in an economic climate of full employment.

The possible application of government sponsored programs is further limited by the scope of private efforts in this area. Powerful considerations of self-interest have driven management, unions, and individual workers to

engage in a continual process of upgrading the skills of the labor force. *Fortune* reports that General Motors retrains about 7,200 workers a year for jobs with more complex skills than those presently demanded. IBM has initiated 100,000 persons annually into the mysteries of computer operation to provide the personnel needed to man the machines it sells and leases. Among the unions, the Plumbers, Electrical Workers and Machinists have instituted "post graduate" courses for members whose earlier craft training is no longer adequate. Retraining clauses are being included in collective bargaining agreements with increasing frequency. Beyond these institutional endeavors, individual investment in acquiring new skills amounts to billions of dollars each year.

These considerations do not mean that government programs will be futile or redundant. Rather they indicate where public support might or might not be profitably directed.

First, retraining programs should not attempt to do what probably will be done more effectively by private parties in their own self interest. Public expenditures to train programmers for computer operations or automation maintenance men for the automobile companies will merely shift the cost of these vocational improvements from the corporation to the taxpayer. This implies that federal programs may have the greatest payoff when aimed at the needs of smaller scale enterprises without the resources to initiate their own training activities, and individual workers who do not have ready access to institutional facilities.

Second, it is not feasible or desirable to expect the government to prepare unemployed workers for the sophisticated skill requirements of the future. Projections of the demand for labor in particular occupations are usually highly speculative. On the other hand, market forces have generally done a good job in facilitating long run adjustments to the changing labor requirements of the economy. If federal

aid is advisable, such assistance would best be devoted to improving the nation's basic educational system. Government retraining programs hold the greatest promise when directed to present job vacancies created by shifts in the industrial and geographical composition of the demand for labor. Some upgrading might be involved, but it would more or less build upon the existing capacities and background of the worker. Once the worker acquires a new occupational base he can add to his skills through on-the-job experience or supplementary training.

Most of the projects undertaken to date fall into this pattern. Under the depressed areas act and supplementary state programs, priority for retraining has been given to unemployed persons with limited opportunities or resources for self-improvement. Courses in specific occupations have been set up with an eye 'toward current needs. The occupations generally are applicable to small or moderate sized firms, many of which have been attracted to the community as part of a plan for economic rejuvenation. In the first year of the ARA program, courses were authorized for training 1,500 machine tool operators, 600 automobile mechanics, 2,000 clerical and sales workers, 360 electronic mechanics, and other workers for more specialized occupations.

It is too early to assess the experience under the Manpower Act, but the proviso that training programs should be initiated for occupations for which there is a reasonable expectation of employment suggests that a similar approach will be followed. In addition, the planning of particular retraining projects should be improved by the intensive labor market surveys underwritten by the act.

One other condition must be met to maximize the effectiveness of federal retraining programs. Because such efforts seek to mitigate the consequences of structural changes in the distribution of employment opportunities,

ideally, they should contain some provision for supporting the voluntary geographical relocation of retrainees. Without the encouragement of labor mobility, any retraining activity aimed at the unemployed operates under severe limitations; the trick is to bring coal miners to new jobs rather than coal to West Virginia. In this respect both the Area Redevelopment and Manpower Acts are deficient. The original draft of the Manpower Act offered moderate relocation allowances for retrainees. Few Congressmen look kindly on legislation that may depopulate their districts, however, and this provision was stricken before the bill became law.

The importance of labor mobility to the success of retraining is revealed by the initial results of the ARA program. Of the first 2,300 persons to complete training, 61 per cent were placed in jobs. Ordinarily, this ratio of placements to total trainees would be the basis for mild rejoicing on the part of vocational educators. The results, however, do not justify self-congratulations. Many of the training projects were closely coordinated with the occupational requirements of new firms attracted to the community as part of a redevelopment program and were expected to achieve a high degree of success. At this point, retraining had merely served to increase the versatility of four out of every ten unemployed persons. Doubtless, the proportion of successful placements could be raised if retraining was linked to support for expanded labor mobility.

Who Wants To Be Retrained?

Although critics may concede that public support for retraining can serve a useful purpose, it is often asserted that the unemployed don't want to be retrained. Considerable hand-wringing on this count, much of it unjustified, was provoked by the highly publicized experience of the Armour Automation

Committee. Following the shutdown of its plant in Oklahoma City, the Armour company, in cooperation with two unions, offered 431 of the displaced workers the opportunity to participate in a special retraining project. Only 170 employees responded to the invitation.

Other cases have reinforced the skepticism bred by this incident. In 1960, General Electric established a "job opportunity" plan which, among other things, offered employees facing permanent layoff retraining with almost full pay or a generous, lump sum separation allowance. Through August, 1961, about 1,700 employees came under the terms of the plan and nearly all had elected to take the separation allowance rather than the retraining.

Under what circumstances, short of compulsion, are unemployed workers likely to take part in training activities? Doubtless, psychological variables are important, but there is insufficient evidence to draw any firm conclusions concerning these factors. It is possible, though, to enumerate certain objective considerations that appear to promote participation in training programs.

First, jobless workers are likely to enter retraining when the personal costs of the instruction are minimized. These costs consist of two elements; the costs of the program per se, and any foregone income during the period of training. In the Armour case, the Automation Committee paid the first \$60 of the cost of the training course, plus one-half of the balance, so long as the total amount paid did not exceed \$150. In some instances, this meant that the unemployed worker had to assume a substantial financial burden.

The GE experience illustrates the other side of the concept of cost. Here, workers were given the choice of retraining or a liberal separation allowance; choosing retraining meant the sacrifice of current income by workers

who had not yet felt the pinch of prolonged unemployment. A related consideration was at work in the Armour situation. Many of the former employees who refused retraining had found some kind of job, albeit at sharply reduced wages. In addition, employees engaged in retraining during daytime hours ran the risk of losing their unemployment compensation because they might not be considered "available for work" under the law. To date, only a few states expressly authorize the payment of benefits to unemployed persons undertaking full time training on a private basis.

Government programs generally minimize the cost of retraining to the jobless worker. The entire expense of specific courses is borne by federal and state agencies. In addition, qualified persons undergoing retraining receive allowances related to unemployment benefits so that there will be no monetary advantage in refusing the opportunity for instruction. If any problem exists it stems from the fact that unemployment benefits, and therefore training allowances, are often not high enough to avert economic hardship for the recipient.

Second, regardless of cost, there is persuasive evidence that attitudes toward retraining are vitally affected by the prospects for employment at the conclusion of the program. The more definite the promise of immediate employment, the more likely it is that workers will be induced to enroll in particular occupational courses. This judgment will surprise only the most altruistic. In a free labor market, the process of allocation inevitably is guided by perceptions of self-interest.

Thus, in Carbondale, Illinois several hundred workers, including former coal miners and sub-marginal farmers, were attracted to an ARA retraining project by the expectation of employment in a new cellophane tape plant. In Winchendon, Massachusetts, 250

persons entered into a day and night training regimen to acquire the skills needed by a firm making parts for jet engines. And veteran railway clerks, the epitome of vocational stability, have exercised their seniority rights to gain priority for training at IBM schools so that they might be employed at new data processing centers.

Both federal programs call for active efforts by state employment services to relate retraining activities to available job opportunities through preliminary surveys and subsequent placement campaigns. The endorsement of on-the-job training also helps to establish a close connection between specific programs and prospective jobs. Nevertheless, the role of the government employment service must be expanded if jobless workers are to be induced to undergo training by the expectation of employment.

In many respects, this means a basic change in the attitude of employers toward the employment service. Traditionally, employers have been reluctant to use this agency except in time of acute labor shortage or to recruit casual labor. This shortcoming limited the effectiveness of the Armour experiment. To enhance the chances for the success of public retraining efforts, the employment service will have to win the confidence of management in prior planning as well as placement. Moreover, vigorous measures must be taken by the employment service to break down barriers against the hiring of older workers and members of minority groups, among whom the incidence of chronic unemployment is particularly high.

Teaching New Skills

Getting the jobless worker into the classroom may be a minor difficulty compared to the problem of teaching him new occupational skills. Pessimism about the capacity of the jobless for retraining stems, in part, from an

appraisal of the characteristics of the long term unemployed. Approximately 40 per cent of those unemployed for fifteen weeks or more are over 45 years of age; 38 per cent had last worked as laborers or semi-skilled operatives; and an estimated 75 per cent had not finished high school. The relative importance of older, less skilled, and poorly educated workers among the ranks of the chronic unemployed does not encourage optimism about the success of retraining.

The results of recent training programs seem to bear out this gloomy view. In the Armour case, only 60 out of 170 applicants were judged to show real promise of benefit from retraining. Preliminary reports of ABA projects in Rhode Island and West Virginia indicate that about half of the workers seeking retraining failed the qualifying test. In Bridgeport, Connecticut, the large majority of candidates for a state sponsored course in machine shop skills were disqualified in the initial screening.

In view of the characteristics of the long term unemployed and of the maximum duration for which subsistence benefits can be paid, training for highly technical occupations is not a realistic goal. This does not mean, however, that jobless workers cannot be taught useful skills. There is some indication that the high disqualification rate noted above reflects not so much the debilities of the applicants as a narrow concept of retraining and excessively restrictive standards of selection.

The Armour experience is a case in point. Here, the Oklahoma Employment Service inferred that over 100 persons who had been usefully employed by the company for up to twenty years could not benefit from vocational instruction and advised them to seek work as laborers. Further doubts about the standards for qualification are posed by specification of the particular training courses that were instituted. These included typing and office prac-

tice, furniture upholstery, welding, meat-cutting, and cake decorating—none of which seem to demand exacting prerequisites.

The same stringent approach to qualification for retraining was adhered to in the Bridgeport project, carried out by the Connecticut Department of Labor. Of 2,143 prospective candidates for retraining, 143 were ultimately admitted to the program. Many of the candidates declined the opportunity because of lack of interest, but over 750 were rejected on the basis of tests and personal interviews. At last report, 57 of the trainees had completed the five-week course, and 53 were employed by firms in the local area. This project has been pronounced a success by government observers.

The initial experience under the ARA does not indicate that the administrators of the program have adopted a more permissive approach to the selection of applicants for training. Notwithstanding published statements that about one-third of the ARA retrainees are 35 years old and over, an examination of the detailed data shows that only 10.7 per cent of the enrollees are over 44 years of age. At the same time, 15.7 per cent of the retrainees are less than 20 years old. Nor has the ARA program allocated a large amount of resources to upgrading the qualifications of unemployed workers with limited formal education. That is, approximately 87 per cent of those engaged in retraining have at least a ninth grade education while only 13 per cent came from the group that went to school less than nine years. An analysis of the characteristics of the first 4,500 trainees under the Manpower Act shows an almost identical pattern of selection of the younger, better educated workers.

In many instances, disqualification for training reflects the applicant's deficiencies in the fundamental tools of literacy. These shortcomings do not necessarily constitute an insurmountable obstacle to effective retraining.

On one occasion, duPont sought to retrain displaced rayon workers for complex jobs as chemical operators at a new dam-on-producing plant. Many of the workers were over forty and an aptitude test revealed that a majority could not add a series of two-digit numbers. To remedy this deficiency, the company instituted a special educational course to bring the employees up to a minimal competence in reading and arithmetic. Once this was done, the workers were instructed in the specific skills necessary for the operation of the dacron plant. The entire program took less than a year, and management reported that nearly all the employees successfully qualified for jobs in the new unit. Experience during World War II also revealed that many persons with meager educational backgrounds could be prepared for productive employment.

Whether or not many unemployed workers can be taught new skills will depend to a significant degree upon the concept of occupational training and the standards for acceptance adopted by the program administrators. Primary weight should be given to the worker's general capacity for learning rather than his present ability to transform fractions into decimals. This does not imply that retraining programs should be a vehicle for affording the middle aged a grammar school education. The approach used, however, should be broad enough that instruction in the basic components of literacy necessary for the acquisition of particular vocational skills comes within the scope of retraining. Unless this is done, more "successful" programs may be achieved at the expense of those jobless workers who need help the most.

The Impact of Retraining Programs

The ultimate criticism of government retraining activities focuses on the aggregate impact of the program. Actually, two points are at issue. First, even if it is possible to give

jobless workers a new vocational competence, the retrainees may be equipped with superficial or ephemeral skills so they will revert to their former plight with the next economic downturn or surge of technical change. Undeniably, this danger exists and it is magnified by the pressure to relate retraining to available job opportunities. Thus, retrainees in Carbondale, Illinois are learning to mix adhesives, run coating machines and carry out other operations involved in the manufacture of cellophane tape. In the event that the firm is unequal to the adversities of competition and is forced to lay off employees, it is unlikely that the displaced workers will find a wide market for these skills. Similarly, another ARA project involves training unskilled farm hands in New Jersey in the operation of equipment used in fruit and vegetable farming. Such a program can hardly be expected to prepare workers for the demands of automation.

The fear that government sponsored retraining will become an ineffectual palliative should not obscure its potential contributions. For the ex-coal miner in Illinois and the field hand in New Jersey the training in any industrial occupation or the rudiments of farm machinery is a notable achievement. Through these efforts, he is at least initiated into some of the complexities-and opportunities-of modern industrial society. Moreover, beyond these extreme cases, many of the ARA projects have given attention to skills that have a good chance of surviving the next wave of economic change-machine tool operation, typing and stenography, electronics and automotive repair.

The second element of concern is the numerical adequacy of the federal program. Under the Manpower Development Act it is optimistically expected that 570,000 workers will be trained by July, 1965. Another 20,000 persons will receive instruction as part of ARA

projects. Together, these programs will accommodate only a limited proportion of the large number of workers who are likely to feel the repercussions of economic change in the foreseeable future.

An obvious response to this criticism is to increase substantially the appropriations allocated to retraining. The debate preceding the passage of the Manpower Act makes it equally obvious that Congress would not be eager to underwrite a massive retraining effort. This reluctance may be sharpened by preliminary reports of the costs of ARA training programs that have already been completed. The average cost for each trainee was \$559, including expenses for educational facilities, subsistence allowances, and employment office services. These projects provided training benefits for a maximum duration of only sixteen weeks compared to the fifty-two week limit permitted by the Manpower Act.

In assessing the probable impact of the new legislation, the total number of workers affected should not be the only yardstick. The long term unemployed does not consist of a mass of resigned victims of economic misfortune. Some workers have the vocational background and resources to adapt to the new structure of employment opportunities and autonomously move out of the ranks of the chronic unemployed. Others suffer from physical or mental disabilities and probably would not benefit from federal aid. Thus public support for retraining may have an important effect if it is directed to the group of jobless persons who have the capacity for learning new skills, but who lack the resources and experience necessary to strike out on their own. By concentrating on this component of the unemployed, government activities can have an incremental effect greater than simple arithmetic totals would indicate.

The federal retraining program got under way in earnest in September, 1962 when the

first referrals were made under the terms of the Manpower Act. At this point, there can be few illusions that this approach will be a cure-all for the problem of unemployment. Retraining is a limited remedy that works best as part of a general effort to promote economic growth and well functioning labor markets. Moreover, many obstacles and preconceptions must be overcome before even the modest potential of retraining can be realized. It is apparent that in the next three years, the retrainees will not be the only ones to learn something from this new departure in national economic policy.

GRADUATE SCHOOL OF BUSINESS
OFFICERS OF ADMINISTRATION

GEORGE P. SHULTZ

Dean

WALTER D. FACKLER

Associate Dean

ROBERT L. FARWELL

Associate Dean for Planning

ROBERT K. BURNS

*Associate Dean and Director of
The Industrial Relations Center*

HAROLD R. METCALF

Dean of Students

DAVID M. G. HUNTINGTON

Director of Placement