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Canada-U.S. Aspects of People as a Renewable Resource in the World Competitive Context: Public and Private Job Training and Retraining

*T. Leslie Horswill**

Regardless of ideological preference, economic progress in both Canada and the United States has always been facilitated and disciplined by the caliber of partnerships between our public and private sectors. In reviewing the forces for change already imbedded in our two economies and labor markets, broad agreement is emerging that workplace training will, to an unprecedented extent for North America at least, be a critical test of that public and private sector cooperation.

It is not my intention to review in these remarks the programs of Ontario's Ministry of Skills Development or, indeed, to recommend a particular bureaucratic structure for human resource development. However, I believe my assignment this afternoon is central to my Ministry's mandate.

To a significant extent, my Ministry occupies new ground in the evolution of government's role in the mixed economy. Our organizing principle is to assist, through skills formation, the transition of individuals in the labor market to ensure that the benefits of wealth creation are generated equitably, and to contribute to the overall strength of our industries by ensuring a timely supply of skills in the workplace, and thereby, enhancing broader economic competitiveness.

The parameters of this mandate have been set explicitly within the marketplace. Our work complements, and our success largely depends upon, those public bodies which deliver social services and institutional learning. However, our primary focus is not the "student" or the "teacher" and how people learn, but the "worker" and the "employer," and his or her wants and needs.

Before reviewing our present circumstances and outlining a few ideas on how we might respond, it is important to acknowledge that North Americans talking of managing human resources in terms of "world competitiveness" is a relatively new change and is not cast immutably in the rules of the game. I do not just say this as a representative of a nation uninitiated in matters of world trade. Until quite recently, Canada's exposure to external markets, in terms of its contribution to our gross national product, was about double that of the United States. Further, Canada and Ontario continue to choose to compete and adapt ac-

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ording to the imperatives of more open markets. We still feel this option best serves our underlying aspiration.

Nevertheless, unlike scientific excellence, it is not always clear that the quality of life of the average worker is best served by the ruthless and unsentimental embrace of innovation and ideas from beyond our shores. In addition, unlike all the other factors of production that markets and enterprises shape and employ, human resources are fully enfranchised to influence the rules of the game. Thus, labor market policy-making is a consensual exercise and hardly a tame instrument of rational market theory.

Technology, the inquiring mind and probably, the vision of a more sane and less painful world support the case for full partnership in the emerging global economy. In addition, it is widely understood that to be a profitable arrangement, we must learn to live and work with an escalating pace of change. Yet, at the same time, healthy skepticism and unhealthy interests, in the politics of our two relatively old, federal democracies do carry the countervailing potential for retrenchment.

Thus, in labor markets, the competitive challenge must be defined in terms that sustain a fragile, but truly North American social consensus. We accept a high degree of change, look to the future and are attracted by new ways of doing things. But, we are not compulsively on the move; our adaptive or liberal qualities have been nurtured and sustained by experience. We have come to expect that the price of change is usually worth paying, and that adaptiveness is an investment not just in survival, as the advertisement goes, but in future prosperity.

Clearly, for workers as well as economists, the only true and worthwhile measure of competitiveness in open markets is rising real incomes. While no comprehensive response is in place, there is broad agreement that North America's competitive advantage no longer hinges on high volume or mass production industries, but on smaller scale production of specialized, skill intensive products. For the private sector, success depends on the swift, efficient application of technological advances by an increasingly skilled and flexible workforce. In turn, the maintenance of a competitive social consensus depends on the shared belief that individuals will continue to have access to the means necessary to earn a fair share of the material rewards of success.

For both Canada and the United States, embracing global change cannot mean simply letting things take their course. Positive adjustment of economic growth which is sustainable — and which is won without exaggerating the extremes in our society — calls for reform of our social and economic infrastructure.

Bearing in mind the strengths, as well as the constraints of our two societies, a viable competitive strategy would have at its center innovative education and training initiatives by both the public and private sectors. With no reference to competitiveness, but borne principally of our demo-

cratic ideals and readily available tax dollars, North Americans have easily outspent the rest of the world on education. Statistics now confirm what parents and taxpayers long believed: Education should be broadly available because it is key to personal income growth, as well as individual fulfillment.

This social investment of approximately \$30 billion in Canada and \$300 billion in the United States is now central to our capacity to compete. But, we should recognize that the present education and training infrastructures of our two nations were put in place for a labor market that did not need to deal broadly with the complex and, often, painful implications of workers as "renewable resources"; a market that essentially got almost all it wanted from our learning institutions.

For most of the post-war period, North America's labor force grew much faster than that of its competitors. Indeed, Ontario's growth rate for new entrants usually outstripped most of Western Europe by five to ten times. Within this growth environment, our human resource investments reflected a generous egalitarian approach to education and the modest skill demands of an industrial, mass production workplace.

We put learning and work in distinct places. Public institutions were charged with providing a broad foundation of education to all youth, ideally to the completion of high school. Young people were encouraged to get their education behind them before entering the workplace. Public investment at the post-secondary level stayed within institutions, and continuing education was overwhelmingly for the renewal of their own graduates. Basically, the private sector was not expected to play an active role in the formal development of human resources. A good firm was a fair employer, not a competent trainer. The baby boom, immigration, and two years of service in the armed forces permitted employers to recruit workers with ready-made skills.

The system worked, in large measure, because the public sector's investment in individuals complemented the needs of a young, expansive labor market. According to recent international comparisons, Canadian and American human resource investments continue to reflect what were unique circumstances during the post-war era. Public expenditures on education as a proportion of GNP, at 7.7% and 6.9% respectively, kept us ahead of most other major industrial powers.

But times have changed. Demographics, technology and international trading relationships have finally closed the post-war labor market era. For both our economies, the 1990s will demand a qualitative change in how workers and employers relate to each other and how they must look to government as an active partner.

First, even with historically high immigration levels, no surprises on emigration flows, and continuing gains in the labor force participation rate of women, the growth rate of the total Canada-U.S. labor force will slow down by approximately one-half, to less than 2% annually. For the

Ontario region, we expect a dramatic shift from 3.2% annually in the 1970s to approximately 1.5% annually for this decade.

Second, the most striking and, probably, the most important change for employers and those who manage our human resource investments is that the contribution to the labor force of new entrants will decline by nearly 25% by mid-decade. That will not be the case with our newly industrialized competitors. This trend was only delayed in the 1980s by a significant increase in youth participation rates, which logically cannot keep rising.

Third, providing a major opportunity for *per capita* income gains, twenty-five to forty-four year olds will increase its labor force share to more than 50%. While the full magnitude of the older worker and retirement challenges will not be upon us until the next century, this aging workforce is already aggravating escalating skill shortages. Indeed, I have read that the average age of an American tool and die maker is about fifty years old, and that the current shortage of 60,000 skilled machinists in the United States is growing at a rate of 22,000 per year. At the same time, the American apprenticeship system is generating only 2,800 skilled machinists a year to replace retiring journeymen.

For both countries, skill shortages are now pervasive and it is broadly recognized as a structural problem requiring a change in emphasis — not just in speed — of economic growth. For instance, while we are leaders in spending on education, our expenditures on “active” adjustment measures to assist adult workers in retraining and acquiring new workplace skills are trivial compared to other major industrial powers. Canada and the United States ranked next to last and last respectively.

Obviously, new scientific, economic, and technological forces that will be placed on our new labor force do not complement its less youthful nature. If we do not effectively choose to isolate ourselves from the pace of change beyond our borders, we will have to reassert our highly envied innovative qualities, while employing a more mature labor force.

Before putting a few specific propositions before you, I want to draw one broad assertion from what I have said thus far: The social consent to compete and the economic capacity to succeed requires equipping a dramatically changed labor force with new skills. What are some of the strategic shifts this entails in the role of government in this challenge?

YOUTH AND THE SCHOOL-TO-WORK TRANSITION

While consumer and demographic analysts may be tempted to chase the greying baby boom, we still must do a better job of educating and training our young. As we said so recently about crude oil: As the supply declines, we had better not waste what we have. It is estimated, by the American Society for Training and Development, that two-thirds of jobs in the 1990s will require some level of formal training beyond the

high-school level. With continuing high illiteracy rates, this calls for a new emphasis on basic education, a better focus on the young person who is at risk of dropping out, and a second chance for the dropout.

Rigorous curricula, concerned parents and taxpayers and better retention rates in high schools and post-secondary institutions, as well, will go a long way to compensate for the decline in skilled labor market entrants. However, for the great majority of young people who do not go on to post-secondary education, it is time North America started to take seriously workplace-based apprenticeship options. Presently, in Ontario, only one in twenty young people who do not go on to post-secondary education have access to this system.

APPRENTICESHIP AND THE WORKER-STUDENT

As well as a tangible bottleneck on economic growth, the relative atrophy of industrial apprenticeships in North America and the sharp decline of the U.S. military as an industrial trainer carries a long-term social price.

What is at stake is not an antiquated remnant from the "old country," but one of the means to access the material rewards of success. Apprenticeships in North America complement full-time, post-secondary learning, and do not compromise the goal of universal high school matriculation. For the adult worker, it is fundamentally, the other side of the coin of co-op education. For the worker who does not have the heart, aptitude or means for full-time classroom skills acquisition after high school, apprenticeship remains the only credible path to rewarding and increasingly well-regarded occupations. It would be anomalous and unhealthy for North American society to discard, through neglect, this proven training system.

LEARNING INSTITUTIONS AS TRAINING INSTITUTIONS

Overwhelmingly, we have placed our public expenditures directly into our public institutions. World competitiveness does not argue that we relax our commitment to the concept of the university and higher learning. Indeed, even in the absence of a mature on-the-job training infrastructure, we will be able to do a significant job on adult retraining and apprenticeship so long as our public institutions, particularly our colleges, can be comfortable with a positive role in the marketplace. This means their ability to recognize that the ends, the means and the problems of the adult trainee and the full-time, post-secondary student are different, but equally, their business.

Institutions, much like individuals and businesses, respond better to incentives than they do to lectures. One way this can be pursued is by placing a larger slice of public training dollars directly in the hands of potential users. In Ontario, about a quarter of college revenues are now earned by winning back from the marketplace public subsidies for work-

place training. In addition, to help get the attention of both public and private trainers we have instituted a \$5,000 training voucher program, called *Transitions*, for displaced workers over forty-five years of age.

EMPLOYERS AS TRAINERS

From the perspective of the public sector, I would like to say a few things about a partnership with business on training that is not yet clearly in place and about which, fortunately, there are few dogmatic opinions. Human resource management is now recognized as a key ingredient in corporate success, let alone public repute. Nevertheless, I feel it dangerously understates the dimension of the challenge to take too seriously the shrug: If training is good for business then let us get out of the way and leave it to business.

To the extent that this is true, the private sector — both labor and management — must have a much louder voice in the training decision. After all, job training is an economic, not an aesthetic, exercise. Furthermore, with tighter labor markets in the 1990s, it will be in the enlightened self-interest of employers to increase their competence and efforts at retraining and upgrading their existing employees. However, a workplace adult training response worthy of the test of world competitiveness will not emerge from a “thousand points of light.”

Adequate long-term training, which produces portable skills and, in the case of apprenticeship, recognized occupations, will not be secured merely by the recognition by individual firms of an agreed national priority. We will not produce sufficient engineers or clean up the environment simply by asserting that both are “good for business,” and the same goes for “human resource renewal.” Without society-at-large sharing, through government, a greater portion of the risk, the private sector will likely continue to treat long-term training as a last resort.

I am not suggesting that skills are not vital. Indeed, we anticipate a very significant increase in firm-specific training and retraining. However, in our highly mobile labor market — which will become increasingly a “seller’s” market for the highly skilled — the prospect that individual training firms will be able to internalize their longterm training investment effectively will not likely improve. The “poaching” barrier to the unprompted expansion of apprenticeship models is already severe, and there is no reason it should decline on its own.

Two highly interventionist ideas being proposed, that would at least not aggravate our deficits, deserve cautious consideration. Recognizing a “sea of change in American labor markets,” the Council of Economic Advisers has proposed that America consider an “aggressive skilled immigrants” strategy. Present protectionism is counter-productive. However, setting aside its political feasibility, for the largest labor force in the industrial world to turn to international poaching is, other than not being

very neighborly, not very ambitious. In any event, it suffers from the fallacy of composition.

Others argue that we could organize away much of the “poaching” problem head-on by creating levy-grant training mechanisms in each sector of the economy. This approach is conceptually attractive, in that it taxes those firms that rely on others to do their training, and we have high hopes for cooperative action on a sectoral basis. However, sectors, as with firms, do not have neat internal labor markets, nor a monopoly on certain skills and occupations. By definition, the most dynamic sectors have little tradition of collective action and are drawing skills from elsewhere in the economy.

Broadly speaking, the North American labor market is far too “disorganized” to internally sort out the inequities of dynamic growth. For instance, (1) two-thirds of small firms that will be doing business in the year 2000 are not yet even registered; (2) workers will change jobs, and usually employers, up to six or eight times in a lifetime; and (3) immeasurable and unpredictable sectors and regions will grow and recruit, while others will shrink and shed skilled labor.

Ultimately, “poaching” any factor of production is an inevitable cost, or risk, of doing business in a dynamic, unplanned economy. The essence of a competent mixed economy is to make sure these costs do not overwhelm progressive change. Rather than compromising dynamism, government, not the enterprise alone, must reassert its traditional responsibility to help absorb and compensate for these costs.

My real concern is not that immigration and sectoral initiatives are wrong, but that they cannot measure up to the dimension of the challenge. Human capital, the caliber and contribution of workers, managers, researchers and inventors represents two-thirds of the input to the quality and quantity of our economic production. So, when talking about fundamental changes in labor markets, unless we “think big,” in many ways, it is best not to bother. If the workplace and the skills of the workers are to be winning ingredients in the competitive challenge, government and taxpayers must allocate their multi-billion dollar investment accordingly.

No matter how employers organize themselves, or we in government imagine how they think, except for the employment disadvantaged, employers pay almost all the cost of long-term workplace training. And, in the North American context, if that is not altered, we should not expect to catch up to the competition.

THE WORKER AS TRAINEE

While we have never been reluctant to invest in people, it is fair to say that there is broad unease about the competence of the public sector to assume significant *new* tasks. The trick is for government to act in a way which facilitates and supports behaviors in the marketplace that en-

hance productivity and sustain an acceptance of change. A sensible rule in this regard is to focus on the motivation and constraints of the worker.

To an unprecedented extent, the adaptability of our economy will depend on the attention we pay to adult workers generally. There are student loans for post-secondary education and, here and there, income allowances for young apprentices and the unemployed. However, these benefits have not been provided to other employed adult workers who need to undertake extended institutional incomes for retraining.

Our Ministry believes it is time to make something of the theme "life-long learning" and that the most equitable and economic departure from the traditional boundaries of education should be the formal training of adult workers. This implies that the public has an interest in the workplace that is working, and not just where it has fallen behind and is suffering lay-offs.

There are many options to consider, including the "Proposal to Create a Canada Training Allowance," which Ontario Premier David Peterson put forward at a Canadian First Ministers conference in November, 1987. This proposal called for the establishment of a new, national mechanism to provide income subsidies to adult workers required to leave their regular jobs, and incomes, to undertake retraining.

No matter which form of support is chosen, the partners in our labor market system must recognize that without an extension of income support, human resource policy in the 1990s cannot meet its new assignments, particularly for workers in new industries and small- and medium-sized firms.

While I have provided the conference organizers with our 1987 discussion paper on a National Training Allowance, I want to make four points about some common North American concerns the paper addresses. First, the allowance is proposed for the national level, although Ontario has doubled its training expenditures and certainly many states could well afford to go it alone in recognition of the extensive interdependence and mobility of our regional labor markets. Second, the allowance proposal invites the federal government to update its direct support for individuals, which remains, in Canada at least, a continuing imperative in nation-building.

Third, the allowance proposal works within the accepted range of federal responsibilities and does not necessitate the development of a so-called "national education strategy." As income support, it enhances access, a long-standing national role, without in any way undermining or distorting provincial and state training and education infrastructures or priorities. A full-blown training voucher, on the other hand, in necessitating a vast reallocation of public training expenditures and an extensive renegotiation of established fiscal arrangements, most certainly would.

Finally, while the allowance would substantially eliminate a barrier — loss of incomes — it is, financially, neither open-ended nor incalcula-

ble. Our proposal calls for automatic universal access for all *registered* trainees undertaking long-term training. Thus, the cost of this new income support program would be tied to the availability of federal and provincial training programs. Simply, it requires a shared investment; spending on the allowance will depend on a spending on training, be it for apprentices, or for those in receipt of vouchers or other training supports.

The thrust of the argument is certainly not "expenditure-neutral." Indeed, we are talking about significant additional spending, but unlike universal entitlements such as medicare, the allowance would facilitate new investment, not consumption behaviors. It may seem trite, but we should not be squeamish: It will take more money if we believe North America must invest more in people as a competitive resource. Certainly for the United States as the world's largest industrial trainer, the decline of the armed forces urgently requires an explicit alternative commitment.

In closing, precedent is probably the best case that can be made to start North America *acting* in the lead again. In the 1950s, North America, with or without the conceptual assistance of a "peace dividend," launched an absolutely massive investment in post-secondary education. While the impulse may have been merely an abiding respect for learning and appreciation for the veteran, the focus on the future and expenditures complemented the shape of the emerging labor force of the day.

The 1950s may not obviously provide the most attractive point of comparison. That decade had the thankless task of preparing us for the so-called "age of aquarius." Yet, we have the same assignment for the "new millennium" and it would be no small achievement to manifest a comparable commitment to human resources and learning. From what we know of what the 1950s accomplished, we should be confident. Whether we call it a "peace dividend" or the "yuppie savings rate," if we, in partnership, are as bold in investing our discretion, North America will prosper in a more competitive, less violent, global community. As we put in our bid for the dividend of the 1990s, my slogan is on behalf of a new student: Fair access for the adult worker.

