Center for American Progress

Workers or Waste?

How Companies Disclose—or Do Not Disclose—Human Capital Investments and What to Do About It

By Angela Hanks, Ethan Gurwitz, Brendan V. Duke, and Andy Green June 2016

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Introduction and summary

Policymakers, economists, and investors alike are increasingly concerned that myopia at public companies and on Wall Street is choking off profitable long-term investments. BlackRock CEO Larry Fink recently penned a letter to the CEOs of America's largest companies lamenting the fact that "today's culture of quarterly earnings hysteria is totally contrary to the long-term approach we need."[1] In line with Fink's concerns, several studies suggest that public companies are forgoing profitable investments in order to boost short-term returns.[2] But the problem of managers' investment incentives may be even worse than the short-termism research implies.

Studies of short-termism have generally focused on readily measurable types of investments such as physical capital and research and development, or R&D, investment. These show up on a company's financial reports, such as the Form 10-K, which is submitted annually to the Securities and Exchange Commission, or SEC. When a firm spends $10 million on a new piece of equipment, for example, investors see that the firm has $10 million more in assets. Or when a firm spends $10 million on research and development, the R&D spending is clearly designated within the firm's financial statement. Investors can see these investments, and financial markets can price them in to the company's share price, even if they excessively discount them.

But there is a class of investments that financial markets may not just excessively discount but actively penalize: investments in the human capital and skills of a company's workforce. A $10 million investment in worker training shows up in a firm's financial statement—not on its own but lumped into selling, general, and administrative expenses, or SG&A, a measure that includes items such as company lunches and paper clips.[3] Companies' expenditures on worker training and skills show up not as a valuable investment similar to R&D but as an increase in general overhead, a measure that managers have shown a proclivity for cutting and whose reduction is often cheered by investors. This treatment of human capital ignores the findings of numerous studies: Investments in human capital enhance productivity and are more valuable to a firm than general overhead expenses.[4]

Investments in training thus face two hurdles. First, they face the short-termist pressure that affects all investments—public firms are excessively focused on short-term profits rather than long-term value. Second, training's lack of disclosure is itself a disincentive since it appears as general overhead rather than as an investment. This second problem is not a form of short-termism but rather what economists call the multitask problem—when people have an incentive to perform easily measurable tasks, such as increasing reported profits, they will focus on those tasks at the expense of those that are more difficult to measure, such as investing in the skills of their workforce.[5] This is especially concerning given recent evidence suggesting that employer-sponsored training has been in decline: One study found that over the past decade, the share of employees who received training fell 28 percent, with much of this decrease resulting from a declining share of large-firm employees receiving training.[6] While there is no causal evidence that this decline in firm-sponsored training is a result of short-termism, there does appear to be a measurement problem that may create a disincentive for firms to make human capital investments, even when those investments are material to a firm's long-term performance.

This report focuses on ways to fix the human capital investment measurement problem: requiring companies to distinguish investments in training from general overhead by reporting those investments separately. Requiring firms to disclose their investments in human capital, as they do for R&D, has the potential to pay off for investors, firms, and workers. It would allow firms to demonstrate to investors that they are making productivity-enhancing investments in their workers and would supply investors with material information upon which to base investment decisions. Furthermore, to the extent that disclosure would lead firms to increase human capital investment, it should help raise workers' wages and benefit the economy overall.

This remainder of this report evaluates what we know about the state of firm-provided worker training in the United States, examines the economic reasons firms may be providing less worker training, and discusses potential policies to improve the transparency of human capital investments and eliminate firms' disincentives to make them.

Specifically, this report calls for the Securities and Exchange Commission, or SEC, to require firms to disclose their human capital investments and metrics. We argue that this would be a win for all stakeholders, benefitting investors, workers, and firms.

What good is training anyway?

Human capital can be broadly described as "any stock of knowledge or characteristics the worker has (either innate or acquired) that contributes to his or her 'productivity.'"[7] While human capital investments include expenditures on education, training, health care, and more,[8] this report focuses exclusively on human capital accumulated through firm-sponsored training.

Firm-sponsored training

There is no commonly accepted definition of firm-sponsored training, but this report generally considers it to mean training that is at least partially financed by the employer and may include instruction that occurs on the job. Examples may include training through an apprenticeship program, professional certifications or licensures, employee reskilling, or tuition assistance programs.

Several researchers have examined the effects of formal schooling[9] and health status[10] on workers' productivity. Yet as economists Daron Acemoglu and Jörn-Steffen Pischke argue, on-the-job training may be just as important as formal education in determining productivity. "Most lines of business require specific skills which cannot be provided by general-purpose education," Acemoglu and Pischke assert. "Similarly, new technologies and organisations require continuous learning, best accomplished by workplace training."[11]

Nevertheless, compared to education and health care spending—which shows up in the National Economic Accounts prepared by the U.S. Bureau of Economic Analysis and in household surveys—there are little data available on U.S. firm-sponsored training.[12] Many analyses use data from European countries, which tend to have more information available on firm-level investments in training.[13] For example, a 2010 study by economists Jozef Konings and Stijn Vanormelingen used data supplied by Belgian firms to assess the impact of training on wages and productivity at firms. The study found that training increased the productivity of

an individual worker at a rate nearly twice that of the corresponding increase in wages.[14] Another study used British panel data to analyze the effects of training on productivity at the industry level and found that a 1 percent increase in the share of trained workers is associated with a 0.6 percent increase in industry productivity and a 0.3 percent increase in hourly wages.[15]

Unfortunately, with very little information available on how U.S. employers invest in training, the research on the impact of firm-sponsored training in the United States is indeed limited. As researchers Laurie Bassi, Paul Harrison, Jens Ludwig, and Daniel McMurrer note in a 2004 analysis, research on the impact of firm-sponsored human capital investments is limited because the data are not available, creating a challenge for researchers.[16]

New research on employers' return on investment for training

There are new efforts underway to capture the costs and benefits to employers that are providing training. The U.S. Department of Commerce announced in 2015 that it is partnering with Case Western Reserve University to conduct a study assessing the return on investment that employers receive from apprenticeship programs that are registered with the U.S. Department of Labor, known as Registered Apprenticeships.[17] The study will focus on case studies of individual companies that agree to participate in the study. This study represents an important step in identifying the benefits of training to employers; unfortunately, given the limited data currently available on employer investments in training, a more comprehensive analysis of the employer return on investment for training in the United States would prove near impossible.

What we know about employer investments in training

It is not at all clear how much employers invest in worker training each year. For example, the Georgetown Center on Education and the Workforce estimates that the United States spends $1.1 trillion annually on postsecondary education and training, $590 billion of which can be attributed to employer investments in informal and formal training—$413 billion and $177 billion, respectively.[18] According to a 2013 report from the American Society for Training and Development, U.S. employers spent about $167 billion on training in 2012.[19] A 2004 study commissioned by the U.S. Department of Labor, or DOL, found that in 2003 employers spent approximately $57 billion to $67 billion on training.[20] (For clarity, the numbers above are in 2013 dollars.)[21]

These estimates vary greatly from one another for a few key reasons. First, there is no universally recognized definition of training; each of these surveys and analyses define the term differently, thus producing different results. The Georgetown study, for instance, uses data from a 1995 Bureau of Labor Statistics, or BLS, survey of employer-provided training that considers any "structured, formal, and defined curriculum" to be formal training.[22] The 2004 DOL study, however, excludes training that is not directly related to career, such as job readiness or adult education services.[23] Additionally, there are few ongoing assessments of employer-provided training, and the government has not recently collected data from firms on their private training expenditures. The last survey of employer-provided training that the federal government led was the 1995 BLS study to assess the nature of employer training.[24]

While an actual dollar figure for training is hard to find, a new analysis does shed light on the incidence of employer-provided training, which provides a helpful, if incomplete, picture of firms' human capital investments. Using data from the 2001, 2004, and 2009 Survey of Income and Program Participation, or SIPP, panels—a national survey of U.S. households—economist and University of Nevada, Las Vegas, professor Jeffrey Waddoups documents a 27.7 percent reduction in the incidence of employer-provided training from 2001 to 2009, which he describes

as a "significant disinvestment in the nation's human capital."[25] Waddoups further discovered that the largest decline in employer-provided training took place prior to the Great Recession.

Waddoups' analysis suggests a few reasons why employers are training fewer of their workers. But most importantly, it suggests a weakened relationship between training and employment at large firms, which the SIPP defines as firms with 100 or more workers.[26] In a separate forthcoming brief, Waddoups finds that the decline in what he calls the "large firm advantage"—whereby workers who work for a large firm are more likely to receive training than workers at small firms—accounts for 34.5 percent and 25.4 percent of the decline in employer provided training for men and women, respectively. Among younger male workers, more than half of the decline in training can be attributed to the decline of the large firm advantage.[27]

We cannot know for certain whether publicly traded firms have reduced their training of employees since the SIPP does not distinguish between publicly traded and privately held companies. However, given that nearly all public firms employ more than 100 workers, Waddoups' data remain consistent with the hypothesis that public firms are reducing their investments in their workers' human capital.

What caused the decline in firm-sponsored training?

At a minimum, Waddoups' research indicates that the way employers invest in their workers is changing and that more information is needed to determine exactly why this is happening and what, if any, corrective measures should be taken to reverse this trend. To that end, below are a number of explanations that have been offered for why firms are training less and increasingly shifting their traditional responsibility for training onto their workers.[28]

The changing nature of work

One potential reason for divestment in training is the changing organization of production occurring within firms. A number of scholars have argued that in addition to job market conditions outside of the firm, there are "internal labor markets," or conditions within a firm that can lead to upward mobility and growth.[29] In particular, knowledge transfers within a firm enable workers to grow in rank, responsibility, and income. However, the proper functioning of these internal labor markets is impeded by the growing phenomenon of secondary labor markets.

Research by David Weil notes that there is an increased outsourcing of modes of production.[30] According to Weil, the workplace has become "fissured" over the past three decades as employers increasingly subcontract some of their work out to firms that then cut costs to compete with one another.[31] Weil uses the hotel industry over the past three decades as an example. According to Weil, less than 5 percent of today's hotel brands employ the workers in their hotels. Instead, branded hotels retain separate companies to handle janitorial, management, and other services.[32]

According to Jeffrey Waddoups and others, the growth of this secondary market, which has higher turnover rates and lower wages, may actually stifle the effectiveness of internal labor markets as training catalysts.[33] By disaggregating these ladders of growth, secondary markets lower the incentive for training that previously acted as a crucial component of upward mobility within the firm and instead encourage high turnover.[34]

In addition to the growth of secondary markets, research has noted the overall "flattening" of within-firm hierarchies, resulting in fewer linear career trajectories.[35] The result is that fewer workers have opportunities for upward mobility within their firm, which can cause higher turnover and less firm-sponsored investment. The combination of these effects is likely related to the decline in employer-sponsored training.

Rise in wage inequality

Another reason why firms might hesitate to invest in training is the rise of wage inequality over the past 30 years.

Gary Becker's influential 1964 book *Human Capital* made the case that in a perfectly competitive labor market where firms pay their workers a wage equivalent to the value that workers add to the firm, or their marginal product, firms cannot accrue any benefits from gains in general training—those that can be brought to other businesses—and, thus, have no incentive to cover the cost of that training.[36] But firms do clearly provide such training, and research has focused on why. The most convincing answer is that the labor market is not perfectly competitive and labor-market imperfections, such as search costs, provide firms an incentive to invest in general training.

Daron Acemoglu and Jörn-Steffen Pischke argue that firms have an incentive to provide general training when wages are compressed—when highly skilled workers' wages rise more slowly as their productivity goes up compared to the wages of less-skilled workers.[37] As Waddoups points out, the rise in wage inequality and stagnation in wages for most workers has likely caused wage compression to fall thereby reducing the incentive for firms to invest in general training.[38]

Compensation

Another possible argument to explain why firm-provided training may be on the decline is that training is a form of compensation for workers. Training may enhance workers' skills, leading to higher wages and greater bargaining power—both within the firm and within the labor market more generally.[39] Several studies have found that median compensation as measured by wages and certain noncash benefits such as health care and retirement has grown slowly, if at all, over the past few decades.[40] If worker training is a form of unmeasured compensation, then it likely has followed the same trend as the other measured forms—stagnation, if not outright decline.

Another problem: Financial market pressures

Each of the hypotheses explaining the decline in firm-sponsored training described above are important and worthy of further research. However, a less frequently discussed potential factor that may help explain the decline of firm-sponsored worker training is the growing pressure within boardrooms and among CEOs to generate short-term profits.

Increasingly, the pressure for short-term earnings forces business leaders to forgo long-term investments in order to provide dividends and stock buybacks. Research by Bank of England Chief Economist Andy Haldane and others estimates impatience across U.S. and U.K. industrial sectors—in other words, how much markets excessively penalize a dollar of profit tomorrow relative to a dollar of profit today.[41] Haldane and his co-authors find that markets excessively discount future earnings between 5 percent and 10 percent per year, which implies that firms are foregoing profitable investments.

Another piece of evidence suggesting public firms are acting myopically is an analysis comparing public and private firms' investment patterns since private firms are not subject to the pressures of public markets. University of California, Los Angeles, economist John Asker and others find that U.S. public firms invest 3.7 percent of their assets while private firms in the same industry and of the same size invest 6.8 percent.[42]

We cannot say definitively whether short-termism has caused firms to invest less in training, since firms do not disclose their training investments as a separate expense. But the lack of disclosure itself implies that the pressure to cut firm-sponsored training is almost certainly higher. Training is an investment similar to the purchase of a new factory—money spent today in order to generate future profits. Yet because of the way it is disclosed on a firm's financial statement, investors see money spent on training as an increase in general overhead rather than as an investment that will produce future value for the company. Most major physical investments made by firms are capitalized—that is, when a firm purchases a new factory, the cost does not show up as an expense, but rather the cost of the factory becomes an asset that depreciates over time.[43] Financial statements reflect the fact that the money does not disappear into thin air, and if the firm ever needed to, it could theoretically sell the factory for cash.

Spending on R&D and human capital, on the other hand, is expensed[44] and does not show up on a firm's balance sheet as an asset. Whether R&D should be expensed or capitalized continues to be the subject of vigorous debate among accounting experts.[45] On the one hand, expensing reduces a corporation's taxable income, providing a tax incentive for companies to spend on R&D. But expensing also ensures that these investments look like operating expenses without capturing the potential future value firms recoup from that initial investment. In other words, expensing implies that a dollar spent on research in one year will not increase the firm's future value. This produces a disincentive for firms to invest in R&D—one that does not exist for physical capital.

Regardless of whether R&D should be expensed, it is currently disclosed as its own expenditure, unlike human capital. R&D disclosure allows markets to identify and distinguish these investments from other expenses and thereby price in their value. As such, investors can distinguish a dollar spent toward a company's R&D from a dollar spent on printer paper, the former being more likely to increase the future value of the firm. Unfortunately, as part of selling, general, and administrative expenses, human capital expenses remain rolled up in the same spending category as printer paper.

The lack of disclosure of training means that firms' investments in their human capital are doubly penalized. Short-termism has likely caused firms to reduce their spending on human capital the same way it has on other profitable investments, but investor demands to reduce general overhead in particular have likely created an additional disincentive for investment in training.

We can illustrate how the current financial disclosure system penalizes investments in human capital by looking at three different types of disclosure involving four hypothetical firms—Firm A, Firm B, Firm C, and Firm D, each earning $1 million in sales. Disclosure 1 only has one type of expense—SG&A, a component of general overhead—and shows that Firm A only has $400,000 in SG&A while the other three firms have $500,000.

In Disclosure 1, financial analysts only have two measures of performance. The first is the profit margin—the profit as a percent of sales—and the second is SG&A as a percent of sales. The profit margin measures profitability, while SG&A is a measure of managerial efficiency. Both show that Firm A is outperforming the other three in terms of profitability and managerial efficiency.

Disclosure 1

	Firm A	Firm B	Firm C	Firm D
Sales	$1,000,000	$1,000,000	$1,000,000	$1,000,000
SG&A	$400,000	$500,000	$500,000	$500,000
Profit margin	60%	50%	50%	50%
SG&A/sales	40%	50%	50%	50%

Next, consider a scenario in which firms disclose their R&D costs as in Disclosure 2 below. Whereas in Disclosure 1, R&D was hidden within SG&A, it is now clearly identified as a separate expense. We see that Firm B is the only firm that has any R&D expenses. Firm B is just as profitable as Firm C and Firm D but appears to be better managed since SG&A takes up a smaller percentage of its sales.

It is unclear whether an investor should prefer Firm B over Firm A—it depends whether the investor thinks the R&D investment will increase sales enough to be worth the cost—but the investor should clearly prefer it over Firm C and Firm D. The R&D investment could increase future sales, and if it is a one-time project, the firm should revert to being as profitable as Firm A. This example represents the current situation in which R&D is disclosed, but human capital is part of SG&A.

Disclosure 2

	Firm A	Firm B	Firm C	Firm D
Sales	$1,000,000	$1,000,000	$1,000,000	$1,000,000
SG&A	$400,000	$400,000	$500,000	$500,000
R&D	$0	$100,000	$0	$0
Profit margin	60%	50%	50%	50%
SG&A/sales	40%	40%	50%	50%

But what if Firm C is actually spending $100,000 on training its workers to raise their skills and productivity? Under Disclosure 2, the spending on training looks like other overhead expenses even though it is an investment in a firm's workforce—the type of spending likely to yield returns year after year. In this example, it becomes clear that the solution is to require firms to disclose their training spending, as Laurie Bassi[46] and the Urban Institute's Robert I. Lerman[47] have suggested.

Disclosure 3 shows what a human capital investment disclosure could look like. Firm C is the only firm making these investments, which are now clearly identified for investors. It remains just as profitable as before—and less profitable than Firm A—but its SG&A as a percentage of sales has declined. Whether an investor should prefer Firm C over Firm A or Firm B depends on the investor's opinion of the relative values of human capital and R&D spending, but all three appear better run than Firm D. Most importantly, managers cannot cut human capital investments without investors or other stakeholders taking notice, though they may continue to face an incentive to cut these investments to maximize short-term profits as they do with R&D.

Disclosure 3

	Firm A	Firm B	Firm C	Firm D
Sales	$1,000,000	$1,000,000	$1,000,000	$1,000,000
SG&A	$400,000	$400,000	$400,000	$500,000
R&D	$0	$100,000	$0	$0
Human capital	$0	$0	$100,000	$0
Profit margin	60%	50%	50%	50%
SG&A/sales	40%	40%	40%	50%

Substantial evidence shows that with the increasing pressure of short-termism, firms have been investing too little in their long-term growth.[48] But these hypotheticals suggest the situation is almost certainly worse for human capital, which is not disclosed as a separate line item but rather packaged as general overhead. Investors have customarily viewed high overhead as a sign of inefficient operation. As such, managers are often under tremendous pressure to avoid such increases and are even rewarded for significant cuts. In sum, the above analysis demonstrates how the failure of public firms to disclose this information can leave investors worse off.

Policy changes that could empower investors and promote greater human capital investment

It is safe to assume that in this environment of short-term behavior, the disclosure of human capital investments has long-term consequences.

On one hand, financial markets, particularly long-term investors, are not able to regularly assess whether companies are making investments broadly seen as useful and productivity enhancing. As Charles Pendola of St. Joseph's College notes, "human capital is not valued or even footnoted anywhere in the financial statements; however, should a firm be sold or merged, the value of that human capital will undoubtedly be valued by the purchaser or merger partner."[49]

Separately, when human capital investments are not distinguished from other expenses, it signals to managers and investors that these investments are little more than overhead costs. Investors are harmed when they cannot evaluate key drivers of a business's future economic growth. When a company chooses to cut costs, particularly investments in human capital, this is material to the future performance of the company and should be clarified.

R&D is probably the best analogue for human capital investment since it is also spending aimed at increasing the future value of the firm. Although it too could be lumped into general overhead, it is disclosed as its own expense. Today, R&D is generally seen as an indicator of a company's strength and future growth. And because investors could value human capital investments as an indicator of a company's long-term trajectory, they should be treated no differently.

Thus, the first step to fix the problem is requiring firms to properly denote human capital investments within their financial statements or public filings. Even though the relationship between firms and employees is distinct from that of equipment or the results of their R&D,[50] investors realize this and can determine how to value training expenditures, especially if information on turnover is provided.

Based on a template prepared by the Society for Human Resource Management, or SHRM, Investor Metrics Workgroup for approval as an American National Standards Institute, or ANSI, standard in 2012, we recommend the mandatory disclosure of four human capital variables:[51]

- **Training investment:** This refers to the aggregate amount a company spends on training workers in new skills. This can include the costs associated with training that has "structured, formal, and defined curriculum,"[52] including training staff wages, materials and infrastructure costs, or tuition assistance.

- **Full-time employees:** This is the total number of full-time equivalent, or FTE, employees a company employs on an annual basis. The FTE helps put the training expenditures in context, and the SEC already requires this disclosure.[53]

- **Turnover:** This should be calculated on an annual basis as a partial representation of how much a firm's investment declines in value—firms with high turnover will not benefit as much from training investment since the workers they train are more likely to leave. Consistent with the SHRM guidelines, we recommend measuring both voluntary and total turnover.[54]

- **Third-party contracts:** This is the total amount spent on third-party human resources. This measure should include both third-party contracts and independent contractor expenditures. Currently, disclosure is required only in certain circumstances.[55]

These measures are clear, are easy to measure, and effectively describe the state of human capital within a company. Moreover, companies have the opportunity to further elaborate on these metrics and the decisions behind them elsewhere in their disclosures. For example, if the amount spent on training decreases due to an increase in training efficiency, companies may provide an explanation to add context to the dollar amount reported in the financial statement. We recommend that the SEC, as part of its initiative to modernize corporate disclosures,[56] require public companies to report these measures in their SEC filings. The SEC should work with the Financial Accounting Standards Board to update the presentation of human capital in financial statements. In addition, we recommend a transition period that would allow companies to update existing human resource processes and corresponding technology and to collect the necessary data to satisfy these new reporting requirements.

Benefits

Making human capital expenditures more transparent benefits investors, workers, and firms alike. These disclosures would be a win for investors, who generally look for increased transparency and additional inputs. As Laurie Bassi notes, human capital investments are not independently represented in any way on a financial statement despite providing critical information about the future performance of a company.[57] As such, this mandated disclosure should be well received. Additional transparency would help investors better understand public companies and their management decisions. In particular, we expect that these measures would help investors identify firm investments that may indicate strong future earnings, as well as firms that may be spending too much or too little relative to their peers. Indeed, evidence shows that implementing new disclosures might help investors more accurately value firms.[58]

For workers, it is the first step toward capturing their value as something more than just a hidden cost. These metrics would still treat human capital expenditures as an expense. But by taking the first step of disaggregating this metric from general overhead and including supplemental figures such as turnover, these metrics would provide some necessary context for how investors and firms value human capital.

These measures are also likely to benefit firms by removing a powerful disincentive to train that currently exists for employers. Whereas firms today might risk appearing careless and wasteful by increasing SG&A spending, under these proposed requirements, employers would be able to articulate and likely get credit from financial markets for productivity-enhancing investments that boost the skills of their workforce. Given what we know about human capital investments, firms that are newly empowered to invest in training may experience a range of benefits, such as enhanced productivity, greater worker satisfaction, longer job tenure, and better recruitment. At the same time, companies that make limited investments or divest would be able to explain their strategic choices with some nuance. By making the sustainability of a productive workforce a more rewardable priority, these changes may even encourage firms to consider other strategies that are more in line with the long-term interests of stakeholders.

Criticisms and rebuttals

We are cognizant of some of the potential concerns regarding human capital disclosures.

First, we recognize there may be a concern that new data requirements could add compliance costs. However, these requirements extend only to public companies, not small enterprises that are unlikely to have large accounting and human resources departments. The measures we recommend are also fairly basic, and we expect that well-run public companies already keep detailed records of the workers they employ, as well as on human capital investments. Moreover, assuming a reasonable implementation phase, we do not expect the costs of these efforts to be overly burdensome for public companies. Furthermore, we predict that if anything, new reporting requirements will act as a spur to further advance existing human resources technologies and network systems, many of which have been described as antiquated and slow to innovate.[59]

A second common objection is that reporting requirements are often duplicative, forcing companies to represent figures multiple times in different ways. Although the number of employees—and sometimes the number of independent contractors—is disclosed in SEC filings, the other information is not required to be disclosed. As such, the current reliance on voluntary disclosure has not been successful.

Finally, there is the issue of confidentiality. Some companies have argued that this information is proprietary, and as such, it would be unfair to require it to be made public. We agree that human capital is an important component of a company's overall competitiveness. However, it is hard to glean the unfair advantage other companies would reap from disclosing the fairly basic information we have identified here. We do not ask companies to describe their leadership structure, identify their rising stars, or provide detailed disclosure of types of training their employees receive. Rather, these are baseline metrics that provide investors a clearer picture about the human capital decisions companies make.

Survey on human capital investments

Although publicly listed firms employ a large share of American workers and absorb a large percentage of U.S. financial markets' capital, they made up less than 0.1 percent of the total number of firms in the United States as of 2012 .[60] New

human capital reporting requirements for public companies would thus only yield information on a small subset of companies. In order to gain a broader understanding of the nation's investments in training and identify trends occurring across industries, which can in turn inform research and public policy, we are also calling for a government-led survey on employer-sponsored human capital investments. In 1993 and 1995, the Bureau of Labor Statistics carried out the Survey of Employer-Provided Training. According to the BLS, it provided "detailed information on training by major industry division and by size of establishment."[61] Unfortunately, the survey has not been run again since 1995.

We propose either reinstituting the BLS survey or adding a supplement to the existing Business R&D and Innovation Survey, or BRDIS, conducted annually by the U.S. Census Bureau.[62] The BRDIS has a sample size of 45,000 companies, each of which has at least five employees.[63] It has geographic and industry balance and also provides a cross section of different-sized companies. By adding an additional supplement on human capital investments to the BRDIS, policymakers would be able to assess with more granularity the trends in human capital investment behavior: Which industries are investing heavily in their workforces? How do size and capital affect these decisions?

Adding this supplement or reinstituting the BLS survey would be beneficial to both researchers and investors, as well as policymakers, who could use the survey data along with public financial statements to get a better sense of the state of U.S. human capital investments. This evidence would help policymakers and researchers assess existing policies and shape future ones.

Conclusion

Human capital investments are generally productivity-enhancing expenditures that can both improve investor returns and increase workers' immediate and long-term earning power. As such, efforts to raise the human capital of America's workers should be rewarded, or at least not discouraged. As this report makes clear, the current financial reporting framework does nothing to incentivize, and may even penalize, public companies—many of which already face pressures to cut costs—to invest in their workers. Nor does the current approach provide investors with adequate transparency regarding important corporate decisions that can materially affect the value of their investments.

This report outlines two potential approaches to reconfigure how the United States values employer-sponsored human capital investments: a call for a mandated disclosure of human capital expenditures by public companies and a government-led survey to supplement these disclosures and identify broader trends in human capital spending. These policy changes are not a replacement for other policies that would increase public and private investments in human capital, such as apprenticeships and other worker training programs. They would, however, help introduce more transparency to the disclosure of human capital and enable financial markets to encourage companies to make smart investments in one of their most important resources. Moreover, these modest adjustments would be important symbolic gestures, putting into practice the knowledge that workers are not just a cost, but also companies' most important assets.

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Endnotes

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