

Companies Engaging in Dual VET: Do Financial Incentives Matter? Options, Pros and Cons

DC dVET Webinar (17 June 2020)

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Agenda

Part 1

- ▣ General design options for financial incentives
- ▣ Approaches in AT, CH, DE & LI

Part 2

- ▣ Pros & cons of financial subsidies
- ▣ Financial incentives & COVID-19
- ▣ Why do companies (not) train? Is it money that really matters?

Part 1:

Design Options for Financial Incentives & Approaches in AT, DE, CH & LI

General Design Options for Financial Incentives

- ❑ Direct and/or indirect subsidies
- ❑ Basic and/or criteria-based subsidies
- ❑ Sectoral vs. cross-sectoral / Regional vs. federal
- ❑ Target group(s)
 - Training companies and/or
 - Individuals and/or
 - System level
- ❑ Financial Source
 - Employer contributions (re-distribution) and/or tax-payers
 - Voluntary and/or compulsory funding

Current schemes in AT, DE, CH & LI (comparative results)

- ❏ ALL of them (except LI) have financial incentives
- ❏ In no country do incentives cover training investment of companies
- ❏ Countries differ to main goal(s) of incentives:
 - **AT:** basic subsidisation + some specific goals (quality and target groups)
 - **DE:** focus on demand side (i.e. apprentices) – on the supply side (i.e. companies) incentives shall foster training alliances and sector-specific additional supra-company training centre
 - **CH:** foster apprenticeship training in general
- ❏ ALL 4 countries have indirect subsidization
 - tax deduction for training expenditures
 - waiving of non-labour costs (AT), preferential treatment in public tenders (CH)

Part 2:

Pros and Cons of Financial Incentives

Financial Incentives & COVID-19

Why do companies (not) train? Does money really matter?

Pros and Cons of Financial Incentives

Pros and Cons of Financial Incentives (1)

■ If there is massive underinvestment in training due to market failures...

... incentives may be justified to favourably change cost-benefit ratio

- YET, very hard to find robust ex ante indicators / criteria to filter out training companies with investment motives that should be subsidized.

■ Risk of distortion of company's self-interest in training investment

- „training due to future skilled staff and not due to public money“.
- negative system consequences: qualification demand and supply drift apart; undermining quality of training.
- potential dilemma of criteria-based / targeted incentives: incentives shall induce behavioural change as well as not distort basic training motive.

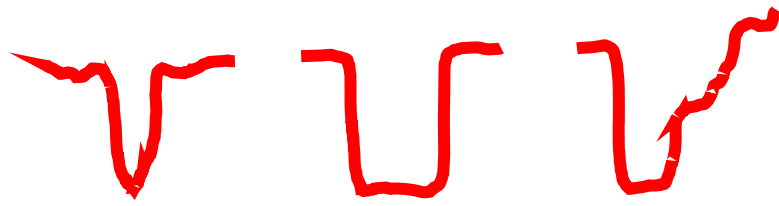
Pros and Cons of Financial Incentives (2)

- ❏ ALL subsidies entail windfall gains
- ❏ Trade-off between accuracy, criteria complexity and administration as well as information costs
- ❏ Once established, subsidies are very hard to overcome
- ❏ Subsidies may trigger companies to train – YET...
 - How to define a first-time training company / additional training places?
 - Will a levy-scheme be perceived as unfair tax or a fair re-distribution scheme?
- ❏ Non-financial aspects of incentives
 - Positive social signal
 - Re-distribution between training and non-training companies may be fair
- ❏ Evidence on limited relevance of free-rider problems (i.e. poaching) in dual VET countries

Financial Incentives & COVID-19

Covid-19 and Potential Implications

Temporary or longer lasting pandemic? → Economic consequences?



depending on ...

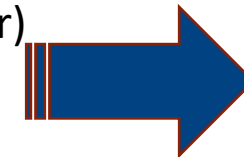
... depth and duration of recession as well as speed of recovery

... 2nd / 3rd ... waves of pandemic outbreaks

... policy reactions (“safety activities”)

Potential consequences for (training) companies:

- temporary liquidity constraints (due to short-term shutdowns & fixed costs)
- longer lasting contraction in demand (due to hesitant consumer behaviour)
- uncertainty (due to new Covid-19 waves and policy reactions)



Future demand for skilled labour?

2 fundamental aspects:

- “private driven” long-term demand for skilled labour versus “public incentives” to flatten shocks / boom-bust cycles
 - Again, does money matter?
 - YES, for liquidity constraints
 - Maybe / NO for longer lasting effects (demand downturn & uncertainty)
- temporary “pandemic-specific” financial instruments?!

Why do companies (not) train?
Does money really matter?

Motivation for dual Training: Cost-Benefit Ratio of Companies

■ Motives

- Production motive
 - Investment motive
 - Screening motive
 - Reputation motive
 - Social responsibility
- } Company's future skilled workers

■ Cost advantages due to dual training

- Recruitment costs
- Orientation and induction time
- Labour turnover and incorrect choices
- Downtime costs due to a lack of skilled workers

Does money really matter?

❏ Often, low training engagement of companies is due to...

- Unfavourable frameworks / and inflexible settings
- Dominance of schools over company training
- Outdated occupational profiles
- Administrative hurdles
- Lack of information and training competence

➔ *if these situations prevail, financial incentives will have no/limited effect!*

❏ IN-KIND investments

i.e. building up support structures and tools for training companies – may be the better type of public investment!

➔ *How to finance them? Employer or business member organisations / Chambers?*

Thank you for your attention

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