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

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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?

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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 by 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

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Financial Incentives & COVID-19
Covid-19 and Potential Implications

Temporary or longer lasting pandemic? ➔ Economic consequences?

- 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)

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

**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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