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Make further vocational training pay: Possibilities and limits of promoting transitions by Public Employment Services (PES)

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IAB-Discussion Paper

18/2010

Articles on labour market issues

Make further vocational training pay

Possibilities and limits of promoting transitions by
Public Employment Services (PES)

Regina Konle-Seidl

Make further vocational training pay

Possibilities and limits of promoting transitions by Public Employment Services (PES)¹

Regina Konle-Seidl

Mit der Reihe „IAB-Discussion Paper“ will das Forschungsinstitut der Bundesagentur für Arbeit den Dialog mit der externen Wissenschaft intensivieren. Durch die rasche Verbreitung von Forschungsergebnissen über das Internet soll noch vor Drucklegung Kritik angeregt und Qualität gesichert werden.

The “IAB-Discussion Paper” is published by the research institute of the German Federal Employment Agency in order to intensify the dialogue with the scientific community. The prompt publication of the latest research results via the internet intends to stimulate criticism and to ensure research quality at an early stage before printing.

¹ An earlier version of this paper has been presented at the “TLM and Employment Services” conference organized by Korea Employment Information Service (KEIS), August 26th and 27th, 2010 in Seoul, Korea

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Abstract

The current low participation rate of low-skilled workers in vocational re-training activities as well as the relatively high share of youth without vocational qualification are major challenges for German labour market policies. Recently implemented programs by the Federal Employment Service (BA) to improve the management of school-to-work transitions as well as re-training activities of already employed workers are analyzed in the framework of “Transitional Labour Markets” (TLM). The TLM approach provides a series of proposals to manage social risks deriving from the need of making transitions during the life course. Preliminary evaluation results of early intervention and BA re-training programs are promising so far. However, extending the existing programs or even institutionalizing life-long learning as a social right by converting contribution based unemployment insurance into employment insurance – a prominent TLM recommendation - would require high financial resources and possibly undermine individual as well as corporate responsibility.

Zusammenfassung

Die geringe Teilnahme geringqualifizierter Arbeitnehmer in beruflichen Weiterbildungsmaßnahmen sowie der relative hohe Anteil Jugendlicher ohne Berufsabschluss stellen große Herausforderungen für die deutsche Arbeitsmarktpolitik dar. Pilot-Programme der Bundesagentur für Arbeit (BA) zur Verbesserung des Übergangs von der Schule in den Beruf sowie berufsbegleitende Weiterbildungsmaßnahmen für geringqualifizierte und ältere Arbeitnehmer werden vor dem Hintergrund des Konzeptes der „Übergangsmärkte“ (Transitional Labour Markets/TLM) analysiert. Bisherige Evaluationsergebnisse der BA-Pilotprogramme sind vielversprechend. Grundsätzlich stellt sich jedoch die Frage, ob die Institutionalisierung lebenslangen Lernens im Rahmen des Ausbaus der Arbeitslosenversicherung in eine Erwerbstätigenversicherung – eine prominente Empfehlung des TLM-Ansatzes – eine erfolgversprechende Politikstrategie sein kann.

JEL classification: J 62, J65, D78

Keywords: Transitional Labour Markets, Active Labour Market Policy, Further Vocational Training, Public Employment Services (PES)

1 Introduction

Transitional Labour Markets (TLM) are labour markets that permit and promote mobility over the life course between the range of labour market status, including between jobs, occupations, employers, different types of employment contracts, unemployment and employment, temporary leaves, training and employment, and employment and (partial) retirement. The TLM framework (Schmid and Gazier 2002) is an analytical approach to study modern and dynamic labour markets in Europe as well as being a proposal for political and strategic reorientation of the employment and social policies of the EU and its member states.

In the TLM framework labour market and social integration is seen to include possibilities for career development; access to resources to ensure employability; and the ability to participate fully in all spheres of social activity. It is important to 'make transitions pay', especially by extending opportunity rights to transit between different types of productive activities. Transitions are conceived as critical life events that incur both new opportunities and risks of social exclusion. As an analytical concept, TLM refers to the blurring of the borders between wage employment and other productive activities. As a normative concept the TLM framework identifies new types of institutional arrangements to prevent transitions from becoming gates to social exclusion. Transitions should instead be transformed into entries by an extensive set of mobility options for employed people (maintenance transitions) and for inactive or unemployed people (integrative transitions). Thus, full employment is redefined as a 'fluid equilibrium' around a 30-hour working week from which substantial divergences may occur during the life course of the individual. The expectations as the implications of TLM policies are immense: They would open up the prospect of new full employment equilibrium compatible with equal opportunities and a non-segmented world of diverse employment relationships'.

The TLM focus is in line with the micro perspective of the "flexicurity" approach by giving enough social security and adequate activation measures to workers to enable and motivate them to higher employment, labour mobility and work flexibility during their life course. At the heart of the flexicurity as well as the TLM approach is the idea that less job security by easing dismissal protection should be provided in exchange for more employment security. Employment security (instead of job security) should be provided by an adequate coverage of life risks through social security but also by providing adequate employability measures.

TLM is also in line with the macro-level perspective of flexicurity by postulating the need for a flexible workforce in a post-industrial, knowledge based economy. TLM in this sense is seeking to combine competitiveness and social cohesion.

The remainder of this paper is structured in four parts: Chapter two give a short insight into the analytical foundations and points to the main limits of the TLM approach. Among the five transitions identified as being crucial on European labour

markets the transition between education and employment by improving school- to-work transitions and promoting life-long learning is analyzed as a major challenge for German labour market policy (chapter three and four). Programs initiated and implemented by the Federal Employment Service to improve school-to-work transitions and enhance the scope and effectiveness of further vocational training are described in chapter five. Chapter six draws some lessons on the possibilities and limits of PES in promoting transitions.

2 Analytical foundations and limits of the TLM approach

The underlying theoretical concept of TLM is based on psychological insights to human behaviour in risky situations. According to the “prospect theory” (Kahnemann/Tversky 2000) people perceive risks in a way that easily leads to non-rational choices or asymmetric perceptions of risks resulting in risk-averse behaviour, speculative risk-taking behaviour, overestimating minor risks and underestimating major risks.

2.1 How to convince people that transitions pay off?

If risk aversion damages the willingness to adopt changes a social risk management (SRM) should be established. If workers can rely on institutional solutions then they are more willing to take over risks. The pivotal idea to cope with risk-aversion is creating opportunity structures through public interventions. An institutionalized SRM should therefore give useful strategic orientations concerning risk prevention, risk mitigation and risk coping. Beyond providing income insurance in case of unemployment new social rights like the right to further training, sabbaticals and leave schemes as well as the right to reduced working time are some of the proposed measures (Schmid 2008).

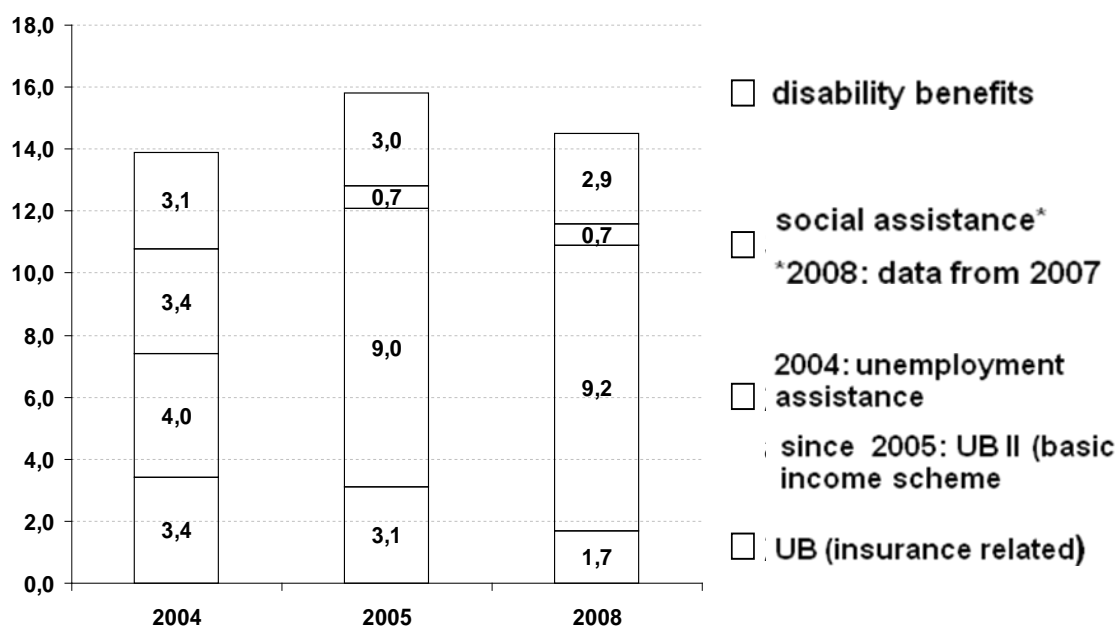
However, there are some important shortcomings concerning the theoretical foundation as well as the policy recommendations of the TLM approach. First, the role of incentives and constraints is unclear. Although prospect theory provides evidence that the economists’ pure rational choice model has to be questioned, this finding does not mean that economic incentives are of no importance in shaping individual behaviour. Providing more security through benefits and services in virtually all phases during the life course bears the risk to create a dependency culture or a “full coverage mentality”. Should the social insurance system really protect workers against all risks of modern working life? There are serious concerns about the need for strong public interventions that - other things equal - are requiring much more financial resources for guaranteeing meaningful and decent employment over the life cycle (Walwei 2009).

2.2 Limits of contribution based insurance schemes in funding transitions

A prominent recommendation of TLM advocates is to convert the old contribution based unemployment insurance into employment insurance (Schmid 2008). However, across European countries the importance of contribution based unemployment insurance schemes vis-à-vis tax-funded basic income schemes is rather declining. In Germany reliance on minimum income protection has increased considerably since 2005 when unemployment assistance and social assistance were merged to the new basic income scheme for jobseekers (figure 1). In line with developments in other European countries distinct logics of contributory and non-contributory are increasingly blurring.

Unlike the unemployment insurance dominated policies inherited from the industrial era, the emergent institutional basic income systems are designed not to promote stability on the labour market, but instead to enforce flexibility and thereby encourage service sector expansion (Clasen/Clegg 2004, Konle-Seidl 2008).

Figure 1: Transfer recipients in % of working age population



Source: Federal Statistical Office Germany, Federal Employment Agency Germany (2005), Federation of German Pension Insurance Institutes

The basic income scheme is likely to become even more important as self-employed, but also flexible workers are either not covered by insurance or lack substantial unemployment benefits or pension entitlements due to interrupted careers or phases of low income. This generates the need to make social protection more mobility-friendly and more uniform across different types of employment.

2.3 Limits of policy recommendations in a cross-country perspective

When assessing the policy recommendations of the TLM approach in a cross-country perspective it is important to consider the fact that individual choices and preferences are influenced by historically established institutions and thus differ considerably across countries. This has important implications for universal policy recommendations. There is, for example, convincing empirical evidence that different social benefit systems (e.g. early retirement or disability schemes) act like an “institutionalized life course” by generating expectations of social behaviour and influencing thus the biography of individuals. Analysing representative survey data, Börsch-Supan (2007) provides for example evidence that internationally highly different incapacity rates cannot be attributed to differences in health status or demographic factors but appear to be primarily caused by institutional failures with regard to availability and easy access to disability benefits.

Moreover, historically established institutional complementarities like the Danish flexicuity system (low EPL, high benefits and high ALMP expenditures) or the German “diversified quality model” (importance of vocational training in the framework of high employment protection as well as relative high unemployment benefits) imply different perceptions of security. Results from the European Social Survey provide a quite illustrative example for this claim. Workers felt more secure in those European countries in which employment protection is lowest (Denmark, UK, Ireland). This could be explained by the fact that more fire does also mean more hire which is perceived as a security device in people’s perception. However, as the results are similar for Denmark (high social security level) and the UK (lower level of social security) the conclusion drawn by TLM - more income security is needed in order to compensate for less job protection - is disputable. What can be concluded effectively from the survey data is that the ease with which worker can find a new job is becoming increasingly important in determining the sentiment of security in a transitional labour market.

Thus, as outcomes are often not linked to special fundamental program theory or a special policy design but rather to the historical institutional settings of countries universal policy prescriptions should be handled with care. TLM policy recommendations must take different shape and form and address different problems in various contexts. Nonetheless, the TLM notion presents a promising understanding of the dynamics of modern labour markets and provides some prescriptive strategies worth to be considered.

3 Labour market policy as a strategy of TLM

As the TLM concept is mainly policy oriented it provides a series of proposals to manage social risks deriving from the need of making transitions during the life course. Make not only work pay but make transitions pay is the “Leitmotiv” (guiding

principle) of the TLM approach. The following transitions, identified as being crucial on European labour markets, should be addressed by labour market policy.

Transitions

- between different employment contracts, esp. non-regular (precarious) forms of employment and permanent, full-time employment
- between non-employment and employment by activating the unemployed and inactive benefit recipients
- between domestic activities and employment by promoting work-life-balance and new forms of combinations related to household activity
- between employment and retirement by an active aging policy
- between education and employment by improving school-to-work transitions and promoting life-long learning

Several European countries in particular Denmark and the Netherlands but also Germany or France have introduced reforms that resemble the recommendations of the TLM approach, e.g. institutionalization of leave and mobility schemes, activation of income-replacing benefit recipients, vouchers and entitlements to training as well as LMP delivery reforms like PES reorganization and/or the introduction of quasi-market mechanisms.

In the context of German labour market policy there is, however, no comprehensive and explicit TLM strategy but rather developments which are in line with the TLM approach.² In this paper we focus on transitions between education and employment by improving school-to-work transitions and promoting life-long re-training.

4 Increasing heterogeneity on the German labour market and its implications for TLM

Before looking at the possibilities of PES to promote transitions, especially those between education and employment in proving school-to-work transitions and promoting life-long learning, this chapter examines major changes in Germany's labour market in order to elicit implications for a more TLM friendly labour market policy.

Table 1 compares the overall and target group specific rates of employment and unemployment with those for selected European countries (UK, Denmark, Netherlands, and France) as well as Korea. In 2009 the German employment rate was above and the overall unemployment rate was below the OECD average.

² On a programmatic level, the German Social Democratic Party (SPD 2010) has recently adapted the idea to convert the old unemployment insurance into an employment or employability insurance by institutionalizing life-long re-training.

Table 1: Main employment and unemployment indicators in selected countries

	Germany		Korea		UK		Denmark		Netherlands		France	
	2009	Δ 1994/ 2009	2009	Δ 1994/ 2009	2009	Δ 1994/ 2009	2009	Δ 1994/ 2009	2009	Δ 1994/ 2009	2009	Δ 1994/ 2009
Employment rate Total (15-64)	70,4	4,9	62,9	0,1	70,6	1,9	75,7	3,3	75,8	11,9	63,9	5,5
Employment rate Older workers (55-64)	56,1	20,2	60,4	-2,5	57,5	10,1	57,5	7,3	52,6	23,6	39	5,6
Employment rate Women (15-64)	65,2	10,5	52,2	2,4	65,6	3,5	73,1	6	70,6	18	59,8	9
Employment rate Youth (15-24)	46,6	-2,6	22,9	-11,6	52,1	-6,7	63,6	1,5	67,8	12,4	30,1	8,1
Employment rate Low qualified (25-64)*	55,3	6,3	66,1	-4,9	65,6	10,6	66,9	5,9	63,7	11,7	58,1	1,1
Unemployment rate Total (15-64)	7,8	-0,7	3,8	1,2	7,8	-1,9	6,1	-2	3,9	-2,9	9,1	-3,3
Unemployment rate Low qualified (25-64)*	16,5	10,4	2,5	1,8	6,2	-1,9	3,5	-7	3,4	-1	9,8	0,8
LTU rate (>1 year)	45,5	1,2	0,5	-4,9	24,6	-20,8	9,1	-23	24,8	-24,6	34,7	-3,8

*Data 2008 - Δ 1995/2008

Source: OECD Database

The remarkable improvement on German labour market in recent years has two weak points: the still very high long-term unemployment (LTU) rate and the unfavourable labour market situation of low skilled workers. Although the employment rate of those with less than upper secondary education increased by 6.3 percentage points in the last 15 years it's still by 10 percentage points lower than in Korea, Denmark or UK.

However, to get a more precise picture of national labour markets performance measurement should not only be based on employment and unemployment rates but also on alternative states of non-employment. One reason that unemployment is quite low in Korea seems that many workers with non-standard work contracts move between employment and "out-of-labour force" rather than between employment and unemployment (Hwang 2010). In Europe we can also find considerable cross-country differences of non-employment rates. A closer look on data from the European Labour Forces Survey (EU-LFS) show that the share of inactive people due to sickness/disability is three times higher in Denmark, Netherlands or the UK than in Germany where people with health problems are rather (long-term) unemployed than incapacitated (Konle-Seidl 2009).

Over the past years, the German labour market has been transformed thoroughly. As a reaction on high and persistent unemployment in Germany, the largest labour market reforms in post-war history were implemented between 2003 and 2005. Beyond the deregulation of labour market segments like mini-jobs or temporary agency work (TAW) a re-organisation of the Federal Employment Agency took place. More pressure is put on the unemployed by activating means-tested benefit recipients and

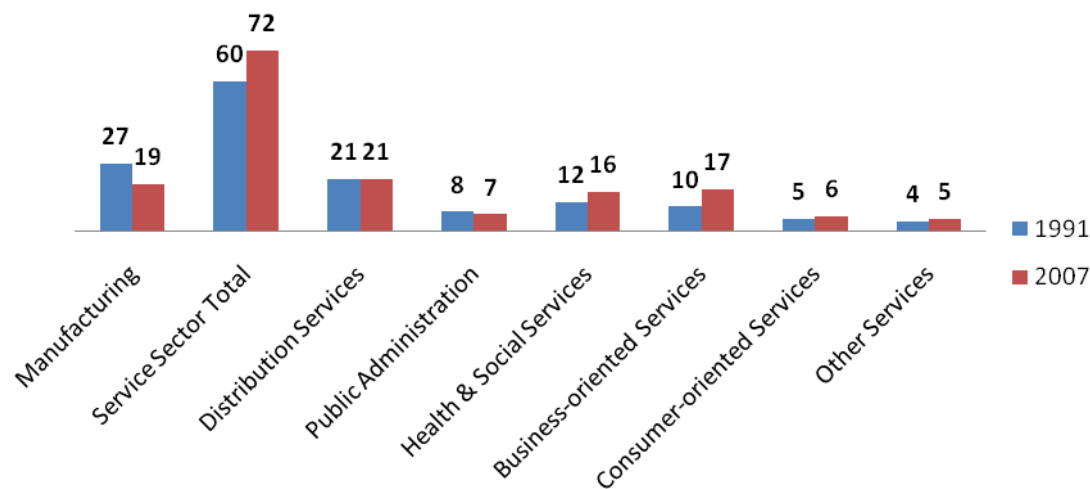
moderate wage increases were bargained between employers and labour unions. The international competitiveness of German products further increased. Exports and investment then boosted the economy, and the upswing reached the labour market in mid-2006. Matching efficiency increased for the short-term and particularly the long-term unemployed. Between 2006 and 2008 unemployment decreased by one third, long-term unemployment even by 40 percent (Klinger/Rothe 2010).

The process of improving labour market efficiency was not completed when the economic crisis hit the German labour market. The robust reaction of the labour market as well as the on-going decline in long-term unemployment can be at least partially traced back to the labour market reforms of the mid-2000s. Despite a sharp decline of GDP by nearly 5% in 2009, the employment rate as well as the unemployment rate increased by 0.2%-points. Another explanation of the remarkable performance of the German LM during the crisis is that the “diversified quality model” of production with developed instruments of internal flexibility still works at least in the traditional manufacturing industry. Thus sector-specific as well as institutional features are at the core of the German “job miracle” (Möller 2010).

One of the most fundamental changes in the German labour market is the growing dualisation between standard employment and contractual arrangements in atypical employment – to some extent accelerated by the LM reforms. But it’s foremost the long-term shift from employment in manufacturing to service sector jobs that has a direct and fundamental impact on the employment system and the character of work. Thus, historically established institutional complementarities between labour market regulation, unemployment protection and vocational training on the German labour market may have been altered substantially.

In the strongly expanding new segments of services (figure 2) the range of the standard employment relationship and dual apprenticeship training which were typical for the German coordinated market economy shrinks and gives way to a more polarized employment regime. This is characterized by stronger emphasis on external flexibility, general skills and a more dispersed wage structure due to the dualism between high skill and low skill services and a stronger reliance on flexible jobs and wages not set by collective agreements.

Figure 2: Employment growth in the service sector – employment decrease in manufacturing in % of total employment

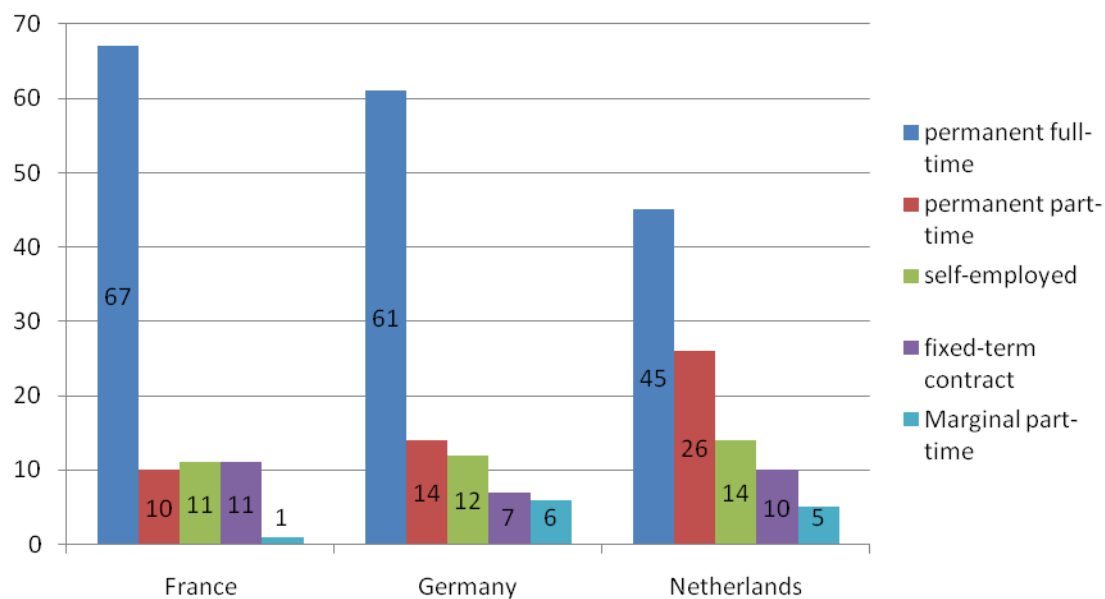


Source: Arbeitskreis Erwerbstätigenrechnung des Bundes und der Länder

Between 1997 and 2007 total employment increased by 2.3 million people. Non-standard employment contracts, esp. part-time less than 20 h, fixed-term work, temporary (agency) work and own-account workers account for the mayor part of the employment growth. The development of atypical work has many similarities with other European countries. Figure 3 shows that the share of different types of atypical contracts in 2007 was quite similar across countries.

However, a closer look also reveals considerable differences between national patterns of standard and non-standard work. In Germany marginal part-time provides a fertile ground for low-paid service jobs, as non-wage labour costs are minimised. In France fixed-term contracts are a flexible and also cheaper alternative to permanent contracts especially for younger workers. Dutch service sector employers follow an eclectic approach, as can be seen from high shares of self-employed and part-timers, as well as temporary workers (Eichhorst/Marx 2010).

Figure 3: Types of Contract 2007 in % of all employment contracts



Source: EU Labour Force Survey

The increased heterogeneity regarding employment contracts, skill and wage formation as well as modes of flexibility in the German labour market is highlighted in table 2. The findings of an in-depth analysis (Eichhorst and Marx 2009) are summarized for the manufacturing industry and for different segments of the service economy. According to the authors the dynamic job creation in these segments of the service sector was possible due to a less regulated institutional environment.

Table 2: Skills formation and modes of flexibility in different LM segments

	Manufacturing	Traditional services	New high-skill services	New low-skill services
Main examples	Metal working, engineering	banking, insurance, public administration	IT, media, creative economy	Cleaning, call centres, agency work
Skills formation	Sector specific/firm-specific		General, professional skills, often tertiary education	Rather ad hoc, general
Vocational training share	High		Low (except for routine/administrative tasks + increasing after consolidation of the sector)	
Lifelong learning	Rather limited		Personal investment in employability	Rather informal, on the job
Employment protection	Core element, large share of open ended contracts after apprenticeship		Limited applicability	
Tenure	Rather high		Rather low, pool of self-employed	Rather low
Wage setting	mainly through elaborated sector specific collective agreements		Individual contracts, some basic sector specific agreements	
Wage dispersion	compressed		rather high, volatile	rather high
Type of employment contract	mainly standard		mainly Non-Standard	
Share of atypical jobs	Low (TAW)		high (fixed-term jobs, interns, trainees, freelancer)	high (often part-time, Mini-jobs, fixed-term)
Mode of flexibility	mainly internal		mainly external	
Employment Regime	dual apprenticeship model in manufacturing and traditional services		dualised dynamic private services with either high or low general skills	

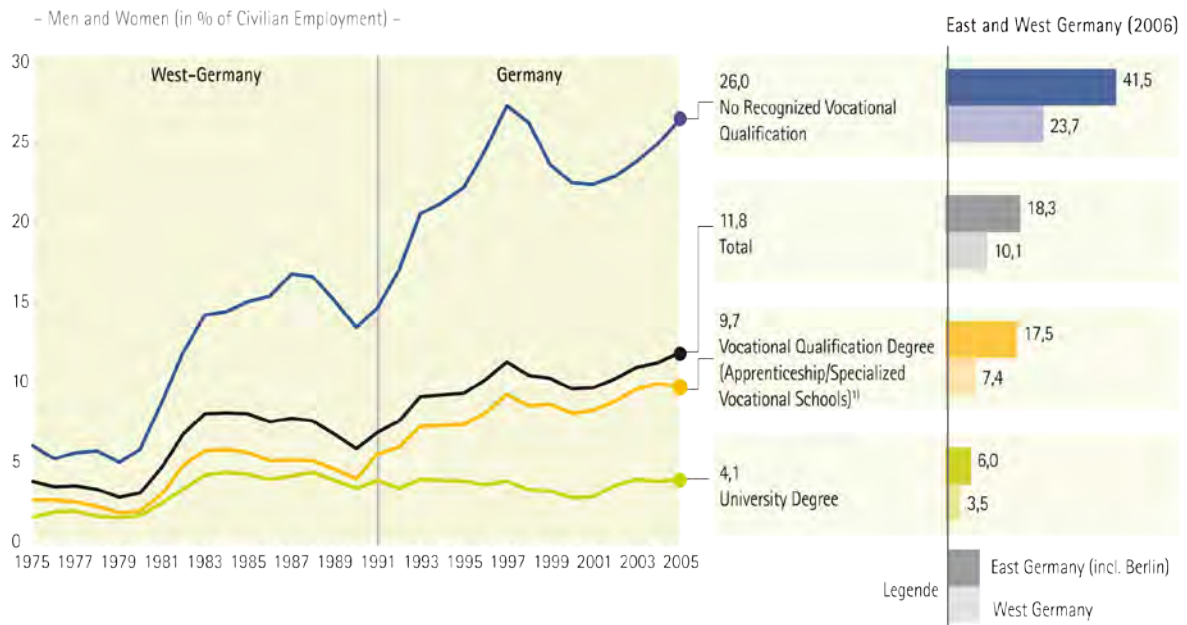
Source: Eichhorst/Marx 2009

5 Improving skills and qualifications as a mayor challenge for German LM policy

Despite – or because of - improved dynamics on the German labour market there are several policy areas to be addressed by a more preventive oriented labour market policy. Despite an expanding low wage sector, low skilled workers still face considerable employment problems. As depicted in table 1 above, the employment rate of workers with low educational attainment (ISCED 2) is still below the OECD average and the unemployment rate is higher than in other industrialised countries. The difference is especially striking when looking at qualification levels. Figure 4 shows

that the risk of being unemployed holding no recognised vocational certificate is more than twice the average rate and more than six times higher than holding a university degree. The fact that the gap has increased as times go by calls for policy intervention.

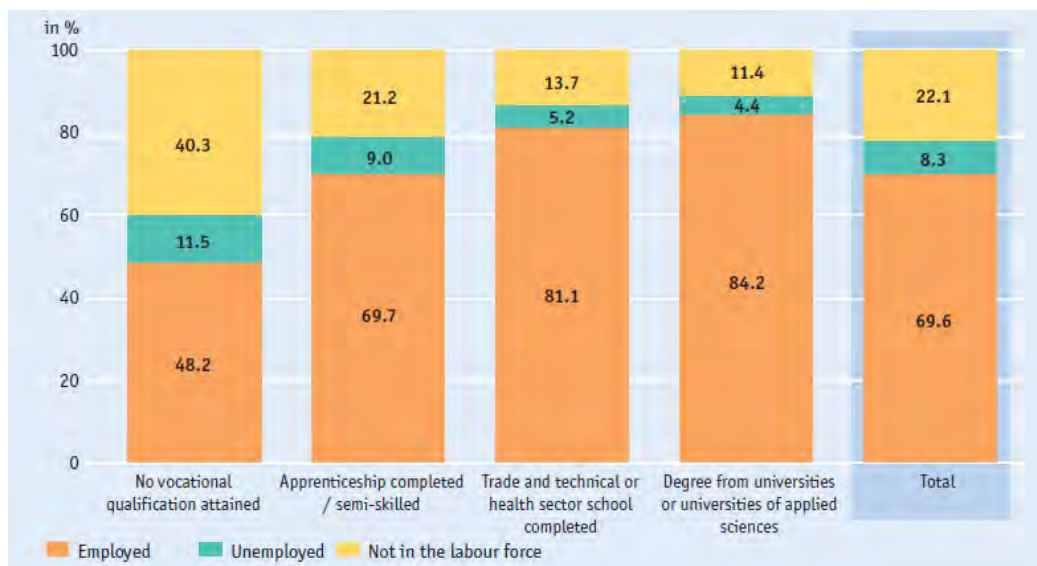
Figure 4: Unemployment rates 1975 – 2005 by level of qualification



Sources: IAB Calculations on Microcensus Data

However, not only the unemployment rate of people without vocational qualification is much higher but also their inactivity rate (figure 5).

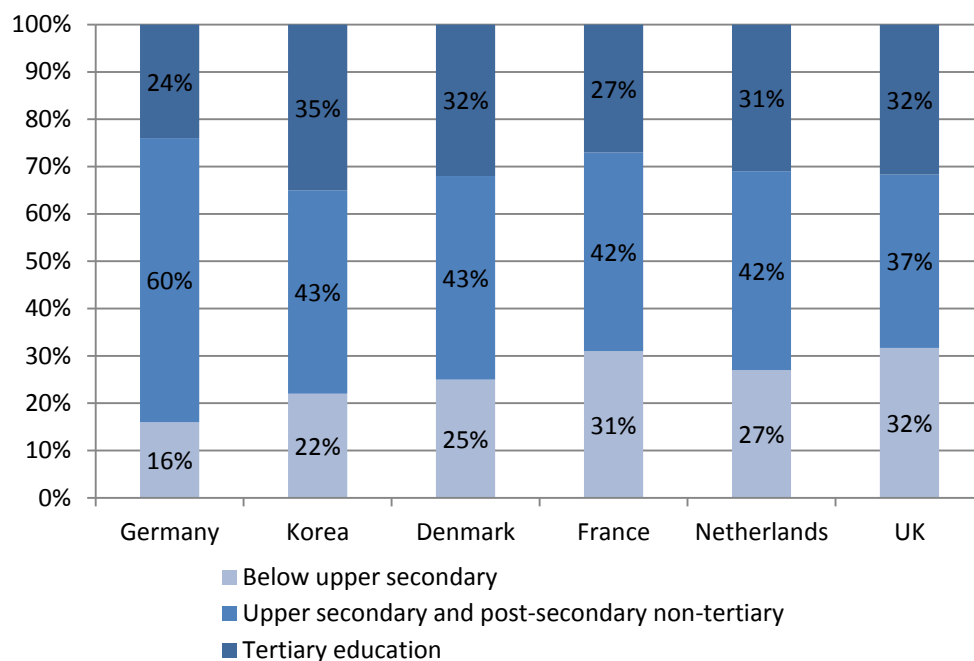
Figure 5: Employed, unemployed and non-active population (25-64) by level of vocational qualification attained (in %), 2004



Source: Federal Statistical Office Germany, Microcensus

Although the share of working-age population with an educational attainment below upper secondary education is rather low in Germany compared to other OECD countries (figure 6) the bad situation on the labour market for the low skilled working-age population remains striking.

Figure 6: Educational attainment of adults (25-64 years), 2007



Source: OECD Education at a Glance 2009

Hence, there is a shared conviction of improving the management of school-to-work especially the need to early intervention in order to reduce the rate of those entering the labour market without a certified vocational qualification. The aim of the government is to halve both, the share of school leavers without educational degree and to halve the share of those entering the labour market without vocational qualification.

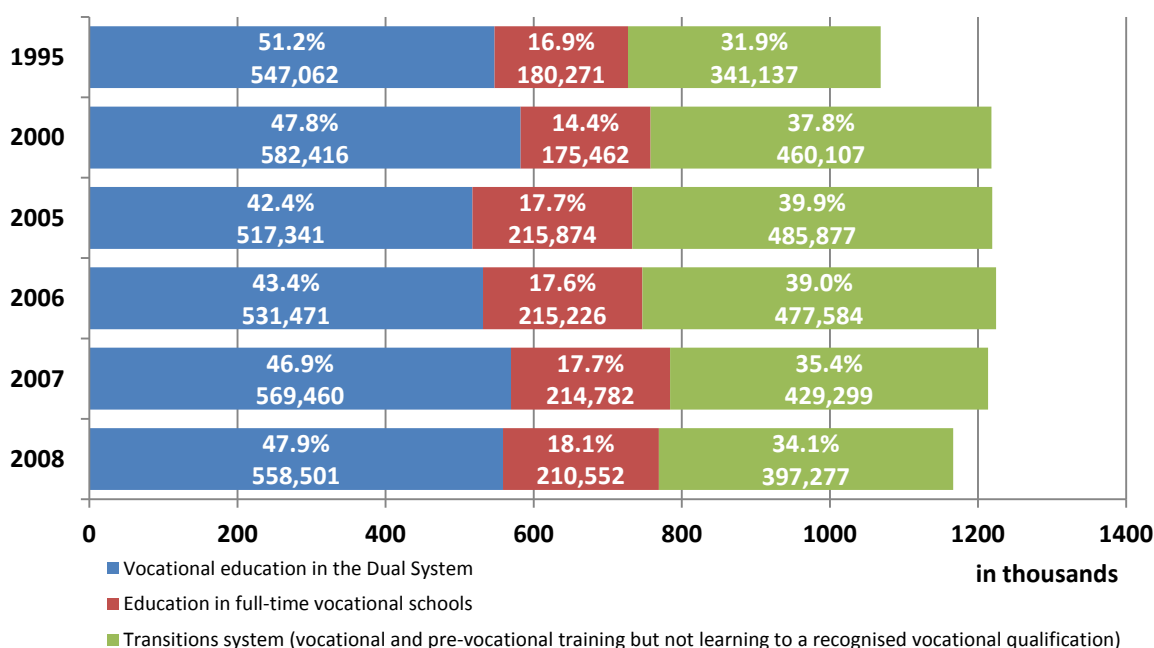
There is also shared conviction that due to demographic and structural changes there is an urgent need for up-skilling the already employed workforce. The current share of low skilled workers is considered as unsustainable in a country facing severe demographic changes and possible skill shortages. Labour market forecasts predict a decrease of the working age population by 10% till 2025 and a further decrease in demand for low-skilled labour. For those without vocational qualification the job prospects will worsen as the supply of low skilled labour will exceed demand by 1.3 million people in 2025 (Helmrich/Zika 2010). Thus, further vocational training has to be intensified especially for low-skilled and older workers. The aim of the German government is to raise the rate to 50% of workers participating in further vocational training.

5.1 The need for a better management of school-to-work transitions

In 2008 7.5% of all 15-to-17 youths left school without educational degree and about 16% of the young adults (20-29 years) had no recognized vocational degree (Education in Germany 2010). Holding no formal vocational degree undermines individual career prospects especially in a country where certified degrees are of great importance.

The German vocational education system has three main streams: the dual apprenticeship system, full-time vocational schools and the so-called transition system consisting of vocational and pre-vocational programs. The programs of the transition system do not lead to recognized vocational qualifications but at best to the improvement of individual skills as a basis for entering dual apprenticeship training. Figure 7 gives an overview of the distribution of new entrants to the three sub-systems between 1995 and 2008.

Figure 7: Distribution of new entrants to the three sectors of the vocational education system, 1995- 2008



Source: Federal Statistical Office Germany and the Statistical Office of the Länder, own calculations and estimates on the basis of school statistics; Federal Employment Agency, own calculations

A major part of the transitions programs are run by the Federal Employment Service, the Bundesagentur für Arbeit (BA). The different programs and participation numbers are listed in table 4 (below) under the heading of “special support for apprenticeship”. They are funded by the unemployment insurance (for UB I recipients) as well as by general tax revenues (for UB II recipients) amounting to almost 1.4 billion € in 2009 (table 3).

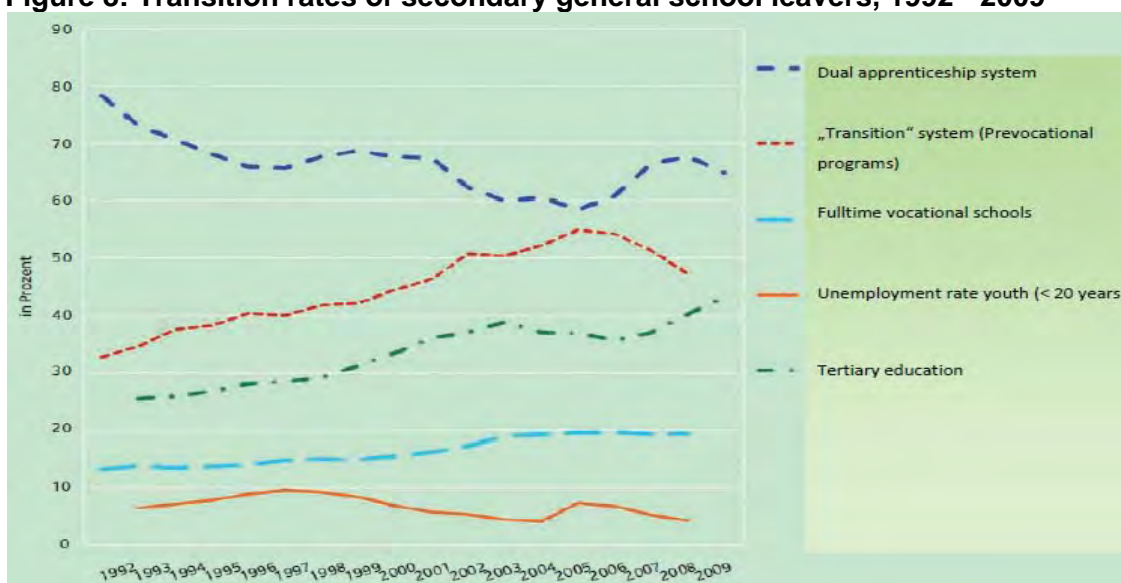
Table 3: Expenditures on different ALMP programs in 2009

Expenditures ALMP (2009)						
	UBI		UBII		UBI+II	
ALMP	in 1.000 €	% of total	in 1.000 €	% of total	in 1.000 €	% of total
Improvement of chances for reintegration into	1.879.130	35	1.559.258	31	3.438.388	33
Employment incentives	2.569.352	47	1.050.443	21	3.619.795	34
Job creation activities	42.663	0,8	1.841.161	36	1.883.824	18
Special support for apprenticeship	926.055	17	452.274	9	1.378.329	13
Other	26.033	0,5	188.948	4	214.981	2
Total	5.443.233	100	5.092.084	100	10.535.317	100

Source: Federal Employment Office

Figure 7 shows that participation in the (non-tertiary) vocational education system increased by 28% between 1995 and 2008. The increases in the three subsystems, however, differ greatly. Between 1995 and 2005, the share of training contracts under the dual system decreased while the number of new entrants in the transition system increased by about the same extent and the share of full-time vocational schooling remained almost unchanged. The structural shifts between the three subsystems over the past ten years reveal the growing difficulties which young people are facing in the transition from school to vocational training or employment. Firms increasingly complain about low social and technical skill of applicants for dual apprenticeship training. At the same time the skill requirements in many occupations increased. However, since 2006 the trend seems to reverse. For the first time in the last decade the number of new entrants into dual apprenticeship increased and the number in the transition system decreased (figure 8).

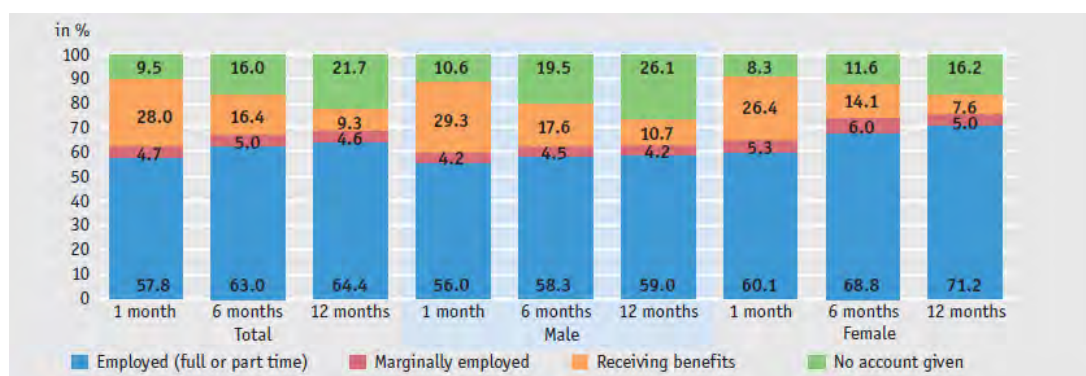
Figure 8: Transition rates of secondary general school leavers, 1992 - 2009



Source: Federal Statistical Office, Federal Employment Office, Federal Institute for Vocational Education and Training

The dual vocational apprenticeship system is at the core of the vocational education in Germany: apprentices receive a rather general school-based education (financed by the state) combined with three or four days per week of workplace-related training paid by the firm. Although in the past years the dual apprenticeship system has seen declining training ratios in 2008 about two thirds of all school leavers started a dual vocational training. Direct transition of training graduates to regular employment in their training companies is among the main strengths of the dual system. Figure 9 depicts that in 2005 58% of training graduates got a full-time job after one month increasing to 63% after 6 months.

Figure 9: Work status of vocational education and training graduates in 2005, one, six, and twelve months after completing their training, by sex (in %)



Source: Institute for Employment Research of the Federal Employment Agency (IAB), History of employment benefits, Calculations by IAB and own calculations

The transition system has expanded for years and it now bears the brunt in preparing students with low levels of educational attainment for vocational education and training. Youths with migration background account for 60% for students in the transition system. Despite important investments there was no sound evaluation of most of the transition programs, a situation giving cause for concern.

The transition system records drop-outs and some of its students transfer from one measure to the next. Transition pathways to a fully qualifying vocational education are thus in some cases very long. Six months after leaving the general education system, only one third of the largest group of students in the transition system that is youths with a lower secondary general certificate (Hauptschulabschluss) or without any certificate, manage to obtain a fully qualifying training place within 18 months. Three quarters of all youths are in a fully qualifying training scheme 30 months after leaving school, while the rate is 60% for youths with and without the secondary general qualification. Since sometimes several measures are attended in direct sequence and the educational pathways of youths with and without general secondary qualification are significantly less successful, the effectiveness and efficiency of the system are questionable (Education in Germany 2008). The re-organisation of transitions programs to improve the effectiveness and efficiency in preparing young people to enter a fully qualifying vocational education is thus a crucial challenge.

5.2 PES activities to improve school- to-work transitions

A first step was made in 2004 in the context of the “national agreement on training and the need for skilled labour”, concluded between the government and the industry in cooperation with the main actors in the areas of general and vocational education (chambers of commerce and crafts, Ministry of Labour, schools, the Federal Institute for Vocational Training and the Bundesagentur für Arbeit). The industry offered – inter alia – 40.000 training places for so-called “entry-level training places”, internships in companies between 6 and 12 months designed for youngsters facing various barriers to take up a regular training in the dual apprenticeship system. The new program aiming to enhance the employability of school leavers not “mature” for dual apprenticeship was introduced carefully. The trainees get a monthly subsidy from the unemployment insurance (€212 + coverage of health and other social insurance).

When implementing the new programs accompanying evaluation has been mandated by the Ministry of Labour avoiding thus the mistakes of the past where no robust information was available about the effectiveness and efficiency of pre-vocational programs despite high investments. Evaluation results of the entry level training are impressive. After completing the program 63 % of participants started a regular training or employment contract in 2005/2006 in the private sector compared to just 30% of a control group. Due to the positive results this special program was converted into a regular ALMP instrument run by the PES in cooperation with the chambers of commerce and crafts.

http://www.bmas.de/portal/46970/2010_07_19_bericht_einstiegsqualifizierung.html).

The experience with disadvantaged youth (especially from migration backgrounds) made clear that they need more differentiated and earlier intervention beyond the regular career guidance service provided to school leavers. The BA thus started in 2006/2007 the pilot project “increasing graduation quota - enhancing occupational capacities”. The pilot project is an attempt to increase the chances on a successful transition from school to vocational training of low qualified young people. The project seeks to increase the occupational orientation, the learning motivation and practical relevance of education by “job start accompaniment” in which the students are supervised by mentors (“career start tutors”) and attended two days of practical training a week already in grade 8.

With regard to the main objectives the project in general has been successful. 92 percent of the students, who have been attending the program during the whole period, have graduated from school successfully. 47 per cent of program participants – compared to 38 per cents of a control group – have started dual apprenticeship training. However, the success was limited by a high fluctuation rate and was less successful for students with good school achievements and for female students (Solga et al 2010).

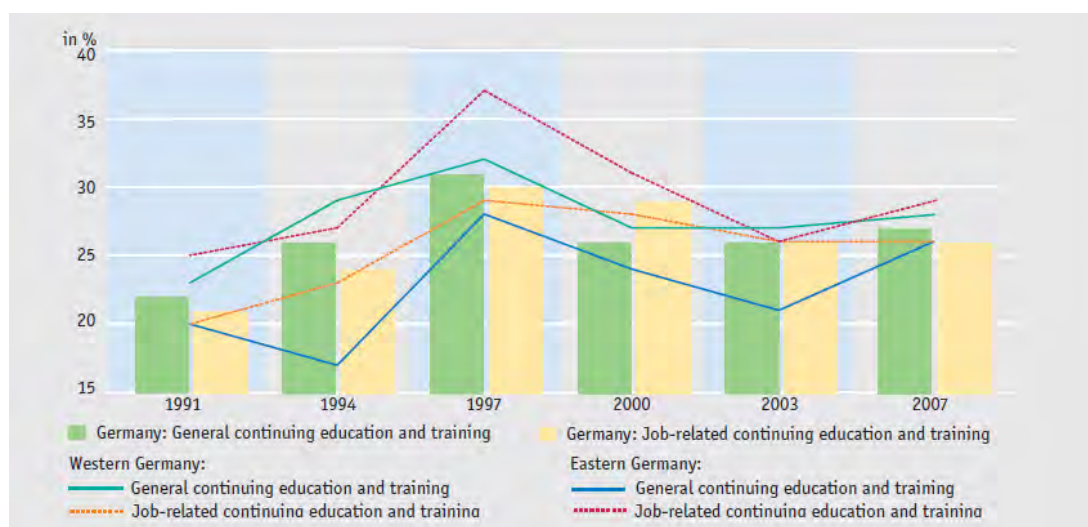
The extension of the pilot project to all German regions is facing several limits. Beyond an (state-of-the art) evaluation problem deriving from the difficulty to build up reliable indicators measuring the performance of school-to-work transition management there are also legal constraints. The most important derives from the distribution of competences in a federal state. In Germany the States (Länder) bear the responsibility for the general education system but the federal level (Bund) is responsible for vocational training. As in early intervention programs both levels of government are affected. Thus, a clear regulation of decision powers as well as financial responsibilities is required. While the financial responsibility for the early intervention pilot programs is divided (programs are 50% co-financed by the Länder) the organisational responsibility is rather unclear. In the end, the Federal Employment Service could just give impulses to the federal states how to implement a successful transition management but could not manage them by itself.

5.3 The need to intensify further vocational training of employed workers

As outlined above there is not only a need for a better school-to-work transition but also an increasing need for up-skilling the already employed workforce. From a macroeconomic but also from an individual employability perspective there are good reasons to foster continuous job-related re-training. This holds especially for low skilled workers without vocational degree but also for those with vocational qualification. It seems that the traditional picture of a solid initial vocational degree acquired in the dual apprenticeship system does not fit anymore.

Figure 10 shows that in contrast to public rhetoric on the importance of lifelong learning the participation in job related continuing education and training have been decreasing since 1997. Despite the general decrease the clear divide between groups with low and those with high levels of educational attainment has remained largely unchanged. In 2003 for example, 39 % of university graduates participated in job-related continuing education, which was five times the number of participants without vocational qualifications (7 %) and still twice the number of training graduates from the dual system or full-time vocational schools (18 %). Hence, those most in need of job-related further training have the lowest participation rates: low-skilled, migrant workers, older people, and women with care responsibilities.

Figure 10: Participation in general and job-related continuing education and training 1991 to 2007 in Eastern and Western Germany (in %)

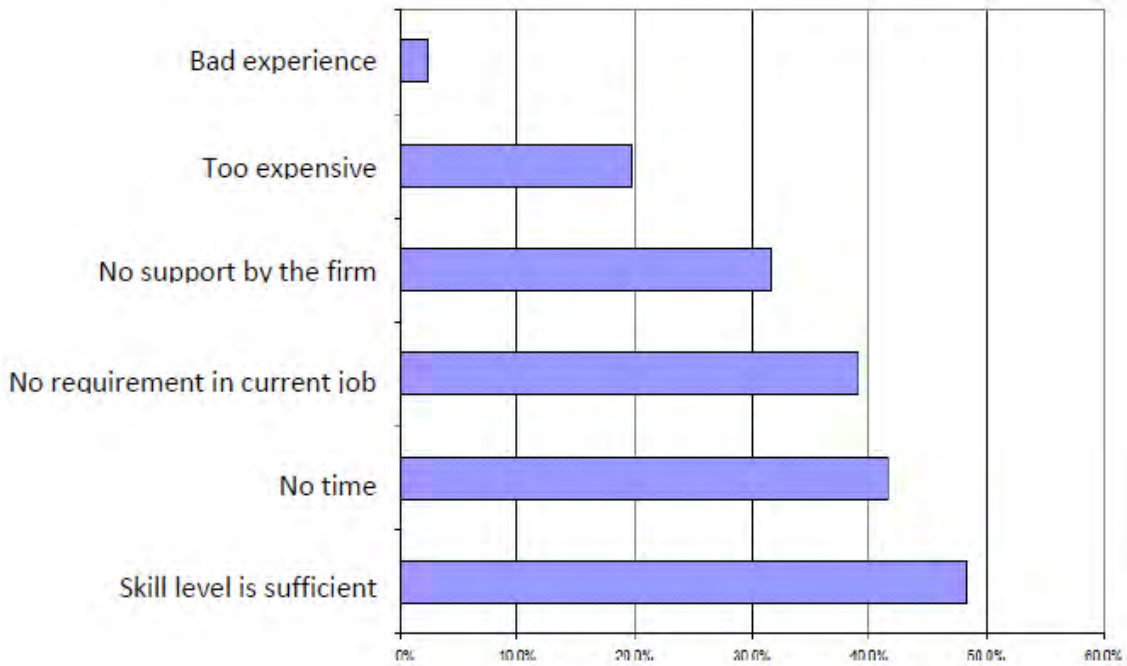


Source: TNS Infratest Sozialforschung, Reporting system on continuing education and training (BSW)

However, there are data problems when assessing the real share of people participating currently in job related continuing education and training. Whereas figures based on the European Survey on Continuous Vocational Training (CVTS) state that just 8% of all employed workers and 54% of all companies participated in 2005 in continuing vocational training the establishment panel of the IAB record 22% of all employed workers and 43% of all companies. Nonetheless, despite different data sources, participation rates in re-training – both of firms as well as of workers - can be considered as too low.

Although 70% of employed workers are convinced that further vocational training is an important tool to maintain and improve their employability actual participation is relatively low. Looking for the reasons of non-participation, nearly 50% of the workers assess their skill level as sufficient and more than 40% quote that there is no time for re-training activities (figure 11). Older workers also mention that they fear to fail and that the remaining time in employment is too short to start further training activities (Bender et al 2009).

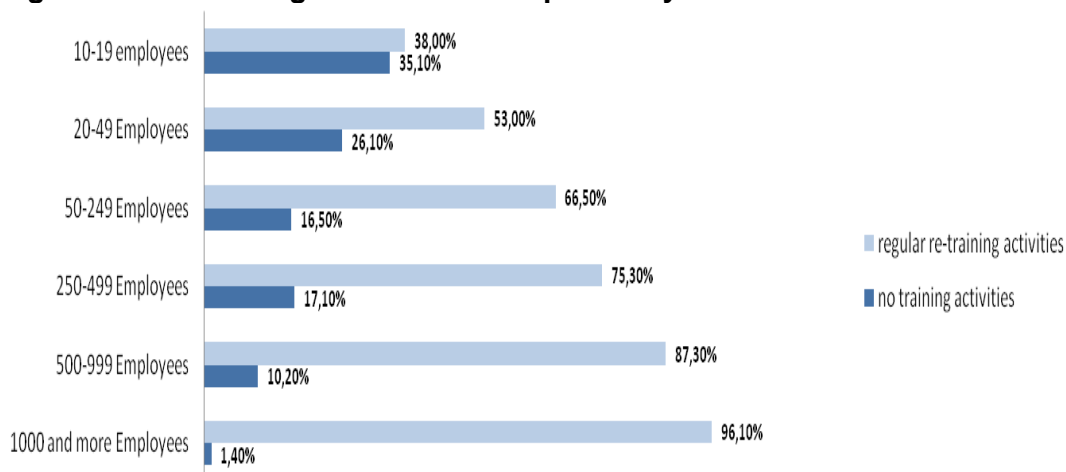
Figure 11: Why do workers not participate in training measures?



Source: IAB (LIAB/WELL)

Figure 12 shows that re-training offers are especially low in small and medium-sized firms (SME). That is of major concern as 70% of dependent employees work in SMEs. Factors determining firms' low further training activities are mainly high costs and organizational problems when worker are leaving temporarily for (external) re-training courses. As SMEs usually do not have HR development strategies, they do not have a clear idea about further skill and qualification needs either. SMEs also quote that they have insufficient information about (external) training offers and they probably assess the returns on re-training activities as rather low (Leber 2010).

Figure 12: Re-training activities in companies by firm size



Source: Federal Institute for Vocational Education and Training (BIBB) targeted PES programs to support re-training for employed workers

The provision of re-training programs for unemployed but not for employed people has been traditionally a core feature of active labour market policy in Germany. Table 4 provides data on participation in different re-training schemes as well as success rates (gross and net integration rates) for some of the most important schemes. In 2009 the BA spent about 2.2 billion € for the re-training of unemployed people (incl. living allowance) and nearly 0.7 billion € for training during short time work as well as for re-training of low-skilled and older workers employed in SMEs. As (short term) net effects of training programs for unemployed are rather low (see table 4) it's an important question if preventive programs for employed workers with high risk of becoming unemployed could provide better results in terms of effectiveness and cost-efficiency.

Table 4: Overview of participation and success of PES programs

Participants in selected programmes of ALMP (2007-2009)	Gross integration rate (% of participants)			Net employment effects (%)*		
	2007	2008	2009	UB I	UB II	UB II
Job Search Assistance	86.206	135.380	254.784			
Re-training	225.699	251.439	263.686			
<i>Re-training (longterm)</i>	131.714	154.088	198.104	57,0	33,0	4 (6)
<i>Re-training of disabled persons (longterm)</i>	16.886	16.570	17.620	41,8	22,4	
<i>Skills assessment and training activities (shortterm)</i>	77.099	80.723	38.592	54,1	30,7	13 (19)
<i>Training during short time working schemes</i>	-	59	9.370			
Special support for apprenticeship	282.865	303.603	356.350	63,4	34,8	
<i>Advanced and in-depth occupational/career orientation</i>	2.263	26.958	51.624			
<i>Pre-vocational training measures.</i>	72.616	67.310	67.600			
<i>Vocational training for disadvantaged persons</i>	125.316	127.167	131.330	64,7	34,0	
<i>Entry-level qualification (EQJ)</i>	23.381	21.285	19.446	46,2	37,2	
<i>Special training activities for disabled persons</i>	47.028	44.913	43.046			
<i>Training bonus</i>	-	3.892	18.227			
<i>Job start accompaniment</i>	-	-	12.965			
<i>Subsidies for vocational training</i>	106.914	109.771	118.942			
<i>Other schemes to promote vocational training</i>	12.263	12.078	12.112			
<i>Thereof employer subsidies rehab</i>	8.055	7.735	7.519			
Employment incentives	392.812	370.682	371.393	60,7	51,3	
Direct job creation	365.939	355.226	338.301	37,6	17,6	
Other	211.504	183.005	97.417			
Total	1.565.025	1.599.335	1.681.931	56,00	27,50	

* Difference between employment rate of participants compared to a non-participating control group 180 days after the end of an activity (observed time period: July 2008 - June 2009)

Source: Federal Employment Office

Nonetheless, it is just recently that the BA has started to develop programs aiming to extend re-training programs to the already employed. Based on the above mentioned survey findings on participation in re-training activities a twofold strategy can be observed. On the one hand programs targeted to low skilled and older workers in

SMEs (WeGeBau) have been implemented. On the other hand programs to support SMEs by building up networks to strengthen the management capacity for re-training have been initiated.

The main problems of SMEs to offer and handle re-training activities are addressed by intensive counselling activities and financial support. Activating abstinent SMEs by raising the awareness for re-training, providing a toolbox for HR counselling and building up local qualification networks for joint re-training activities are at the core of BA activities in this area. Financial resources are provided within the legal framework of testing innovative approaches. The pilot scheme “counselling on skill needs to secure employment and avoid skill shortages in SMEs” started recently in selected areas and in sectors facing already skill shortages like the metal-working industry. The evaluation of the schemes is mandatory. First results should be available in 2011.

The networking and counselling project is also linked to the “WeGebAU” (building pathways) program. In 2006 the Federal Employment Agency extended for the first time re-training programs to already employed low-skilled and older workers. The new program is financed out of the UI system. 332 Mio € were spent in 2009 on this program compared to 1.262 Mio € for re-training unemployed people and about 150 Mio € for re-training programs during short time work (BA 2010).

Using unemployment insurance funds for job-related re-training courses of employed people have been legitimated by the fact that low skilled and older workers have a high risk to become unemployed. Moreover, re-training activities to improve their employability would improve their chances of finding a new job in case of job loss. Increased training participation is thus regarded as important factor to stabilize employees' job security. In this sense the program has been accepted as a preventive approach.

The program consists of a wage subsidy for low-skilled workers (incl. training voucher) and a subsidy to vocational training expenses for workers above 50 (45) in SMEs with less than 100 (250) employees. It is perceived as a kind of start-up financing for SMEs to build up sustainable re-training activities. In 2009 around 1000.000 workers participated in the program. A survey of 14.000 establishments revealed that about 20% use the program whereof 85% made a positive evaluation. About 20% of the SMEs using the program quote that they have developed further re-training activities and 23% want to increase their activities in the near future. This could be seen as success as increasing responsiveness to further training activities is a mayor aim of the program. However, the success was limited by the fact that bigger companies use the instrument more than small ones (< 10 employees) (Lott /Spitznagel 2010).

However, no casual impact analysis of the “WeGebAU” program is available so far. But short-term casual effects of a similar training voucher program (Bildungsscheck)

implemented in the German federal state North Rhine-Westfalia (NRW)³ show that the share of establishments that invest in training increased by 4-6 percentage points without lowering the training intensity among those establishments already investing in training. Therefore it can be concluded that the program was able to stimulate training of SMWs that were less active in the training market in the past. Further research has to focus on the long-term effects for participating establishments (increased returns for establishments in terms of productivity increases) as well as on the impact of individuals in terms of job stability and employability (Görlitz 2010).

6 Possibilities and limits of PES in promoting transitions: Lessons from the German case

The current low participation rate of low skilled and older workers in re-training activities as well as the relatively high share of youth without vocational qualification have been identified as two major challenges in the German labour market. A more preventive, TLM oriented labour market policy has to address these challenges.

Although traditionally not at the core of PES activities, the Federal Employment Service, the Bundesagentur für Arbeit, started recently to engage in activities aiming to improve the management of school-to-work transitions as well as re-training activities of already employed workers. Well established public employment services are a precondition for effectively implementing TLM oriented policies. The Federal Employment Service has built up important institutional capacities in employment services. Since its creation in 1927 it has been a one-stop-agency integrating the administration of unemployment benefits the delivery of placement and counselling services and implementing active labour market policies. As a self-governing public institution the BA is financed largely from contributions paid by employer (50%) and employees (50%). The BA has more administrative autonomy than most other European PES offering a wide range of employment services beyond conventional job matching and information services like vocational career guidance, the matching of apprenticeship training places or the implementation of rehabilitation programs.

In the sense of risk-mitigation the BA is extending its counselling and advice services further.

Targeted re-training programs for low skilled workers and SMEs as well as “job start accompaniment” programs for school leavers are currently tested in pilot projects.

³ The NRW training voucher program, implemented in 2006, reduced direct training costs per course by 50%. Both employees and establishments with less than 250 employees could obtain vouchers. Receiving vouchers was restricted to employees who did not participate in training in the previous and in the current year. High subsidy and easy access to the program for a wide range of employees attracted many establishments and employees. The program had a high demand because more than 140.000 vouchers were issued within the first 1.5 years.

Careful designed programs in cooperation with other actors can make a difference. Preliminary evaluation results of early intervention and extended re-training programs are promising so far.

Nonetheless, the BA is not the only actor in the field of training and re-training. At the moment there is rather a coordination problem than a lack of programs and providers. Hence, among a multitude of actors the Ministry of Education alone provides 193 single programs in the so-called “transition system”. To make the system more transparent and cost-effective it should be clear who is on the driver seat.

There are no doubts that in cooperation with other actors the BA can provide valuable impulses to make transitions to further vocational training pay. But with respect to the increasing funding of continuous training programs out of the unemployment insurance there are also serious concerns about the intervention role of the BA as insurance agency. Extending the existing training voucher program for SMEs or even institutionalizing life-long learning as a social right by converting contribution based unemployment insurance into employment insurance – a prominent TLM recommendation - would require high financial resources other things being equal. As a consequence UI contribution rates must be increased which in turn would have negative effects on job creation as direct wage costs increase simultaneously.

Another concern is related to possible adverse impacts on individual as well as corporate responsibility. Strong public intervention could undermine the responsibility of individuals as well as of firms to invest in life-long learning. Risk-sharing by firms, individuals and the state may be therefore a more financially feasible solution to enhance life-long re-training in the long run. Extending the regulating of life-long re-training in collective agreements like in the metal and electronics industries as well as providing tax incentives for training firms and workers are alternative possibilities worth to be considered.

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