Interview on financing vocational training in the Federal Republic of Germany

Introduction

The position of the employers’ associations is explained below by Jobst R. Hagedorn of the Bundesvereinigung der deutschen Arbeitgeberverbände (National Federation of Employers’ Associations), Cologne:

Making enterprises financially responsible has proved a success. Of course, a few details in the present system need to be changed, such as the time spent at vocational schools and the high training remuneration in some branches. However, a restructuring of financing by means of a levy is firmly rejected for fear that companies would then offer fewer training places. These fears are fuelled by the negative experience France has had with a levy.

The trade unions, however, as Dr Regina Görner, member of the executive committee of the DGB, (the Federation of German Trade Unions) explains, are in favour of in-company vocational training financed by a levy. The trade unions criticise the current system for failing to provide sufficient in-company training places for all young people. They believe that a levy would provide sufficient means to prompt companies to provide training beyond their own requirements. The AER system in Denmark is cited as a successful example of this alternative financing structure.

How is financing of vocational training in the dual system fundamentally regulated? How is in-company vocational training financed?

R.G.: Each enterprise covers its own personnel costs for trainers, the material costs for in-company training and the communes. The Länder and local authorities bear the personnel costs for vocational school teachers and the material costs for equipping the vocational schools.

This balanced financial responsibility has now become a burden for the public authorities. With the private sector’s growing reluctance to offer training, companies which provide training are increasingly being subsidised by the taxpayer. In the new Länder this already applies to more than two thirds of all training contracts signed. In western Germany as well, more and more public financial incentives exist for in-company vocational training.

In Germany, vocational training is conducted in training enterprises and vocational schools, in other words in the dual system. In general, the financing of this type of vocational training is shared: on the one hand enterprises finance their share of the training, i.e. remuneration for the young people and the costs for trainers. On the other hand, the authorities (the German Länder and communes) fund the vocational schools. Currently not only the political parties but also the employers’ associations and trade unions are in dispute about who should finance in-company vocational training.

J.H.: The funding of in-company vocational training in Germany is shared. On
the one hand, enterprises bear the training costs which are incurred on the premises. Here we must mention in particular the monthly training allowance paid directly to trainees. Additionally, the company pays the usual German social security contributions to the pension, unemployment, health and invalidity schemes as well as the full rates for accident insurance. The company also pays the same extras received by their regular staff such as Christmas bonuses, holiday bonuses and other benefits. In addition to these direct training costs, enterprises also bear indirect training costs, such as the cost of training personnel, training resources, material costs for machinery and its use, wastage due to training in production areas, as well as teaching material, etc. The second part of vocational training, the more theoretical training at vocational schools, is financed by the Länder.

This system has been recognised for decades and has not been called into question, at least as far as companies are concerned. The benefit for enterprises is that a well-qualified team of future staff is properly trained. The advantage for all enterprises in the economy is that because the certificates are by and large standardised, comparisons of qualifications can be made. It is also easier to recruit suitable new staff from the external labour market on the basis of their qualifications and the time spent familiarising such staff with their new jobs is reasonably short.

For the employees who gain their qualifications in a company under the dual system it is very important not only that they have excellent chances of finding a job in the training company after completing their training there but also that their certificates are recognised elsewhere. Occupational qualifications obtained in the German dual system enable a young person to change jobs relatively easily as these qualifications are generally recognised and appreciated.

What criticism can be levelled at the present financing structure?

R.G.: The existing financing structure provides no guarantee that all young people will find an in-company vocational training place. At the start of this training year only three in-company vocational training places are available for every four applicants. Cyclical fluctuations and demographic changes lead repeatedly to imbalances in supply and demand.

Subsidising in-company training places with taxpayers’ money makes enterprises less willing to finance training themselves. Consequently, the system is increasingly undermining itself.

Long-term economic demands are not taken into account in individual company financing decisions. Enterprises are trying to cut back on costs in general and on training costs as well. In view of the short-term drop in demand for skilled workers and the large number of qualified staff on the labour-markert, training to meet companies’ own needs is often hard to justify, especially as the benefits of training are difficult to quantify.

The current financing system offers no incentives for expanding training activities. It tends rather to deter companies from training. Because training enterprises incur costs which their competitors who refrain from training do not have, distortions of competition occur, which favour those companies not training.

Even if the benefits of training to meet a company’s own needs are recognised, training beyond this can no longer be justified from the cost angle. For quality and practical reasons there is no point forcing companies to train their own junior staff. Training in excess of current demand is, however, vital. In practice it has always played an important role. At present fewer than 30% of companies offer training, and increasingly only to meet their own needs. With the current financing system, enterprises will never be willing to allow training in excess of their own requirements to become the norm again. One must also criticise the fact that compensation for lost training places, a burden which must be carried by the State, leads to a higher percentage of government financing.

J.H.: Employers criticise the developments of the past decade. The reduction in working hours during training pushed through by the trade unions is one of the factors
contributing to the huge drop in the number of hours trainees spend in the company. Although working time in the metalworking industry, for example, was cut from 40 to 35 hours per week, the time trainees spend at a vocational school has remained unchanged at twelve hours per week. In addition, the schools often split these twelve hours unfavourably into two daily sessions of six hours each. As a result trainees spend only three days a week in companies. This is not sufficient for enterprises to meet the vocational training costs of around DM 100 000 without difficulty. While training, trainees can certainly already be working productively in the company and in this way also help to lower the costs of their training.

For this reason, the National Federation of Employers’ Associations is calling for abolition of the trainees’ second day at vocational school from the second training year onwards, while teaching during the first year should be intensified. This, as well as bringing vocational school classes more into line with the needs of the enterprises, would enhance the time spent in the company from the second year of training onwards.

In recent years, the amount of the training allowance has also been subject to discussion. With the trainees’ high wage levels and the increases that were agreed upon in recent years, some branches are faced with rates which could justifiably be reduced. The goal here is to maintain or even boost training capacities in a given sector or company by reducing training allowances. Additional training places could be created in this way. The National Federation of Employers’ Associations is demanding opt-out clauses in collective wage agreements which allow every enterprise to decide whether to make use of this possibility of reducing training remuneration at the same time as consolidating or increasing their training capacities.

Despite the high gross - and ultimately high net - costs of training, successful vocational training can pay for enterprises. However, this will only be the case so long as well-qualified skilled workers are needed in the medium term. A tally of the opportunity costs for hiring external staff quickly indicates that training in one’s own company is worthwhile. Companies which offer training places anticipate a demand for replacements or new staff in the medium term.

This system of placing economic responsibility in the hands of enterprises has proved successful. Even the difficulties caused by the economic collapse of the GDR, which led to enormous losses in traditional training capacities, could be addressed relatively quickly. Now 92% of all vocational training places in the former GDR are provided by enterprises. In East Germany, full funding because of structural adaptation problems is only necessary for 8% of the trainee positions offered. Despite a steep cut in personnel since 1992, which has resulted in a total of 1.5 million job losses, every suitable young person willing and able to be trained could be offered a training place in western Germany. Although in 1997 more than 400 000 jobs were lost, the number of training places available could even be increased. Around 1.6 million young people are still being trained in the dual system. That is almost 65% of the young people in any one birth cohort. So the dual system is neither ‘threatened’ nor ‘in decline’ as, for example, some trade unionists claim.

The dual system of in-company vocational training is stable. However, in the coming years we can expect certain challenges as the demand for vocational training places rises due to higher birth-rate figures. Enterprises will have to make a greater effort to meet these challenges. This must, however, be accompanied by a few changes to certain aspects of the present system, some of which have already been mentioned. Besides more flexible vocational school hours and lower or frozen training allowances, more occupations of e.g. two-year training periods must be reimplemented. Many of the current occupations originated in the forties and fifties. They are in dire need of modernisation. These occupations will offer a better chance to those young people who, due to the increasingly demanding training regulations, have difficulties with a three-year, theoretically very demanding training course. In more practically-orientated occupations with a two-year training course, these trainees would have every chance of completing their course successfully.
What do you expect from a new financial structure for vocational training?

R.G.: Firstly, if in-company vocational training is financed by a levy, the distortion in competition between training and non-training companies will be eliminated. The decision in favour of training would be easier. Companies would consider carefully whether to train themselves or to pay the levy. This would reverse the trend of fewer companies offering training.

Additionally, means would become available to encourage companies to train beyond their own needs. There would then be sufficient training available to guarantee training places for all young people.

The almost 20 years’ experience with levy financing in the building industry shows how justified such expectations are. This branch, regularly hit by crises, trains to a far greater extent than other economic sectors. It has also proved its efficiency in the new German Länder, where the expansion of dual training is making very slow progress. The building trade offers by far the most training places. Statutory levy financing will on the whole ensure that more emphasis is placed on the qualification needs of the country’s economy. While individual companies would still make training decisions, there would be fewer reasons to cut back on training, and incentives to train would be increased. In this way, economic structural changes can also be backed by channelling training funds into industries with a future.

J.H.: The German training market has diverse problems, so only a multifunctional approach can succeed in creating more training places. The German trade unions, however, are of the opinion that a ‘monofunctional’ approach will solve the various problems. They are pushing for a completely new financial structure by means of a ‘training levy’ which will forcibly include enterprises in the funding of a State-controlled training system.

The new financial arrangement involves a serious structural breach. The concrete form of the draft legislation currently under discussion in Germany on this ‘compulsory levy’ clearly contains aspects of a planned economy which bombard enterprises with State intrusions. This approach, which contradicts the very concept of a free and social market economy, goes hand in hand with a large degree of bureaucracy and accompanying high administration costs. These costs must be borne, directly and indirectly, by the enterprises. Training thus becomes more expensive for the national economy. In addition, the new financing system will bring about change in form as State-planned training will increasingly be based on applicants’ wishes. The requirements of the enterprises, which demand certain qualifications by providing training places, will become secondary.

This approach will lead straight to high unemployment. Many of the young people trained ‘according to their own wishes’ will find that their qualifications are not needed or are not sufficient. The resulting unemployment and ensuing costs will further increase the overall economic impact of a compulsory training levy.

The economy in general, which is essentially to finance the fund, will experience a steep rise in costs. As a result, jobs will be endangered or even lost in the German economy, which is already confronted with fierce international (cost)-competition. If additional jobs are lost due to the levy, creating training places will become more than difficult.

A training levy therefore threatens to destroy training places. It is significant that the trade unions as well as the political parties, who are vehemently calling for this levy, do not train at all themselves or do so on a very small scale only. They are neither willing to face up to the social and political responsibility of training, nor do they seem to have a total grasp of the problems the levy would pose to the overall economy and individual companies.

For these reasons the National Federation of Employers’ Associations firmly rejects proposals for a levy.

What organisational costs would this financial structure involve?

R.G.: This depends, of course, on the form the measure takes. If we can avoid estab-
lishing new bureaucracies and make use of existing institutions, administrative costs can be kept to minimum. The Danish levy system, for example, has administrative costs of less than 2%. It is a matter of utilising measurement variables which are ascertained in any case, and attaching the levy payments to an existing tax procedure. As far as possible the system should be based on prior deduction of a lump sum that comes off actual training costs to avoid money being transferred back and forward.

Centralised bureaucracy is unnecessary. The ‘purchase’ of additional training places should be made on the spot in line with the labour-market situation in the region. The management committees of the Arbeitsämter (employment offices) already have the necessary competencies. They are manned by representatives of the Slate, the employers’ and employees’ associations and can thus take the interests of all parties concerned into account. They know local market conditions and have experience in acquiring further training and retraining offers as well as in job-creation schemes.

Levy financing should render present public subsidies for in-company vocational training superfluous. Existing administrative expenditure would therefore be reduced. In general, the DGB is in favour of avoiding excessive regulation of the statutory levy procedure. It would be far better to limit the system to measures which reduce as far as possible the distortion of competition between companies and which facilitate the ‘acquisition’ of additional vocational training places.

J.H.: The expenditure which would go hand in hand with a new financing structure can be seen in the draft laws currently under discussion. The SPD (the German Social Democratic Party) is currently in favour of the Federal Labour Office (Bundesanstalt für Arbeit) assuming the main administrative tasks as far as the fund is concerned. This alone will require 10 000 people on a full- or part-time basis. Enterprises will need at least one person to spend about ten days a year on the necessary bureaucratic calculations and certification. Given 2.6 million places of work, this alone would result in costs of between DM 3 000 million and DM 6 000 million. This corresponds to an increase in training costs in Germany of around 12%.

In clear terms, the fixed costs alone of the training fund without one single new job being created would correspond to a financial volume equivalent to the creation of 200 000 in-company vocational training places. These figures indicate most clearly the problems of training levies.

What effects would the new financing system have on the quality of vocational education and training?

R.G.: The quality of vocational training is affected only indirectly by the financing system. Nevertheless levy financing can be expected to provide two benefits. If the supply of training places clearly exceeds the demand, young people will no longer be forced to accept vocational training opportunities which, for whatever reason, are of inferior quality. They can choose promising occupations that have good labour-market prospects.

A bigger supply of training places also boosts competition between training companies. In order to retain high performers, companies will improve the quality of their training and reduce their in-company training shortcomings.

J.H.: As a compulsory levy-financed training scheme would mean increased involvement of training centres outside companies, just to satisfy the applicants’ wishes, the quality of training is likely to plummet. A central feature of the dual training system in Germany is the practical experience obtained in companies during training. This on-the-job experience will not be gained if trainees are taught under a ‘bell jar’. This shortcoming alone will deplete the quality. Furthermore, trainers in external training institutions lack the experience of trainers working in trade and industry. Training in a non-enterprise environment is also far more expensive, as there are scarcely any earnings from training. In other words, if one attempts to finance external training with the same net financial amount as is needed for in-company training, a drop in quality is inevitable.
Are there comparable European examples for this new financing structure and what experience has been gained with them?

R.G.: The collective agreement measures in the German building trade, and especially the Danish AER system, which has been in operation since 1977, are excellent examples. The latter is the responsibility of the Danish social partners and has the support of the State. The French ‘taxe d’apprentissage’ is only partially comparable due to the limited significance of in-company vocational training in France.

J.H.: The experience gained in France, where a levy has been imposed for years and where youth unemployment is much higher than in Germany, confirms the grounds for concern already mentioned. What is more, France does not have a distinct history of training in enterprises. Despite the levy, far less than 10% of the young people in any one birth cohort participate in in-company training schemes in France.