



# The returns to voucher-financed training on wages, employment and job tasks



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## ABSTRACT

This paper analyzes the returns to training that was co-financed by a German training voucher program. The estimation strategy compares outcomes of participants in voucher training with voucher recipients who intended to participate in training, but did not do so because of a random event like course cancellation by the provider of training. While there is no impact of voucher training on wages and employment, there is evidence that after training participation individuals are more often engaged in nonroutine analytic tasks.

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## 1. Introduction

Recently, several European countries have introduced training vouchers that subsidize the costs of adult education with the aim of stimulating employees' training participation, for instance, Austria, Belgium, Germany, Italy and Switzerland (see e.g. OECD, 2004). While there is a large literature analyzing the effects of training programs for the unemployed (see e.g. Card, Kluve, & Weber, 2010), little is known about the effectiveness of training vouchers for employed individuals. Schwerdt, Messer, Woessmann, and Wolter (2012) find no impact of voucher training on earnings and employment analyzing a randomized field experiment in Switzerland.

Hidalgo, Oosterbeek, and Webbink (2014), whose analysis relies on data from a Dutch field experiment, also find no effects of voucher training on earnings and job mobility. In contrast, Singer and Toomet (2013) who apply a dynamic matching approach show that a training voucher for older workers introduced in Germany improves the employment stability for the elderly.

This paper investigates the returns to training that was co-financed by a newly introduced large scale voucher program in Germany<sup>1</sup>. The analysis relies on data that was collected with the specific aim of program evaluation.

<sup>1</sup> Because the voucher program was intended to increase training participation of individuals with no required involvement of their employers, this paper is closest related to Schwerdt et al. (2012) and Hidalgo et al. (2014). Singer and Toomet (2013) investigate the effects of a training program that is directed either to individuals or employers and that requires employers to co-finance training by paying wages during training participation.

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Our first contribution is to provide further evidence on the effects of subsidized training on earnings and employment. This is not only important for evaluating the effectiveness of this specific voucher or voucher programs overall. It also expands our knowledge on the returns to on-the-job training in general. In the literature, the estimated wage returns to training vary tremendously. While some papers find very large returns to training that even exceed the returns to schooling (see e.g. Bartel, 1995; Frazis & Loewenstein, 2005; Loewenstein & Spletzer, 1999), others find small (Brunello, Comi, & Sonedda, 2012) or even zero returns to training (Görlitz, 2011; Kuruscu, 2006; Leuven & Oosterbeek, 2008). The much smaller literature concerned with estimating the causal effects of training on employment find positive effects (see e.g. Parent, 1999; Picchio & van Ours, 2011). However, there are too few studies to draw definitive conclusions.

Second, this paper also provides evidence on the effects of training on job tasks. This provides a more comprehensive picture of the pecuniary and non-pecuniary returns to training. To our knowledge, we are the first to analyze how training affects job tasks. Job tasks could be affected because training might affect external mobility (as was shown in the literature mentioned above) or internal mobility such as promotions or upgrades (Krueger & Rouse, 1998; Melero, 2010). These are likely to come along with changes in workers' tasks. But even in the absence of mobility, training might influence the tasks workers are expected or able to perform within a given position in a firm.

When estimating the returns to training, the identification strategy needs to take the selection into training into account. The empirical strategy used in this paper addresses this selectivity issue by comparing the outcomes of participants and a control group of non-participants who have the same characteristics and motivation to participate in training. In particular, the control group of non-participants is composed of those non-participants who intended to participate in training (as they applied for and received a voucher), but had to cancel their training plans due to a random event such as cancelation of the training course by the provider, a change in course conditions, an illness or a family-related reason. This approach was developed by Leuven and Oosterbeek (2008). It is similar to using no-shows who applied for the program (Bell, Orr, Blomquist, & Cain, 1995), but it is refined since not showing up could be systematically related to unobserved heterogeneity. This problem is circumvented by restricting the control group only to individuals with training intentions who had to cancel training plans due to a random event.

The paper is organized as follows. The next section describes the voucher program in detail. Section 3 presents the data and the empirical strategy. Section 4 provides the regression results for training participation (4.1), earnings and employment (4.2), job tasks (4.3) and the sensitivity analyses (4.4). The final section concludes the study.

## 2. The training voucher program

The training voucher program *Bildungsprämie* was introduced in Germany in December 2008. The aim of the program was to (i) increase employees' training

participation, (ii) to motivate them to finance lifelong learning activities (partly) on their own (and not to solely depend on their employers) and (iii) to improve individuals' employment prospects by means of training. Our analysis focuses on individuals who participated in the voucher program in 2010. As the voucher value and the eligibility criteria were changed occasionally since the introduction of the program, the following descriptions refer to the year 2010. In 2010, the voucher reduced the direct training costs by 50% up to a maximum subsidy of 500 Euro per training course. Direct costs cover fees for participation in training courses that were charged by the providers. The voucher could be used for training at the vast majority of German training providers.

Eligibility was pegged to several criteria. First, the voucher was available only for low-income individuals who were either employed, on maternity or parental leave or a job-returnee. The income thresholds referred to (joint) taxable income and were 25,600 Euro per year for singles and 51,200 Euro for married couples. Almost two thirds of all employees in Germany (approx. 25 million) meet these income criteria. The unemployed were not eligible for the *Bildungsprämie* because other active labor market programs were available to them. Second, the voucher only subsidized work-related training that was not provided by the employer of the voucher recipient. Furthermore, training should not have started before the voucher was issued, but should start within three months after the date of issue. Third, the direct training costs that remained after deducting the voucher had to be borne by the applicants themselves, i.e. the voucher could not be combined with other public subsidies. Finally, for each applicant the number of vouchers was restricted to one per year. Apart from this, however, there were no restrictions with respect to content, type or provider of training showing that program users had a high degree of freedom of choice in course selection.

To obtain a voucher, individuals had to visit one of the 500 counseling offices that were widely spread all over Germany. The counseling served the purpose of verifying the eligibility criteria, recording the content of training on the voucher and issuing the voucher. When booking a course at a training provider, the voucher reduced the training fees for individuals immediately. Training providers were reimbursed by a governmental agency after submitting the voucher to the agency. In 2010, an overall of 63,000 training vouchers were issued (see RWI, GIB, & infas, 2012).

## 3. Data and empirical strategy

### 3.1. Data

The data was collected with the specific purpose to evaluate the voucher program. It covers voucher recipients who received a training voucher in 2010. Voucher recipients were interviewed by telephone. The first wave of interviews took place with around 5,050 individuals in 2010. The interviews were scheduled as short as possible after individuals had received the voucher. On average, interviews took place around 6 weeks after voucher receipt. The

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