

COINVEST - TRAINING AS INVESTMENT

Questions from the French case

CEPII

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Introduction

- 1 .Specific training vs .general training
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- Training is a driving force in the maintenance of human capital.
- Human capital can be serviced by firms or individuals depending on whom pays the costs and gets the returns to training.
- Point of focus: training can take place during the worker's tenure or at the start of his job.

The issue of what kind of training must be included in investments can be addressed threefold:

- The debate initiated by Gary Becker in 1964 on general versus specific training,
- The distinction between initial and continuing training,
- On-the-job vs. off-the-job training

1. Specific training versus general training

Gary Becker (1964):

- when training is general, the individual must bear the cost of it because in a competitive market, he or she is paid according to his/her marginal productivity and the returns are kept by the individual.
- when training is firm-specific, firms have to finance it. Training allows the employee's productivity to increase and the returns to training accrue to the firm. The employee does not receive a higher compensation rate in the secondary labour market.

More recent studies (Acemoglu and Pischke, 1998 and 1999 ; Booth and Zoega, 2000 ; Lazear, 2003 ; Garbff and Kuckulenz, 2005) **contradict the standard theory** on account of:

- Informational asymmetries, monopsonic power of the firms, wage structure of the firm, trade unions, minimum wages, etc.

- Mix of general skills becomes specific to the firm

 For the **COINVEST** project: Is it relevant to have this divide in mind?

- If firms allow their workers to get general training on their work-time and pay for it,
- Moreover, it is quite difficult to make out in surveys if skills are specific or general.

2. Continuing vs. initial training

 Is it more relevant to operate this distinction?

Apprenticeship or other general training as alternate courses/work is a good point to discuss since **it can be general institutionalised training**. It is different from the initial training when it is up to the firm to train and pay.

- **When training is on the firm's initiative**

Booth et Bryan (2002): initial training makes up 12.3% of all training cases vs. about 85% for the improving of skills in the current tenure and general skills.

Initial training is more seldom and is often provided in the in-house training centre. When it takes place, training courses are longer than other types of training. Moreover, initial training sessions are a way to abate startwages.

• Institutionalised training

- Train or pay system : In France , firms pay a 0.5% tax for apprenticeship + a 0.18% tax for the development of apprenticeship of the firm 's gross wages .
- When firms take in apprentices or trainees from vocational training schools (from lower secondary education up to engineering or marketing schools like Polytechnique or HEC), firms can get tax rebates .
- In France , the amount of the tax amounted to €1.5 billion for 260,000 apprentices *stricto sensu* .

 For the COINVEST project:

Motivation for calling in apprentices or trainees from professional schools:

- speed up the other firm's employees' work processes, and then increase the productivity of other people in the firm as the latter get more time to commit to more sophisticated tasks

versus

- have an incentive to invest in future workers, to the extent firms may privatise information on the apprentice's productivity, or attract workers in jobs under stress, or further help alleviate the screening procedures at the time of hiring.

German firms would be more productivity-oriented than investment-oriented (Thomas Zwick, 2007) :

An increase in the share of apprentices has no impact on the establishment profits in the current and subsequent year. They stop taking in apprentices as soon as their productivity level gets below the costs they incur.

● It could mean that apprenticeship contents in Germany are general just like in France, and firms are not sure to proceed a further relationship with these initial trainees.

➤ Hao, Manole and Van Ark (2008) in their French German comparison do include apprenticeship in their computing of training.

3. On-the-job vs. off-the-job training

🌐 Are we to operate a data strategy that takes into account this opposition?

Haskel and Marrano (2006) harness this distinction in their paper.

🌐 Is this distinction useful for research reasons?

For France, we can separate internal and external financed training, but internal is both formal and informal training.

4. Training means in France

- Some training actions are planned by the firm, some by the worker with the firm's agreement and some others are at the worker's initiative.

Table 1 - Summary of training types (excluding initial institutionalised training)

	On workers or firms' initiative	Returns accrue to: Firms or workers	Include as Investment
Training plan	FIRMS	FIRMS	YES
Individual leave for training	WORKERS	WORKERS	NO
Individual Right to training	FIRMS	FIRMS	YES
Vocational training periods	FIRMS/WORKERS	FIRMS/WORKERS	?

5. Firms financing

- Continuing training is financed up to **€25.9 billion**, ie. **1.5%** of GDP, by firms, the State, regions and the European Social Fund in 2005.
- This spending is broken down in internal expenses for **12%**, purchase of training for **17%**, trainees' compensation for **27%** and in payment to the tax-collecting institutions **41%**.

Table 2 - FINANCING of TRAINING (billions of euros) in 2005

	Apprentices	Young people on sandwich courses	Employees	public employees	Unemployed	Total
Firms	0.9	1	8.6			10.5
State	1.1	0.7	1.1		1.5	4.4
Regions	1.7	0.8	0.1		0.6	3.2
public bodies (as employer)				5.5		5.5
Others of which Unedic (unemployed)					1.3	1.3
Households	0.3		0.7			1
Total	4	2.5	10.5	5.5	3.4	25.9

- All employees and self-employed persons must pay taxes to finance continuing and sandwich courses (alternate work/classes).
- Payments are made to collecting-tax institutions but optional for the training plan of firms with more than 10 employees.
- Firms with more than 20 employees and more must assign **1.6%** of their gross annual payroll to training (apart from the apprenticeship tax):
 - 0.9% to finance the training plan, the individual right for some actions and the alternate professional contract for compensation and costs, along with the training allowance.
 - 0.5% to finance the educational cost for the alternate professional contract, the individual right for actions defined as priority ones by the industry, except compensation and tutorship.
 - 0.2% to finance the individual leave for workers with permanent contracts and 0.1% for ones with fixed-term contracts.
- Firms with 10 to 19 employees pay a training tax equal to **1.05%** and firms with less than 10 employees pay a **0.55%** tax on their annual gross payroll.
- *In addition*: (0.5% to finance the apprenticeship tax: only firms with a gross annual payroll below six times the annual minimum wage and have at least one apprentice, are exempted from this tax.

6. Data sources of training

6.1. The fiscal print-outs (since the 70s)

- Employees with ten full-time employees at least must fill in a fiscal form, the **24/83** related to employers' contribution to the development of continuing training.
- The smallest firms fill in another form, the **24/86**. Firms which overtake the limit of **10** employees stay in the same fiscal regime for two more years.

Data

By occupation category (unskilled production workers, skilled production workers, non production workers, intermediate occupations, engineers and executives)
and by gender:

- The number of workers in the firm at the end of the year,
- The number of trainees except those who have benefitted from an individual leave for training or alternate work/studies contract,
- The number of training hours related to the above-mentioned trainees,
- The number of workers and hours related to different training devices

- **The gross payroll serviced in the year .**
- **The financing of the individual leave for training , vocational training contract and periods , and individual right to training , with their tax rates , spending , the contribution already paid to the tax collecting institutions , and the deficit or surplus that comes out of the difference between the tax and payment to the tax collecting institutions .**

The F frame concerns **the contribution to the development of continuing training. It is related to spending ascribed to training (adaptation, promotion, acquisition, servicing or improving skills and competency interviews, except spending for initial training)**. Spending by the tax-collecting institutions are not mentioned in this frame.

- **The internal training** spending
- **The external training** spending
- **Compensation for trainees** and beneficiaries of competency interviews or accreditation actions,
- **Training allowances** paid for actions financed out of the working hours,
- **Payments made to a tax-collecting training institution**
- **Other financing or spending** (spending for investment, etc.).

- In short, the distinction between internal and external training is possible with a caveat on internal spending as it includes both informal and formal training.
- indirect spending is accounted for.
- The individual training leave can be excluded from the data, and so are the vocational training periods and contracts.
- Training of apprentices is not available in these forms.

Table 3 - The data delivered by the CEREQ (all industries)

Year	Spending per employee	FPR	Number of trainees	Access rate	Hours of training per employee	Average training length
1995	680	3.26	3,410,808	34.1	14.36	42.12
1996	691	3.25	3,512,985	35	13.99	39.97
1997	707	3.24	3,369,866	35.5	13.49	38.01
1998	729	3.23	3,562,591	37.7	13.61	36.15
1999	722	3.22	3,664,499	37.4	12.96	34.71
2000	716	3.16	3,645,001	36.1	12.66	35.09
2001	735	3.14	3,898,022	37.5	12.45	33.25
2002	763	3.02	3,265,967	33.8	10.69	31.68
2003	744	2.88	3,497,453	35.2	11.03	31.32
2004	803	2.97	3,843,099	39	11.99	30.72
2005	811	2.89	4,162,861	40.4	12.3	30.4
2006	817	2.88	4,270,185	41	12.31	30.2

- With Financial participation rate (FPR : spending for tax-deductible training / gross wages ,
- Access rate : number of trainees / number of employees ,
- Average training length : number of hours of training / number of trainees .

Source : Fiscal forms (24/83), CEREQ .