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Deutsches Institut
für Wirtschaftsforschung



Evaluation of the Measures to Implement the Suggestions of the Hartz Commission

***Promotion of
Further Vocational Training***

***Summary of the Results -
Report as of June 2005***

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Main elements of the reform: Quality improvement through competition among providers and personal responsibility of participants

The aim of reorganizing the promotion of further vocational training (“Förderung der beruflichen Weiterbildung”, FbW) is to better integrate transfer recipients into the general labor market. This aim is to be achieved by widely improving the quality and general conditions of these training measures. Among other things, the **education voucher** has been introduced as a new tool to match eligible individuals and providers of such measures. With this recalibration the government strives for a closer link between further training and placement. This includes fostering more personal responsibility of potential participants in such measures by granting them the freedom to choose among providers of further training and a reinforced **quality management** by certifying providers and measures as well as an improved quality control due to competition among providers. Thus, the legal foundations for the promotion of further vocational training have undergone several changes.

Contradictory Findings on the Effects of FbW in the Literature

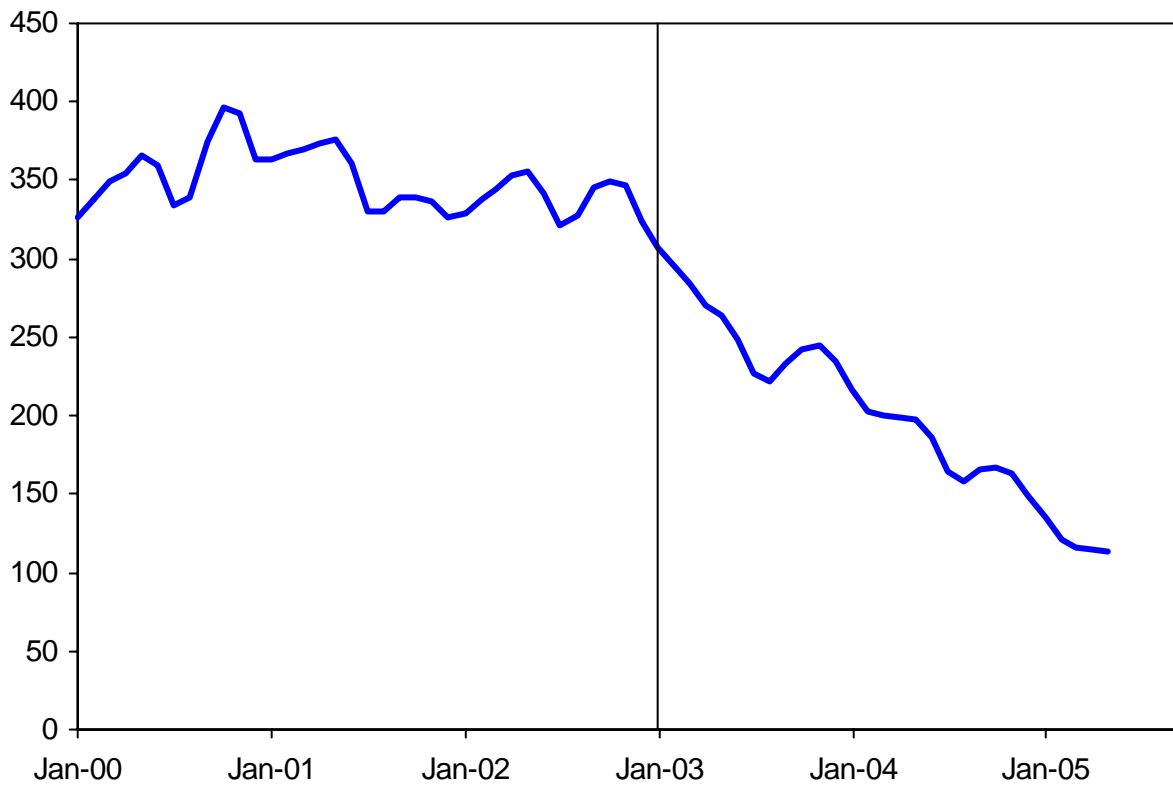
Previous evaluation reports on further vocational training measures yield ambiguous results for East as well as West Germany. Depending on the method, the investigation period, and the underlying data, the observed results can either be negative, non-significant or positive. Most positive effects are long-term effects. The present study also aims at resolving contradictions and incorporating them into a more consistent interpretation.

One distinctive feature of the present study is that it clearly distinguishes between different kinds of measures. To this end, individual types of FbW measures were bundled into six program types (PT) consisting of vocational and multivocational training (PT 1), practical further training (PT 2), training facilities (PT 3), other FbW without vocational qualifications (PT 4), individual measures providing qualifications for a recognized occupation (PT 5), and group measures providing qualifications for a recognized occupation (PT 6). The data also permit a differentiation between regional types and thus significantly contributes to improving current knowledge.

Strong decline of FbW after the reform is linked to shifts in the structure of programs and participants

The reform of 2003 brought about a strong decline in FbW measures (Figure 1) due to the regulations introduced by the FbW reform, which changed entrance rules on the demand side and led to increased competition among providers.

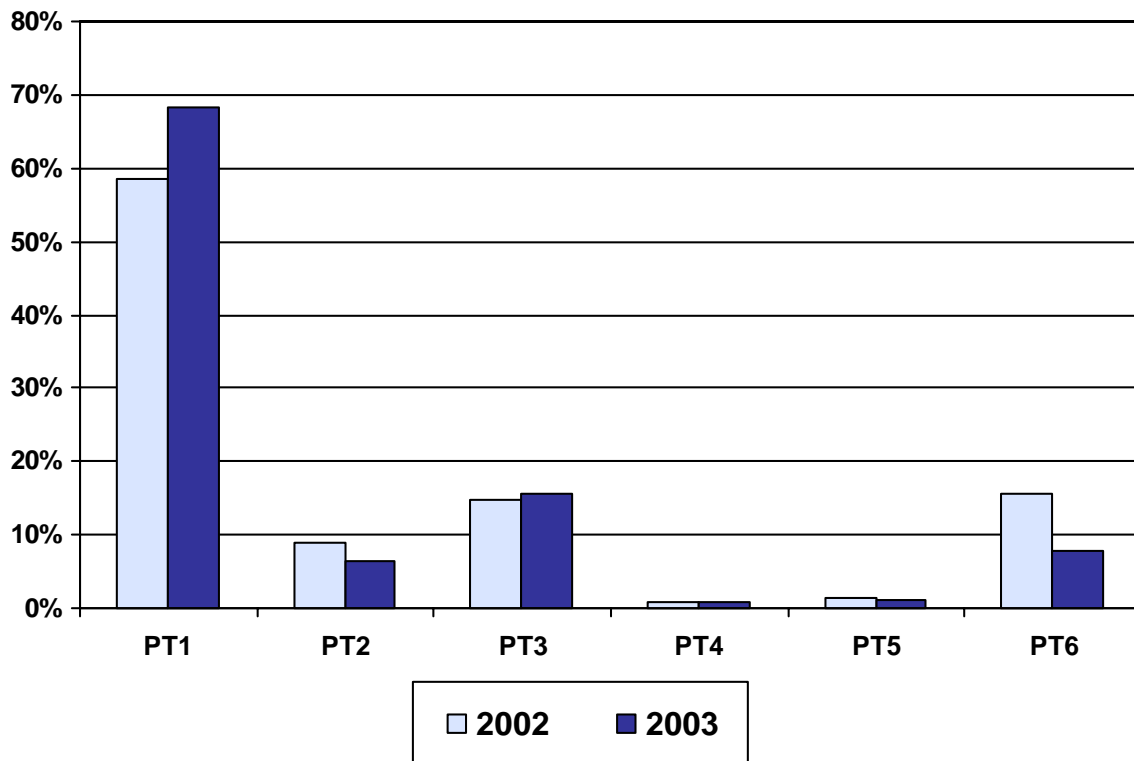
Figure 1:
Development of participation in FbW measures (in 1,000 persons)



Source: Federal Labor Agency

In the process, major structural shifts within participant cohorts occurred, pertaining to individual types of measures (Figure 2). Measures providing qualifications for recognized occupations saw a strong proportionate decrease in group measures (PT 6). However, the volume of individual measures (PT 5) in terms of total number of participants largely remained unchanged. Participant shares also remained nearly constant in measures without vocational qualifications (PT 4). But these measures are of minor importance compared to vocational and multivocational further training (PT 1), which accounted for two thirds of all FbW measures in the year of the reform. Training measures in practical workshops and other comparable training institutions (PT 3) hardly show any change in proportion while the share of practical further training (PT 2) declined somewhat.

Figure 2:
Relative composition of program types before and after the reform



Source: Federal Labor Agency

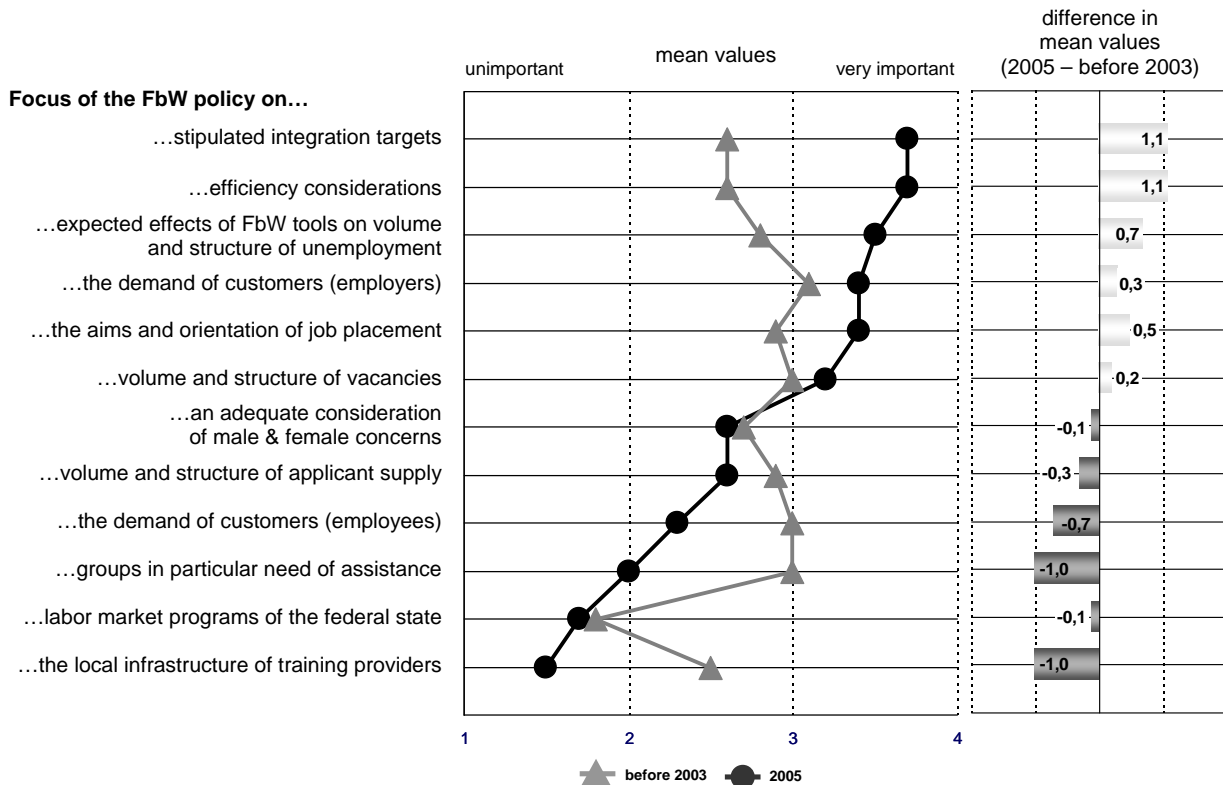
The structural changes of measures also led to a substantially above-average cutback of FbW in the eastern part of Germany, where measures without vocational qualifications had been much more important before the reform. Furthermore, there were structural changes in participant cohorts. In particular, the shares of elderly and long-term unemployed dropped.

Implementation difficulties of the reform in local employment agencies

Central aspects of the sociopolitical focus of FbW have changed significantly due to the Hartz Reform. During the implementation of the reform, the agencies first had to solve socialization and information problems. New demands on placement officers required training courses, but these were not always sufficient. Agencies largely criticize the abolition of employment counselors.

The reorientation of the further vocational training is particularly reflected in the self-perception of the agencies (Figure 3).

Figure 3:
Business focus of the FbW policy



Source: Survey of 163 agencies, March-May 2005

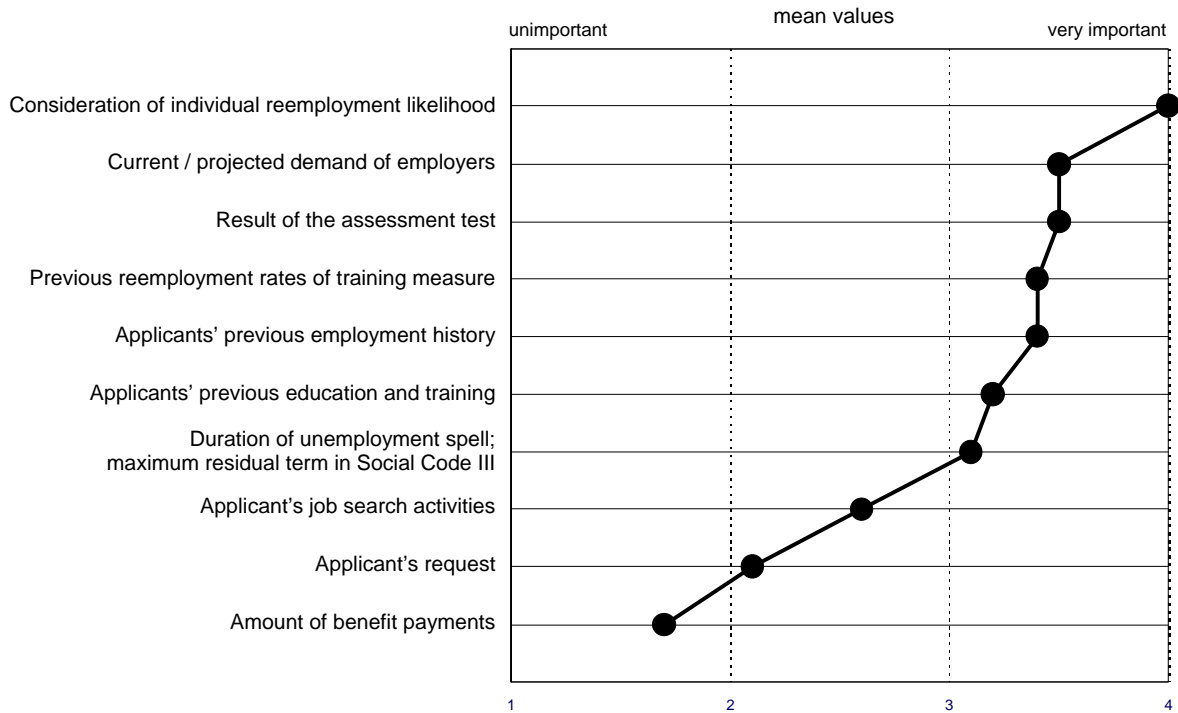
Compared to pre-reform times, integration targets and efficiency considerations have received a higher priority in FbW policy. The demand of employers, the connection of aims and the focus of job placement have been given more weight by the reform. In contrast, sociopolitical motives have lost their significance. The former allocation of measures by FbW has obviously been replaced consistently. The training target schedule is now the central control tool in the FbW framework. The agencies' plans center on the availability of funds and the short-term demand of regional labor markets. However, the demand projections in the training target schedules appear to be problematic. On the one hand, agencies can act more autonomously due to the training target schedule. On the other hand, they lose control over customers who receive an education voucher because of the way these vouchers are redeemed. Therefore, placement officers have to face adjustment problems, which occur when training measures are canceled for lack of participants.

Social selection effects of the education voucher

The education voucher is judged controversially by the agencies, but criticism prevails. While the new freedom of choice is certainly an advantage, it also tends to overwhelm customers. From the agencies' point of view, the strict selection of customers by the education voucher is its central drawback. Its allocation is based on several more or less objective criteria. Among these are a

projection of the individual re-employment likelihood (70 % rule), the result of an assessment test, or the integration rate previously achieved by the respective FbW program type (Figure 4).

Figure 4:
Criteria for the allocation of education vouchers



Source: survey of 163 agencies, March through May 2005

In addition, practical problems arise concerning the issue of education vouchers, such as technical IT problems and problems with the validity period due to an obviously inconsistent practice of issuing three- or one-month vouchers. Furthermore, placement officers are uncertain how to deal with the freedom of choice because of insufficient guidelines, especially with regard to the 70 % rule. They tend to go by established integration rates of measures and the assessment tests of applicants for education vouchers. The individual likelihood to integrate and the new market-oriented perspective are considered the central criteria for decisions on issuing education vouchers. This presupposes "honest" decision-making and the ability to turn customers down. These competences are central requirements for placement officers.

As a result of the education voucher, agencies as well as training providers report a social division in access to FbW. Previous qualifications are considered to be the line of separation. Higher qualified individuals can more easily cope with the requirements of the education voucher. They also have better eligibility prospects. Less qualified, disabled and less mobile individuals as well as persons with language deficiencies, immigrants and long-term unemployed are often overwhelmed by the requirements. These groups have lower FbW access prospects. Given the intended purpose of this

instrument to increase effectiveness and efficiency, it is up to other preventive or interventive programs of active labor market policy and other fields of politics to (re)integrate the Federal Labor Agency's customer base that is no longer covered by FbW in order to offset an overall negative fiscal performance.

Competition among training providers has triggered a shakeout

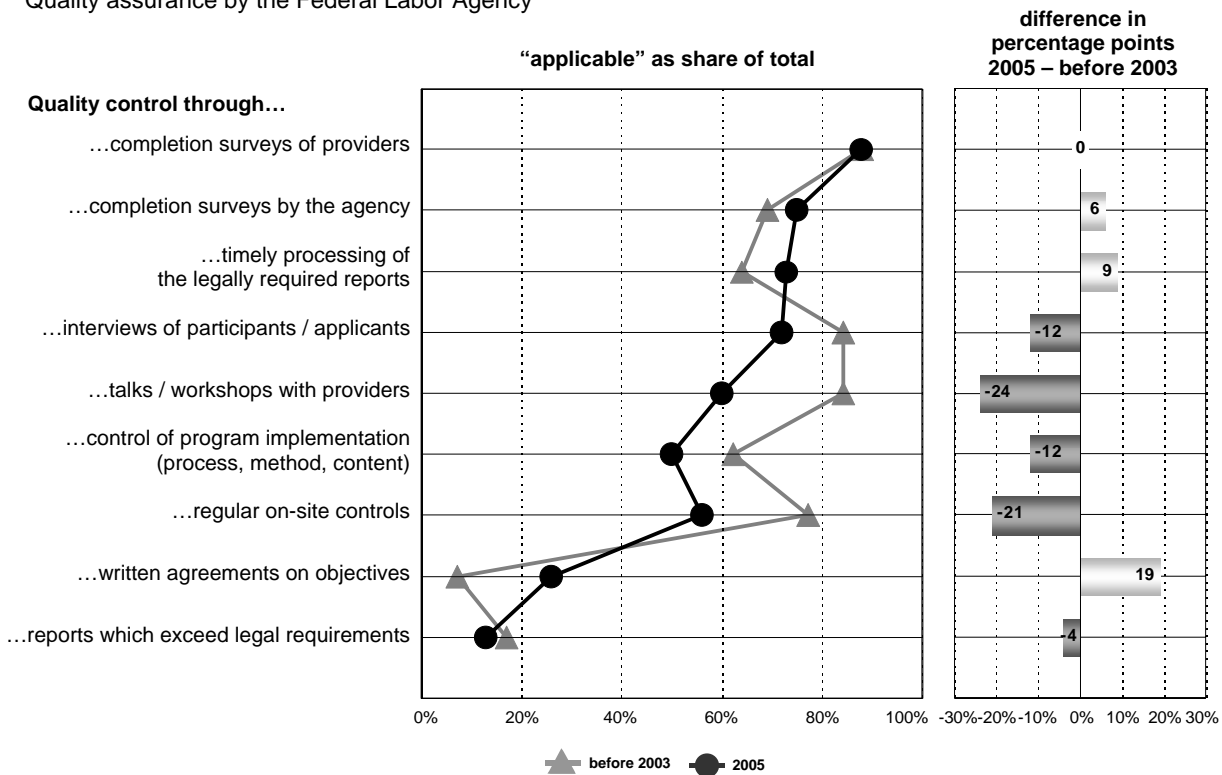
Due to the FbW reform, the relations between agencies and training providers have also changed noticeably. Obsolete forms of cooperation are disappearing. Communication is increasingly unidirectional with the rising importance of the internet as a means of communication. Existing networks also appear to be dissolving. Training providers criticize this development and point to existing information shortages. Agencies regard the frequent failure of measures and the trend towards an economically induced cost reduction of measures, accompanied by a decline in quality, as problematic. Nevertheless, holders of education vouchers are quite satisfied with training providers and generally pleased with the measures as such. What they criticize most is the group composition in educational courses.

The desired change in quality control of further training has not yet been completed on the organizational level. The expert bodies according to §87 Social Code III are still being assembled. Yet, on-site quality control by the agencies has visibly declined in the transitional period of the reform. A decline in meetings with training providers and interviews of participants or applicants has also been witnessed. In contrast, activities concerning written agreements on objectives between the Federal Labor Agency (BA) and the providers of FbW have increased (Figure 5).

The independence of the new expert bodies is doubted by many agencies, who call for an assessment of ongoing measures by the agencies themselves. Training providers fear that the cost pressure in further training will increase in the future.

The reorientation of further vocational training has significant effects on the landscape of training providers itself. Due to a lack of demand, the market of providers operating in the field of measures promoted according to Social Code III is split into providers with a low number of events and those who offer FbW measures on a large scale. These dynamics mainly affect providers in eastern Germany and in areas with high unemployment. The providers who incur financial losses respond with layoffs and more flexible employment relationships through freelance contracts. Eastern German providers have little leeway. Apart from cutting costs, the massive drop in numbers of participants also requires a reorientation of business focus. In the end, providers enhance the scope of their services and rely on fields of general further education. The importance of measures in the field of specific vocational training tends to continually decrease in the array of services of the training providers.

Figure 5:
Quality assurance by the Federal Labor Agency



Source: Survey of 163 agencies, March-May 2005

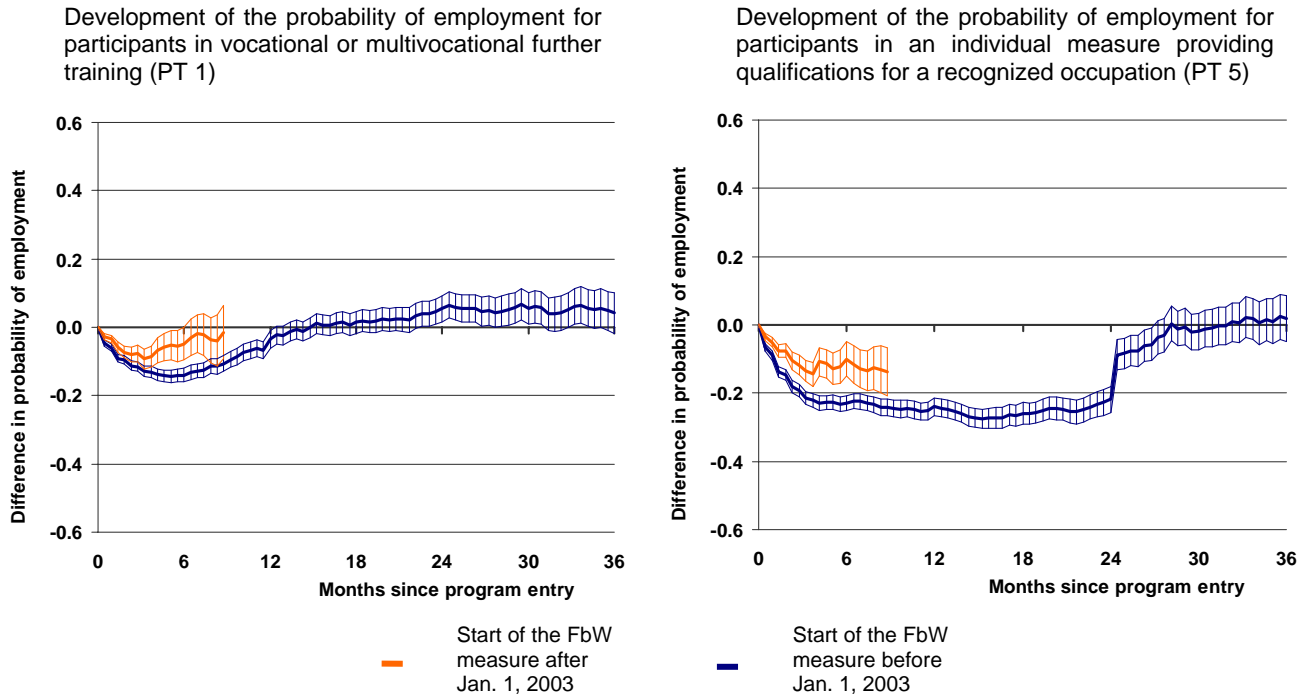
The shakeout between training providers naturally creates winners and losers. In areas with a good employment situation, providers will be able to hold their ground and to get the maximum out of the market of subsidized measures. The size of the provider is not the least important aspect in this enterprise. The providers' expectations for the next two years point to a further aggravation of the situation. Many providers want to counter the market pressure by coordination and cooperation with employers and chambers of commerce.

Program effect vs. lock-in effect

In order to quantitatively determine the effect of program participation, statistical analyses on the basis of BA data describe the employment histories of program participants and comparable non-participants. Changes caused by the reform can also be measured with these data.

The effect of the measures consists of two opposing components: the so-called lock-in effect and the program effect. The lock-in effect is due to the fact that participants usually exhibit a lower likelihood to seek employment during the measure, which is certainly in line with the intention of the program. It is not until after the program that its expected impact sets in, which must not only make up for the reduced search effort during participation, but also has to exceed it in order for the measure to be effective.

Figure 6:
Employment probability for participants in FbW programs (FbW program type 1 and 5)



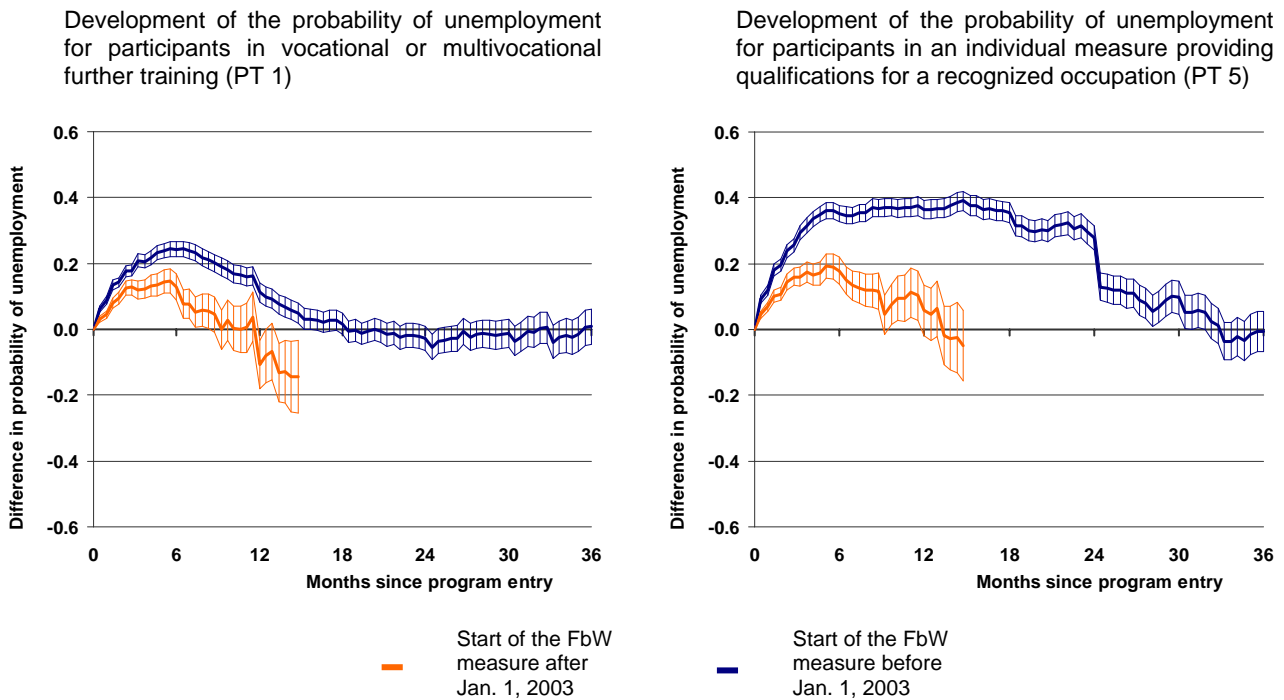
Source: Integrated employment history data from the Federal Labor Agency, own computations.

FbW leads to re-employment...

The development of the differences between the employment probabilities of participants and comparable non-participants is observed, starting from the point of the participant's entry into a measure. From this perspective, some pre-reform measures have failed while others were moderately successful (dark lines in Figure 6, exemplified by program types 1 and 5). After approximately 24 months, the employment probability is significantly higher (about 5 percentage points) for PT 1 participants than for non-participants. In contrast, no positive effects are found for program type 5.

However, the analogous observation of the unemployment probability suggests that most pre-reform measures had no significant positive effect (dark lines in Figure 7, exemplified by program types 1 and 5).

Figure 7:
Probability of unemployment in case of participation in FbW programs (FbW program types 1 and 5)



Source: Integrated employment history data from the Federal Labor Agency, own computations.

The phenomenon of increasing the probability of employment without decreasing the probability of unemployment is explained by the fact that participation in an FbW measure managed to get individuals reemployed who would otherwise have withdrawn from the labor force. While this has no direct cost-reducing effect on the unemployment insurance, indirect relief occurs through an increase in contribution revenue.

The reform has notably improved the effects on the probabilities of employment and unemployment for most of the six program types (see above, Figures 6 and 7 exemplified by program types 1 and 5, light lines in comparison to dark lines). For instance, a total reduction of the unemployment risk by an average of 10 percentage points is observed for program type 1 after the reform. This development is clear evidence of a positive reform effect.

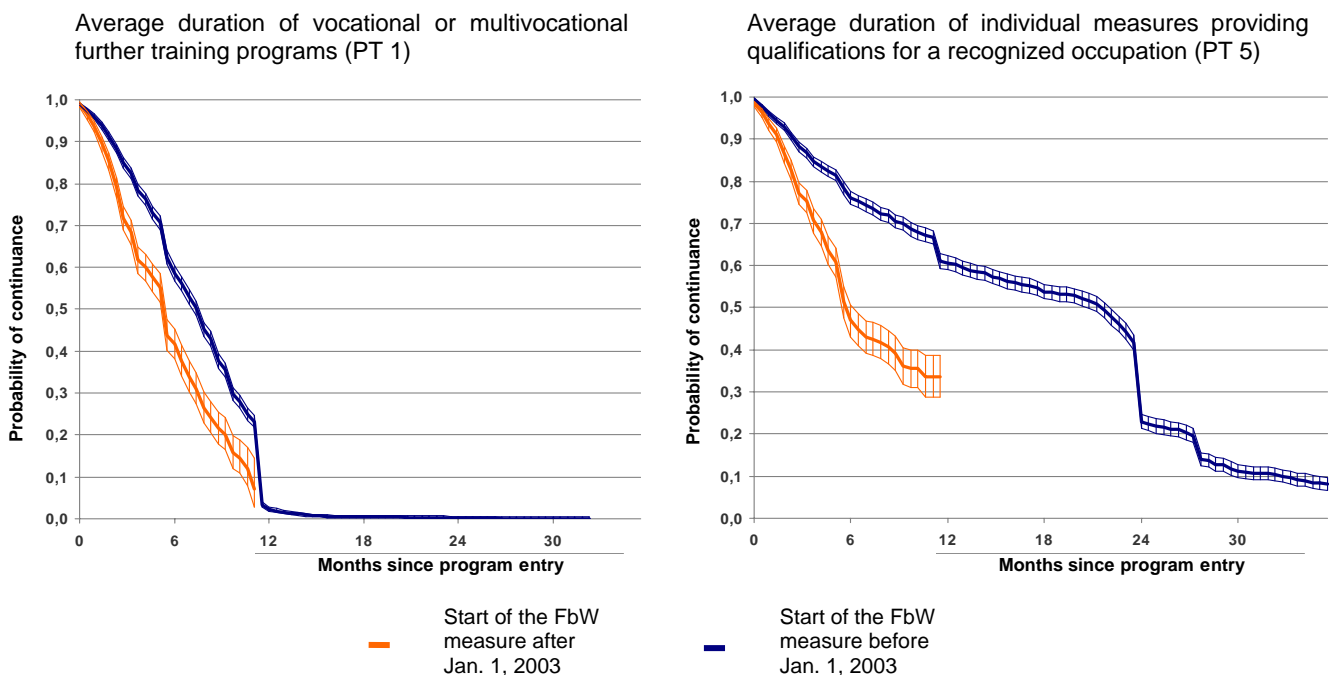
... but not for long

The separation rate from unemployment describes the likelihood to retain this labor market status until reemployment. However, later developments are also taken into account when calculating the probability of employment and unemployment.

The separation rate shows that the exit from unemployment occurs sooner after completion of an FbW than without participation. In this respect, participation in FbW measures must be seen as an

investment that only pays off after program completion. In combination with the outcomes for the employment and unemployment probabilities, it must nonetheless be concluded that leaving unemployment is of no particular advantage to the program participants over the medium term as they do not tend to find long-term employment. If exit from unemployment were lasting, the outcomes for the employment and unemployment probabilities would speak more strongly in favor of the measures. Against this background, the seemingly contradictory results can be explained. Most previous studies have yielded ambiguous results because they only focused one of the indicators observed here.

Figure 8:
Average duration of measures (FbW program types 1 and 5)



Source: Integrated employment history data from the Federal Labor Agency, own computations.

Reform improves matching of participant and measure...

In the post-reform phase, FbW measures are being completed faster, which goes for all program types. Half of the participants have finished their measures after a comparatively short time (compare Figure 8, exemplified by program types 1 and 5).

A long-term measure with a high dropout rate may well be compared to a shorter measure with a low dropout rate in light of the lock-in effect. The reform has led to a partial compensation of the shortened duration of measures in the process because of a decrease in the dropout rate. This may mean that participants and measures are better matched after the reform than before, causing fewer

premature terminations. It may also mean that the quality of the measures has improved, and incurring the lock-in effect is now more worthwhile for participants than before.

... and leads to a more favorable cost-benefit ratio

In the past, the fiscal cost-benefit analyses of FbW measures tended to exhibit a negative balance. It is still too early for a concluding assessment of the post-reform phase as the observation period is too short. However, current trends show first signs of a remarkable improvement of the cost-benefit ratio. This must be attributed to the shorter average duration of the measures. Long-term measures fare rather badly in this evaluation because the lock-in effect strongly dominates the program effect. But as the empirical analysis also shows negative balances for shorter measures, a reduction of the duration cannot be the solution.

In sum, an across-the-board judgment about the effect of FbW measures is impossible. There are measures that show a positive balance in terms of effectiveness as well as cost-benefit considerations. But based on the categorization used in this evaluation, it is at least possible to separate successful from less successful measures. Apart from the program type, timing is also crucial. Applying measures right at the beginning of an unemployment spell causes the problem that too many participants receive assistance although they would have found reemployment without program participation just as quickly. If program participation happens too late, the measure must not only overcome initial placement obstacles, but it must also cope with the loss of skills and knowledge due to unemployment.

It is safe to say, especially according to the implementation analysis, that the full effects of the reform have not yet set in. Despite the general criticism of FbW, the reform has overall improved the impact of this labor market policy instrument. The overall duration of measures has been shortened, thus weakening the lock-in effect, and the measures lead to a stronger improvement of the separation rate from unemployment than before the reform. Due to the continuing certification of training providers, increasing competition and the resulting selection of measures according to quality, the performance of the programs is expected to improve further.