

Vouchers, contracting-out and performance standards:  
Market mechanisms in active labor market policy

# Selectivity by the Use of Training Vouchers: The Case of Germany

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# TOC

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- Selectivity by the Use of Training Vouchers
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# The German Training Voucher

- Implementation:
  - »1. Gesetz für moderne Dienstleistungen am Arbeitsmarkt « (Hartz-Reforms), 1.1.2003
- Legal Base:
  - Unemployment insurance, social insurance system
- Implication:
  - Guaranties the bearing of all training costs by the Federal Employment Service

# Access to Further Vocational Training

- Up to 2002 supply oriented:
  - Planning : Federal Employment Service together with training providers
  - Assignment of the participants by Federal Employment Service
  - Quality control by Federal Employment Service

# Access to Further Vocational Training

- From 2003 on demand oriented:
  - Caseworker can issue training voucher to unemployed persons; to be used within up to 3 months; defines educational goal and training duration; restricted to daily commuting area.
  - Choice of an accredited provider offering a certified measure by the voucher recipient.

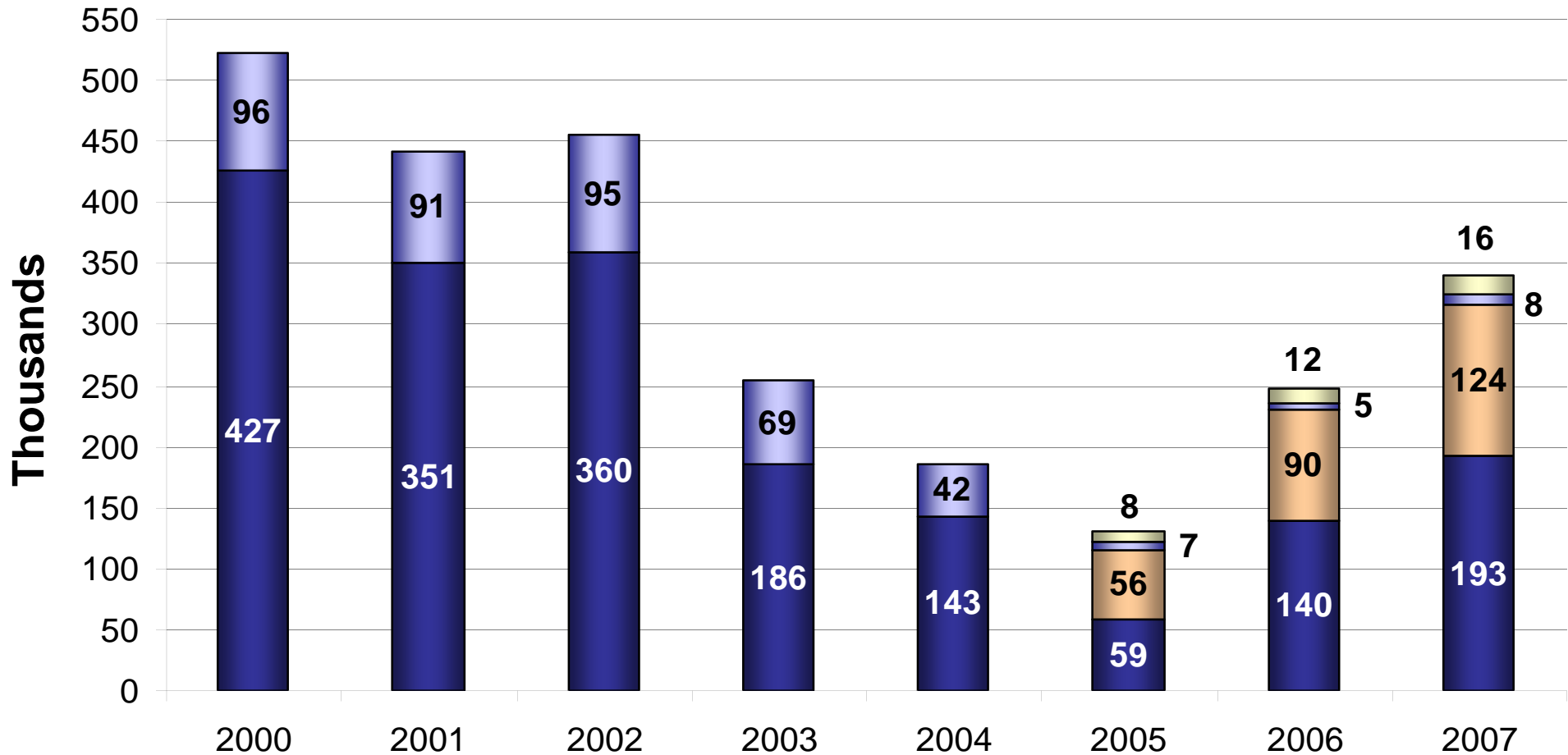
# Introduction of Training Vouchers in Germany

- **Reason:**  
Supposed problems regarding selection process;  
quality problems.
- **Objective:**  
More competition among training providers due to the  
ability to choose by the demanders.

# Parallel Amendments

- Changes within Federal Employment Service:
  - New business policy and objectives
  - Impact orientation („70 % success rate“)
  - Reduction in expenditures for further vocational training
  - Changes in means tested social insurance (introduction of the SGB II) in 2005

# Programm Entries in Further Vocational Training



- Retraining (unemployment insurance)
- Retraining (social insurance)
- Provision of professional and practical skills (unemployment insurance)
- Provision of professional and practical skills (social insurance)



# Selectivity by the Use of Training Vouchers

- Receipt:
  - Who is eligible and who of those receipt a voucher?
- Redemption:
  - Who was able to redeem the voucher and participated in a training measure?

# Selectivity in Receipt

- Supply side gap
- Individual necessity
- High employment probability (70%):  
creaming-effect / adverse selection
- Bounded rationality of caseworkers
- Voucher as signal

# Selectivity in Redemption (Unemployed)

- Lack of information
- Ability to choose the best offer
- Mental overload for low educated
- Mobility problems (e.g. lack of public transport)

# Selectivity in Redemption (Provider)

- No supply of training measure or no supply within reach
  - Lack of information
  - No profits
  - No infrastructure
  - Crowding out of local providers
- Too many training measures with low numbers of participants

## Data (1)

***Process generated data from FES:***

*Training vouchers 1/2003 – 12/2006*



**≈ 925,000 vouchers**

***Integrated employment biographies (IEB)***

**Dependent employment, unemployment, active labour market program participation, socio-demographic information**



**≈ 813,000 keys/identifier  
(≈ individuals) with up to 14 vouchers**

## Data (2), 2005

<b>Issued</b>	<b>6</b>	
<b>Approved, not issued</b>	<b>1.400</b>	
<b>Cancelled</b>	<b>13.500</b>	
<b>Approved</b>	<b>131.800</b>	} <b>154.600</b>
<b>Expired</b>	<b>22.800</b>	

**Redeemed: 85 %**

# Data (3), 2005

<b>Men</b>	<b>59.3 %</b>
Percentage of vouchers expired:	14.8 %
<b>Women</b>	<b>40.7 %</b>
Percentage of vouchers expired:	14.6 %

<b>SGB III</b>	<b>49.3 %</b>
Percentage of of vouchers expired:	14.7 %
<b>SGB II</b>	<b>50.7 %</b>
Percentage of of vouchers expired:	10.7 %

# Probability of Redemption First Voucher (2005)

	Total	Unemployment Insurance	Social Insurance
<b>Woman</b>	<b>0.000</b>	<b>0.002</b>	<b>-0.003</b>
<b>East Germany</b>	<b>-0.060***</b>	<b>-0.023***</b>	<b>-0.082***</b>
<b>SGB II</b>	<b>-0.088***</b>		
Married			
<b>Without partner</b>	<b>-0.013***</b>	<b>-0.012***</b>	<b>-0.009*</b>
<b>With partner, not married</b>	<b>-0.018***</b>	<b>-0.020***</b>	<b>-0.013**</b>
<b>Lone parent</b>	<b>-0.014***</b>	<b>-0.008</b>	<b>-0.009</b>
Age group: 26 to 49 years			
<b>&lt;= 25 years</b>	<b>0.004*</b>	<b>-0.020***</b>	<b>0.029***</b>
<b>51 to 54 years</b>	<b>0.019***</b>	<b>0.015***</b>	<b>0.017**</b>
<b>=&gt; 55 years</b>	<b>-0.000</b>	<b>-0.004</b>	<b>0.006</b>
No Migrant			
<b>entry &lt; 5 years</b>	<b>0.041***</b>	<b>0.028**</b>	<b>0.057***</b>
No med. impairment to health			
<b>Med. impairment to health</b>	<b>-0.033***</b>	<b>-0.045***</b>	<b>-0.025***</b>
<b>With effect on placement</b>	<b>-0.023***</b>	<b>-0.026***</b>	<b>-0.024***</b>

Significance level: 1% (\*\*\*) ; 5 % (\*\*) ; 10% = (\*); Method: Probit, marginal effects  
Source: own calculations



# Training Vouchers and Qualifications

Qualifications	% of unemployed 2004 <sup>1</sup>	% of vouchers 2005*	Probability of redemption**
No qualifications	6,2	1,4	-0,026***
Recognized vocational qualification only	0,0	0,1	-0,055*
Intermediate secondary schooling qualification, no recognized voc. qualification	25,3	10,6	-0,003
<b>Intermediate secondary schooling qualification and recognized voc. qualification</b>	<b>55,3</b>	<b>63,2</b>	<b>Reference</b>
Upper secondary schooling qualification, no recognized voc. qualification	2,7	3,0	-0,008
Upper secondary schooling qualification, and recognized voc. qualification	4,5	9,7	-0,001
Post-secondary qualification (Fachhochschulabschluss)	2,0	4,1	-0,006
University degree	3,6	7,7	-0,003
No information	0,0	0,2	-0,053

\*\*Significance level: 1% (\*\*\*); 5% (\*\*); 10% = (\*); Method: Probit, marginal effects

Source: Own calculations; 1) IAB Bildungsgesamtrechnung

## Conclusions

- **Selection, in particular concerning qualification:**
  - Individuals without educational degree are less likely to receipt a voucher.
  - Individuals without educational degree are less likely to redeem it.
- **Further questions:**
  - Did the implementation of the voucher in-/decrease selection?
  - Is selection a problem?
  - Would a participation due to assignment or participation with accompanying measures be more efficient for particular groups of unemployed?