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Training and Labor Market: Incentives and Outcomes

Certification of training and training outcomes

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Abstract

External certification of workplace skills obtained through on-the-job training is widespread in many countries. This may indicate that training is financed by workers, and certification serves to assure the quality of the training offered by the firm. However, other evidence shows that general training is financed by firms, especially in Germany. We show in this paper that external certification of training may also be necessary for an equilibrium with firm-sponsored training. Firm financing of training is only possible if firms have monopsony power over the workers after training. If the training firm can extract too much of the employment rents, however, workers may not have sufficient incentives to put forth effort during training. Certification increases the value training to the outside market, and hence to workers, making firm-sponsored training possible. © 2000 Elsevier Science B.V. All rights reserved.

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1. Introduction

Standard theory of human capital as developed by Becker maintains that workers should pay for investments in general skills. It makes sense that such skills are often certified by independent bodies, especially when the skills are

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provided by firms at the workplace. However, various pieces of evidence suggest that in a variety of circumstances firms rather than workers pay for investments in general training (see, for example, Bishop, 1996; Acemoglu and Pischke, 1999a). Many economists have suggested that this may be because other employers do not observe whether an employee has received training with his current employer (Katz and Ziderman, 1990; Chang and Wang, 1996). According to this view, if training programs become more easily identifiable, for example due to external certification of skills, there may be less investment in training by firms. In discussing proposals for occupational certification in the U.S., Heckman et al. (1994), for example, raised this issue, and argued that increased certification would discourage training.

In this light, Germany's training system is difficult to understand. Germany has an extensive apprenticeship system which most non-college-bound youths complete before becoming full-time workers. Many studies have documented that employers pay a significant part of the financial costs of these training programs (see for example the evidence presented in Acemoglu and Pischke, 1998). However, apprenticeships are highly regulated; apprentices take exams given by the chambers of commerce and crafts at the end of the training period, and receive certificates which play an important role in access to skilled jobs. The presence of certificates that make the amount and quality of the training received by a worker observable to potential employers suggests that it is not uncertainty about the quality of training that underlies firms' incentives to invest in general skills in Germany.

In Acemoglu and Pischke (1998), we developed an alternative theory of firm-sponsored training based on an asymmetry of information between current and potential employers regarding the ability of young workers. Valuable information about the abilities and aptitudes of young workers will be revealed during the early years of their career. Much of this information will be directly observed by the current employer, but not necessarily by other firms. This informational monopsony will induce firms to invest in the general skills of their employees. We argued that this theory accounts for the prevalence of the apprenticeship programs in Germany. Nevertheless, certification of training skills is puzzling for this theory as well. Why do firms operate within the regulated apprenticeship program, which they often criticize as rigid and outdated, rather than developing their own training programs without certification?¹

In this paper, we attempt to answer this question. We discuss the role of certification of training in a labor market where some investment by the workers themselves, for example in the form of effort, is necessary during training for the

¹ Although the German firms are currently not allowed to design their training programs, this is a relatively recent development. In the past, they chose not to develop such programs, even though they could do so.

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