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The Transitional Labour Market of Education and Training

by

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1. Introduction

In focusing on the field of education and labour market transitions, we address the link between the two frequently disconnected worlds of learning and working more explicitly. Moreover, we stress the importance of dealing with the links between different institutions which are frequently, even in scientific studies, analysed in isolation from each other. We analyse the initial education system, further training arrangements, labour markets and employment insurance systems in more detail. We propose a rather general theory of transitions, in particular of education and labour market related transitions, and apply this theory to the transitional labour market of education and employment (Schmid 1993, 1998, Schmid and Gazier 1998, Schömann 1998).

We shall analyse processes of social integration allowing for multilevel influences and multiple feedback structures between the levels. In both the group-level aspects and individual-level aspects a number of societal institutions¹ play an important mediating role. In this respect we ask questions like: to what extent do institutions reduce or are responsible to produce social exclusion at the individual or group level? How effective are labour market, education and further training institutions in joining forces on the different levels to enhance social integration? Is there a specific role for social partners, i.e. representing the employers' and employees' collective organisation, as mediating between conflicting interests and exclusionary outcomes? Should governments intervene in these processes, at what level and how?

The risk of labour market exclusion occurs through falling into the 'unemployment or poverty trap' or remaining in poorly-paid, uncertain and limited-term types of employment for large parts of the life course. The theory of transitional labour markets suggests many specific escape routes to avoid or to lower risks of social exclusion as well as strategies to improve labour market integration. The strength of the theory lies in the identification of major fields and some detailed propositions to facilitate social integration of persons with only marginal attachment to the labour market. Empirical tests of the functioning of such new institutional arrangements following the transitional labour market's regulative idea are dealt with in the following parts.

¹ The term societal institutions is used to highlight the fact that it is society at large which create and change institutions extending the meaning of social institution which refers to the "social intention" of institutional arrangements.

2. Rationale and previous Evidence based on Human Capital Theory

In addition to the predictions and empirical findings derived from the human capital theory in this paper we want to focus on the dimension of social integration which can be obtained through education and training policies. Based on the standard human capital model positive rates of return can be calculated for higher investments in human capital for most European countries (Alba-Ramirez 1997, Büchel 1998). However, the empirical evidence for rates of return for further training programmes, either publicly or privately financed, is less favourable, although most authors still find positive but small returns on this investment in further training (Tuijnman and Schömann 1996).

The influence of further education and training would however be underestimated if only the actual earnings or employees in the primary labour market are being taken into account. Earning potential for workers also often depends on whether they remain continually employed, are spared a period of unemployment or, if becoming unemployed are able to find a new job without great delay. Further training schemes have been initiated as educational and labour policy instruments in East Germany particularly as a result of the structural changes in order to be able to guarantee continual and stable employment conditions, to avoid long-lasting mass unemployment and to help re-integrate the unemployed. Experience in West Germany has shown that vocational further education and training can be successful in this context. Hujer et al. (1998) showed that, for West Germany during the period 1986 to 1993, unemployed course participants had a greater chance of regaining employment than non-participants, although this short-term further training effect tends to decline the longer the unemployment period lasts. On the other hand, state-funded training measures for the re-integration of the unemployed and impaired persons proved less effective (cf. Becker 1991). In East Germany however, particularly long-lasting training measures led to increased re-employment (Pannenberg 1995; Pannenberg/Helberger 1997). Re-employment obviously depends on the quality of the training programmes as well as on the actual increase in current market human capital. Thus on-the-job training measures in East Germany tend to increase job security for workers while AFG promoted schemes do not lead to the expected positive effects (Hübler 1998). However if differentiations are made according to gender, then the employment effects of on-the-job further training courses are only significant for males while in contrast, remaining insignificant for females (Hübler 1997).

This partial finding in particular shows that when assessing further education and training differentiations must be made between the effects on men and women. This is

normally not the case in most evaluation studies, which is surprising in the face of the different life courses of men and women, the gender specific options for occupational field and earning potential as well as the gender-differentiated selection and segregation processes in the labour and further training markets. For this reason our contribution, which involved extensive preparatory work, looks into the significance of further vocational training for earning potentials for men and women in East and West Germany (Becker 1991; Schömann/Becker 1995, 1998; Becker/Schömann 1996; Schömann et al. 1997; Becker 1999). It is assumed that the gender-specific causal effect of further education and training on earnings and job security can only be understood in the light of the unequal opportunities for women and men to partake in further training. The gender-specific selection in accessing further training in particular plays an important role in the reproduction of inequality for work and earning opportunities to women's disadvantage. Thus women often have lesser opportunities or tendencies towards partaking in further training due to the conflicts arising from compatibility of family and career (self selection). Furthermore, they are mainly employed in sectors offering fewer chances for career advancement and further training. As well as the career segregation, gender discrimination on the part of the employer or training institutes when selecting participants also reinforces the disadvantages in access to further vocational training (external selection). If participation in further training leads to an increase in earnings or at least to job security, then part of the wage difference between men and women can be traced back to the gender-specific selectivity of career and training opportunities.

3. Social Integration through transitions and transitional labour markets

Labour market integration at early stages of the life-course is taking place inextricably linked to a country's prevailing institutions of both the education, training and further training systems (Müller and Shavit 1998, Schömann, Blossfeld, Hannan 1995) as well as central labour market institutions like labour law, employment insurance and broader social protection regulations. Comparative empirical work reveals the importance to include these wider elements into comparisons of labour market and training processes. From this we conclude that there is a need for a labour market theory which deals with transition processes as well as institutional aspects of transitions in a more explicit way. This is particularly

evident in cases where a transition is taking place as a process leaving one institutional arrangement and entering into another one like in the school to work transition or the transition into retirement. Such transitions are referred to as "critical transitions" in a person's life course (Behrens and Voges 1996) and the research agenda "social integration through transitional labour markets" related takes issue with five kinds of transitional labour markets (Schmid 1998, 1993).

Derived from a systematic overview of all labour market transitions, Schmid distinguishes five types of transitional labour markets: (1) transitions between dependent and self-employment, part-time versus full-time employment or fixed-term employment versus more permanent employment relationships, (2) transitions between unemployment and employment, (3) transitions between education/training and employment, (4) transitions between private and labour market activity, (5) transitions between employment and retirement. On the individual level these "bridges" can be passed in both directions, in some cases, several times within a year. On the level of society there are choices to be made which govern the institutional arrangements which apply to such transitions, for example allowing for reversability of individual decisions to leave full-time education at an early stage of the life course.

Four principles characterise transitional labour markets: First, they combine paid employment with other useful social activities; second, they combine income sources like, wages and transfer payments; third, there are legally valid entitlements which offer choices of transitional employment; fourth, fiscal incentives operate in the way to finance employment rather than unemployment (Schmid 1998, p.9). In addition to these principles of the governance structure of transitional labour markets Schmid states four criteria against which specific institutional arrangements can be evaluated in order to find out, whether it is possible to distinguish favourable or unfavourable transitional arrangements. These are empowerment of individuals, sustainability in terms of employment and income, flexible co-ordination between levels of decision making and co-operation in networks.

The theory of labour market transitions aims at elucidating traditional explanations of transitions and sequences of transitions, like for example recurrent unemployment (Heckman and Borjas 1980), perforated employment trajectories (Mutz et al. 1995) and long range processes of life-long learning. The common feature of the three processes mentioned above is in fact the element of multiple transitions which needs to be addressed by the theory in a process-like manner. Since each of the three processes deals with very different institutional arrangements, like unemployment insurance system, wider social protection systems or

education and labour market arrangements, the scope for the impact of institutional arrangements needs to be an intrinsic part of the theory.

The theory identifies each subsystem as a system in motion with a specific link between the two subsystems. This link between the subsystems can be of a permanent and constant form, as well as permanently in force, but with variable intensity. Temporarily this link might even be interrupted and redesigned to favour particular transition processes between the subsystems. The theory of transitions builds on the analogy to process analysis in the physical sciences, particularly to the theory and modelling related to "Coupled Harmonic Oscillators" with careful examination of the need to adapt this theory and underlying assumptions to deal with institutions and social processes. Each subsystem is therefore defined as an independent entity which is in motion or receives an external impetus starting the process of motion. Each of these entities can be figured as a pendulum in its own right which is coupled with the other pendulum by means of an elastic spring.

Comparative work needs to identify the "coefficient of coupling" of the two subsystems for each country separately and the fact, whether this school to work transition is a "once" in a life time event or whether multiple transitions are possible and do occur empirically. In the model of the coupled oscillators the two subsystems exchange energy continuously, whereby in the case of a system with close to equal mass one subsystem reaches a point of apparent standstill while the other is at its maximum potential. If this is taken to represent the impetus from the initial education subsystem transferred to a labour market potential it becomes clear that the experience in the labour market will also stimulate further training investment. If further training operates as an additional impulse to the whole system and is of sufficient weight at a later point in time this provides a positive stimulus again to the labour market potential. Taking into account a country specific time lag structure, which is largely determined by the "coefficient of coupling" between the two subsystems, a positive impact of the more module like organisation of the education and training subsystem should be measurable.

On the macro level of analysis we derive two basic hypotheses:

Hypothesis 1: A stronger impetus for skills and competence achieved in the initial education system will be mediated into more success in the labour market.

Hypothesis 2: Each country can not only influence the duration and quality of its education system and likely consequences for the labour market, but also the school to work nexus in its own right, hence the transitional labour market at entry into the labour market.

On the micro level of analysis we derive three additional hypotheses:

In order to avoid confusion with the human capital theory we prefer to define the sphere of education and training as human potential to be influenced through education and training and the second sphere the labour market potential of a person. A high potential in one sphere (education) combined by means of an institutionally organised link (elastic or rigid spring) will, according to the theory, be transferred to the other sphere in form of high labour market potential. This high labour market potential can be understood as high earnings, similar to return to human capital investment, or in form of long durations of labour market participation and few interruptions due to unemployment. By means of derivations from the original model we can extract the following hypotheses based on the transition theory:

Hypothesis 3: Achieving higher education levels, usually combined with longer durations in education or better quality of education in terms of relevance for the labour market, will lead to higher labour productivity and subsequently higher labour earnings under the premise of a well established link between the two subsystems. If this hypothesis 3 holds we expect **hypothesis 4** to be confirmed as well: Higher levels of education will increase the duration of labour force participation and of employment over the life cycle, and reduce levels and durations of unemployment for the higher educated, who the ones who received a stronger initial impetus in the education system.

Hypothesis 5: The initial stimulus in the education system for pupils is dependent on both the educational background of the parents as well as the labour market experience of the parents. This parental feedback from their own education and labour market potential to the children is likely to filter through to the performance of their children in the education system and subsequently in the labour market.

In the remaining parts of this paper we shall present evidence on these hypotheses which has been the outcome of a 3-4 year collaboration of 5 research teams² made possible through the TSER research programme of the European Union with the WZB co-ordinating the research on social integration through transitional labour markets. We shall mainly present evidence on the micro level as this was the focus of the education and training module the author was in charge of.

² Participating teams:

WZB: Labour Market Policy and Employment, Berlin (D)
METIS: Université de Paris I - Panthéon Sorbonne, Paris (F)
ESRI: Economic and Social Research Institute, Dublin (IRL)
UAH: Universidad de Alcalá de Henares, Madrid (E)
NEI: The Netherlands Economic Institute, Rotterdam (NL)

4. Major results on employment and training transitions

The major data sources for the study of these processes were the European Community Household Panel (ECHP), the European Labour Force Survey (ELFS), specific country longitudinal surveys as well as recently available firm-level data in some countries. The role of actors in the field of training transitions was approached by in depth case studies to grasp the multidimensional and multi-level aspect of the actor's rationale for training policies and activities. The studies included analyses for five countries: France, Germany, Ireland, the Netherlands and Spain, as well as more broad ranging analyses comparing transition outcomes across the European Union at large based on harmonised data sets and methodological approaches.

The theory of labour market transitions in combination with the concept of transitional labour markets allows us to identify the multi-dimensional and multi-level issues affecting the goal of social integration. In addition to human capital theory, segmentation approaches and insider-outsider theory, our theoretical perspective proposes several changes in the way education and training transitions can be linked to the labour market. Particularly concerning life-long learning approaches, institutional arrangements can supplement or counteract the role of the market by correcting for market failure due to under-investment of specific target groups in continued training efforts. A major role for policy makers in this field consists in improving incentives for life-long learning by facilitating training transitions throughout the life course, for example through sabbatical leaves or job rotation for training purposes. These forms build on existing mobility in the labour market and add a training component to job mobility which occurs as part of either the market process or individual preferences as kind of "natural fluctuation".

4.1 Empirical Results on Education Systems and First Entry

Estimates of education demand models for Spain, Ireland and Germany highlight that labour market and income expectations are less important factors in influencing the demand for higher education than incentives related to the parental background and institutional frameworks. The observed patterns of access to higher education were strongly driven by the supply of higher education and professional training, thereby widening access as opportunity for social integration but increasing the negative signalling effect for drop-outs (Albert Verdú, Davia, Hernanz, Toharia 2000).

These signals embedded in educational credentials from the full-time education system are largely responsible for the sorting of persons at labour market entry to specific industrial segments in France, Germany, Ireland, Netherlands, Spain and United Kingdom. Young labour market entrants are found to be not in competition to older employees in firm's recruitment processes and, due to the educational sorting earlier, there are also several labour markets according to skill levels for the young. Second chance education needs to be reformed with elements of transitional labour markets to avoid exclusionary recruitment patterns within industrial sectors and a sufficient equality of access for women. Gender specific recruitment practices at ports of entry are still prevalent across the European Union (Audier 2000).

4.2 Evaluation Results of Training Policies

Market oriented training programmes are shown to work best for both women and men in Ireland, the Netherlands and Germany. A closer link of publicly supported training activities to the labour market and firm's skill needs, as proposed by the concept of transitional labour markets in form of multiple transitions or simultaneous organisation of working and learning, is an important element to improve social integration through labour market policies (O'Connell, McGinnity 2000). Public training policies too far removed from the functioning of labour markets do not achieve the intended effects of social integration although at least temporarily alleviating the risk of social exclusion.

In terms of a benefit – cost re-analysis of evaluations of training measures it is shown that the net effect of training at the transitions from unemployment to employment is positive though relatively small in size. Besides market orientation an improved targeting of training policies on re-integration of unemployed persons with only small chances of integration on their own initiative, like persons from ethnic minorities or women with longer career interruptions will increase the cost-effectiveness of these programmes. This is due to the relatively high net rates of return to such training investments for these target groups in case of course completion. Since economic inactivity is frequently the costly alternative to such investment from a societal perspective these programmes are worth their efforts even if gross placement rates in employment are relatively low for these 'hard-to-place' target groups (de Koning 2000; Gelderbloom, de Koning 2000)

Additionally, for the transition economy of East Germany (Schömann, Becker 2000) in the early 1990s it can be shown that employment prospects of job-related training a highest while pursued on-the-job even if this job is scheduled to be terminated in the near future. This

highlights the superior cost-effectiveness of preventive measures, since no unemployment benefit payments are necessary, despite the difficulty of early identification of future marketable skill needs.

Evidence based on European Union wide surveys like the small sample Eurobarometer and the large size European Labour Force Survey suggests that the market element in labour markets produces higher risks of unemployment and long-term unemployment for the low skilled persons and those with little marketable or work experience with relevance to the labour market. The social selection operating in labour markets is in some instances complemented rather than mediated by correctly targeted training policies which can lead to a twofold selection process operating as social exclusion. Hence market failure combined with government or policy failure is identified as a major cause of the risk to suffer social exclusion (Schömann 2000c).

4.3 Assessing the firm's rationale for training

In theoretical approaches to the firm's rationale for training a close link of the firm's productivity and wages are postulated. In practice, however, seniority based wage structures frequently dominate the link between age of an employee and individual productivity rather than observed productivity recognising severe measurement problems of individual productivity in the age of team work and network dominated labour markets.

The very low rates of participation in continuing vocational training among ageing workers observed in most Member States of the European Union (France, Ireland, Netherlands analysed in much detail (Jolivet 2000, O'Connell 2000, Gelderbloom et al. 2000) combined with a seniority- based wage structure reflects the fragile integration status of older employees in most firms at present. Exclusion from a firm's labour force and transitions into early retirement, passive unemployment benefit receipt or disability benefits are the more likely the larger the discrepancy between worker productivity and wages. A higher firm-level commitment to training, as part of the personnel management strategy of a firm, reduces the number of dismissals in the following years in the Netherlands less so in France and least so in Ireland. Based on firm-level data and individual level data it seems to be possible to identify persons on positive career tracks with multiple participation in training and those with high risk of exclusion from the labour market due to failure to participate in or being selected for training by the firm or public policy initiatives.

Labour market segmentation following patterns of industrial sectors which occurs at entry into the labour market is likely to be perpetuated by the firm's rationale for training

throughout the European Union. In order to prevent market failure and therefore career tracks leading to labour market exclusion a much extended participation in public market oriented training and firm based training is needed to encompass the developmental needs of all employees irrespective of age (Jolivet 2000). The concept of transitional labour markets suggests the need to equalise access to training of employees in sufficiently close relationship to the labour market like those involved in one of the five major transition processes and transitional labour markets.

4.4 The Impact of Political Actors in the field of training

Due to the developments of a common market within the European Union the coherent education and training systems within each country have experienced an evolution towards industry specific education and training strategies across the Union. Based on matched firm level case studies it is shown that the substitution phenomenon of initial training versus further training is no longer recognisable as has been argued previously comparing France and Germany. Rather than substitutes the two forms of training have become indispensable complements, thereby reinforcing the trend to set up positive career paths with upward mobility and frequent training versus static career tracks which are likely to lead eventually to exclusion from the labour market. An improved co-management and co-financing particularly concerning further training is indicated with an obvious way to combine training with changed working time arrangements along the lines proposed by the concept of transitional labour markets (Giraud 2000).

The multi-level governance in the European Union complemented by the European Social Fund and experimental training policies has turned the process of European integration into a process of institutional creativity (Rouault 2000). The Community Initiatives function as laboratories for social innovation. In order to find and define a role for the European Commission in this field it is noteworthy that both the elaboration and operationalisation of policies to fight social exclusion are largely delegated to semi-public organisations. Decentralisation and privatisation of social policy provision has, therefore, reached a stronger impetus through European level policy making than in most Member States of the Union prior to enlargement. It is by means of institutional creativity of both centralised and decentralised policy making that solutions will be found to increase social integration by not increasing the risk of social exclusion for some other groups simultaneously.

Overall, the work has revealed that social exclusion is a result of market failure in combination with policy failure, since the number of policies and social protection

arrangements and budgets in the European Union are sufficiently large to address these issues. More rigorous evaluations as well as solid and multiple bridges between the world of education/training and work will improve the potential for a wider spread of social integration in modern societies at the turn of the century.

5. Conclusions

The aim of this paper is to present the state of the art of the theory of transitional labour markets and labour market transitions with special emphasis on the transitions to and from education and training. A particular effort is made to go beyond the established knowledge of human capital theory and the abundant evidence reporting positive returns to training. Social integration through transitions and transitional labour markets is presented in form of a theoretical paradigm which is then discussed using empirical research and some first evidence of practical examples which represent a form of best case applications. Most of these evaluation studies demonstrate the value of these social innovations in the combination of working and learning like for example job rotation.

The theoretical section argues that the amount of „natural“ mobility is sufficiently high to lend support to the argument that an extension of transitional labour markets to smoothen the transitions from school to work, employment to unemployment or from employment to for example self-employment. The theoretical approach is even going beyond this in the attempt to rethink the employment relationship as a more flexible arrangement which allows to combine sabbatical leave for education and training purposes with the recruitment of a temporary unemployed person as a fixed-term substitute (compare the Danish policy of job rotation). As soon as working and learning are combined together with reductions in working time or just limitation of overtime it opens up a huge potential for job creation.

Research on the school-to-work transition, as a crucial step in a person's occupational trajectory, stresses the need for labour market policies to take a more active role to counter labour market segmentation at this early stage. Particular efforts need to be devoted to the segregated pattern of labour market entry. Similarly, the education system needs to prepare pupils at an early stage that life-time employment in the same profession or job has become a rare exception rather than the rule in today's labour markets. Transitions within the education system also have to be understood as a useful training of transitions rather than being considered as corrections of erroneous choices.

At present findings on the returns to further education and training measures or individual activities are more pessimistic about the potential role of this type of labour market policy. This is best explained by a kind of saturation effect of training provided to the unemployed at the time of a shrinking labour market. Evidence from countries which have left a recession (O'Connell 1997) like Ireland or for Germany at times of low rates of unemployment (Schömann and Becker 1995) are much more favourable. In recessions the actual potential of training transitions lies more in the prevention of employment to unemployment transitions rather than assisting the return to employment of the unemployed (Schömann, Becker and Zühlke 1997).

The combination of a subsidised working scheme with an additional training component is certainly in the spirit of transitional labour markets and a promising feature of the Irish active labour market policies. However, it is not an easy task to strike the right balance between the work experience and the training component in such programmes. A lot can be learned from a closer look at the manifold practical examples in European or OECD countries.

Conversion conventions which highlight the high concern for preventive training measures have been rediscovered recently in many European countries to avoid high inflows into unemployment in the last few years. This lesson from the European recession needs to be remembered and applied at times and in regions under structural economic change. Preventive labour market policies and transitional labour market arrangements should no longer be discarded as a costly endeavour for the European Union.

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