The role of public policy in worker training in Italy (1)

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SUMMARY
The training received by workers depends predominantly on the organisational choices and funds allocated by businesses. It is therefore justifiable to ask whether public policy should either endorse the spontaneous distribution of training or take measures to correct it. This paper analyses the motivations and limitations of public intervention, focusing on the Italian case in which, in recent years, the system has changed radically as a result of opportunities offered to social partners to directly administer the financial resources available for continuous training. The paper argues that the policy instruments in Italy are not capable of providing a clear response to the need for the two forms of continuous training – collective and individual. Therefore, the paper proposes that a part of the funds be administered by the social partners specifically to promote collective training, leaving the public administration with the task of responding primarily to the demands expressed by individuals.

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Introduction

An economic study has highlighted multiple effects correlated with an accumulation of human capital through extra-scholastic training processes: specifically, a positive influence on productivity and, therefore, on salary levels and salary increases over time, greater involvement in the job market and a reduced risk of job loss. Furthermore, it may also contribute to improving the satisfaction of individuals within a productive organisation, allowing them to become more actively involved in problem-solving and facilitating interaction among themselves and with the outside world.

In light of these multiple effects, and focusing on the study of continuous training, we need to answer the question of how workers are selected for training.

Empirical evidence suggests that in all countries, training activities are not evenly distributed among different categories of worker. Only certain categories have access to frequent opportunities for training, whereas others participate rarely or not at all (OECD, 2003; L.M. Lynch and S.E. Black, 1998; A. Bassanini, A. Booth, G. Brunello, M. De Paola and E. Leuven, 2005).

In Italy, adult participation in education and training is strongly correlated with the original level of education (Eurostat, 2004). More recent studies have shown that in the private sector, 30% of employees questioned had taken part in continuous training during the three years prior to the interview (ISFOL ‘Plus’ survey, 2005; Croce, Laj and Pancioni, 2006). Put very concisely, there is much less propensity to provide training in businesses with less than 50 employees, in the family service sector and in agriculture, while the construction and manufacturing industries also offer little training. In southern Italian regions, the proportion of workers receiving training is lower than average. Furthermore, above 45 years of age the proportion of workers receiving training drops rapidly. The figures also show that proportionally less women are offered training. Workers with time contracts and part-time workers are even more disadvantaged. Workers in the lowest earnings bracket take part in employer-sponsored training more infrequently than others. The proportion of workers with middle school certificates taking part in training is approximately 2/3 that of high-school graduates and only 1/3 that of degree graduates (Angotti and Bernardini, 2006; Montanino, 2001). Lastly, only low proportions of factory workers, labourers and artisans participate in training. The figures for the initial activities financed by funds promoted by social partners to support continuous training also confirm that certain categories of worker still have little chance of participating in training activities (Ministry of Labour, 2006).

As we have seen, there is a marked inequality in the distribution of opportunities for training among different categories of worker. It is therefore possible that the spontaneous actions of the market may aggravate inequality and segmentation in the work market. In light of this situation, should pub-
lic policy endorse this spontaneous distribution or take measures to correct it? And, in the second instance, according to what criteria and with which instruments? What are the implications for the continuous training system in Italy?

The second part of this paper will consider the motivations and limitations of public intervention on the basis of the two criteria of efficiency and equity. The third part of this paper argues that in order to be effective, training policy must be defined in response to demand, the nature of which depends on the subject expressing the demand. The fourth part contains a brief presentation of Italian public policy for worker training, whereas the fifth part analyses whether the Italian system suitably addresses the two goals of improving the distribution of continuous training among different worker categories and increasing the overall number of training opportunities, and suggests a number of corrective measures. The sixth part concludes the paper.

Efficiency and equity in the distribution of training

In addition to favouring an increase in the overall volume of training activities, training policy may also influence the distribution of training among different categories of worker. In terms of efficiency, distribution is considered optimum when each worker receives a quantity of training equivalent to the maximum social surplus. This surplus is given by the difference between the product realisable with trained work and the costs sustained for training.

Economic analysis demonstrates that where decision-making is left to the private individual (worker or business), the resultant training may be less than the quantity deemed efficient (2). The causes for this underinvestment may be attributable to the dynamics of the job market or external factors (Brunello and De Paola, 2004; CESifo Working Paper 1286, 2004; Leuven, 2005). In particular, one of the factors hindering the achievement of optimum levels of training is a difficulty in coordination. Indeed, both the worker and the business draw advantages from training and, as a consequence, contribution is necessary from both parts in order to achieve a socially efficient level of investment. However, the intrinsically intangible and unverifiable nature of investment in training (the quantity and, above all, quality of training are difficult to measure in definite terms) render joint funding from both parties difficult. If the worker cannot monitor training and demand from the business that the training received is compliant with the terms defined, an agreement on joint funding cannot be struck. As a result, each party will make unilateral decisions and the results will be inefficient from a collect-

(2) Theoretically, it is equally possible that inefficiencies in private decision-making may lead to an excess of training.
tive standpoint. More specifically, it is probable that the investment will be made by the party for whom there are the most advantageous individual rewards (and which is also not subject to limitations impeding investment) (Acemoglu and Pischke, 1999).

In concordance with these theoretical considerations, the empirical evidence available demonstrates that in the vast majority of cases, training – albeit not necessarily of a strictly specific type – is provided by businesses. Indeed, the training provided is prevalently of a transferable nature (in other terms, providing skills and knowledge that may be also applicable in businesses other than the one in which they were acquired). In European countries, on average, between 70 % and 80 % (depending on the source of statistics) of courses are provided – and in the majority of cases, also paid for – by businesses. In Italy, this figure is at least 60 % (ISFOL ‘Plus’ survey, 2005). Even bearing in mind the fact that courses provided by businesses are shorter in duration that those organised independently, it is nonetheless true that, on average, 2/3 of training received by workers depends on businesses (Bassanini et al., 2005).

Therefore, businesses almost always play a primary role in the planning and administration of training and, as a consequence, in the selection of its recipients. Given these circumstances, it is clear that investments in training are geared to maximise the private gains of the business rather than social surplus, and that they will be determined by the same informative, organisational and financial limitations to which the business is subject (Leuven and Oosterbeek, 1999). The results, however, may diverge more or less significantly from the criteria for efficiency. Above all, the decisions of businesses tend to most heavily penalise weaker categories of worker. Training provided to the weaker components of the workforce will always be very meagre as it offers limited gross gains in return for high costs. It is more likely, rather, that the stronger workers in the job market (those with better educations, with better positions in corporate structures and with greater resources and more free time) will also have better training opportunities.

A possible answer to this could be public intervention expressly intended to sustain the training of weaker categories of worker in order to reduce inequalities in income and career prospects among workers.

Depending on the case, such measures to improve equity could lead to two different results. In the most optimistic case, providing training to weaker categories of worker will reduce inequalities while also improving efficiency. An example of this would be training offered to workers with time contracts, presumably young persons with a medium to high level of education but no financial resources. On the one hand, it is unprofitable for businesses to provide training for these workers due to their high turnover; on the other, a lack of personal resources means that they cannot afford to fund training themselves. Measures to support these workers would reduce the training gap hindering their development and would also improve efficiency.
Conversely, a trade-off between efficiency and equity may arise. To achieve a reduction in inequality, training may need to be pushed beyond optimum levels, leading to a deterioration in efficiency. In this scenario, the aggregate costs of additional training (sustained by the business and/or the State) exceed the benefits (increase in productivity). However, it may be justified in as much as it is beneficial for the weaker target categories and from a social point of view, as it meets equity criteria. Naturally, additional training must not exceed the limit beyond which it offers no benefits (even gross of costs) for its recipients. In these circumstances, other measures are preferable to training policy, such as, for instance, adult education programmes, active employment policies and monetary transfer (Lynch, 2003).

An example scenario in which such a trade-off could arise is with workers with low levels of education, for whom training would offer very limited results in terms of acquired skills and productivity. In this case too, businesses are relatively disinclined to offer training. Public measures offering greater opportunities for the acquisition of human capital may be beneficial to these workers, by improving their disadvantaged position in the employment market, but would be costly in terms of efficiency.

Training policy in response to demand

In recent years, there has been a significant increase in awareness among governments of industrialised countries concerning the issue of continuous training. This new context has necessitated a redefinition of the logic and methods of public policy relative to the past. The prevalent view today is that training policy should primarily act from the demand for training expressed by workers and businesses, via measures and incentives geared to promoting and maximising direct, coordinated funding from the workers and businesses themselves (Wurzburg, 1998; Gasskov, 2001; Bassanini, 2004). This demand-oriented approach focusing on co-funding is in direct contrast with the conventional view based predominantly on the training offered – via funding or direct service provision – by public organisations. This approach is justified by the following suppositions:

- as a large proportion of the benefits of training go to the participant businesses and workers, it is logical that they should sustain the costs,
- the restrictions of public expenditure limit the resources available for financial measures to support training,
- it is advantageous to establish market mechanisms that stimulate appropriate investment decision-making by the parties involved (mechanisms which are neglected in an offer oriented approach).

A demand-based system may be more effective in increasing the level of responsibility of the parties concerned while ensuring the operational flexibility necessary to avoid incongruity between the training provided and
the training requirements of the economy (Finegold, 1996). This approach already exists, albeit to widely varying degrees, in the principal national continuous training models in place in European countries. Within these models, more so than in initial training systems, the decision-making and funding role played by private parties (workers and businesses) outweighs the role of public intervention (Croce, 2005).

Nevertheless, even an approach based on co-funding by businesses and workers is not without its limitations. It appears that private decision-making cannot be depended upon to ensure a satisfactory flow of investment in training. In reality, and as mentioned earlier, it is particularly difficult to coordinate investments in training by workers and businesses. As a result, a system of unilateral decision-making, with its inherent inefficiencies, is more likely to become emplaced than a system of co-funding. If training is primarily funded by businesses, then their decisions will be geared to maximise their own gains without sufficiently considering the benefits of the workers. The available resources will be allocated to the training of the categories of workers generating the greatest gains for the businesses themselves. Furthermore, and concerning the aspect dealt with here, a co-funding-oriented approach may aspire to achieve satisfactory distribution in terms of efficiency, but does not explicitly consider the possibility that it may be unsatisfactory in terms of equity.

As a result, while public policy must take care not to displace private investment – and indeed actively encourage such investment – it must also be capable of intervening where the overall levels and distribution of investment in training differs significantly from the objectives defined for efficiency and/or equity.

Collectively oriented training policy and training policy in response to individual demand

In a training-demand-oriented approach, the nature of public policy differs depending on whether it addresses the demands of businesses or the demands of workers.

A study of the scenarios in a number of European countries shows that public action in response to the demands of businesses is often in the form of collectively oriented policies, as they involve the co-planning and, in some cases, co-administration of the training measures with social partners. In this case, planning skills, the active involvement of worker representatives, preferably within the company, and an ability to administer the plan itself are necessary. These components may render access to public resources more difficult, especially for smaller businesses. Measures catering for demand expressed by the workers themselves, however, may be described as policies in response to individual demand. In this case, the individual worker expresses the demand for training and is also the final beneficiary of the policies.

It is important to note that in an ideal continuous training system, these two types of policy could be mutually complementary, as they functional-
ly cater for distinctly different training requisites. Training in response to individual demand does not overlap with training organised with training programmes, as it intercepts and fulfils a demand that would be difficult to cater for in programmes defined by businesses.

The mutually complementary nature of the two policies may be illustrated briefly as follows: In the case where training is planned by businesses via training programmes, these presumably respond primarily to the needs of the business itself in a context of an internal job market. In this case, therefore, the business assumes responsibility for worker training in a scenario of generally stable occupational relationships and of mutually advantageous exchange between workers and the business. Training in response to individual demand, in which workers autonomously select their own training programmes, may provide a more appropriate response to the needs of workers not belonging to the internal job market with weak ties to the business who, as a consequence, have to organise their training personally. The logical recipients of this second set of policies are primarily workers operating in professional markets with a high degree of mobility, but also a considerable proportion of workers operating in secondary market conditions (3).

A system of both collectively-based policies and policies responding to individual demand could therefore potentially fulfil the training needs of workers with widely varying personal or job market characteristics. However, for this to be effectively possible it is important that these policies are structured and defined to enable them to respond, on the one hand, to imperfections in the job, credit and training markets and, on the other, to the structural limitations restricting public intervention in training. In this light, there are a number of conditions upon which the effectiveness of these policies depends. Concerning collectively-based policies, these must be capable of:

- reducing the problem of free-riding among businesses (this requisite may, for example, justify the enforcement of mandatory contribution by businesses, such as a levy of 0.30 %);
- effectively eliminating the restrictions limiting the training activities of businesses and workers, bearing in mind that especially in the case of small businesses, these restrictions may not just be economic, but also informative, organisational or time-related in nature;
- favour coordination between businesses and workers, reducing the problems of information asymmetry and lack of trust that may impede the effective co-funding of training.

(3) In this context, the internal job market refers to businesses conducting training internally, whereas the secondary market refers to businesses and jobs of inferior quality for which businesses have no interest in investing in training. Lastly, the professional job market consists of workers with high level, acknowledged professional qualifications and with superior bargaining power, who are willing to sustain the costs of their own training.
Whereas the effectiveness of policies in response to individual demand depends on:

1. their capacity to eliminate restrictions impeding workers from providing their own training, especially economic limitations;
2. on the existence of measures promoting the distribution of information and to ensure the quality of training in order to broaden the group of potential beneficiaries of these instruments;
3. on a capacity to select, as recipients of the measures, individuals operating in external and professional job markets.

The effective layout and effectiveness of a dual channel configuration for continuous training must then be evaluated. A system that cannot fulfil its objectives – in other terms, respond to the requisites for efficiency and equity of a wide variety of subjects and situations – would not justify the enforcement of mandatory levies to fund training. In this case, less selective and more automatic incentives to promote training, geared towards a more limited set of objectives, may be preferable.

Public policies for worker training in Italy

The current public policies for worker training have been developed over the past decade and are largely, if not exclusively, based on systems for the disbursement of funding. The first operational instrument was the national law on continuous training (Act No 236, 1993), implemented in 1996 and covering all workers in private businesses. This law predominantly finances training programmes submitted by businesses and defined in agreement with worker representatives, but the actual responsibility for planning and defining the priorities of the measures implemented lies with the public administration, regional governments in particular, which receive annual funding quotas from the state. It must be said, however, that in recent years, efforts have been made to channel funding towards categories of workers that are generally not involved in training processes, in an attempt to give equity priority over efficiency.

Alongside conventional training programmes, the law also finances a system of individual vouchers, in an attempt to reduce cumbersome bureaucracy in the administration of resources and to increase the numbers of participants in training activities.

A second financial instrument was introduced in 2000 with the more specific objective of favouring individual rights to worker training. This law requires the inclusion in the contracts of social partners of the possibility to take leave for training activities, even if not directly related to work. Alternatively, regional governments may also use the resources to finance individual vouchers.

Together, these two financial instruments account for approximately 15% of the resources allocated annually for businesses and workers. A more sub-
stantial proportion of the resources – around 40% – is provided by measures financed by the European Social Fund. These measures are also based on the conventional training programme model, and do not differ significantly – from the point of view of the worker and the business – from the aforementioned national financing laws.

During the two-year period from 2004 to 2005, interprofessional funds were introduced in Italy. These are private entities promoted by the social partners to finance worker training. Businesses may electively decide whether to be associated with a fund and, should it do so, choose from one of the 12 currently operational funds. By implementing these funds, the State has delegated the administration of public policy to the social partners, based on the assumption that the partners are in possession of more comprehensive information than public administration and, as a result, can better utilise the resources. Furthermore, as these are private entities, they will define more streamlined procedures for the allocation of resources. Currently, these funds account for the remaining 45% of the resources available for worker training. This figure is destined to increase over the coming years, making the funds the primary channel for the public financing of continuous training policies. It is interesting to note that most of this funding, whether for national law, for the national quota of the European Social Fund or for the funds promoted by the social partners, comes from the same source, specifically a mandatory levy equal to 0.3% of total wages paid by businesses to the State. The mandatory nature of this contribution is justified by the phenomenon of free-riding in the funding of training due to a lack of voluntary coordination between actors. Furthermore, by obtaining resources from all private sector employment, the overall costs are spread across the board, keeping pro capita expenditure within reasonable limits.

As it is payable by the business but proportional to wages, this levy effectively implies that training costs are distributed between the business and the worker, as its introduction has led – as a result of the normal elasticity of demand and supply in the job market – to a reduction of the surplus of both parties. The funding for training is therefore provided by the resources of businesses and workers. From an economic standpoint, this cofunding justifies the necessity for agreements between the parties involved in the funding of continuous training as well as the mutual nature of the funds, in which the social partners jointly administer the training policies.

By using funding via mandatory wage-proportional levies administered by social partners, the Italian system adopts an interventionist model, in which specific legislative obligations impose or regulate investment in training. Analogous systems are in place in France, Belgium, Spain and Denmark. Furthermore, the implementation of interprofessional funds, of which equivalent instruments exist in the countries mentioned above and in others, such as the Netherlands, exerts a powerful influence to promote autonomy and cooperation among the social partners, by offering them the opportunity not just to administer but also to guide and develop the continuous training system.
Considerations on the policy instruments in place in Italy

In this current period of transformation of the continuous training system, the question arises of whether the public policies operating in Italy today are effectively capable of not just increasing the volume of training provided, but also of improving its distribution. The first aspect of this question is structural in nature, specifically, whether the instruments available, based on the dual channel of activities cofunded by the public administration (national laws and European Social Fund) and by the interprofessional funds promoted by the social partners, are mutually complementary or overlapping. It would appear that the instruments are predominantly overlapping as in many programmes today, both training in response to individual demand and collectively-based training are financed. Furthermore, some of the instruments available share similar characteristics, with substantially the same methods of resource allocation in terms of the recipient subjects.

As a result, in spite of the fact that (as mentioned) the instruments available in Italy – definable essentially as an offer of public resources – include both collectively based policies and policies in response to individual demand, it would nonetheless appear that the overall configuration of the system does not have a clear strategy for policy, to differentiate the instruments in place for different targets and to strengthen complementarity between them.

The current continuous training system is the result of the fragmented and often convoluted development of its various constituent instruments, caused by different motivating factors and contingencies, in many instances not coordinated as part of a global vision. While it has adopted a demand-oriented approach, the current configuration of public policy does not fully achieve the complementarity described earlier, giving rise to a harmful overlapping of instruments.

As a consequence, a significant portion of the workforce is effectively left at the margins of the training system; of these workers, only a very small proportion benefits from public policies (4). As already mentioned, this not only introduces the risk of aggravating segmentation and inequality, but also implies a loss in efficiency.

The recently introduced solution, intended to respond to the training requisites of the weakest segments of the workforce, also appears to be unsatisfactory. This solution favours segmentation between training intended for highly skilled workers belonging to the central core of the business and training for weaker workers – those with lower levels of education and

(4) As demonstrated by the 2005 report on continuous training in Italy, public funding covers 10% of all continuous training activities.
either not employed in core functions or with only loosely structured ties with the business – as the former is instrumental in achieving the strategic goals of the business whereas the latter plays a merely compensatory role. This divergence is being observed with interprofessional funds used to finance programmes defined effectively by businesses and destined primarily for strong workers, and in the remainder of public policies for a variety of purposes, with the predominant goal of improving equity but of dubious efficacy in terms of the professional development of the workers involved.

In the current situation, therefore, public policy does not manage to express its full potential. Assuming that current legislative instruments remain unchanged, specialising the policies deployed by interprofessional funds and public administrations could possibly facilitate the evolution of the system towards one based completely on collectively-based policies and policies in response to individual demand. The former could primarily be entrusted with collectively based policies, whereas the latter could take responsibility of policies in response to individual demand (5).

This would fulfil the different requisites expressed by demand, and the policy-maker – whether it be a representative of the workers and employer or the public administration – could appropriately direct the instruments to achieve the dual goals of efficiency and equity.

Clearly specialising the policies in accordance with the guidelines defined would enable improvement both in collectively based training and training in response to individual demand.

Concerning the latter, while voucher systems have been implemented by a number of regions, their use has been rather limited and, as a result, they have still not developed sufficiently to be considered as a primary training channel. The system therefore needs to be expanded to include relatively more advantageous access and financing conditions for the priority targets identified in accordance with their territorial, sector and professional contexts. For marginal worker categories, the voucher system should be supported by appropriate measures and incentives to promote access to the system and maximise its benefits, so as not to limit the use of this instrument solely to more dynamic workers. Also, a worker’s individual right to access training could be calculated in usable working hours, subject to approval by the business and supported by the voucher system. To prevent workers from excessively accumulating usable hours and to motivate the worker to effectively use the working hour credit earned, the credit should be periodically reset to zero, every three years for example.

Furthermore, through the implementation of appropriate incentives, the funds could also promote the inclusion of low skilled workers in the training plans defined by businesses. In a system of collectively based policies, trade unions could play a significant role in this aspect. In order to achieve this objective, businesses and trade unions could negotiate how working

(5) In this model, the channel destined for the financing of training in businesses not associated with any fund remains to be defined.
time and free time are used for training, the training standards and a system to certify skills. These are measures to promote the cofunding of training by the business and the worker.

Lastly, another priority goal is to increase the percentage of businesses offering training. This requires policies specifically targeted at smaller businesses which, in order to ensure efficacy, cannot be exclusively financial or fiscal in nature, and must also entail a network of services to generate demand, as well as a set of streamlined funding mechanisms and simplified administrative procedures for small projects.

Conclusions

The Italian continuous training system is more developed today than it was even just a few years ago. The introduction, in 2004 and 2005, of the funds promoted by social partners is causing radical changes to the instruments available to businesses and workers and has raised doubts about the entire system formerly in place. Nonetheless, the problem of broadening access to training to components of the workforce who would otherwise be left out remains an open issue. However, the current system still includes imperfections, specifically overlapping instruments and a segmentation between training of strategic value (financed by the funds and geared to fulfilling the objectives effectively set by businesses) and training with a purely compensatory function (promoted by the public administration). Rather, efforts must be made to achieve complementarity between the different instruments, entrusting the social partners with the administration of policy in response to collective demand and assigning policy in response to individual demand to the public administration.

The inefficiency of the current system is also manifest in the fact that even the relatively meagre public resources available for training are in part left unused, in spite of the fact that approximately 90% of all training in businesses is financed by private resources.

Lastly, it must be noted that the efficacy of policies geared to promote and stimulate the demand for training necessarily also depends on an elastic and efficient offer, which for the time being is still not sufficiently developed in Italy. Measures to perfect systems for the stimulation and promotion of demand must therefore be associated with action to promote the quantitative and qualitative development of the offer of training services.
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