Chapter 3.1
Challenges and change: Apprenticeships in German-speaking Europe
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This preview was published in October 2011. © 2011
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ACKNOWLEDGMENTS

IPPR would like to thank the Association of Colleges for their kind support of this project and intellectual engagement.

RETHINKING APPRENTICESHIPS

To be published in autumn 2011

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Difficult labour markets in European countries are a challenge for young people seeking employment. However, apprenticeships continue to facilitate the transition from school to work and to lead to higher employment probabilities than equivalent full-time schooling (OECD 2010a). In the dual-system German-speaking countries – Austria, Germany and Switzerland – at least 40 per cent of school-leavers are taken on by employers in three-year apprenticeships leading to a recognised qualification. In England, only 6 per cent of 16- to 18-year-olds were in apprenticeships in 2010 and apprenticeships last on average just over one year (SFR 15 2011). The dual-system countries show corresponding benefits for youth unemployment which stands at only half the level of the 19 per cent reported for the UK in 2010 (OECD 2011).

In German-speaking European countries, fast-changing labour markets have led to reform and change of the regulation of apprenticeships, which aims to increase the incentive to employers to provide apprenticeship places. The role of government in the three-way partnership on which dual-system apprenticeships are based is crucial to the continuing resilience of the dual-system model in these countries. This chapter explores this role and draws lessons for changes needed for the governance of apprenticeships in England.

This chapter examines:
- the respective responsibilities of federal government and employers in the dual-system, as exemplified by Germany
- a summary of cost-sharing in the dual-system, as exemplified by Germany
- the main policy responses to challenges facing the dual-system in Austria, Germany and Switzerland
- the role of the state in the recent development of apprenticeships in England
- conclusions and proposals for the sustainable future growth of apprenticeships in England.

The governance of dual-system apprenticeships – the example of Germany

The current renewed enthusiasm and support for apprenticeships in Europe and beyond follows a period of divergence in European government skills policies for young people. In the second half of the 20th century only Denmark and the German-speaking countries maintained apprenticeships as the principal entry route to work and skills acquisition. Others, for example France and Sweden, provided a full-time, school-based vocational route which marginalised apprenticeship provision and have only recently renewed their support for apprenticeships (Steedman 2010).

Germany avoided the discontinuity in apprenticeship provision experienced in England and elsewhere. From the end of the 19th century onwards, the public authorities progressively intervened in the employer-apprentice agreement through insistence on the provision of general education and occupation-related knowledge in apprentice programmes (Deissinger 1996).

This general education component of apprenticeship programmes was institutionalised in the post-war period as a day (or more) a week spent in a publicly-provided school or college. Apprentices follow a programme of learning established after consultation with employer representatives but designed to transmit general transferable knowledge. Costs of providing this off-the-job education are met out of public funds and the apprentice has the dual status of student (in school) and contracted trainee (in the workplace).
The familiar ‘dual-system’ label used to describe apprenticeships in Germany and in Austria, Denmark and Switzerland reflects the two distinct learning locations – the school (general education and occupational knowledge) and the workplace (occupational skills and personal development). A 1969 Act of the German Parliament – Vocational Training Act (VTA) – recognises this duality. In this Act, the federal government defines the parameters within which firms and chambers of commerce may legitimately operate apprenticeship contracts.

The VTA specifies the length of apprentice training and the examinations to be carried out by chambers of commerce to test workplace learning, and obliges employers to release apprentices to undergo these tests. It requires employer and sector representatives to draw up a specification of workplace learning for every recognised apprentice occupation, with the proviso that the framework promotes transferable skills and knowledge within an occupational context.

‘the Act places vocational training in the hands of firms and chambers and thus emphasises the principle of self-government while at the same time defining the framework where it has to take place’

ibid

The federal authorities are not, therefore, absent from the institutional architecture of apprenticeships in Germany. Laws approved by parliament determine the length and conditions of the apprenticeship contract and set out the objective of apprenticeship training in both arenas of the dual system. In partnership with employer and employee organisations, the federal government, represented in the Federal Institute for Vocational Training, oversees and co-approves apprenticeship frameworks.

It is at this point, however – after establishing in law the basic parameters and standards of apprenticeship training – that the federal government steps out of the picture and employers’ responsibilities for apprenticeships begin. The decision to recruit apprentices rests with the individual firm; the firm recruits apprentices from individual applications submitted by young people.

Managing the costs of dual-system apprenticeship

In Germany, the vocational school excepted, the cost of providing dual-system apprenticeships falls on employers. All employers, whether apprentice employers or not, contribute to the cost of local chambers of commerce through a compulsory levy. They also benefit from a host of other business services provided by chambers in addition to the management of apprenticeship. Apprentice employers pay a trainee wage and meet the costs of workplace training. At the end of apprenticeships, chambers of commerce meet the cost of assessment of apprentices.

Apprenticeship direct costs to German firms consist of:

- apprentice allowance and social insurance contributions
- apprentice mentor (employee with recognised trainer qualification)
- releasing the apprentice for attendance at vocational college and for examinations.

The net cost of apprenticeships to the firm and ultimately the viability of apprenticeships are determined by factors external and internal to the apprentice firm.
Statutory requirements are, principally:
- length of the apprenticeships
- apprentice allowance
- outline framework of apprentice occupation

The German firm relies on the trade association for its sector and ultimately on the German equivalent of the Confederation of British Industry to negotiate fixed external conditions (including the level of the apprentice allowance) which make it worthwhile to undertake apprenticeship training (see box 1).

Box 1: The apprentice allowance
German apprentices are not employees but have a special trainee status defined by the VTA 1969. The subsequent 2005 VTA specifies that the employer must pay an apprentice allowance which increases in each year of training. The level of apprentice allowances is negotiated by employer and employee representatives and varies both by sector and region. Beicht (2011) notes that the level of apprentice allowance rises when the supply of apprentices is low and vice versa. German trade unions’ willingness to accept apprentice allowances at, on average, one-third of skilled employee wages in the relevant occupation is conditional more or less explicitly on employers keeping numbers of apprenticeships in line with demand from young people, on recognised differentials for skilled employees with completed apprenticeships and on the quality of in-firm training.

German apprenticeship occupations, as outlined in the agreed frameworks, cover a substantial range of skills and competences to be acquired in the workplace and demonstrated at the end of the apprenticeships in practical, written and oral examinations. The final qualification confers skilled status in a recognised occupation (Beruf) (see box 2).

Box 2: The significance of occupation in Germany
‘The German labour market is structured around occupations ... they are central categories for the recruitment of skilled workers and ... the collective bargaining structure. The Berufsabschluss, the certificate of the dual system comes with the entitlement to a particular [skilled] wage if employed according to the qualification.’
Hanf 2011

The training framework needs to be flexible enough for the firm to progressively integrate the apprentice into their work processes over the three-year apprenticeship. As a result, the costs of training are, to a greater or lesser extent, off-set by the apprentices practising the skills that they are learning and thereby contributing to the firm’s output.

The progressive integration of apprentice training into work processes within the firm is facilitated by the use of the Beruf as an organising principle of production or business.

The skills and competences acquired by apprentices are those already in use in the firm by employees who have been trained in the same occupation. The close match between
the firm’s activities and the skills specified in the occupational framework helps to reduce the cost of training to the firm while still delivering a set of highly transferable skills.

Young people apply directly to a firm that offers an apprenticeship in their chosen occupation. Apprentice places are offered in occupations that the firm has identified as required for future operations and growth. As a result, apprentice training ensures a good match with future skills needs. The firm itself will try to select applicants whose school results and personal qualities suggest their ability to cope with the demands of the training programme. Apprentices who struggle to acquire the required skills and competences will be costly for the firm.

The level of the apprentice allowance, the learning capacity of the apprentice, the duration of the apprenticeship period and the management of training costs by the firm determine whether the costs incurred at the beginning of the apprenticeship period, when the candidate is inexperienced, can be offset by their productive contribution later in the apprenticeship.

The key features of the German dual-system outlined above are also found in the two other German-speaking dual system countries – Austria and Switzerland. However, the extent to which the three countries currently succeed in satisfying the demand for apprenticeships and maintain the cost-benefit equilibrium of apprenticeship financing is different in each. The following section outlines the current challenges facing the dual-system countries and the measures taken to return to a functioning equilibrium.

Dual-system apprenticeships – challenges and adaptation

Austria

In Austria, apprenticeships remain confined to artisan trades and lower level business activities, while preparation for technician and associate professional occupations takes place in upper secondary technical schools which confer a dual qualification – entrance to tertiary study and a recognised occupational qualification. These schools, which enrol a quarter of the age group, attract well-qualified students. Apprenticeships, with 40 per cent of school-leavers, take on (almost exclusively) the less-qualified who have left at the end of compulsory schooling.

As demand for skills increases, taking on more of the less-qualified as apprentices is one element which, together with more competitive markets, has increased employers’ costs and resulted in a shortage of apprentice places. Since 1996, with the exception of 2000 and 2001, numbers seeking apprenticeships have outstripped places offered (Dornmayr and Wieser 2010). However, Austria has never experienced the long queues of young people seeking apprenticeships, as experienced in Germany (see below).

The Austrian government has used public funds to pay subsidies directly to employers who offer additional apprentice places, with the result that, apart from 2009 (when the economic crisis caused large numbers of firm closures), the gap between supply and demand has been closing.

Improved quality of apprenticeship training has also been supported by government funding. This takes the form of a payment of premiums for firms where all apprentices are partially or wholly successful in a practical skills test taken half-way through the apprenticeship.
Rauner (2008) is, however, critical of the Austrian government’s attempts to redress the apprenticeship supply—demand balance, claiming that fundamental problems of governance have not been addressed. Apprenticeship administration is divided among too many bodies, government departments and local authorities, and is subject to too many jurisdictions. As a consequence, tradition rather than innovation determines provision. This is reflected in the range and scope of apprenticeship occupations which are overwhelmingly found in the craft and artisan sectors of the economy rather than in the growing high technology service sector areas. The status of traditional work-based apprenticeships has been eroded by the growth of upper secondary technical schools which attract the brighter students and prepare for higher technical and commercial employment.

Lack of leadership and strategic vision at government level mean there has been no significant innovation in apprenticeships. Little attempt has been made to expand apprenticeships in new strategic sectors of the economy and to provide bridges from apprenticeships to further study and thus attract brighter students.

Germany
In Germany, during the prosperous 1980s, apprenticeship places regularly exceeded the number of candidates (Wagner 1998). Since the reunification of Germany in 1990 and the accompanying structural and cyclical economic difficulties, it has proved more problematic to maintain sufficient demand from industry and business. German firms proved increasingly reluctant to provide apprenticeships for less-qualified candidates and a substantial backlog or queue of young people built up waiting for an apprenticeship place.

The German government has engaged employers in a succession of high-profile Pacts for Apprenticeship Training. In these Pacts, employers commit to increasing the number of apprentice places offered while government undertakes to lighten the cost burden on employers. The unspoken threat of a training levy is the sanction available to the government in the event of a failure by employers to increase the number of places.

To redress the cost-benefit balance of apprenticeships in favour of employers, the German government has:
- introduced more flexibility into the training regulations to reduce the costs to firms of in-firm training
- coordinated initiatives in the regions to improve apprentices’ education standards by improving schools
- subsidised apprentice places for disabled or difficult-to-place young people
- funded group training facilities for small firms.

Agreements between employer and employee organisations have kept apprentice allowances more or less flat in real terms since 2000 (Beicht 2011). These measures helped to keep the number of apprenticeship places offered each year fairly constant at around 600,000. However, this was still not sufficient to prevent a long queue of unsuccessful applicants building up. Only in 2007, as the German economy started to grow more strongly, did the number of places start to increase.

By 2010, helped by strong economic growth and falling cohort size, only 12,000 out of a total of 580,000 apprenticeship applicants were without a place, the lowest figure of unsuccessful applicants since 1992. In former West Germany, demand from employers...
exceeded supply in 2010 for the fourth year in a row; in the former East a sharp fall in numbers of young people has brought supply and demand into balance.

In 2011, the federal and regional governments’ priorities are concentrated on measures to assist school-leavers with low school attainments to prepare for apprenticeships and to continue to offer additional finance to employers and others who provide apprenticeship and other work-based learning places (Bundesministerium für Bildung und Forschung 2011).

**Switzerland**
While apprenticeships in Switzerland are based on the dual-system, there are important differences from Germany and Austria which make the Swiss model arguably more successful.

Swiss school-leavers seeking apprenticeships have, on average, significantly higher school attainments than those in Austria or Germany (OECD 2010b). Good prior school attainments in key subjects help to keep apprenticeship costs down. Figure 1 shows that Switzerland has far fewer school-leavers with poor school outcomes in mathematics (below Level 3) than Germany and Austria, and that Austria scores particularly badly in this respect.

![Figure 1: Percentage of students at each proficiency level on the mathematics scale](image)

Swiss apprenticeships recruit from a broad ability range. Well-qualified school-leavers have been encouraged to enter apprenticeships by the prospect of subsequently gaining the Professional Baccalaureate (*Berufsmaturität*). This qualification is open only to those following the apprenticeship route and requires additional study and a written examination. The additional study can be undertaken either concurrently or subsequent to apprenticeship.

In 2010 just under two-thirds of an age cohort (59,389) gained a Federal Apprenticeship Certificate – 33,202 men and 26,187 women. In the same year, 12,249 former apprentices
were awarded a Professional Baccalaureate in one of six specialist areas. A pass confers the right to study for a related degree at a technical university.

As in Austria and Germany, Swiss employers directly recruit and train apprentices. Apprentices attend vocational schools financed by public funds. More recently, some employers have started to provide additional off-the-job, knowledge-intensive, technical or commercial training. In comparison with other dual-system countries (and also with England), apprentice allowances in Switzerland are low relative to skilled worker wages (Ryan et al 2010).

Switzerland is the only European apprenticeship country where there is reliable evidence showing that most firms incur no net costs as a result of taking on apprentices. In these firms, the cost of apprentice training is recouped from the productive work during the apprenticeship period (Wolter et al 2006).

The leading players in the Swiss dual system – federal government together with the cantons, employer and employee representatives have shown themselves to be aware of the need to modernise apprenticeships in response to new sectors of economic activity, the demands of the knowledge economy and school-leavers’ aspirations.

With the 2004 Apprenticeship Act and after extensive consultation, the Swiss government responded to these challenges by setting a new direction and new strategic objectives for apprenticeship provision. The aims are:

- transparency and flexibility of apprenticeship programmes
- apprenticeships better differentiated to meet the diverse needs of school-leavers
- unified system of apprenticeships and other vocational preparation with progression to tertiary level.

To achieve these aims, the Act proposes increased financial support for apprenticeships in the form of:

- increased government funding for off-the-job apprentice learning (vocational schools)
- each sector to organise a firm levy to reduce ‘free riding’ and support apprenticeship
- increased public funding for research and innovation.

Rauner (2008) argues that the 2004 Act provides a legal framework for apprenticeships that is superior to Germany. He emphasises that the Act brings all forms of initial, further and higher vocational education and training under one jurisdiction. Under the Act central government is responsible for strategic decisions on direction and purpose while, in a spirit of subsidiarity, the design and management of apprenticeships are delegated to the partners at local level.

The role of the state in the recent development of apprenticeships in England

Until the middle of the last century, apprenticeships in England remained a partnership between employer and apprentice, governed (if at all) by custom and practice and mostly informal agreements between employers and trade unions. Major state intervention first arrived in the form of the Industrial Training Act of 1964 which established Industrial Training Boards with powers to levy employers and determine apprenticeship content.

By the late 1980s, however, apprenticeships were offered only by a limited number of manufacturing companies and apprentices in the UK had reached a low of only
58,000 (Antal 1990). The abolition of the Industrial Training Boards and the introduction of the Youth Training Scheme (YTS) had replaced employer/employee governance of apprenticeships with short government-run, subsidised training programmes of variable quality. However, YTS provided apprenticeship with ‘life-support’. For the first time, as part of the YTS programme, employers received public funding to support the training element of apprenticeships. Private training providers stepped up to administer YTS on behalf of the Manpower Services Commission.

When the Conservative government moved to reinvent apprenticeships as Modern Apprenticeships in the early 1990s, the model used to develop YTS in the early 1980s was reinstated. To achieve rapid growth targets, training providers acted as brokers – pulling in employers – and as trainers, paid from public funds. Growth in apprentice numbers and revised training content was driven by government initiatives and funding. Apart from some very large firms, many of them long-time apprentice trainers, the employer role in apprenticeships was (and still is) confined to employing and paying the apprentice. The drive for apprentice numbers has resulted in apprentice places going to employees already in employment. At least half of all English apprentices are already employed, so that the employment benefits usually associated with apprenticeship are lost. Young people seeking entry to the labour market – the very constituency that apprenticeships are designed to serve – are losing out as more and more older employees are recruited on to apprenticeship programmes.

Fuller and Unwin (2003) maintain that apprenticeships in the UK today are still heavily scarred by the legacy of YTS – too many short low-quality training programmes with little employer input: ‘In most sectors, the initial catalyst for apprenticeship recruitment will come from training providers who serve the LSCs [Learning and Skills Councils] by persuading employers to take on apprentices in much the same way as they did for YTS and YT [Youth Training]’ (Fuller and Unwin 2003).

This model marginalised the employer contribution to apprenticeships and stripped employers of their traditional role as transmitter of skills and knowledge. The funding model incentivised providers and employers to minimise the apprenticeship duration – in 2006 for apprentices at all levels the average stay was just over one year. Costs to employers of taking on young (16-18) inexperienced apprentices were correspondingly high since the first year of an apprenticeship is inevitably a time of low productivity and high training costs. The average wage paid to apprentices was among the highest in Europe.

Conclusions

In England, lack of employer and trade union commitment led to the government becoming the dominant partner in the funding, management and promotion of apprenticeships. In the dual system countries – Austria, Germany and Switzerland – the federal government stands aside from the administration and management of apprenticeships. Employer and trade union organisations largely determine the content of apprenticeship certificates. Occupational skills are acquired on employers’ premises in the workplace. The federal government determines the strategic direction and objectives of apprenticeships and legislates to provide a framework which sets out and safeguards the rights of apprentices and employers.

The dual system in its purest form shares the costs of apprenticeship training between government (which funds general education) apprentices (who accept reduced earnings) and employers (who bear the costs of occupational training). Currently, Switzerland
appears to be the only dual system in which costs are shared in such a way that most firms train apprentices at no net cost.

Recent developments in the three dual-system countries clearly show that the internal economics of the dual system are easily disrupted by cyclical and structural change in the economy and by changes in the aspirations of school-leavers. Knowledge-intensive economic growth means low-qualified school-leavers are more costly to train than in the past and in all three dual-system countries special measures – such as pre-apprenticeship courses and financial support – have been introduced to help offset these costs. Failure to innovate by promoting apprenticeships in newly-developing economic sectors (green energy, media) or by bridging apprenticeships and tertiary education makes apprenticeships less worthwhile for government, firms and employees and inhibits their growth – as in Austria.

In a fast-changing economic environment, dual-system apprenticeships need frequent adjustment to function well and ensure a skilled workforce for the future. Government’s role is to monitor and listen to employers, trade unions, young people and their parents and promote the necessary adjustments in legislation and regulation.

Both German and Swiss governments have recently acted to redress imbalances between the different partners in apprenticeships. Employer organisations in Germany have entered into direct agreements with the government to raise demand for apprentices. At the same time, employer proposals for reducing the costs of apprenticeship to employers by increasing flexibility have been accepted.

Employers in the dual system countries are directly involved in training apprentices in their own workplaces. They experience first-hand the results of policy decisions on apprenticeships. They understand why it is important to commit time and energy to making an impact on apprenticeship policy. As providers they have a strong interest in ensuring that:

- training requirements for an occupation are relevant
- training can be delivered in the workplace in a cost-effective manner
- apprenticeship is promoted positively to young people of all abilities.

England does not yet have a grown-up partnership between government, employers, trade unions and apprentices. The split in responsibility for apprenticeship between two ministries – the Department for Education and the Department for Business, Innovation and Skills – makes change more difficult to achieve. In the dual-system countries, the government defines apprentice and employer rights and responsibilities and regulates these by statute. The resulting regime is designed to ensure high-quality training with a strong transferable element and to protect both apprentice and employer from excessive cost.

Successive British governments, by contrast, have left issues of standards and length of apprenticeships in the hands of employers while insisting on employed status for apprentices. Much anecdotal evidence suggests that this distribution of responsibility has led to high costs and poor returns for apprentices, in particular in the newer service sector apprentice programmes. Employers appear to be unwilling to pay apprentices, who, after all, have full employee status, a wage which allows the employer to recoup the production lost when apprentices are training. As a result, far too many employers are unwilling to allow apprentices time for off-the-job training, which compromises training quality.
The quantity and quality of apprenticeships in England can only be improved if government establishes a framework of apprentice/employer rights and responsibilities which ensures high-quality training for apprentices and manageable costs for employers. Government can then leave management of apprenticeships to employer organisations and on-the-job training to employers – preferably with strong support and input from trade unions.

The dual system demonstrates that high-quality, cost-effective training can be provided by employers in the workplace. Providing training gives employers a direct stake in decisions about training content and increases incentives to become directly involved in decision-making. England is still a long way from having the highly-evolved set of incentives and institutions that are needed to make dual system apprenticeships work. However, the current organising regime for British apprenticeships marginalises employers and prevents the growth of a genuine workplace training culture.

A progressive transfer of training and assessment responsibilities and accompanying funding to employers is necessary to realise the real potential of apprenticeships. More employers directly funding and taking responsibility for providing apprentice training on their own premises could be an important first step towards a more mature partnership with government. Government should set out a statutory framework of apprentice/employer rights and responsibilities that:

- recognises the unique status of the apprentice as learner and secures the right to high-quality training with strong transferable elements
- sets out the right of apprentices to a training allowance commensurate with their productive contribution net of training costs
- sets a minimum duration for the apprenticeship and secures provision for career progression.

All dual-system governments provide public funds to support apprenticeship training. Funding is provided directly to employers who employ apprentices suffering from physical disability or social exclusion or who train over and above their own skill needs. Public funds also cover the cost of off-the-job training that provides general education and underpinning knowledge together with the cost of assessment. Currently, in Britain, many apprenticeship programmes blend these elements together in a single training framework. Employers who progressively take responsibility for developing and assessing apprentices in elements of the training framework should, as the Wolf Report recommends, receive payment for the educative function performed (Wolf 2011).

School- and college-leavers in Britain desperately need the skills and smooth transition to working life that apprenticeships provide. The economy desperately needs a more highly-skilled workforce. More apprenticeships providing skills comparable to those in competitor countries can help achieve this.

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