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CAN SUBSIDISING JOB-RELATED TRAINING REDUCE INEQUALITY?

Abstract:

A well-established stylised fact is that employer provided job-related training raises productivity and wages. Using UK data, we further find that firm-provided training is positively related to subsidies aimed at reducing training costs for employers. We also find that there is a positive, albeit quantitatively small, relationship between wage inequality and training inequality in the UK. Motivated by the above, we explore whether policies to subsidise firms monetary cost of training can improve earnings for the lower skilled and reduce inequality. We achieve this by developing a dynamic general equilibrium model, featuring skilled and unskilled labour, capital-skill complementarity in production and an endogenous training allocation. Our results suggest that training subsidies for the unskilled have a significant impact on the labour income of unskilled workers. These subsidies also increase earnings for skilled workers and raise aggregate income with implied lifetime multipliers exceeding unity. Finally, the positive spill over effects to skilled workers imply that training subsidies are not very effective in reducing inequality, measured as the distance between skilled and unskilled wages and incomes.

Keywords:

Job-related training, wage and earning inequality, training subsidies

JEL Classification: E24, J24, J31