



Skills Funding - Comparative Evidence on Funding

Skills2Capabilities – Blog post

December 2025

Terence Hogarth and Emily Erickson (Warwick IER)

Who pays for skills, and to what extent, is an important determinant of the volume and quality of provision and potentiality. Funding of vocational education and training (VET) is likely to reflect the relative value an economy places on this form of education. The evidence reveals that countries with a relatively narrow definition of what ‘demand led’ encompasses are in a situation of constantly amending their VET systems and funding formulas compared with ones which have a broader perspective on ‘demand-led’ which means that change is more readily accommodated without recurrent changes to the system.

Much of the current policy discourse on VET is about, first, persuading an increasing share of young people to choose the VET education track (making VET attractive), and secondly, reorienting VET towards more demand-led provision to bring about improved skills matching in the labour market. How ‘demand-led’ provision is conceptualised across Europe reveal substantial variation.

Based on detailed case study in Austria, Norway, and England, the following questions are addressed.

How has the overall funding of VET changed over the past 25 years, with respect to what and who is eligible for funding, how public funding is determined and delivered, and what have been the determinants of those changes?

How responsive are funding mechanisms to the changing demands of the labour market vis-à-vis directing funding towards areas where demand is highest but not necessarily met, and providing training to those who are at risk of labour market marginalisation?

Addressing to the two questions above provides the groundwork for addressing the third question which is posed as a hypothesis in relation to the varieties of capitalism exhibited by each country.



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Public funding of skills in co-ordinated market economies (CMEs) such as Austria and Norway proves more adaptable to meeting the changing demand for skills than in liberal market economies (LMEs) such as England because it does so in a policy stable policy environment which is better able to anticipate and accommodate change. Is there any evidence of this in practice?

Theoretical considerations

At its simplest level employers and individuals will invest in training from which they can appropriate a return that is at least equal to the costs each of them bears. In practice, the issue is much more complex not least because of the uncertainties which affect the rate of return that, say, an employer is able to obtain from investing in either initial VET (IVET) or continuing VET (CVET). The state has tended to intervene to reduce the degree of uncertainty through measures designed to correct for market failures of one kind or another that, in aggregate, result in economically damaging under-investment in skills and the capabilities of the workforce.

Institutions are also important in determining who pays for skills. Collective wage agreements reduce, other things being equal, the likelihood that workers will quit the company that trained them for a non-training paying higher wages at the end of their training. The result is employers will be less risk averse with respect to their investments in worker skills than in cases where there is little or no wage regulation. This is because they are more likely to appropriate the returns from the training they fund. The examples of Austria, Norway, and UK-England allow comparisons to be made between different kinds of labour market regulatory regimes.



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Funding Stability Over Time

In Austria and Norway the evidence points to a relative degree of stability compared with UK-England in relation to IVET. In both the former countries, there is both policy consistency and funding stability for the main part of IVET provision – apprenticeships in Austria and the 2+2 programme in Norway. There is innovation in the systems insofar as there are programmes available in Austria designed to assist young people who may have problems securing an apprenticeship, and in Norway social partner initiatives to increase the supply of apprenticeship places. This can be contrasted with the case of England where there is substantial experimentation attached to the provision of IVET and its funding. England provides an example of a country still trying to find a means of delivering high quality IVET but with fewer financial resources to deliver it with the result that it has sought to pass on an increased share of the costs of training on to the employer at least in the case of apprenticeships with the introduction of the Apprenticeship Levy. It might be assumed that the ongoing reconfiguration of the IVET system in UK-England imposes substantial transaction costs of a kind not found in either Austria or Norway.

Stability versus innovation?

Across all three countries it is apparent that there has been a degree of experimentation taking place with respect to how investments in VET can be optimised. The following are evident:

- increases in the provision of programmes designed, respectively, to stimulate employer investment in training and employee participation in training through funding initiatives;
- concerns about the extent of deadweight looms large (especially in Norway and England where there have also been concerns about public funds being used inappropriately);
- a strong local labour market dimension – i.e. local labour market agencies and authorities are responsible for its administration - as evidenced in the role the Lander





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play in Austria, and the role of devolution of the Adult Education Budget to regional authorities in England.

While all countries reveal a degree of experimentation with respect to how public funding can best support VET, the scale of change is often more substantial in the case of England.

Responsiveness of Funding

A high degree of path dependence in relation to IVET and to a slightly less degree, CVET. Both Austria and Norway reveal examples of relatively stable funding for IVET. This is because each country achieved a degree of settlement several decades ago about the purpose of the VET system, its organisation, and funding. This contrasts with England where the creation of a market-based approach to meeting skills demand commenced in 1980s but has undergone a succession of reforms as it has sought to improve the overall performance of the VET system (this continues today).

Countries such as Austria and Norway require VET systems that can lower employers' adaptation costs in the face of technological and organisational changes. This is because employment regulation results in the costs of hiring and firing that are relatively high. Accordingly, their VET systems need to deliver skills which will allow adaptation to take place at cost which does not impose a competitive disadvantage on employers. In contrast, labour market regulation in England allows employers more flexibility with respect to hiring and firing, but at the expense of employers being more sensitive to the costs of training because there is more risk attached to appropriating the returns from investing in skills training. Each approach has implications for the funding of VET. In the former, it suggests that relatively less pressure is placed on the state to provide a remedy for skill gaps (because these should be, other things being equal, lower), whereas in the latter, it suggests that the state will need to take a more active role in ensuring that workers (and possibly employers) acquire skills which allow them to adapt.



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Skills and the Varieties of Capitalism

The reliance upon market mechanisms to match the supply of, and the demand for, skills place a relatively heavy emphasis on tackling market failures often directed at stimulating the demand for skills. In England there has been much innovation to persuade employers and individuals to increase their investments in skills. This continues today, though it appears that government is increasingly targeting sectors where skill demand is relatively high. While this is not absent in Austria or Norway it is not evident to the same degree.

Countries across Europe have adopted a variety of means to ensure that state funding supports the development of skills which would otherwise not take place. It is not a case of one system being better than another. It is more a case that the balance between public and private funding of skills is appropriate to the prevailing labour market environment. Creating a labour market where workers are encouraged to move between sectors and employers is likely to place relatively more pressure on the state to ensure that skill supply is sufficient. As noted in the evidence provided here, those pressures can be substantial and are not always easily addressed, especially where there are constraints on government expenditure. In those countries where the costs of adaptation are internalised by firms, this requires institutions to ensure that the costs of adaptation do not adversely affect competitiveness. This also poses substantial challenges on the VET system to provide skills which facilitates change, though arguably less so on VET funding.

A Final Word

The policy employment policy discourse in Europe references the need for a more mobile Europe where workers can move between jobs, sectors and locales in response to the changing demand for labour and skills. This should have a beneficial impact on skills matching. At the same time there is an emphasis on skills supply being tied more directly to skills demand (cf. demand led systems). What constitutes a demand-led system is not fully articulated. The evidence provided here provides two different types of demand led systems. First, England,





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which relies very much on skills supply responding, through funding incentives, to market signals about demand. Change is of the essence here. The second, Austria and Norway, relies more upon a social partnership approach that is based more on providing the range of skills which will workers to adapt to change. Both Austria and Norway reveal relatively stable skills policy and funding environments. The key point, already made above, is that depending upon the road which policy makers wish to travel with respect to employment regulation and the creation of demand-led VET systems, there needs to be a skills funding system in place that is capable of supporting those policies to avoid the potential for skill mismatches to increase with all the costs they impose on economy and society.



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Read the full working paper on Skill Formation Systems: www.Skills2Capabilities.eu

This Blog is part of the Skills2Capabilitiy Work Package 8 entitled 'Funding of VET and AL and the Sharing of Costs.' For more information please visit skills2capabilities.eu

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