1. There is a set of core policy concerns.

- How should education and training be financed?
- Is training undersupplied? And, if so, how can the supply be increased?
- How successful are transitions from school to work and, where they are less successful, how can they be improved?

2. How should education and training be financed?

- To the extent that education is tied to increases in pay, the recipient of the education might be expected to pay for it.
- However, the returns to education are spread over a long period of time, well after the costs of education (tuition, supplies, foregone earnings) have been incurred.
- Capital markets exist to allow expenditures for future returns.
- With respect to the acquisition of human capital, the capital market is thought to be imperfect because: i) without indentured servitude human capital provides no collateral (compare mortgages, for house purchase or to finance a new business); ii) the borrowers - young people - do not have a loan track record that financial institutions could use to assess credit risk.
- Consequently, even higher education is usually to some degree either directly subsidized or financed with government-provided loans, or both.
- This does not settle the question of *how much* of the cost should be covered by the government. Should part of education costs be covered through taxes or fees? i) It is certainly necessary to take into account the financing ability of young people; ii) One should also consider the effects of minimal costs on young peoples decisions. Very high drop-out rates in a number of institutions and programs may be produced by ill-considered decisions. One may also raise questions about the extent to which the literacy and numeracy of some of those who apply for and are admitted to university are sufficient to allow them to profit from a university education. iii) There is also the question of the effect of relying on government funding on institution quality.

3. The supply of training.

- The standard starting point in the theoretical literature is: where the skills transmitted are portable employers will be unwilling to invest in training.
- This need not be a problem if someone other than an employer bears the cost of the training: i) the trainee, usually through low pay; ii) the government.
- The problem of the cost of training may be reduced. i) A better performing education system produces better educated completers and better education reduces the cost of training. ii) Skilled workers will move between employers when they can secure higher wages. Preventing skilled worker wages rising as part of a general process of limiting the skilled/unskilled differential reduces the likelihood that an employer will be available to offer higher wages to a worker with portable skills. iii) Moreover, if skilled wages are held down there will be a gap between the productivity of the skilled worker and his or her wage. This increases the return to an employer who provides training.
- While skill portability is a real issue there is accumulating evidence that its importance has been exaggerated. Most of the training provided by firms seems to be general. But workers don't move as much as might be expected because: i) employees are unaware of the alternative jobs available with other employers and ii) employers are unaware of the availability of employees with the skills they seek. Lack of information means that labour

markets are not perfectly competitive. That reduces mobility.

4. The relative success of different transitions from school to work to work in different countries.

- Should Germany be considered a model? i) It has a very successful manufacturing industry that produces high end products. ii) The connection between the school and work built into the apprenticeship system may motivate better school performance and prompt shifts from school to employment. iii) Evidence for the latter is provided by its low youth unemployment rate. But: i) its cognitive scores - both adult and 15 year old aren't especially impressive; ii) there is substantial gender segregation in its apprenticeship programs; iii) the system works very well for manufacturing - a sector of the economy that provides a declining proportion of jobs; iii) the share of white collar jobs, for which general university education often provides a suitable background, is rising; iv) it would, in any case be impossible to recreate the German system in Canada or the US - the unions, schools, and kinds of employer collaboration are very different.