Yesterday's Model for Tomorrow's Economy?

The Effect of Dual VET on Wage Inequality in the Knowledge Economy

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Dual VET and Wage Inequality

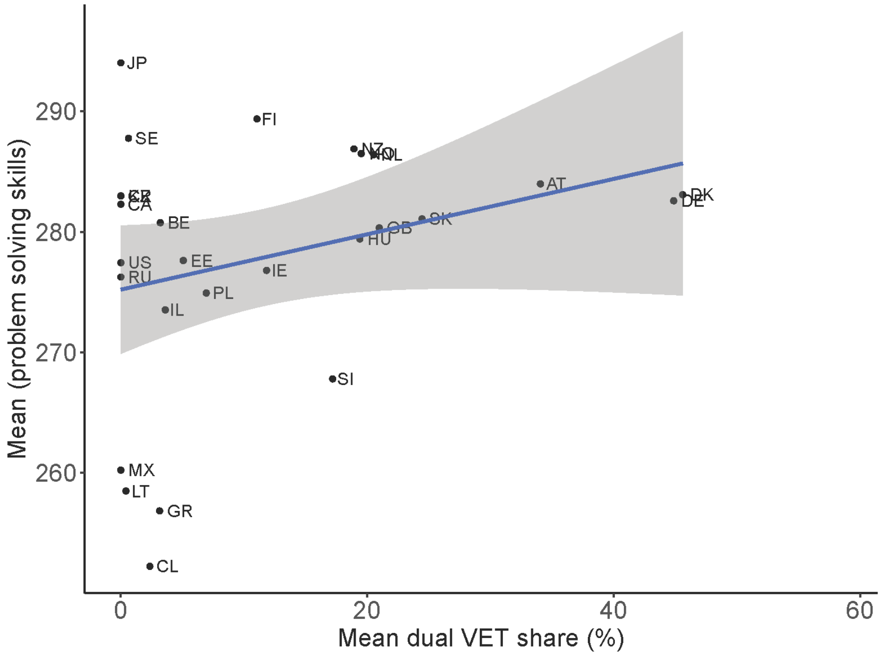
- VET provides (1) productivity signals, (2) alignment of training content and skill requirements, (3) access to recruitment networks
- Conflicting expectations about the effect of dual VET on wage inequality
  - Facilitates school-work transitions → reduces youth unemployment, scarring effects
  - Reduces cost of post-compulsory education → training access for working class youth
  - Compresses skill distribution → lift wage floor
  - Flipside: early tracking and class differences in participation, limits to inclusion, lack of general skills

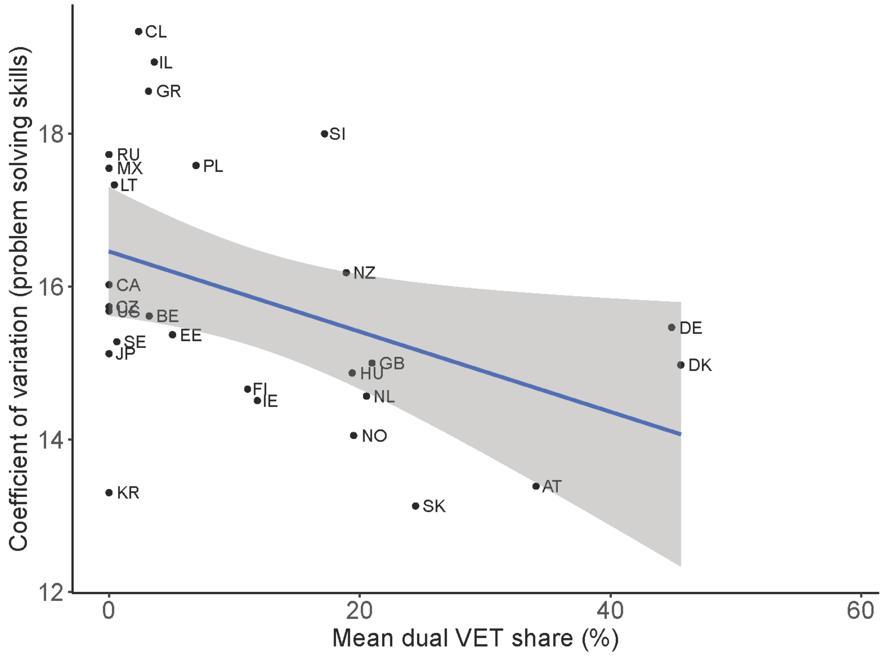
The Knowledge Economy as a Challenge and Opportunity

- Knowledge economy as a new challenge: (1) higher, more general, and ever-changing skills; (2) less certainty about future skill needs; (3) collective action under pressure
  - Not only directly linked to higher inequality, may also undermine beneficial effects of dual VET

- But reasons for optimism:
  - Outdated conceptions: broader, updated curriculum; new career paths (service sector); differentiation (inclusion measures, dual study, permeability)
  - Old strengths: aligned with skill requirements; lower relative cost of acquiring additional skills; soft skills; productivity signals

Old Strengths in New Contexts

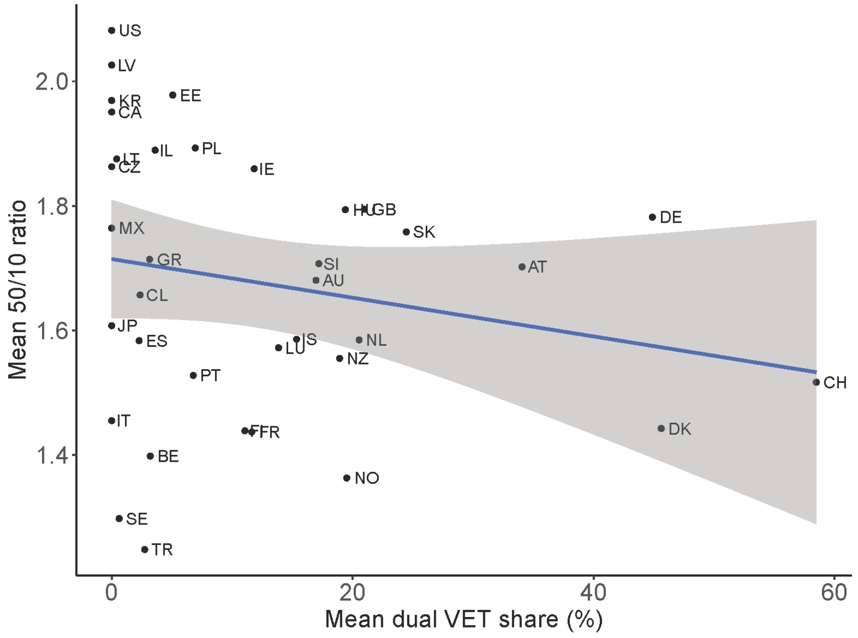


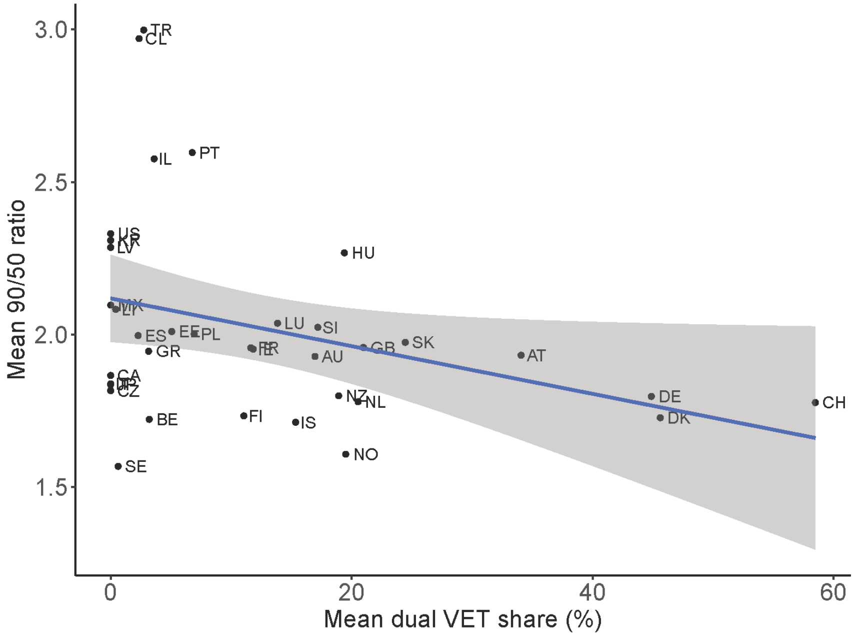


Data

- Sample: 36 advanced economies, 1996-2020
- Dual VET shares: OECD + own data collection effort
- Indicator of knowledge economy: ICT and AI patents per capita
- Dependent variables:
  - 50/10, 90/50, and 90/10 wage ratios
  - Floor-lifting effect of firm-based VET: 50/10 ratio
  - Inequality-boosting effect of KE: 90/50 ratio

Bivariate relationship between dual VET and wage ratios

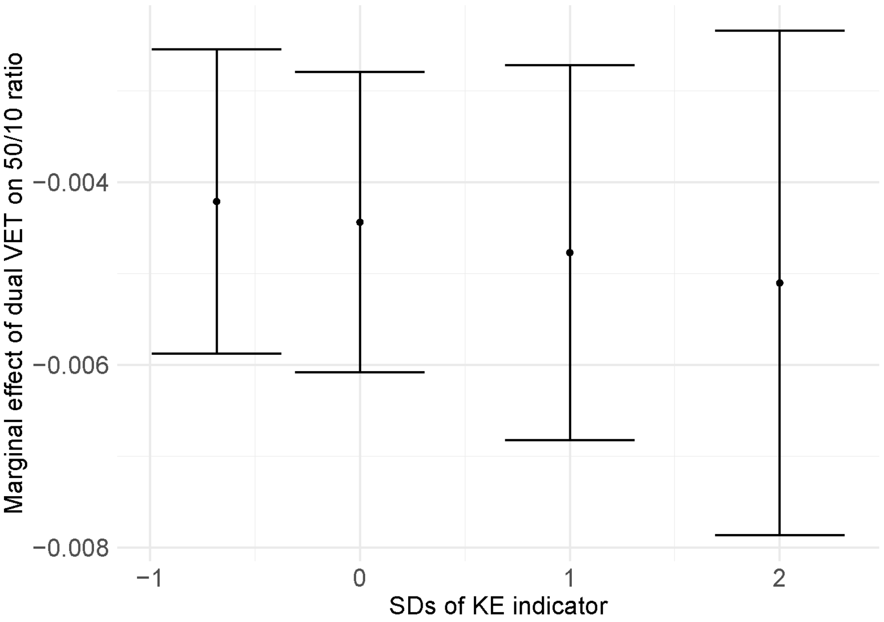


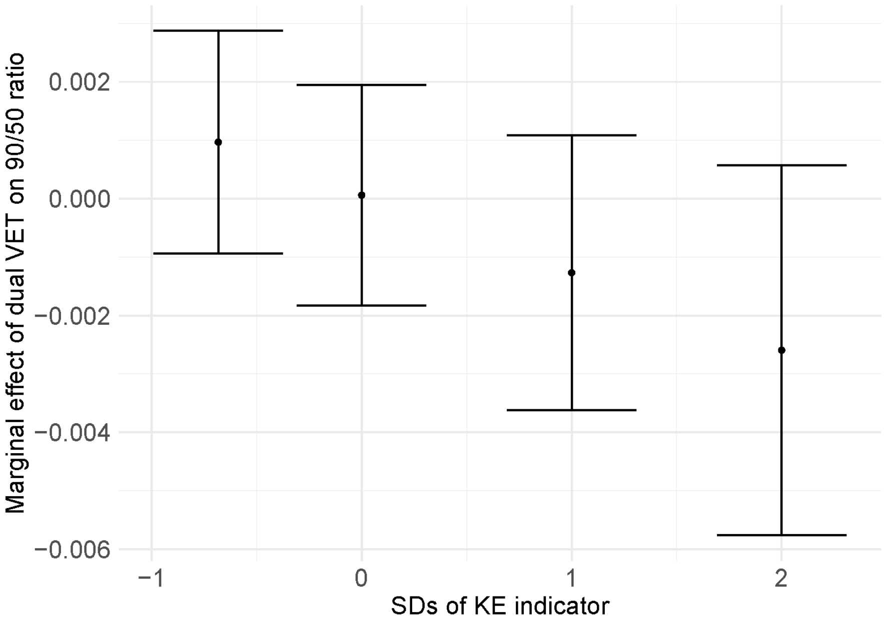


Main results

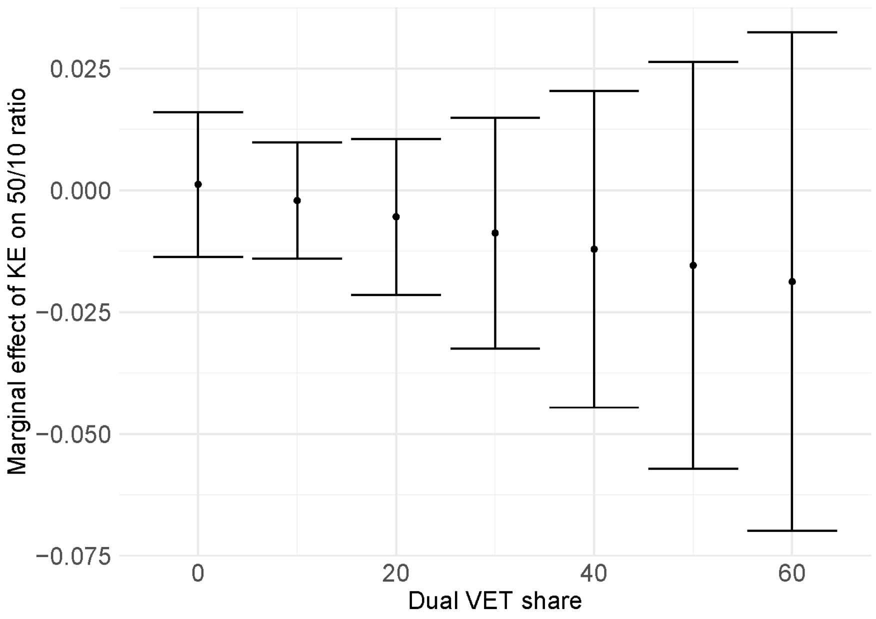
	DV: wage ratios					
	50/10	**90/50**	**90/10**	**50/10**	**90/50**	**90/10**
Dual VET share	−0.004***	0.0004	−0.010***	−0.004***	0.0001	−0.011***
	(0.001)	(0.001)	(0.002)	(0.001)	(0.001)	(0.002)
KE				0.001	0.020**	0.041**
				(0.008)	(0.009)	(0.019)
VET x KE				−0.0003	−0.001**	−0.003**
				(0.0005)	(0.001)	(0.001)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
N	370	370	370	370	370	370
R^2	0.282	0.307	0.346	0.284	0.323	0.360

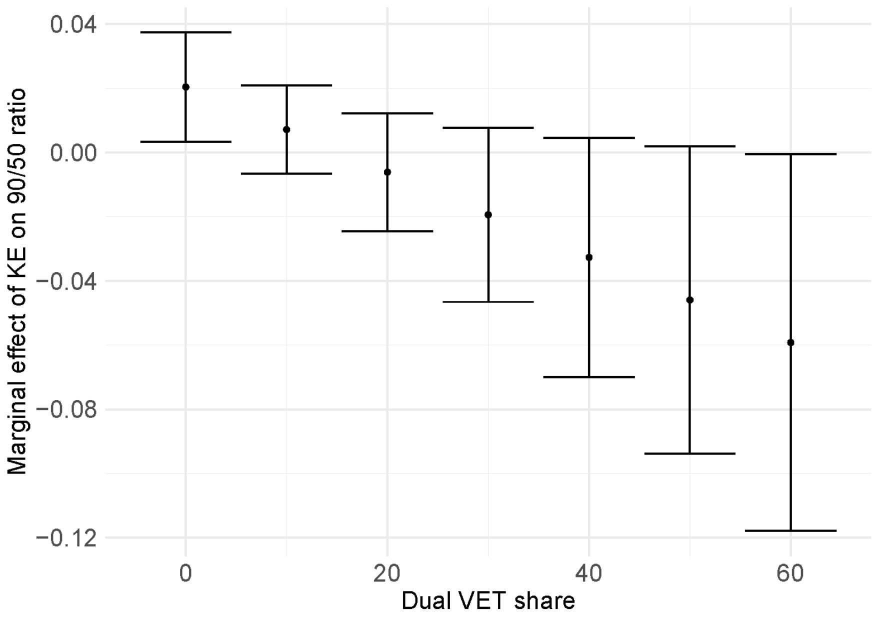
Marginal effect of dual VET for different levels of knowledge economy





Marginal effect of knowledge economy for different shares of dual VET





Conclusion

- Yesterday's Model might still work for Tomorrow's Economy

- First study to comprehensively demonstrate negative effect of dual VET on wage inequality
  - Reduces inequality by raising wage floor
  - Relationship not affected by the knowledge economy
  - Dual VET may dampen effect of knowledge economy on upper-tail inequality

- Inequality research should pay more attention to the role of skill formation systems

Thank you!

We look forward to your feedback and suggestions

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