



OPINION PIECE: Do firms benefit from training apprentices?

Given the debate around the UK Apprenticeship Program, IZA World of Labor will publish an opinion piece by economist Robert I. Lerman of the Urban Institute next Monday. Lerman was one of the first scholars to propose a youth apprenticeship strategy in the US. His opinion piece is based on the latest research summarized in an earlier [IZA World of Labor Report](#). Please find below a shortened version of the opinion piece in advance of publication.

Do firms benefit from training apprentices? By Robert I. Lerman

Apprenticeships offer workers the chance to learn valuable occupational skills. Apprentices earn salaries, receive instruction in relevant concepts, contribute to production, and attain occupational qualifications. For many workers, apprenticeships are far more cost-effective in entering a rewarding career than a pure classroom approach. Employers pay the wages of apprentices, sometimes finance related courses, provide a setting for hands-on learning, and supply trainers to help apprentices achieve competence in the occupation. But, why should profit-seeking firms finance apprenticeships? Human capital theory has long held that firms will only finance firm-specific training; financing general training will be unprofitable because competition will force firms to raise wages in line with the worker's added (general) productivity.

[...]

The main reason is that the costs of apprentice wages, trainer salaries, and courses can be mostly or completely recouped during the apprenticeship itself. The apprentice typically contributes to production by undertaking both tasks that would be undertaken by unskilled workers and others by skilled workers. Add in savings on hiring and training costs, reduced turnover costs, improved matches between employer positions and skilled workers, covering unexpected absences of skilled workers, and firms can gain substantially.

[...]

Other studies find significant returns to apprenticeship investments by German, Canadian, and English firms. Nearly 80% of more than 4,000 employers in England and Wales were satisfied with their apprenticeship program (IFF Research 2012); three in four mentioned improved productivity as a primary benefit. Most highlighted product or service improvements, better staff retention, and the introduction of new ideas and innovations. Over 40% of employers reported that apprenticeships helped them win new business.

In a 2016 study, 13 US businesses offering apprenticeships all concluded that the benefits of their investments well exceeded their costs. A quantitative analysis of Dartmouth-Hitchcock Health Services and Siemens USA uncovered strikingly high (40–50%) rates of return. Major gains emerged from reduced overtime and turnover and high capacity utilization.

Like all investments, firm-financed apprenticeships can be risky. But well-structured programs recoup most costs quickly and often can generate very high returns.

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