



Mutual Learning Programme
Peer Country Comments paper- Germany

**Low youth unemployment but
difficult integration of disadvantaged
young people in Germany**

**Peer Review on “Youth unemployment:
how to prevent and tackle it?”**

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European Commission:

Unit C1 European Employment Strategy and Governance, DG Employment, Social Affairs and Inclusion

EMPL-C1-UNIT@ec.europa.eu

Author: Professor Dr. Gerhard Bosch, Institut Arbeit und Qualifikation (IAQ), University Duisburg-Essen, Germany

In collaboration with ICF GHK

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1. Labour market situation in Germany

This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Germany's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.

In the financial crisis the deepest declines in GDP were seen in the countries in which the manufacturing industries account for a high share of employment as in Germany. The reduction in labor input was, however, almost completely absorbed by a reduction of working hours. A wide range of instruments were used like subsidized short-time, working time accounts, the temporary reduction of the standard working week or the increase of part-time work. Dismissal could be avoided and the unemployment even went down in the crisis (Bosch, 2011). A second less known pillar of the German job miracle were national, industry and regional pacts and collective agreements to recruit new apprentices and continue the employment of young people after the completion of their apprenticeship. In the year 2009, in spite of a reduction of the GDP by nearly 5 % around 566 000 new training contracts were concluded, only 50 000 less than in 2008. Because of the fortunate coincidence that the age cohorts entering the labor market in 2009 also declined by around 50 000 the situation of young people looking for an apprenticeship did not deteriorate very much and youth unemployment rose only slightly from 10,6% in 2008 to 11,2% in 2009.

In 2010 and 2011 the German economy recovered very fast mainly due to the growing exports of its competitive manufacturing industry. Since 2012 the German economy is nearly stagnating with growth rates of only 0.7 % in 2012 and 0.4 % in 2013 which are, however, above the average corresponding figures in the Euro-Zone (-0.6 % in 2012 and 0.5 % in 2013) (IMK, 2013). In spite of this low growth employment is continuously growing because average yearly working hours per employed went down mainly by the increase of part-time work. Employment grew by about 1.6 million between 2008 and July 2013 and the demand for young workers remained high. Young people also benefited from the continuously decreasing number of school leavers which went down from 1.33 million in 2008 to 1.21 million in 2012.

In contrast to most other EU-Countries, youth unemployment decreased between March 2008 and March 2013 by 3.3 percentage point to 7.6 %. Also the youth unemployment ratio is with 4.1 % in 2012 below the figures of other EU-Countries. This indicator has the same numerator as the youth unemployment rate, but the denominator is the total population aged 15 to 24. The rosy picture is, however, somehow impaired by a NEET rate (Not in Employment ,Education or Training) of 11 % (2011) which is above, for example, of the Dutch level with 6.9 % (Table 1). In addition nearly 300 000 young people are in the so called 'transitional system' in which pre-training preparatory courses are offered both by vocational schools and training providers. This transitional system caters on the one hand for young people with poor school records to catch up on skills required for vocational training in training courses or/and firm-based pre-training as well as on the other hand those who are sufficiently qualified for vocational training but have not found an apprenticeship because of a shortage of training places and find themselves in an unwanted 'waiting loop'. Because of the demographic development and the employment growth the number of young people in the transitional system went down by around 100 000 young people between 2008 and 2011 (Autorengruppe Bildungsberichterstattung, 2012: 102) and is expected to shrink further.

2. Assessment of the policy measures

Because of the educational expansion and the up-grading of the job structure a lower secondary school certificate (Hauptschulabschluss) and an apprenticeship training have increasingly become the minimum requirements for access to the German labour market. This means that the costs of low educational attainment are increasing. Long term prognosis shows that in 2025 the supply of unskilled workers will exceed the demand of up to 1.2 million persons (Hummel et al., 2010). At the same time the demand for skilled workers will increase and skill shortages in some segments of the labor market are forecasted.

Because of these structural changes in the labor market a major political concern is the further reduction of the share of early school-leavers and unskilled young people as in the Netherlands. In the 'Qualification Initiative for Germany' of December 2008 the Federal government and the *Minister-Presidents of the Länder* (states) agreed to halve the number of adolescents leaving school without qualification from a national average of 8 % to 4 % and of young adults without vocational qualifications which are capable of undergoing training from 17 % to 8.5 % by the year 2015 (BMBF, 2008: 10). Early vocational guidance in schools, improved local cooperation with a one-stop-center for disadvantaged young people and individualized tailor made integration plans should help to reach these goals.

There are, however, three differences to the Netherlands. Firstly Germany has a strong apprenticeship system. Most policy measures should help to open up pathways for disadvantaged young people to enter an apprenticeship training or to provide at least opportunities of work-based learning which facilitate the integration into an employment. Secondly Germany is a federal state in which the *Länder* (states) have the responsibility for general education and vocational schools and the Federal government for the apprenticeship system and the Bundesagentur für Arbeit (Federal Employment Agency) which is responsible for the youth labor market programs in the unemployment insurance system. The Federal Employment Agency and the municipalities are jointly responsible for the job centers which organize the labor market policy in the means-tested welfare system for the long term unemployed. Because of the diversity of actors local cooperation is needed but quite challenging. Thirdly Germany does not yet have a national minimum wage. The training allowances for apprentices are negotiated by the social partners.

In the following there will be shortly described five policy measures which either are similar to the measures described in the Host paper or can be regarded as functional equivalents in a different institutional context.

- **Early vocational orientation and guidance in schools:** In North-Rhine-Westphalia, for example, the Land (state) and the social partners agreed to improve the linkages between the general schools and different pathways of vocational training and tertiary education. Vocational guidance is mandatory in the 8th grade. Individual 'capacity assessments' (Potentialanalysen) should help the pupils in their self-assessment and facilitate individualized vocational guidance. In the 9th grade all pupils are offered an internship in an enterprise for 2 to 3 weeks. Those who are finishing school in the 10th grade are supported in their application for an apprenticeship. Disadvantaged pupils receive special support which range from longer internships up to individual coaching. Those who are staying longer in school receive additional orientation on tertiary education and vocational training in the 11th and 12th grades. The 21 modules of this process are standardized. In 2012-13 the program was implemented in seven municipalities for 27 000 pupils. In the following years it will be extended to all pupils in the 8th grade (170 000 to 180 000 pupils) (MAIS, 2013). Other *Länder* (states) have similar but less comprehensive programs.

- **Second chance for early school leavers:** Early school leavers are encouraged to return to education to get their lower secondary general school leaving certificate. There are offered different pathways to this certificate. The certificate can be acquired in special programs provided by vocational schools, Volkshochschulen (adult education centers which exists everywhere), and in combination with vocational preparation courses which are provided by charity organizations or private providers. The Federal employment agency is offering vouchers to early school leavers to finance these courses. Also grants can be claimed. The means tested grant and loan system for tertiary education was extended already in the 1980 to apprentices and pupils who live away from their parents.
- **Pre-apprenticeship training:** Pre training schemes are aiming to link low qualified school leavers with the apprenticeship system. They are intended to support young people to acquire additional general and vocational qualifications to make them competitive for the apprentice-ship market. Beside school-based pre-training courses where early school-leavers have to complete the remainder of ten years compulsory schooling the programs of the Federal Employment Agency offers both modules for low performing school leavers, but also for young people who failed to get access to an apprenticeship because of regional or general shortages of the supply of apprenticeships. The average duration of these courses is 10 months. In 2004 an additional program, a firm based training of six months to one year (Einstiegsqualifizierung) was introduced to qualify individuals and increase their chances of a transition into an apprenticeship (Dietrich, 2012). The firms receive up to EUR 216 per months to cover part of the salary of the trainee plus a lump sum fee to cover social security contributions. Between 2004 and 2007 around 76 000 contracts were signed. **Local cooperation transition management:** At local level three different administrative systems are offering financial support and services to young (under 25 years) unemployed, the Federal Employment Agency (insurance system), the Job Centers (welfare system for long-term unemployed) and the local Youth Welfare System. Since many young unemployed do not have own entitlements their classification in the insurance or welfare system depends on the labor market status of their parents which may change if parents find or loose a job. The lack of cooperation between these three institutions prevented the development of individualized reintegration plan, coordination with local employers and led to a waste of public resources and unproductive "waiting loops" for young people. To improve local cooperation good local practice was identified in 2010. In 2011 in 14 municipalities one-stop centers or cooperation agreements were implemented and the experience evaluated by a national advisory board. At present the dissemination across the country is supported by the Federal Employment Agency and local actors (BA, 2012).
- **Training allowances:** Apprentices are employees. Their **training allowances are negotiated in collective** agreements. The training allowances are lower in the first year and then increase in the second and the third year when the share of productive work of the apprentices in the company is increasing. The allowances more or less reflect the pay structures in the individual industries. They are lower in labor-intensive service industries and higher in manufacturing industries. In some industries, higher allowances are paid in order to attract workers to occupations that have a poor image (like construction). The average allowance is less than a third of the wage for an employee with a vocational qualification. The increases of the training allowances more or less followed the general wage increases apart from substantially higher increase in the early 1990s. The unions and the employers

are interested in moderate increases of the allowances because they fear that too high training cost would reduce the supply of apprenticeships (Bosch, 2010). At present it seems that the grand coalition will decide the introduction of a minimum wage in Germany. Sub minimum wages for young people as in the Netherlands are not discussed. However both political parties seem to agree that apprentices should not be covered by a national minimum wage.

The share of early school-leavers went down from 8.5 % in 2004 to 6.6 % in 2010 but remains high among young foreigners (13.1 % in 2010) (Table 2). Even with the new initiatives like the early vocational orientation in all schools North Rhine-Westphalia it seems difficult to reach the target of 4 % in 2015 which was set in the 'Qualification Initiative for Germany' of December 2008. The share of the unskilled (without vocational training) could not be reduced in the last decade (Table 3). It remains above 14 % which is far above the target of 8.5 %. It is still too early to see effects of the improvement in the local cooperation which are not yet implemented everywhere in national statistics.

Rigorous evaluation with control groups is available only for some of the pre-training schemes. The firm based training (Einstiegsqualifizierung) delivers high integration rates in apprenticeship training in general (67 %) and in ensuring the retention of participants by the same training firm (51 %). But the evaluation reports lower success rates for participants with language problems, lower school grades or other groups with individual or socially disadvantaged characteristics (Dietrich, 2012: 15).

3. Assessment of the success factors and transferability

The low German youth unemployment can partially be explained by the comparable good economic situation of the German economy and the demographic development. It also underlines the important contribution of the German apprenticeship system in facilitating the transition from education to work and the willingness of the social partners and the state to stabilize this system in economic crisis. Myriad studies have shown that strong regulated apprenticeship systems reduce the likelihood of young people becoming unemployed and entering the labour market in low-skilled jobs more than school-based systems (Bosch and Charest, 2010). The German apprenticeship system has a high reputation among employers and in the population. It is not a system for poor school achievers. The well trained workforce is regarded as one of the secrets of Germany's competitiveness. In spite of the low youth unemployment Germany has as many other countries difficulties to integrate disadvantaged young people into vocational training.

There is a lot of evidence that projects with the aim of introducing dual training structures in other countries were largely unsustainable. Importing a system, or parts of it, involves more than mere duplication. In the case of the vocational training system, a country seeking to reform its existing system does not simply replace it with that of another country. Instead, it reviews the experiences of various countries and selects the features that best fit its own goals, structures and culture, adapting them as necessary (Euler 2013: 6).

Taking this into account some elements of the described policy measures in Germany are transferable and they are themselves already the result of learning from other countries. This refers especially to the following success factors:

- Early vocational guidance in schools helps identify pupils to drop out so that remedial steps may be taken.
- In countries with apprenticeship systems vocational guidance and pre-training courses should assist young people to select the appropriate types of work-

based training program and to prepare them for entry. In countries with more general education or school-based training systems the school guidance program has often been more geared to preparing the most academically inclined students for university than to help students who will go immediately into the labor force.

- Many disadvantaged young people failed in school and are tired of theoretical learning. The power of the work based learning is that authentic work experiences give those learners opportunities to apply knowledge in useful contexts. Thereby they can regain trust in their own abilities like in German firm based training program (Einstiegsqualifizierung).
- Local cooperation between schools and employers as well as between different local, regional and federal government institutions which are responsible for pupils and unemployed young people are needed to avoid costly “waiting loops”, develop individualized integration plans and improve the transition from education to work.
- Apprentices and young people in internship should be rewarded for the work component. The status of a “real employee” helps them to start an independent life which is crucial to grow in confidence. Because of the learning component their allowances should be lower than the salaries of adult workers. Disincentives for employers to train should also be avoided.

4. Questions

1. How does vocational guidance work in the school-based training system in the Netherlands? Is the state orientating the young people into certain occupational fields which are regarded by the state as promising?
2. The Netherlands have as Germany a high share of marginal part-timers? Are many young people working marginal part-time and if yes is this a trap?
3. The sub-minimum youth wages are setting incentives for labor- intensive industries like the retail trade to recruit young people and dismiss them when they are getting 23 and are entitled to the general national minimum wages. Is there a low wage trap for young people because of the youth sub-minimum wages?
4. How successful are the Netherlands to reduce the share of early school leavers among young minorities?

Annex 1: Summary table

Labour market situation in the Peer Country

- Between 2008 and July 2013 total employment grew by 1,6 Million people in Germany
- In spite of low economic growth in 2012 and 2013 employment is growing because of the increase of part-time work
- In contrast to most other EU-Countries between 3/2008 and 3/2013 youth unemployment decreased by 3,3 percentage points to 7,7%
- The NEET rate (Not in education or Employment), however, is with 11% in 2011 above, for example, the Dutch level of 6.9%

Assessment of the policy measures

- National, regional and local pacts and collective agreements helped to stabilize the supply of apprenticeship places
- The government formulated the aim to half the number of school leavers and of young adult without vocational qualification by the year 2015
- Improved local cooperation, early vocational guidance in schools, pre-apprenticeship training and second chances for early school leavers are implemented to reach these targets.
- Apprentices should not be covered by the coming national minimum wage to keep the supply of apprenticeships high

Assessment of success factors and transferability

- Projects with the aim of introducing dual training structures were largely unsustainable
- However, it is possible to select the features of the system that fit best in own goals and structures, adapting them as necessary
- Authentic work experience give disadvantage young people the possibility to regain trust in their own abilities
- Local cooperation is the key to avoid costly "waiting loops" and improve the transition from education to work

Questions

- How does vocational guidance work in the school-based training system in the Netherlands?
- Are many young people working marginal part-time?
- Is there a low wage trap for young people because of the youth sub-minimum wages?
- How successful are the Netherlands to reduce the share of early school leavers among young minorities?

Table 1: Indicators of Youth Unemployment in the EU and selected EU-Countries

	(1) Unemployment rate of 15-25- years old 3/2013	(2) Increase since 3/2008 in percentage points	(3) Relation of (1) to unemployment rate of 25 years+		(4) Unemployment ratio (Unemployed in relation to population between 15- 25-years) 2012	(5) Not in education or employment (NEET) 2011
			3/2008	3/2013		
EU-27	23.4	+ 8.3	2.6	2.4	9.7	n. v.*
Germany	7.6	- 3.3	1.5	1.5	4.1	11.0
Netherlands	10.5	+ 4.2	2.6	1.9	6.6	6.9
France	25.8	+ 7.8	2.9	2.8	9.0	16.4
Greece	58.7	+25.4	3.4	2.4	16.1	21.8
UK	20.3	+ 6.1	3.9	3.6	12.4	15.5
Ireland	27.1	+16.6	2.5	2.3	12.3	22.0
Italy	39.4	+18.8	3.9	3.9	10.1	23.2
Croatia	52.0	+28.9	3.3	3.9	12.7	n. v.*
Austria	7.9	+ 0.4	2.5	1.8	5.2	9.3
Portugal	40.7	+21.6	2.7	2.6	14.3	15.3
Slovak Republic	34.3	+14.5	2.2	2.8	10.4	19.1
Spain	55.4	+34.4	2.7	2.3	20.6	24.4

*not available

Source: Eurostat; OECD 2013, Table C5.2a; own calculations

Table 2: Early school leavers (without school leaving certificate) 2004, 2006, 2008, 2010 by nationality

	Total*		Germans		Foreigners	
	N	%	N	%	N	%
2004	82 212	8.5	66 910	7.6	15 302	16.4
2006	75 897	7.9	61 331	7.0	14 566	16.1
2008	64 918	7.5	51 906	6.7	13 012	15.2
2010	53 058	6.6	42 498	5.9	10 560	13.1

*in % of population in typical school age

Source: Autorengruppe Bildungsberichterstattung 2012: Table D 7-4 web

Table 3: Young adults without vocational certificate 2000 – 2010 (20 – 29 years old)

	Share of unskilled	Number in million
2000	14.4	1,32
2001	14.5	1,32
2002	15.2	1,37
2003	14.9	1,36
2004	14.9	1,37
2005	16.5	1,57
2007	15.2	1,45
2008	14.9	1,46
2009	14.6	1,44
2010	14.1	1,39

Source: BiBB 2013: 292

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