

Discussion paper

EUROPEAN EMPLOYMENT OBSERVATORY  
AUTUMN REPORT 2005  
GERMANY

Youth Employment Policies

by

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Munich December 2005

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## Glossary

Agenda 2010	Principal economic and social reform programme of the SPD-Bündnis90/Die Grünen government coalition passed in March 2003
ICH-AG	Business foundation grant ( <i>Existenzgründungszuschuss</i> ; § 421 I SGB III) for UB-I recipients, which supports unemployed becoming self-employed for up to three years (1 <sup>st</sup> year: 600 € per month, 2 <sup>nd</sup> year 360 €, 3 <sup>rd</sup> year 240 €)
Job Summit	Agreement between red-green government and CDU/CSU opposition from 17 March 2005 on principles of further labour market reforms
Hartz reform	Reform of unemployment insurance under the Federal Employment Service ( <i>Bundesagentur für Arbeit</i> ) and active labour market policies, named after Peter Hartz, principal staff manager of Volkswagen and the president of “Hartz Commission” established by the German government in 2002. The reform has four parts: Hartz I (2002): introduction of public temporary work agencies (Personnel Service Agencies – PSA) Hartz II (2002): reorganisation of public employment services; mini-jobs, ICH-AG Hartz III (2004): restructuring of public employment services to the Federal Employment Agency Hartz IV (2005): merging of unemployment aid and social assistance to UB-II
1 € Jobs	Jobs in the area of social and public services for UB-II recipients. They are remunerated by 1 or 2 € in addition to UB-II benefits. Jobs need to be additional to jobs in the premier labour market and to normal activities of the institutions.
UB-I	<i>Arbeitslosengeld I</i> : Regular unemployment benefit
UB-II	<i>Arbeitslosengeld II</i> : Means-tested basic income for job seekers, paid after expiration of regular unemployment benefit
Minor employment	<i>Geringfügige Beschäftigung</i> : Jobs with monthly incomes less than 400 €. These can be regular or occasional jobs and jobs in addition to regular employment. Employers pay 25 % of wages to social insurance.
Dual training	The German dual training system provides vocational training to young people through a combination of company-based training and schooling in 350 occupations. Training courses take 2 to 3 ½ years with compulsory curricula. Certificates are given on the basis of exams passed at the Chambers of Trade and Commerce or the Chambers of Crafts.
National Training Pact	Agreement between the Federal Government and the employers associations to offer 60,000 additional dual training places in 2004, and another 30,000 in 2005.
Entry qualification	These are internships of 6 to 12 months which should give young people the opportunity to gain first experiences in working life and to acquire basic working competences. The Federal Labour Office provides support of 192 EURO plus the lump-sum social security premium of 102 EURO per month.

## 1. Introduction

Youth employment belongs to the areas where Germany performs very well by European and international standards. With unemployment rates around 11 % for the 15 to 24 age group, Germany is clearly below the EU-25 average and far from the rates in Spain, Italy and France. This is mainly due to the comprehensive dual training system which opens to a great part of the young generation the opportunity to enter a professional career.

Nevertheless, youth employment policies in Germany face a series of challenges:

- The dual training system is gradually eroding due to declining employment in manufacturing and the change of skills needs.
- A persistent share of 15 % of the young cohorts does not adequately participate in training and is therefore highly vulnerable to unemployment. Persons with migration background are particularly at risk.
- The general training system performs rather poorly due to outdated and highly centralised schooling in the sixteen German Länder.

These challenges are presently in the focus of the political debate which recognised education and training as a pivotal investment into future economic and social development. The recent rebellion in France was taken as a warning signal not allowing the disintegration of the young generation. A series of reforms was undertaken in education and training to modernise the systems and to adjust to changes in the labour market. Further steps are planned such that the expert monitoring of vocational training is gradually becoming more optimistic about the adaptability of the German training system (BMBF 2005, p. 149).

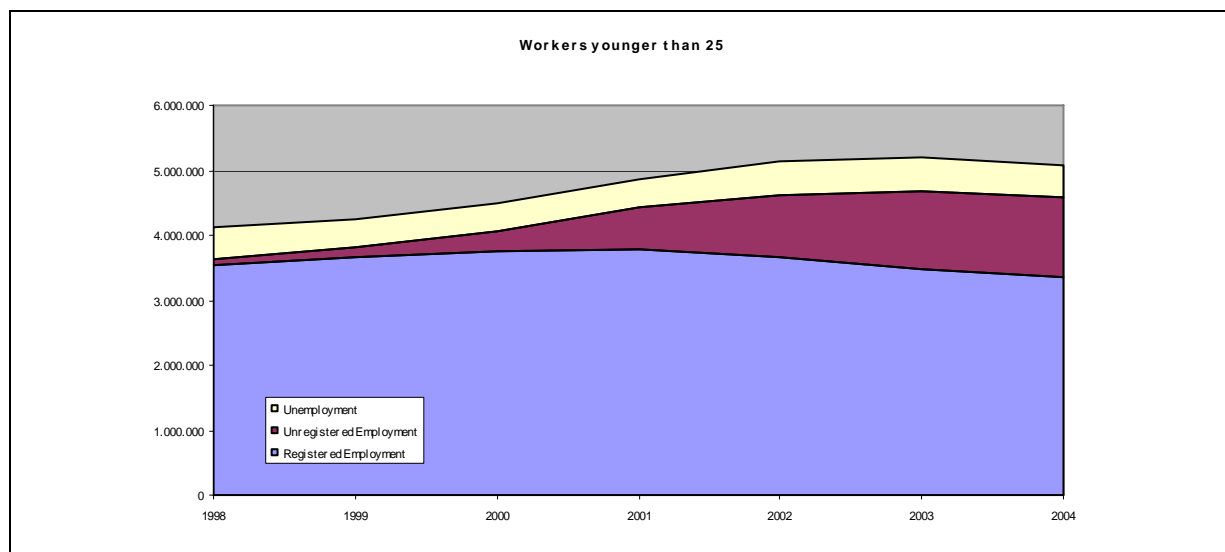
After presenting the current trends in youth employment, the following report concentrates on two issues which seem to be at the centre of political action: the changes in the dual training system and the efforts of integrating disabled or marginalised youths. Moreover, the plans of the new German government in the area of education and training are presented. The report is based on recent policy and research documents.

## 2. Trends on youth labour markets

While overall employment among the age group below 25 increased since 1998 until 2003, the situation for young workers deteriorated afterwards (Chart 1). Employment decreased by 100,000 to the level of 4.6 m in 2004. The problems began already in 2001 when registered employment among young workers (including those engaged in apprenticeship training) started to decline by 430,000 until 2004. For some years this decrease was compensated by the rise of non-registered employment – marginal jobs and internships in particular. This trend, however, changed in 2003 when non-registered employment began to decline.

Standardised unemployment rates moved up from 9 to 11 % until 2005. This was only slightly below the German average of 12 %. Many of the young unemployed had no adequate training (42 % compared to 34 % among all unemployed). 22 % were unemployed for more than 6 months, 10 % were leaving school without an exam, and 25 % were dropping out of vocational training (figures for 2003).

**Chart 1** Labour market for young workers  
Germany

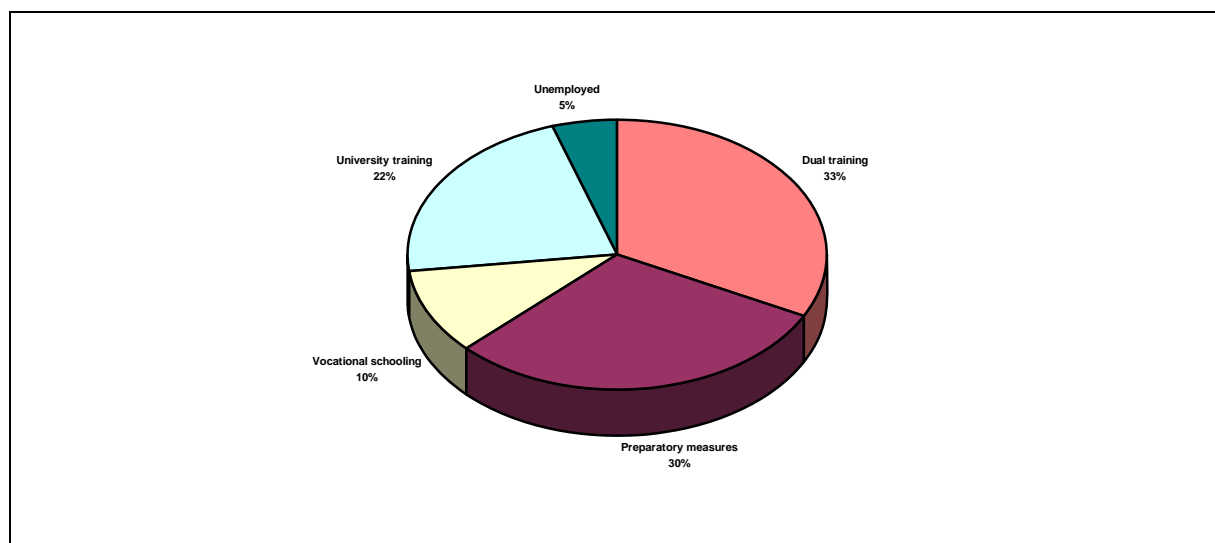


Source: Bundesagentur für Arbeit.

### 3. Education and vocational training

In Germany the development of dual training is more important than any other labour market for young people. 1.6 million young workers are involved in dual training. These are 20 % of the population aged 15 to 24 or 4.6 % of total employment. Dual training is an important entry into working life giving access to qualified jobs. It is the major source of skilled workers for companies, crafts-related companies in particular.

**Chart 2** Entrants into vocational training  
Germany 2003



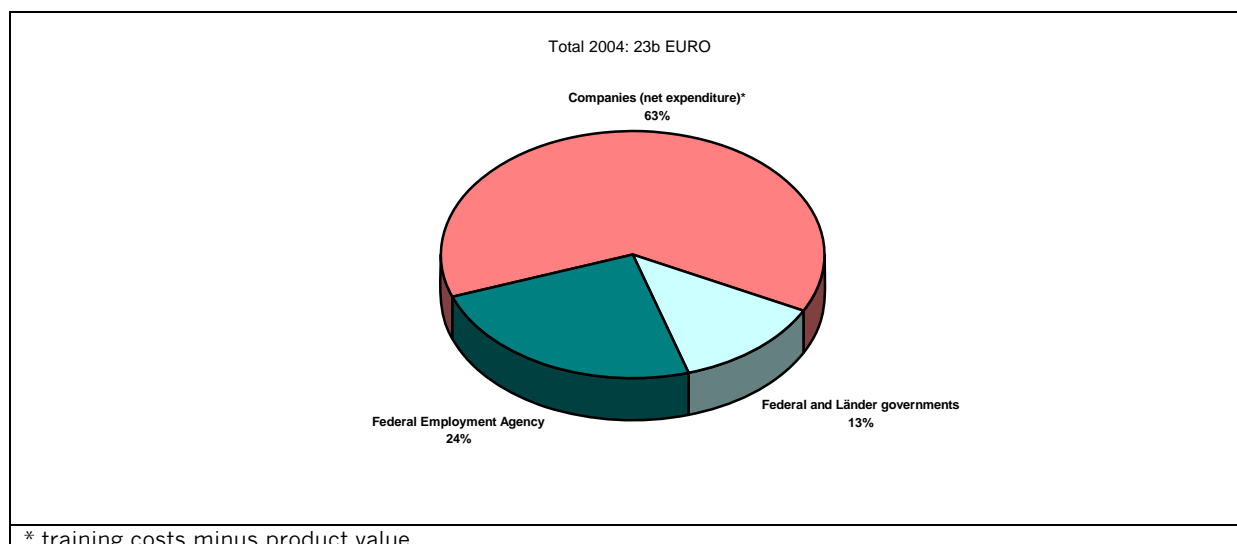
Source: Bundesministerium für Bildung und Forschung 2005

One third of all entrants into vocational training in 2003 choose dual training while 10 % went to vocational schools and 22 % to universities (Chart 2). 30 % started preparatory measures in order to get regular training in the future and 5 % were unemployed after leaving general school education.

Dual training is largely financed by the companies (Chart 3). Even if productive output of apprentices is deducted, the net contribution of companies was 63 % of total 23b EURO expenditures in 2004. 24 % were financed by unemployment insurance (Federal Labour Office) and 13 % by the Federal Government.

30 % of German companies provide dual training. Further 31 % do not participate in dual training though being eligible to offer training places. The remaining 39 % are not eligible. In relation to staff size, small companies are slightly more engaged than big companies. The construction business, agriculture, restaurants and hotels, health care and the education sector provide a higher share of dual training places. With  $\pm 2$  percentage points however, the differences to the average remain limited.

**Chart 3** Expenditures for dual training  
Germany



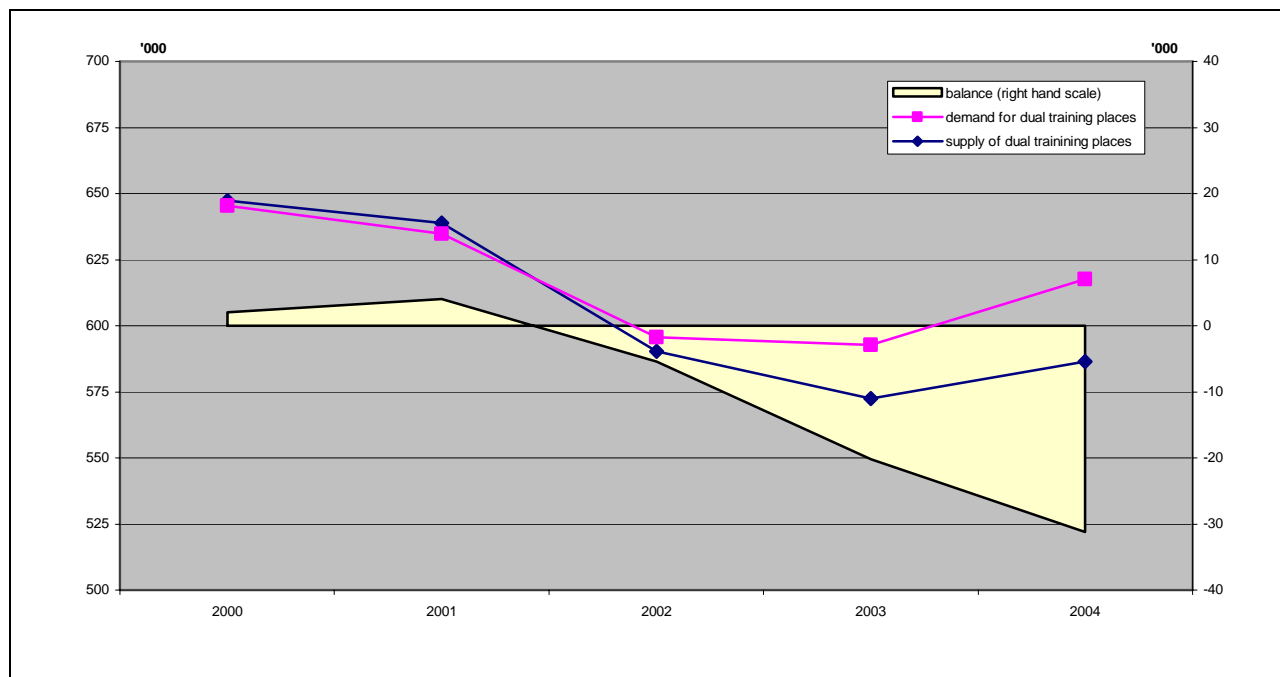
Source: Bundesministerium für Bildung und Forschung 2005

Annually, around 600,000 new individual training contracts are signed. As Chart 4 shows, the balance between demand and supply of training places deviated in recent year increasingly. The difference grew to 30,000 lacking training places at the end of September 2004, and preliminary figures indicate a slightly decreasing gap in 2005.

In 53 % of the 176 German labour market districts the balance of dual training markets was adequate or even favourable from the demand perspective. In 27 % of the districts the situation was unfavourable or even very unfavourable (less than 88 training places per 100 applicants). The balance was particularly unfavourable in the eastern Länder but also in parts of western Germany (areas of Hesse, North-Rhine Westphalia, Saarland and Bavaria). As the regional economy dominates training markets all occupations of dual training were affected in similar ways. Applicants with lower grades of formal education were disadvantaged.

Facing the difficult situation on dual training markets, two approaches were discussed to raise the number of training places:

**Chart 4** Dual training market  
Germany



Source: Bundesministerium für Bildung und Forschung 2005

- A training tax (*Ausbildungsplatzabgabe*) on those employers who did not provide a sufficient number of training places should force employers to offer training places. The required share of training places in relation to the staff size and the adequate level of the tax is to be determined by the government. The law was passed on 7 May 2004 by the red-green coalition, but allowed voluntary commitments by the employers to increase training and thus to avoid the tax. This was the second alternative which – until now – is practised.
- Together with the Federal Ministry for Economics and Labour, the Federal Ministry for Education and Research, and the Federal Labour Agency, the employers associations BDA, BDI, DIHK and ZDH<sup>1</sup> signed a *national pact for training* in 2004. In the agreement, the employers promised to offer 30,000 additional dual training places every year until 2006 and additional 25,000 entry qualifications.

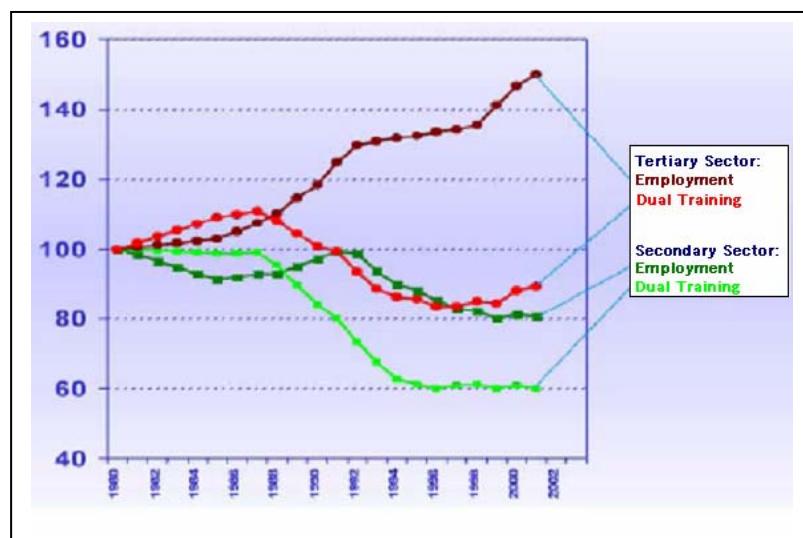
The reason for choosing the voluntary alternative was not only politically determined but also by the fact that the training tax was difficult to handle in practice. As dual training cannot be applied in all sectors (e.g. the public and non-profit sector, and a series of services sectors) high tax burdens could be expected without a realistic perspective to raise the number of training places. A complaint at the constitutional court, based on the violation of equal treatment, might have been successful.

Following the common declaration of the partners of the national training pact from September 7 2005 (Federal Ministry for Economics and Labour et al. 2005) the promised figures were achieved in the sense that additional companies offered new training places. As Chart 2 indicates, the number of training places offered by companies increased in 2004. However, the number of trainees searching for a training place was also significantly higher than in the previous year.

<sup>1</sup> Bundesverband der deutschen Arbeitgeberverbände (BDA), Bundverband der deutschen Industrie (BDI), Deutscher Industrie- und Handelskammertag (DIHK), Zentralverband des deutschen Handwerks (ZDH).

As indicated in the Pro-LPR-Assessment Report (Vogler-Ludwig 2005), it is difficult to declare this as a success of the national training pact, even if the business associations were able to activate a certain number of companies and to offer some compensation for the decline of apprenticeship training. The activities were not strong enough to compensate the weak labour demand situation and – most importantly – the secular disengagement of the business from dual training. It can hardly be overlooked that dual training is underrepresented in the few growing branches of the tertiary sector (Chart 5). While employment in the tertiary sectors grew by 50 % since 1990, the number of training places declined by 10 % until 2002. Moreover, the decline of employment in the secondary sector was accompanied by a disproportionate reduction of dual training places.

**Chart 5** Employment and dual training by sectors



Source: Bundesministerium für Bildung und Forschung (2005)

Thus it is not only the sectoral transition of employment to a greater amount of service jobs which reduced the demand for trainees in dual training but the retreat of companies from dual training since the middle of the nineteen-nineties. This phenomenon indicates a fundamental change of skill needs for which the dual training system has gradually become inadequate.

As critical assessments of the dual training system in Germany pointed out, the rising demand for a highly flexible labour force as regards theoretical knowledge and technical skills is responsible for this change (Büchtemann, Vogler-Ludwig 1997). Formalised dual training is in many cases too slow and too inflexible as regards the change of knowledge and technology. Most importantly, it is a training system which provides highly specialised initial training rather than a broad skills basis for future specialisation. The German dual training system was the adequate answer to industrialisation and still is the basis of competitiveness of German manufacturing. However, the transition to the knowledge-based economy can hardly succeed with this concept. A modular and flexible training system appears as necessary in order to adjust to the rapid development of professional knowledge in all sectors.

Realising these trends, young people increasingly attended higher education and training paths and thus contributed to the erosion of the dual training system. On the one hand the number of entrants to universities increased by 35 % between 1993 and 2003. On the other hand preparatory measures to vocational training experienced a plus of 77 %. The number of entrants to the dual system, however, decreased by 2 % (BMBF 2005, p.86). In the face of



the trend towards higher education, the dual system had the problem of decreasing competence levels among the new entrants and thus enforced selective recruitment.

Against this background, the efforts to modernise the system of dual training are positive but again not sufficient to turn the trend. By August 1 2005, five new training curricula were implemented and 18 (out of 350) were updated. Through such small reform elements the dual systems adjusts to specific problems but this does not change its general acceptance by companies.

#### 4. Promotion of disadvantaged youth

As the screening process for entrants to the dual training system is almost as determined as for job entrants, the negative selection of less competitive youths became a problem of considerable relevance. 15 % of the young generation are left without vocational training, living with low incomes, poor career perspectives and high unemployment risks. However these young people missed to enter a professional career, they are a nucleus of economic dissatisfaction and political radicalism.

The system of dual training which had accomplished the major part of youth integration in the past was less and less able to provide this function. The widening gap between supply and demand of dual training places forced Federal and Länder governments and municipalities to offer training or at least the preparation to training to the young generation. Considerable efforts were therefore undertaken through the provision of additional training places, school-based training and individual consulting. These efforts can be grouped into four areas:

(1) *Work-oriented social work*: programmes to integrate young people at risk of missing vocational training. Many of these programmes are undertaken by charities or municipalities with financial help of Länder governments (e.g. the work-related social work for youths in Saxony). Young people are involved in projects which provide basic working competences and skills.

(2) *Preparatory measures for vocational training (Berufsvorbereitung)*: programmes to provide basic working abilities and knowledge about specific professions through one-year schooling (*Berufsvorbereitungsjahr, Berufsgrundbildungsjahr*) or individual preparation for vocational training (*Neues Fachkonzept der Bundesagentur für Arbeit*). Moreover, entry qualifications for disabled youths provided by companies can be publicly supported (*Einstiegsqualifizierung*). Preparatory measures are based on competence modules (*Qualifizierungsbausteine*) which are derived from the curricula of dual training and adjusted to the abilities of the target groups. Individual consulting is a principle of preparatory measures.

(3) *Integrative vocational training*: programmes which lower the entry barriers to vocational training through shortening or simplifying training courses and particularly addressing learning deficits. This is done through the introduction of two-year dual training courses.

(4) *Extension of the number of dual training places*: the quantitative limitations of dual training markets forced Federal and Länder governments to extend the number of training places through public support. A series of measures was undertaken:

- The common Federal and Länder training programme for eastern Germany (*Ausbildungsplatzprogramm Ost*) which offers 45,000 dual training places. This programme is part of the national training pact of 2004. It supports regular dual training with a maximum amount of 6774 EURO per year. The Länder governments implemented this programme with different approaches and additional funding.
- The western Länder supported 18,000 dual training places.
- STARegio, the promotion of dual training in regions with unfavourable training balances with 37m EURO for 2003 to 2007, co-financed by the European Structural Funds. This is amended with a programme to improve regional competences to stabilise and create dual training places (*Programm Regio-Kompetenz-Ausbildung*).

- KAUSA – the programme to raise participation of foreign companies in dual training (*Koordinierungsstelle Ausbildung in Ausländischen Unternehmen*).
- Collective agreements to preserve training capacities in companies and to improve take-over of graduates. 121 agreements were valid in 2003
- The creation of training cooperation between companies to extend the supply of training places and to reduce cyclical fluctuations in dual training.

As shown by Chart 2 30 % of the entrants into vocational training in 2003 were in preparatory measures. Many of them entered basic one-year training courses (41 %; *Berufsgrundbildungsjahr*), preparatory measures of the Federal Employment Agency (29 %) or schools (14 %), or other courses (15 %). Moreover, 11 % of the entrants to dual training were in external training places outside companies, most of them financed through public budgets.

The evaluation of work-oriented social work and the preparatory measures showed that individualised pre-training approaches are particularly successful as they take the capabilities and preferences of young people into consideration. Good results could be achieved at the first threshold to dual training. The creation of school-based dual training places, however, did not perform sufficiently well, due to missing links to practical work in the companies rather than learning deficits of participants (*ISG, Economix 2005*).

## 5. Plans of the new German government

Education and training is one of the central areas for political action in the recent coalition treaty signed by CDU/CSU and SPD (2005, p. 30). The government therefore plans modernising the education and training system through

- The extension of day-care schools
- The introduction of national training standards
- A quality improvement programme in schools which removes learning deficits and promotes pupils with migration background
- The introduction of more flexible remuneration of teachers

An expert commission will be established which is expected to submit an education report every two years.

In the area of dual training, the government intends to revise the recently passed dual training act (*Berufsbildungsgesetz*) in order to extend its validity, improve its transmittance, modernise testing and internationalise the system. The concept of competence modules will be strengthened through certification and the acceptance as part of dual training. Particular attention will be given to young people with migration background.

Continuing training will be promoted through the development of certification standards of courses and the improvement of training consulting.

University training should be extended. The target is that 40 % of school leavers should start university studies. The Federal government offers support to the Länder governments in improving quality standards, introducing generally accepted graduation levels, promoting young teachers and scientists and internationalising universities. A nation-wide ranking of universities should be introduced. Women should be promoted in their university careers.

All these measures are closely related to the promotion of innovation, research and sustainable development.

## 6. Conclusions

Since a long time education and training was an asset for Germany which substantially contributed to the competitive advantage of its business. Public politics therefore always underlined the importance of education and training, of dual training in particular. In addition to general education and university training this specific duality of practical work in companies and school-based education allowed the provision of a broad skills basis for the economy, which developed the productivity potential of young workers quickly and at low costs. Unemployment remained low among the young generation and thus there was little reason for changing such a successful approach.

The competitive environment of Germany however changed. Many of the industrialised and industrialising countries invested important funds into human capital, developed alternative concepts for vocational training and thus extended their skills basis significantly. This contributed to de-industrialisation in Germany and put not only the skilled workers in manufacturing at risk but challenged the rationale of the dual training system. Gradually Germany had to realise that the competitive advantages from dual training are vanishing and reforms of the education and training system had been postponed for too long. In the middle of the nineteen-nineties companies started to retreat from the dual training system. The general education system performed rather poorly in international comparisons of the PISA study and too few of the young generation went to the universities. Moreover, the share of young people without training remained unchanged.

A series of challenges result from this situation:

- The dual training system will have to be developed to a flexible vocational training system. This means that competence modules will be the basis of training rather than fixed curricula of three years courses. Such modules might not only improve the integration of disadvantaged youths but also open training to adult workers as the Australian experience reveals. Competence modules might therefore be the way to release the German system from its focus on initial training and open opportunities for retraining and accelerated adjustment to new knowledge. A European-wide credit point system for vocational training would help implementing reforms in Germany.
- The rising demand for theoretical competences in combination with professional knowledge recommends extending school-based training in professional schools or colleges. The health care and public sectors developed such concepts. However, it is not applied in technical and commercial professions. Extending school-based professional training would create a chimney effect, withdrawing secondary school graduates from dual training and opening more opportunities for lower grades.
- A substantial part of disadvantaged youths is presently in waiting loops of publicly financed preparatory measures without a realistic perspective to enter regular training and get a skilled job. This is due to the negative balance between supply and demand but also to rising competence demands and selective recruitment procedures in companies. Less competitive young persons will therefore remain excluded even if demographic changes will relax the situation in future. The creation of less demanding training courses would improve the opportunities for disadvantaged young people. Therefore, the development of intermediate skill levels between present dual training standards and unskilled work would open new opportunities for those target groups (Vogler-Ludwig 2003).
- The legislative division of competences for education and training in Germany is complicated and a continuous matter of debate, in particular if budgets are concerned. While variety of educational approaches appears as an advantage, the centralised approaches implemented by the Länder governments restrict the introduction of innovative concepts. A basic reform of general education is therefore required, decentralising competences and improving staff policies in schools. In particular, primary education needs reforms as dis-

advantaged youth is coming from these schools. The Federal government should receive extended competences to implement and coordinate the reforms.

This is stuff for more than one reform programme and more than can be achieved in one legislative period. Nevertheless, a broad consensus about the necessity of reforms has meanwhile been achieved not only among the political parties but also with the social partners. This is a basis for political action even if the ideas are spreading in great variety.

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