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Sharp Drop in Youth Unemployment in Germany but Regional Differences Remain

by Karl Brenke

Youth unemployment in Germany has fallen to its lowest level since reunification. Between 2005 and 2012, unemployment among under 25 year olds has more than halved. By international standards, Germany is in an exceptionally strong position. Nowhere in Europe is youth unemployment lower. However, this is not so much due to structural improvements or positive labor market growth than to demographic change: the drop in youth unemployment is primarily a result of the declining number of young people.

In other European countries, even qualified young people have a hard time gaining a foothold in the labor market, while in Germany it is predominantly young people with no formal vocational training who are unable to find a job despite the relatively positive economic situation. It also appears that there is insufficient mobility on the German labor market. On the one hand, there is an abundance of apprenticeships in some regions. On the other hand, an increasing regional concentration of youth unemployment is evident. Particularly in old industrial regions of western Germany and in eastern Germany, the unemployment rate for young people is well above the national average. However, it is precisely in these regions that the proportion of young people dropping out of vocational training or leaving school with no qualifications is particularly high. These young people run the risk of being permanently trapped in a precarious situation.

When it comes to youth unemployment, by international standards, Germany is in a very strong position. According to Eurostat and the Convention of the International Labour Organization (ILO), there were approximately 370,000 young people unemployed last year. The unemployment rate for those aged 15-24—the age group that generally applies to young people in labor market research—was 8.1 percent. In 2012, in the EU as a whole, the corresponding figure was just under 23 percent—in countries such as Spain and Greece, the youth unemployment rate exceeded 50 percent while Austria and the Netherlands had similarly low rates to Germany with 8.7 percent and 9.5 percent, respectively.

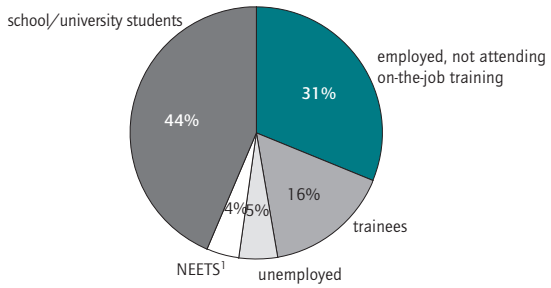
However, the German Federal Employment Agency (Bundesagentur für Arbeit, BA) reported just 274,000 registered unemployed in this age category and calculated an unemployment rate of 6.0 percent[1]—the lowest since German reunification. The discrepancies between the two sources are due to differences in the definition of unemployment and how unemployment figures are captured.[2] For example, employment agency statistics do not include any information on unemployed young people who are not registered with them (perhaps because they are not entitled to any benefits), and who do not expect any assistance in their job search from the employment services. Furthermore, according to the ILO's concept—unlike the German Federal Em-

1 Based on the civilian labor force of the relevant age. In comparison, in 2012, the unemployment rate for all age groups was 6.8 percent.

2 According to the Federal Employment Agency, to be considered unemployed, individuals must be registered with an employment agency (municipal providers) and classified as unemployed. They are required to try and find themselves a job placement and be available for work, particularly jobs subject to social security contributions. The Federal Employment Agency's data are register data. Data according to the ILO's concept, on the other hand, are collected in household surveys–Europe-wide as part of the Labour Force Survey, the German version of which is the Mikrozensus. According to this, to be categorized as unemployed, individuals must be available to begin work within two weeks, have looked for work within the four weeks preceding the survey, and currently not be in any form of paid employment. It is irrelevant whether or not individuals are registered with an employment agency.

Figure 1

Structure of Youth Unemployment in 2010



1 Not in Employment, not in Education, not in Training– and: not employed.

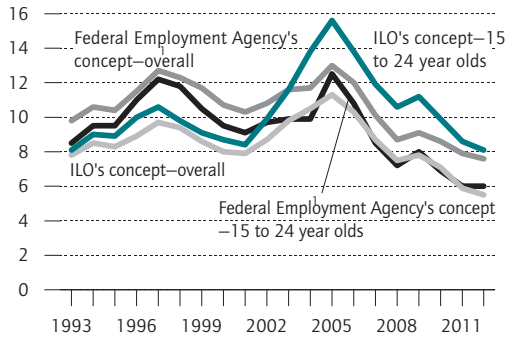
Source: Statistical Offices of the Länder (microcensus), calculations by DIW Berlin.

Only around half of all young people are on the labor market–as employees, trainees in companies, or unemployed.

Figure 2

Unemployment Rate for Young People and Overall Unemployment Rate

In percent



1 Unemployed people based on the whole dependent civilian labor force.

Sources: Eurostat, Federal Employment Agency.

The number of unemployed people fluctuates according to economic cycles–both overall and also for young people.

ployment Agency's concept—young people who are attending some sort of training course but would actually rather be in paid work are also considered unemployed.[3] The following sections draw on available figures from various data sources to attempt to provide a coherent picture based on the author's findings.[4]

Although, at first glance, the situation in Germany appears to be relatively positive, nonetheless, even here, youth unemployment is a social problem that cannot be ignored. There is an additional aspect to this problem: as the number of young people in Germany is on a downward trend, society is relying more than in the past on the younger generation being well-educated and finding employment.

Lion's Share of Young People Currently Not on Labor Market but Still in School

In comparison with the rest of the working age population, young people always exhibit relatively low labor force participation—primarily because many of them are still attending various types of school. More detailed information is provided by an analysis of the individual data of the MIkrozensus from the survey conducted in Germany as part of the European Labour Force Survey; data up to 2010 is currently available for scientific analysis.

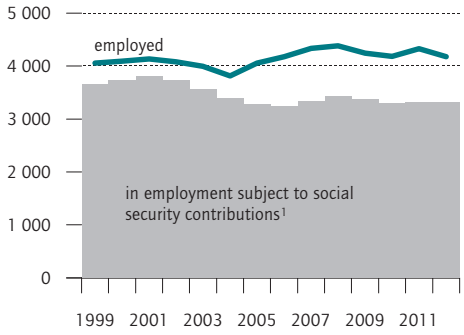
In 2010, 43 percent of young people were in school, or studying at a technical college or university (see Figure 1). Almost a third of young people were in some form of employment that required no specific qualifications, and a sixth were attending on-the-job training. In 2010, only around five percent of all young people were unemployed. This is less than the actual unemployment rate as the calculation of the unemployment rate only takes young people who are available for work into account excluding, for example, students in schools and higher education. The only information available about the four percent of young people known as NEETS is that they are Not in employment, Not in education, Not in training—and not unemployed. This group might include young parents or young people who are not active participants on the labor market for other reasons—for example, because they are waiting to start a cour-

3 However, there are further reasons for the discrepancies between the Federal Employment Agency's and ILO's statistical information. According to the ILO's concept, school or university students can also be categorized as unemployed if they are looking for a job–to fund their education, for example. From this perspective, the ILO's definition of unemployment is broader than that of the Federal Employment Agency. On the other hand, the Federal Employment Agency counts as unemployed those individuals who have a job that does not exceed 15 hours a week. This would also include marginal employment (jobs with monthly salaries of less than 400 euros). According to the ILO's concept, however, only those who have no form of paid employment (not even an hour a week) are classed as unemployed. From this point of view, the ILO definition is narrower.

4 For regional analyses, only data from the Federal Employment Agency were used because the regional data according to the ILO's concept are subject to a high degree of uncertainty due to a sometimes low number of samples.

Figure 3

Youth Employment
1,000 persons



1 End of June for each year; seasonally adjusted values.
Sources: Eurostat, Federal Employment Agency, calculations by DIW Berlin.

The number of young people in paid employment declined slightly recently.

se of training or education or do not want a job due to other factors.[5]

Sharp Drop in Youth Unemployment—Mainly Due to Demography

The extent of youth unemployment is highly dependent on, inter alia, the state of the economy. Up until 1997, youth unemployment climbed because of the economic slowdown at the time. In the course of the subsequent economic upturn, up until 2011, youth unemployment then declined (see Figure 2) but in the years that followed, it increased yet again due to poor economic growth. The increase was particularly sharp in 2005.[6]

In the following years, the unemployment rate declined constantly and significantly—with one short interruption due to the global financial crisis. The period from 2005 to 2012 saw the youth unemployment rate almost halve. However, in the last 20 years, according to the ILO's concept, the unemployment rate for young people was still consistently higher than for adults; but according to the Federal Employment Agency's statistics, the opposite was true.[7]

However, the decline of youth unemployment over recent years cannot be attributed to an increase in the number of jobs filled by young people. This was only the case in the boom years from the middle of the last decade until 2008. Subsequently, a slight drop in the number of employed young people was recorded (see Figure 3). Furthermore, it is also striking that the share of young employees subject to social security contributions is declining. Yet other forms of employment—for example, marginal or short-term employment such as internships—are gaining in importance.

The labor force participation rate, i.e., the proportion of the total number of young people categorized as members of the labor force (employed plus unemployed), was largely constant, remaining at almost 50 percent in recent years and only declining slightly last year (see Figure 4). If labor force behavior remains unchanged and the number of employed young people has only declined slightly, then this drop in youth unemployment can only be attributed to the fact that the number of young people has decreased. It is indeed the case that the youth age cohort has shrunk dramatically since 2005; by the end of 2011, the size of this group had diminished by more than 600,000 people (see Figure 5), mainly in eastern Germany.

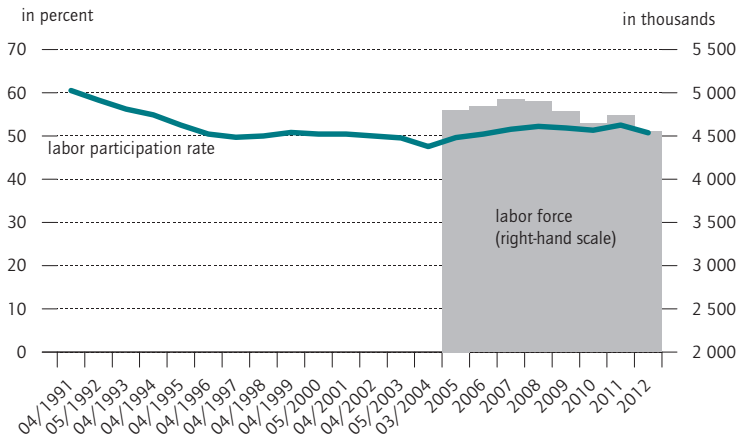
5 Employment status alone does not paint a full picture of the social situation of young people. The dependence of many young people on social welfare benefits, in particular, is masked. In September 2012, 747,000 individuals under the age of 25—i.e., young people—who were actually fit for work received benefits under the Sozialgesetzbuch II (German Social Code, Part II-Hartz IV). This group included far more than just the unemployed, but also school students in poor households, trainees, or single parents, for instance.

6 In that year, alongside weak economic performance, legal changes (Hartz IV reform) also contributed to growth in the unemployment rate identified by the official statistics. Until the Hartz IV reform was implemented, there was effectively a two-tier system of rights for the unemployed who were not receiving any insurance benefits. Members of the one group received unemployment support because –for example, due to expiry of the previous entitlement to unemployment benefit–they were eligible for this form of tax- funded support. Members of the other group received the lowest level of social welfare as they were not entitled to unemployment insurance. Some of these people were also not registered unemployed with the employment agencies although they were effectively unemployed. As a result of the Hartz IV reform, tax-funded benefits were combined with unemployment benefit II, thus bringing thus hidden unemployment to light. A further implication of the introduction of Hartz IV reform for young people was that the parental maintenance obligation no longer applied to those who were living in their own accommodation. Prior to the reform, young people were only unable to claim social benefits if they left their parental home and their parents or guardians had sufficient income or possessed significant assets. In reality, parents were responsible for the upkeep of the young people. From the beginning of 2005, these young people were entitled to claim Hartz IV benefits. This usually required them to register as unemployed–which had a particularly significant impact on unemployment statistics according to the Federal Employment Agency's concept. The legislative amendment was frequently used by young people to enable them to leave their parental home. However, over time, access to benefits was restricted again –this was done by placing the obligation on youth welfare offices to prove that it was no longer reasonable for the young person in question or for their parents to continue to live together in the parental home. This put a brake on claims for unemployment benefit.

7 This is due to the different definitions of unemployment used in the two sets of statistics.

Figure 4

Size of Youth Labor Force and Youth Labor Force Participation Rate



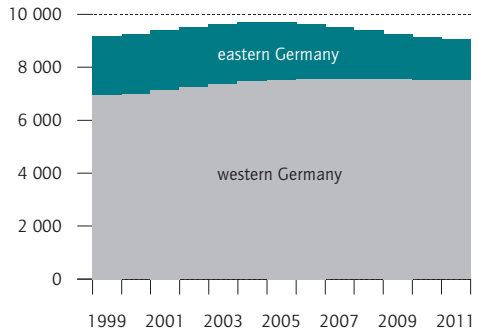
Fixed reference week values in the given month until 2004; annual results from 2005.
Sources: Federal Statistical Office, Statistical Office for Berlin-Brandenburg, Eurostat, calculations by DIW Berlin.

The labor force participation rate has not changed but the number of young people on the labor market is declining.

Figure 5

Population Aged 15 to 24

1,000 persons



Source: Federal Statistical Office.

The number of young people is declining—particularly in eastern Germany.

Low Youth Unemployment Goes Hand in Hand with Increasing Regional Concentration

Although the problem of youth unemployment in Germany has eased noticeably from a macroeconomic perspective, strong regional differences are still evident. These are particularly significant when we compare the individual administrative districts and autonomous cities. At the lower end of the scale are the regions—exclusively in Bavaria and Baden-Württemberg—where, with a rate of approximately two percent, youth unemployment is of marginal significance (see Table 1). At the other end of the scale, there are regions, for instance, some sparsely populated areas in the north-east of eastern Germany and old industrial regions of western Germany such as the Ruhr valley, Pirmasens, or Bremerhaven, as well as Berlin which have unemployment rates of between almost 13 and 15 percent. In a comparison of the German Länder, Berlin has the highest youth unemployment rate at 13.8 percent; southern Germany has the lowest rate (see Figure 6). In eastern Germany, the corresponding figure is 10.3 percent—almost twice as high as the rate in western Germany (5.5 percent).

In Germany, as in the EU as a whole, youth unemployment is not an isolated phenomenon, but is correlated with the overall conditions on the various regional labor markets.[8] Germany's individual districts reflect this: the higher the overall unemployment rate, the higher the

Figure 6

Youth Unemployment Rates in the *Länder*[1]

In percent

1 Based on the whole dependent civilian labor force.
Source: Federal Employment Agency.

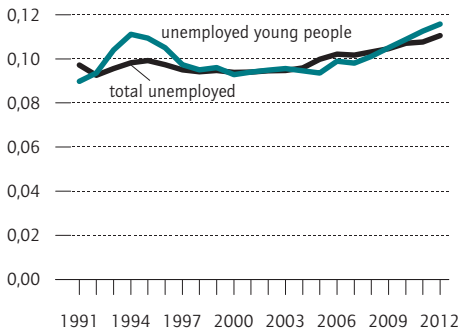
The scale of youth unemployment varies dramatically between the *Länder*.

8 On the EU, see K. Brenke, "Unemployment in Europe: Young People Hit Much Harder Than Adults," DIW Economic Bulletin, no. 9 (2012).

Figure 7

Concentration of the Number of Unemployed Across the *Länder*

Herfindahl Index



Source: Federal Employment Agency, calculations by DIW Berlin.

The number of unemployed young people is increasingly concentrated in the individual *Länder*.

youth unemployment rate.[9] The scale of youth unemployment is, therefore, essentially an indicator of how high overall underemployment is in the individual regions.

Although nationwide youth unemployment has plummeted, its regional concentration has in fact increased. This is evident at the Länder level, for example.[10] On the one hand, the concentration can be absolutely determined by only taking into account the regional distribution of the number of unemployed young people across the Länder; an appropriate measure for such an analysis is the Herfindahl index. On the other hand, the concentration of unemployed people in relation to the size of the youth labor force in each of the Länder can be calculated using suitable inequality measures such as the Hoover index or the Gini coefficient. The higher the measured values are, the greater the concentration or inequality for all key indicators.

In absolute terms, the regional concentration of youth unemployment has consistently grown since 2005 (see Figure 7). In 2012, the Herfindahl index reached its highest value in 20 years. The same is also true with regard to the relative concentration or unequal distribution (see Figure 8). It is also evident that the extent of the relative concentration of youth unemployment develops procyclically: if economic development improves, the regional concentration of youth unemployment also increases, while if the economy deteriorates, the regional unequal distribution of youth unemployment also decreases. Thus, macroeconomic development affects the regional labor markets to different degrees.

Table 1

Districts and Autonomous Cities with the Highest and Lowest Youth Unemployment in Germany in March 2013

Rank		15 to 24		*For information only:*
		Number of unemployed	Unemployment rate[1]	Overall unemployment rate[1]
1	Uckermark	923	14.9	16.2
2	Pirmasens, autonomous city	324	14.3	13.6
3	Vorpommern-Greifswald	1,791	14.0	16.2
4	Mecklenburg Lake District	1,932	13.9	15.4
5	Vorpommern-Rügen	1,639	13.9	16.6
6	Brandenburg an der Havel	537	13.8	14.1
7	Bremerhaven	898	13.6	15.3
8	Herne, city	997	13.0	14.3
9	Oberspreewald-Lausitz	731	12.8	15.3
10	Berlin	20,162	12.6	12.3
11	Dortmund	3,630	12.6	13.5
12	Gelsenkirchen	1,788	12.6	14.1
	...			
390	Neumarkt i.d.OPf.	215	2.2	2.9
391	Waldshut	295	2.2	3.3
392	Miesbach	141	2.2	3.5
393	Ebersberg	164	2.1	2.6
394	Dillingen a.d.Donau	151	2.1	2.8
395	Freising	237	2.1	2.8
396	Breisgau-Hochschwarzwald	343	2.1	3.5
397	Erding	179	2.0	2.4
398	Neuburg-Schrobenhausen	135	2.0	2.4
399	Freiburg im Breisgau	263	2.0	6.2
400	Starnberg	118	1.9	3.1
401	Donau-Ries	172	1.8	2.2
402	Eichstätt	144	1.6	1.5

1 Unemployed based on whole civilian labor force.
Source: Federal Employment Agency.

The youth unemployment rate varies significantly between the regions—in some districts, it is under two percent but over 14 percent in others.

Young People with No Vocational Training Hardest Hit by Unemployment

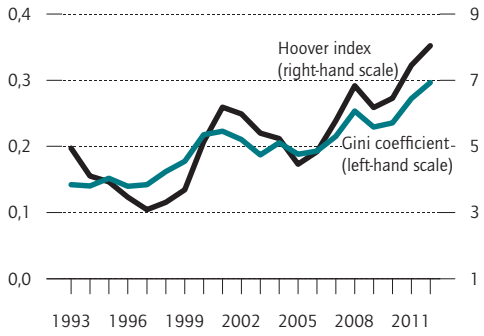
As with other age cohorts, for young people, too, the risk of unemployment depends on their level of qualification. Young people with no vocational training have much

9 There is a strong statistical correlation: a calculation from March 2013 results in an R^2 value of 0.91.

10 As well as studying the concentration of unemployment in the various Länder, a smaller scale analysis over the course of time would also be useful. However, such an analysis would be plagued by significant data problems due to various recent forms of restructuring of the districts.

Figure 8

Unequal Distribution of Youth Unemployment Among the *Länder*



Source: Federal Employment Agency, calculations by DIW Berlin.

The unequal distribution of unemployed young people across the individual Länder is growing; and it also fluctuates according to economic cycles.

Table 2

Unemployment Rates by Qualification of Young People and People Aged from 25 to 64

	Unemployment rates		Structure of unemployed	
	Young people	People aged from 25 to 64	Young people	People aged from 25 to 64
2012 – Total				
No vocational training[1]	12	13		
Apprenticeship, technical college qualification[2]	6	5		
University degree or technical college qualification[3]	4	2		
Total	8	5		
2010 – total				
No vocational training[1]	13	16		
Apprenticeship, technical college qualification[2]	7	7		
University degree or technical college qualification[3]	7	3		
Total	10	7		
For information only:				
2010 – not including trainees				
No vocational training[1]	29	16	57	27
Apprenticeship, technical college qualification[2]	8	7	40	60
University degree or technical college qualification[3]	7	3	3	13
Total	14	7	100	100

1 ISCED 0 to 2.
2 ISCED 3 to 4.
3 ISCED 5 to 6.
Sources: Eurostat; Statistical Offices of the Länder (2010 microcensus), calculations by DIW Berlin.

Almost one in three young people with no vocational qualification is unemployed—and they also account for over half of all unemployed young people.

poorer employment prospects than those who have successfully completed an apprenticeship or a course of study at a technical college. University graduates are even less likely to struggle to find a job. A breakdown by vocational training reveals no significant differences between the unemployment rate among young people and the rate among those over 25 (see Table 2). Only for university graduates does the youth unemployment rate exceed that of adults—the figure is very low, however. Therefore, on the whole, youth unemployment in Germany is linked to a lack of vocational training—even though not all vocational qualifications necessarily mean good job prospects. Here, Germany is dramatically different from other European countries, where young people still have much poorer employment prospects than adults even if they do have a vocational qualification.[11]

According to the ILO's convention data, youth unemployment in Germany is essentially only higher than unemployment among adults because of the relatively small number of young people without a vocational qualification.[12] Since the calculation of unemployment rates also incorporates trainees (in the bottom of the fraction) who do not usually have a vocational qualification, statistics normally depict the labor market situation for unqualified young people as better than it actually is. An analysis of the individual data from the 2010 Mikrozensus illustrates this: If trainees are factored out of the analysis, the unemployment rate for young people without a vocational qualification is almost 30 percent. In 2010, more than half of unemployed young people had no vocational qualification; the corresponding figure for adults was, at just over a quarter, much smaller.

Shortage of Trainee Placements Largely Remedied—but Not in All Regions

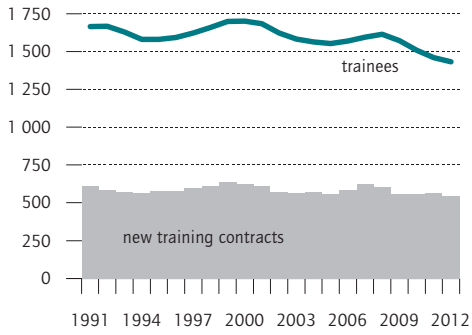
A wide range of training opportunities are therefore an important prerequisite for improving the employment prospects of the next generation. The number of trainees—and hence trainee placements—and the number of new training contracts in Germany also reflect economic trends: when the economic situation is favorable, more training placements are taken up, while in times of economic slowdown there is a cutback in available traineeships (see Figure 9). Accordingly, there has been a decline in the number of new training contracts and trainee placements approximately since the year 2000. At the same time, the number of applicants for trainee placements has also fallen—particularly sin-

11 See Brenke, "Unemployment."

12 Brenke, "Unemployment."

Figure 9

Number of Trainees and New Training Contracts
In 1,000

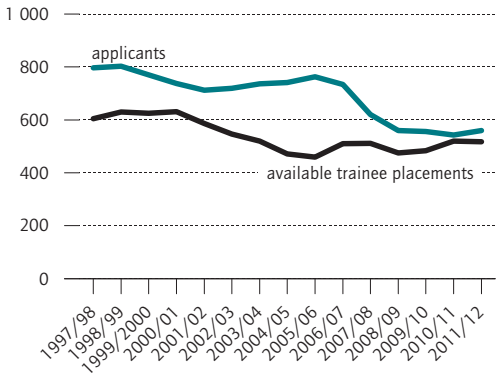


Source: Federal Statistical Office.

The number of trainees and new training contracts has declined in recent years.

Figure 10

Supply of and Demand for Trainee Placements Registered with the Employment Agencies
In 1,000



A training year is from October of the first-mentioned year to September of the second-mentioned year.
Source: Federal Employment Agency.

In Germany as a whole—in purely mathematical terms—the shortage of trainee placements that has existed for decades has now been virtually eliminated.

ce the middle of the last decade and primarily for demographic reasons. This led to a situation where from the 2010/11 training year onwards the number of applicants for trainee positions registered with the employment agencies and the number of trainee placements available were virtually identical (see Figure 10). In 2010/11, in purely mathematic terms, it was thus possible to almost close the gap between trainee positions and applicants that has existed in Germany for decades. However, it should also be taken into consideration that there is still a high, albeit steadily decreasing, number of young people who are in a transitional phase, attempting to improve their chances of entering into a vocational training contract by participating in training programs or obtaining school-leaving qualifications at a later stage. These young people are not categorized as applicants for trainee placements. Nevertheless, 266,700 young people in this transitional phase began a training course in 2012; this was 36 percent fewer than in 2005.[13]

The extent of on-the-job vocational training varies considerably between the individual German Länder. This can be seen from the proportion of all employees subject to social security contributions who are trainees. In western Germany, the trainee rate determined on this basis is generally higher than in eastern Germany (see Table 3). In 2012, the north German states in the West were in the lead—with Berlin bringing up the rear. The trainee rate has also fallen much more dramatically in eastern Germany than in western Germany. This may also be because this is precisely where the number of young people is declining due to demographic change, and some companies might be reducing the number of training placements they offer in anticipation of decreasing demand.

This explanation does not go far enough, however. On the one hand, it is precisely in the Länder where youth unemployment is particularly high that the trainee rate is low. On the other hand, in most Länder, the number of available trainee positions registered with the employment offices is not sufficient to satisfy demand. This is the case particularly if only on-the-job trainee placements are taken into account—i.e., if inter-company training positions that have been financed with government subsidies because of a shortage of trainee positions are excluded. Among the west German Länder a surplus of trainee placements was evident in Bavaria, Baden-Württemberg, and Hamburg in the 2011/12 training year (see Figure 11). The same applies to Mecklenburg-Western Pomerania and Thuringia in the East; here, the relatively small number of trainee placements available seems to be sufficient at present in order to exceed the greatly reduced demand for traineeships. Young people's prospects of obtaining a trainee placement in North Rhine-Westphalia and especially in Berlin are particularly poor.

13 See. Federal Statistical Office, „6,4 Prozent weniger Anfänger in Bildungsprogrammen des Übergangsbereichs." Press release dated March 8, 2013.

Table 3

Proportion of Trainees of All Employees Subject to Social Security Contributions

In percent[1]

	2000	2005	2006	2007	2008	2009	2010	2011	2012
Berlin	5.6	5.7	5.6	5.5	5.4	5.2	4.8	4.4	4.1
Brandenburg	6.9	6.8	7.0	6.8	6.5	6.0	5.3	4.7	4.2
Saxony	6.9	6.9	6.9	6.8	6.3	6.0	5.4	4.6	4.3
Thuringia	7.1	7.0	7.0	6.8	6.5	6.1	5.4	4.7	4.3
Saxony-Anhalt	7.1	7.0	6.9	6.7	6.6	6.3	5.6	5.0	4.5
Hamburg	4.5	4.9	4.9	5.0	5.1	5.1	4.9	4.6	4.6
Mecklenburg-Western Pomerania	8.5	8.7	8.6	8.4	7.9	7.3	6.2	5.3	4.7
Hessen	5.4	5.5	5.5	5.6	5.6	5.7	5.5	5.2	5.2
Bremen	5.6	5.9	5.9	5.9	6.0	6.1	6.0	5.7	5.5
Bavaria	6.3	6.4	6.3	6.4	6.4	6.5	6.2	5.9	5.8
Baden-Württemberg	5.9	6.1	6.1	6.3	6.3	6.4	6.1	5.7	5.9
North Rhine-Westphalia	6.0	6.2	6.2	6.4	6.6	6.6	6.4	6.2	6.0
Saarland	6.2	6.3	6.4	6.7	6.8	7.0	6.7	6.4	6.2
Rhineland-Palatinate	7.1	7.2	7.2	7.4	7.5	7.4	7.1	6.8	6.6
Lower Saxony	6.8	6.9	6.9	7.1	7.1	7.2	6.9	6.8	6.7
Schleswig-Holstein	6.9	7.2	7.3	7.5	7.5	7.6	7.3	7.0	6.8
Germany	6.3	6.4	6.4	6.5	6.5	6.4	6.1	5.8	5.6
Western Germany	6.1	6.3	6.3	6.4	6.5	6.5	6.3	6.0	5.9
Eastern Germany	6.9	6.8	6.8	6.7	6.4	6.0	5.4	4.7	4.3

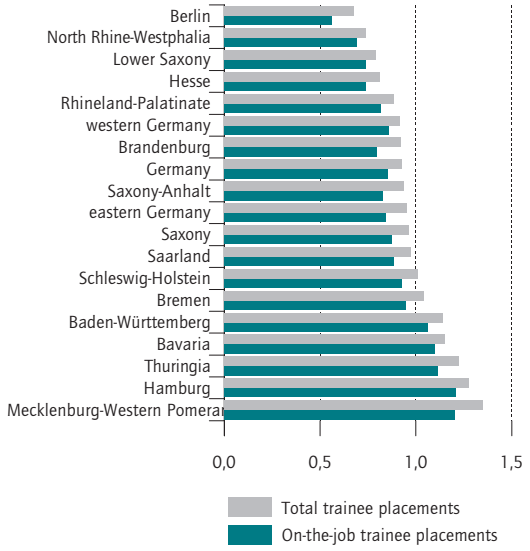
1 September of the year under review.

Sources: Federal Employment Agency; calculations by DIW Berlin.

The training rate varies considerably across the individual Länder—and is falling over time.

Figure 11

Number of Trainee Placements Registered with the Employment Agencies per Applicant in the Year under Review 2011/2012



Source: Federal Employment Agency; calculations by DIW Berlin.

In some German *Länder*, there are more trainee placements than applicants, while in others there is a shortage of traineeships.

Particularly in Countries with High Youth Unemployment, Vocational Training Is Frequently Abandoned...

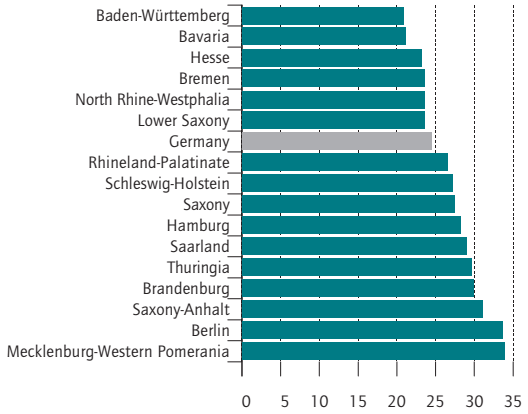
Far from every training contract in the German dual system is completed. In 2011, just under one-quarter of the training contracts in Germany were terminated prematurely. There is insufficient information available about the reasons. But it has been documented that the termination rate is highest among skilled manual workers at 31 percent and lowest in the civil service (6 percent).[14] There is no difference between the genders—but a big difference with regard to school-leaving qualifications: For young people without a school-leaving qualification from a Hauptschule (low-track secondary school), the termination rate was 39 percent in 2011, while for those with an Abitur (school-leaving certificate that serves as a qualification for German university entrance) and young people with a Fachhochschulreife (qualification required for attending a university of applied sciences), it was only 14 percent.[15] This result might indicate that some of the trainees found their apprenticeship too demanding. There will also be other reasons for abandoning training. Some young people might have decided to train in a different profession—particularly when their original choice was more of a stopgap solution or their career choice did not meet their expectations. It is possible they changed training company but not the actual profession trained in. Family reasons, a move, or illness might play a role—or bankruptcy of the training company. It has also been found that the termination rates vary considerably across the regions: they are lowest in Bavaria and Baden-Württemberg, and highest in the east German Länder (see Figure 12). Perhaps in regions where trainees are in relative short supply, trainers' behavior is different than in areas where there is a shortage of trainee placements.

14 Federal Statistical Office, Bildung und Kultur. Berufliche Bildung 2011, Fachserie 11, Reihe 3.

15 Federal Statistical Office, Bildung und Kultur.

Figure 12

Training Contracts Terminated Prematurely (2011)
In percent



Source: Federal Statistcal Office.

A significant number of training contracts are terminated prematurely—primarily in the east German *Länder.*

… and a Disproportionately High Number of Young People Leave School with No Qualifications

Since remaining in a vocational training placement and thus also completing it successfully apparently also depends on the school-leaving qualifications obtained, the risk of unemployment can be minimized if as many young people as possible leave school with at least a basic school-leaving qualification (from a Hauptschule). In 2011, in Germany as a whole, just under six percent of those leaving schools of general education did not have this basic qualification (see Table 4). Here, too, regional differences are evident: the proportion of school-leavers without qualifications in the east German Länder is particularly high, but it is low in southern Germany. It is much higher among young foreigners than among German school-leavers. And it applies to a significantly lower share of girls than boys—this also holds true when a further differentiation is made according to nationality and the German Land.

Table 4

Proportion of All School-Leavers Finishing a School of General Education with No Qualifications in 2011

	Total			Germans			Foreigners		
	Total	Males	Females	Total	Males	Females	Total	Males	Females
Baden-Württemberg	4.9	5.7	4.0	4.0	4.7	3.2	11.3	13.1	9.4
Bayern	4.1	5.1	3.1	3.6	4.5	2.7	10.6	12.7	8.4
Berlin	8.4	9.7	7.1	7.3	8.3	6.2	15.3	18.4	12.1
Brandenburg	8.5	10.3	6.8	8.6	10.3	6.8	7.1	8.7	5.3
Bremen	6.1	7.4	4.7	4.9	5.8	4.1	12.7	17.1	8.6
Hamburg	7.0	8.1	5.9	6.0	7.1	5.0	12.4	13.8	11.0
Hessen	5.1	5.9	4.3	4.1	4.9	3.4	11.7	13.0	10.3
Mecklenburg-Western Pomerania	14.1	16.4	11.5	14.0	16.2	11.5	18.1	23.3	12.6
Lower Saxony	4.9	6.0	3.9	4.4	5.3	3.5	15.7	19.0	12.2
North Rhine-Westphalia	5.4	6.3	4.4	4.6	5.4	3.8	11.3	13.1	9.5
Rheinland-Pfalz	5.6	6.7	4.4	5.1	6.2	4.0	10.8	12.8	8.7
Saarland	5.0	6.0	3.9	4.5	5.5	3.4	10.6	12.2	9.0
Saxony	9.8	11.7	7.8	9.7	11.6	7.7	11.7	13.8	9.4
Saxony-Anhalt	11.9	13.9	9.7	11.7	13.7	9.5	19.6	20.0	19.2
Schleswig-Holstein	7.1	8.8	5.4	6.9	8.4	5.3	11.8	15.6	7.8
Thuringia	8.6	10.2	7.0	8.6	10.1	7.0	10.6	14.5	6.7
Germany	**5.6**	**6.7**	**4.5**	**5.0**	**6.0**	**4.0**	**11.8**	**13.8**	**9.7**
Western Germany	5.0	6.0	4.0	4.4	5.2	3.5	11.6	13.5	9.5
Eastern Germany	9.7	11.5	7.9	9.5	11.1	7.7	14.2	17.0	11.3

Sources: Federal Employment Agency; calculations by DIW Berlin.

Particularly in eastern Germany, a relatively high proportion of young men and foreigners leave school with no qualifications.

Conclusion

Youth unemployment in Germany has fallen significantly in recent years and is lower than in any other country in the EU. In light of this, the underemployment of the younger generation could almost be considered to be a negligible problem in Germany. But it is not that simple. On the one hand, youth unemployment has not fallen because of a general improvement of German labor market conditions, but primarily because the number of young people has decreased—and therefore there is also a reduced demand for jobs and trainee placements. On the other hand, an increase in regional concentration of residual youth unemployment is evident. In addition, it cannot be ignored that a decreasing but nevertheless high number of young people are in a transitional phase attending a training course, and thus temporarily excluded from the market for trainee placements and employment.

Indeed in some parts of western Germany, youth unemployment barely plays a role nowadays—particularly in the south. There is even a surplus of supply on the trainee placement market there, the number of terminated training contracts is relatively low, as is the proportion of school-leavers without any qualifications. However, the picture is very bleak in eastern Germany—as well as in some old industrial regions of western Germany. The problem in Berlin is particularly acute: this city has the highest youth unemployment and the lowest training rate among the German Länder, and also a significant shortage of trainee placements. At the same time, there is a high training dropout rate and a relatively large proportion of young people who leave school with no qualifications.

Germany is therefore divided as regards employment opportunities and the conditions for practical vocational training for young people. The relevant regional situation on the labor and trainee placement market is likely to have an impact on society—in the behavior and attitudes of its members. A persistently high level of unemployment can lead to resignation and demotivation. Widespread unemployment in one region could bring habit-forming effects in its wake, since it is commonplace among family, friends, and acquaintances. In some sections of the population, unemployment may therefore not be perceived as something out of the ordinary but rather as the norm.[16] The social impact, which sets incentives for learning, may therefore be insufficient. Consequently, young people in regions with high unemployment may have the impression that even with increased effort at school or on a vocational training placement, their future employment prospects will remain poor. The social structure also plays a role.[17] Furthermore, sometimes as a result of a limited range of trainee placements, young people embark on training but only as a stopgap solution and not as a conscious career choice. This is the start of a vicious circle: a tense situation on the labor and trainee placement market leads to behavior among young people that presents an obstacle to creating a qualified and skilled workforce–thus slowing down economic development potential in a region.

In view of the fact that the age cohorts of the upcoming generation are becoming smaller, Germany cannot afford to let human capital be wasted and young people go without vocational training. For a long time, there was a considerable shortage of on-the-job training placements, which—from a macroeconomic perspective—has now been rectified to some extent. It continues to exist in some regions, however. The number of trainee positions has not increased in accordance with the trend, but has decreased instead. This can essentially only be because there was no need for increased training on the part of the companies, since they are able to draw from a large enough pool of potential labor. Also concerning applicants for trainee placements, for a long time they could pick and choose, so that it was not unusual for a degree from a university of applied sciences or Abitur to be required for a trainee position. In the future, nolens volens, companies will increasingly have to also give a chance to young people who have a school-leaving qualification from a Realschule (intermediate-track secondary school) or a Hauptschule (low-track secondary school). Particularly in regions with lower levels of unemployment, companies are expected to have to compete more for applicants for trainee placements.

In qualitative terms, the range of trainee placements available is far from optimal. In a number of occupations requiring formal training, in the past, more training was provided than was needed. This is also related to the fact that in some professions, the revenue trainees generate for the company outweighs the costs they incur. Moreover, training provided by some intercompany and state-funded training centers was geared towards their own respective competences and possibilities—not necessarily primarily towards the needs of the labor market. The relevant training courses include, for example, hairdressing (in June 2011, there was one trainee for only five employees with a regular con-

16 It has been documented that training patterns and unemployment of young people are also affected by their household situation circumstances. See, for example, E. Reinowski, Jugendarbeitslosigkeit und der Einfluss des Elternhauses. Ist der Osten anders? Wirtschaft im Wandel, no. 7 (2005).

17 See S. J. Wagner, Jugendliche ohne Berufsausbildung (Aachen, 2005).

tract) for young women, the professions of painter and varnisher (unemployment rate of over 20 percent) for young men, and cooks (unemployment rate also over 20 percent)[18] for both sexes. What is also particularly striking is a strong concentration of training in relatively few professions—still with strong gender-specific differences, with the concentration among female trainees even greater than among male ones: in the 2011/12 training year, 56 percent of male apprentices were trained in the 20 professions they most frequently selected, while the corresponding figure for female trainees was 70 percent.[19] This is certainly also due to the popularity of some professions among young people—which in turn is also because they are familiar with some professions—for instance, from everyday life or their circle of friends. On the other hand, they might have insufficient knowledge about other occupations, which could well be what some young people want and provide good job prospects. Here, the availability of more information in schools could make an important difference.

Both from a macroeconomic and from an individual business perspective, the procyclical training patterns of companies to date is not very rational. On-the-job training generally lasts three years, and if not much training is carried out during an economic downturn, skilled workers can become scarce in an upswing. Or in a period of economic slowdown, it is evident that the training has exceeded current requirements for the next generation of skilled workers—so that some of the training graduates cannot be subsequently taken on. Greater consistency is needed here.

The growing regional concentration of youth unemployment suggests inadequate geographical mobility among some young people. There appear to be insufficient incentives for them to leave their region of residence to pursue a job or training placement. There may be specific considerations for keeping them in their region, or there may be a lack of incentives to take up employment or training in another region. Currently, local companies, particularly from southern Germany, are increasingly recruiting young people from the crisis countries of southern Europe; however, this ignores the fact that within Germany, too, there is still a sizeable potential pool of young people who are looking for a training placement or job. It would be useful to also tap into this potential—for instance, by providing accommodation for trainees or young employees.

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18 Unemployment rates calculated on the basis of figures for the unemployed and employees subject to social security contributions in the relevant professions in June 2011.

19 See Federal Statistical Office, Bildung und Kultur.

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