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How business and government can bring young people into work

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Youth unemployment is a global problem without an easy solution. Yet an innovative program making a difference in Berlin holds lessons for others.

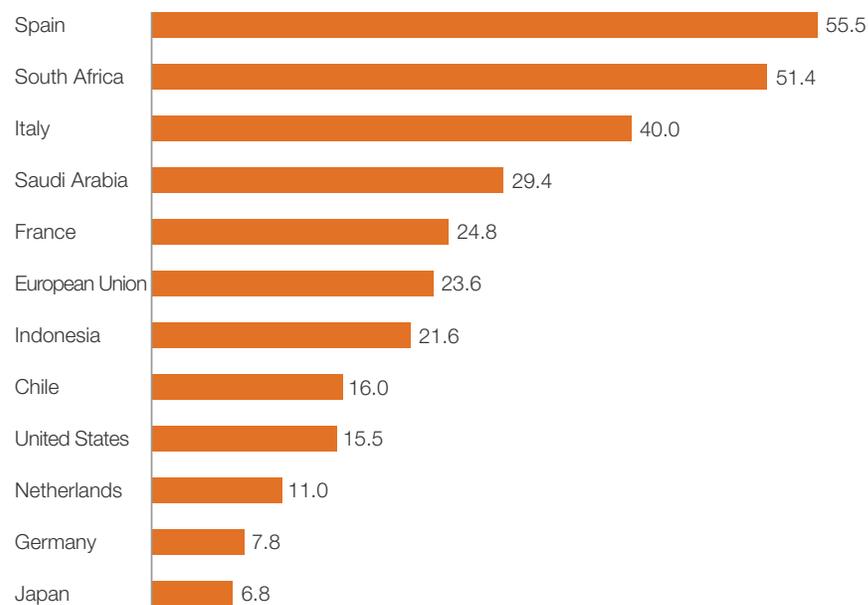
Structural youth unemployment is preventing millions of young men and women from gaining a foothold in the world of work. The consequences are bad news—not only for today’s generation of 15- to 24-year-olds facing tough labor markets but also for governments and businesses, which are seeing consumers with less spending power, workers with fewer skills and lower wages, and citizens skeptical about society and its institutions. While the ability of companies to influence government policy is often overestimated, business does have a powerful role to play in lowering youth unemployment. In a successful new program in Berlin, employers have partnered with government agencies and schools to jointly guide students into working life. Their coordinated approach holds practical lessons for other cities, regions, and countries struggling to bring down high youth unemployment.

The problem of youth unemployment

Severe youth unemployment affects countries at all stages of development, including advanced economies such as the United States and many countries of the European Union. As many as 73 million young people were out of work worldwide in 2013, and while economic growth is creating jobs, average youth unemployment remains alarmingly high. In Europe, for example, it tops 23 percent; in the United States, it hovers above 15 percent (Exhibit 1).

Exhibit 1 Youth unemployment remains alarmingly high despite economic growth in some regions.

Youth-unemployment rates across countries, 2013,
% of 15- to 24-year olds



Source: Eurostat, 2013; International Labour Organization, 2013; Organisation for Economic Co-operation and Development, 2014

Evidence from previous labor-market crises suggests that a rocky start for young job seekers puts them at higher risk of unemployment and lower wage expectations for the rest of their lives. Businesses are feeling the impact of youth joblessness, too. In a recent survey by the McKinsey Center for Government of 2,800 companies in emerging and advanced economies, nearly two-thirds of employers said they already found it difficult to fill entry-level positions. Eurofound, an EU research agency, estimates that in 2011, for example, young people who were not employed or in education or training programs cost the European Union about €153 billion a year, or 1.2 percent of GDP. And the damage was more than financial. As the International Labour Organization noted in a recent report, “Perhaps the most important scarring is in terms of the current young generation’s distrust in the socioeconomic and political systems.”¹

¹ *Global Employment Trends for Youth 2013: A generation at risk*, International Labour Organization, 2013, ilo.org.

These findings underscore the urgent need to act, and most governments and businesses recognize the magnitude of the economic and social threat. EU countries, for example, have committed up to €21 billion a year in “youth guarantees” that aim to provide a job, apprenticeship, traineeship, or

further education to every unemployed young person within four months of their leaving school or losing a job. But policy makers are still struggling to initiate the concrete steps that will fulfill this promise—only a fraction of the money committed has been allocated so far. Meanwhile, businesses tend to act single-handedly when the scarcity of fresh talent becomes too acute to bear. For example, carmakers in the United States such as Toyota and Volkswagen have set up their own apprenticeship systems and cooperate with education providers to breed their own recruits.

Finding effective solutions requires understanding the root causes of the problem. Generally, our research shows that high youth unemployment is due to a combination of three factors:

- **Lack of work.** There is low demand for young workers due to low economic growth or contraction.
- **Lack of skills.** Issues arise regarding the quality of the labor supply because young job seekers' skills are insufficient or do not match employers' requirements.
- **Lack of coordination.** Obstacles get in the way of matching qualified applicants with vacant positions.

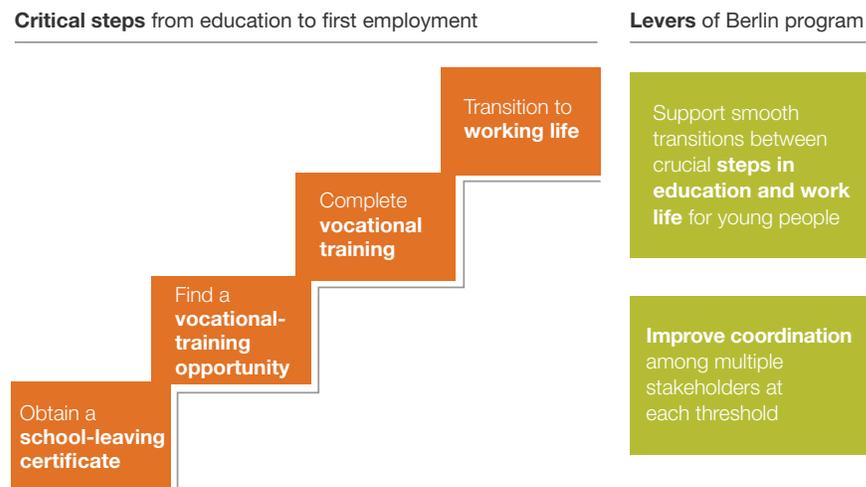
While many countries—especially in Europe—have exhausted measures to stimulate demand through fiscal and monetary policy, there is still plenty of room for action on the second and third causes. Raising or realigning skill levels among youth is crucial but requires reforms to education and training systems, which take time and resources. Yet building a targeted and well-aligned support program to solve matching problems is relatively cost efficient and can yield results quickly.

The Berlin experience

In 2012, the Berlin office of the German Federal Employment Agency started a novel program to combat youth unemployment. The Youth at Work! program operates in close cooperation not only with Berlin's state government (Berlin is both a city and 1 of Germany's 16 federal states) but also with local employers and education providers. Berlin is an instructive case because it faces several challenges: the city has significantly higher youth unemployment than the national average; efforts to decrease youth joblessness there involve a wide range of stakeholders, similar to the situation in the United States; and gaps in support structures could risk further polarizing already-marginalized groups.

The Berlin program aimed to more explicitly pursue two objectives: to assist young people making the difficult transition from education to employment and to align the support provided by different stakeholders in order to avoid support gaps (Exhibit 2). Most of the 30 action plans developed in the program focus on a specific step along the path to employment or a transition from one step to the next. The plans fall into four main types:

Exhibit 2 Several steps are critical in a young person’s education and work life.



- **Learning about work as part of regular schooling.** These efforts increase all students’ knowledge of the working world and are geared toward preparing students for the transition into vocational education and, eventually, employment. For example, one element is using internships to expose students to different job profiles and employers through regular firsthand experience in realistic work environments. Twelve-year-olds begin the exploration with company visits (one to two days), students in grades seven and eight complete short-term internships (one week), and ninth and tenth graders perform full-fledged internships (three to four weeks) to experience being part of the world of work.

These practical phases are embedded in extensive preparation and follow-up activities in the classroom, organized as a subject called “work studies.” Teachers receive training on occupational profiles, labor-market trends, and how to coach students on applying for jobs. Schools also host career-guidance events—but there’s an important difference between these and conventional job fairs. In Berlin, such events feature former students who are now apprentices or young entrepreneurs and from the same social or ethnic backgrounds as the students they talk to. Through all these efforts, students gain a much sharper view of their career options. At students’ first threshold of getting a school-leaving credential, the immediate result for Berlin was encouraging: from 2012 to 2013, the number of school dropouts in Berlin fell by 10 percent.

- **Smoothing the transition into vocational training.** Most high-school graduates in Berlin are either admitted to university or begin vocational training at one of Berlin's businesses that offer dual (work/school) apprenticeships, a traditional part of German vocational training. However, because the vocational track is based on supply and demand, it shuts out some difficult-to-place candidates. In the new program, young people at risk are identified early and receive special support, such as counseling and extra application coaching. As a further reinforcement to help these students move smoothly into vocational training, the Federal Employment Agency has helped establish a new vocational predegree in cooperation with employers: the entry qualification.

Earning an entry qualification takes 6 to 12 months and covers subjects that are also part of certified vocational-training programs. If participants later switch to a full-fledged apprenticeship program in the same occupational field, they can get up to six months of their time in the entry-qualification program credited toward meeting their apprenticeship requirements. Employers, in turn, receive counseling on how to train and coach entry-qualification participants. They can also obtain public funding (up to €300 per month per participant) to cover a basic stipend and social-security contributions. These efforts also paid off: between 2012 and 2013, the number of young applicants who did not find a place in a vocational-training program by the end of September declined by 6 percent, and the share of applicants who did not find a place at all over the course of the year fell by 25 percent.

- **Continuing to support young people during vocational training.** Another major reason that many young people in Berlin end up unemployed has been the relatively high dropout rate from vocational programs. In the past, apprentices' performance problems, motivational issues, or conflicts with employers were mostly detected too late for successful intervention or reassignment. To close this gap, the Berlin program includes a new early-detection system that relies on three complementary sources of information about potential problems: teachers at vocational schools, vocational coaches at companies that employ apprentices, and the apprentices themselves. All this information is managed and processed by the local branch of the Federal Employment Agency, which initiates counseling, mediation, and support activities when any source signals a problem. Since the launch of this program, fewer young people have terminated vocational-training contracts without receiving a credential: the rate dropped from 33 percent in 2012 to 31 percent in 2013, according to preliminary data from Statistik Berlin Brandenburg.
- **Paving the way to formal employment.** Keeping track of each graduate and intervening when problems arise also helps young people navigate the transition from an apprenticeship to their first regular job. In Germany, local employment agencies already had a powerful set of tools for young people at this stage of their employment path (for example, integration subsidies for hard-to-place candidates, job-entry coaching, and modular "return to learn" programs to build up additional qualifications). However, support measures often came too late since they were not triggered until a young person filed for unemployment benefits. In the new approach, employment agencies get involved several months before an apprentice finishes a vocational

program and provide both informational group events and individual assistance. Young people can now register in advance to become an official job seeker at a future date. When the time comes, their job counselor at the employment agency may already have a matching job offer waiting for them. First results are visible: from 2012 to 2013, the number of young people filing for unemployment benefits after completing their vocational training dropped by 7 percent.

In addition to these activities targeting young people at specific points in the education-to-work journey, the Berlin program better coordinates all stakeholders' efforts with the goal of providing seamless support across critical thresholds. Such coordination is especially important if the supporting institutions change over the course of a young person's education and work life or if multiple stakeholders are involved at a particular stage. In Berlin, assistance on the path from education to employment is based on a complex interplay of local branches of the Federal Employment Agency, state ministries, municipal administrations, high schools, vocational schools, and social workers, as well as employers and chambers of industry and commerce (which typically administer apprentices' final examinations and issue corresponding certificates). Each of these institutions previously had independent processes and monitoring procedures, resulting in both overlaps and gaps in the support network. The Berlin program made a comprehensive effort to align all support processes for young people across institutions, establish effective interfaces that enable a constant exchange of information, and make sure that each young person who is about to leave the responsibility of one institution is already lined up with the next one.

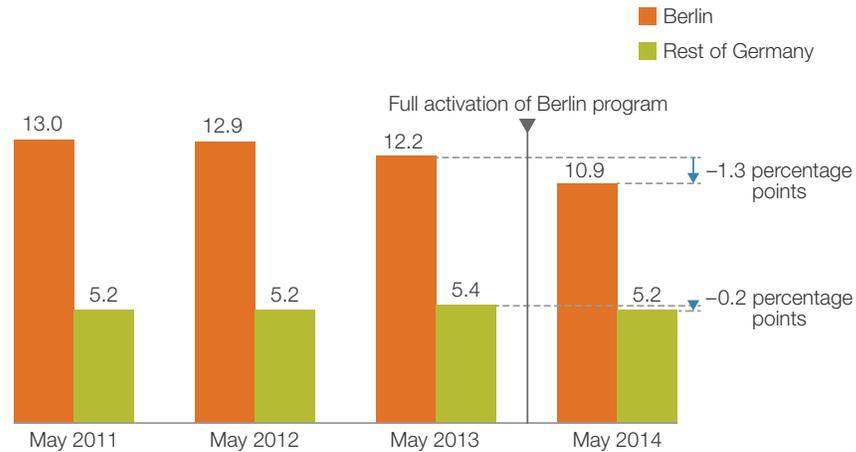
The most prominent innovation in this context is the introduction of the Youth Employment Agency (Jugendberufsagentur). It combines improved administrative interconnectivity with physical proximity to reach a new level of cooperation. A branch of this new agency is opening in every district of Berlin. At the agency branches, young people can find all relevant public support services under the same roof—employment agencies, job-information centers, benefits administration, social services for families and young people, and representatives of tertiary education and vocational schools. All of these institutions remain formally independent but share the same building. The new concept not only offers young people one-stop shopping but also significantly improves cooperation and communication across organizations.

Lessons for other countries and regions

The labor market for young people in Berlin has already improved significantly. Within 12 months of May 2013, when all 30 action plans started being applied at scale, total youth unemployment in Berlin dropped by 13 percent, compared with a 6 percent fall for Germany as a whole. The rate of youth unemployment, over the same period, fell to 10.9 percent from 12.2 percent in Berlin, compared with a decrease to 5.2 percent from 5.4 percent for Germany (Exhibit 3).

Exhibit 3 Berlin has seen significant decreases in youth unemployment.

Youth-unemployment rates in Berlin and the rest of Germany, 2011–14,
% of 15- to 24-year olds



Source: German Federal Labor Agency

Deficiencies, gaps, and a lack of focus in taxpayer-funded support for young job seekers are common complaints in many countries. Although these management problems frequently contribute to youth unemployment, policy makers have generally underestimated the fast-acting positive impact of fixing them, focusing instead on demand-side measures. Additionally, government agencies and local businesses often do not sufficiently engage with one another to make matching support both market relevant and practice oriented. The relative importance of each of the root causes of breakdowns along the education-to-employment path varies from country to country, as does the governance structure of support institutions. Countries must find and tailor their own solutions to fit their specific needs (see sidebar, “Elements of successful youth job-matching programs”).

Elements of successful youth job-matching programs

Beyond the overall design principles, the Berlin program offers specific lessons for effectively matching young job seekers with work.

Start early. Dedicated support measures should start early—during secondary school or vocational education—to ensure a smooth and well-prepared transition from education to employment.

Know your audience. Diverse groups and backgrounds are connected to specific labor-market risks and require tailored support and communication.

Create transparency to enable informed decisions. When young people can evaluate their options and make deliberate, informed decisions, they are more likely to integrate quickly and permanently into the labor market.

Focus on skills. Programs should focus on identifying and developing the skills of young job seekers, as well as making them visible to employers.

Pursue a market-oriented approach. To be sustainable, a support infrastructure cannot create parallel job realities but must facilitate market mechanisms. Education and matching providers should maintain a constant dialogue with employers to incorporate their requirements.

Build on existing networks and contact channels. Reaching young people in a timely and effective manner is a key challenge. Building on established networks (such as family, sports clubs, and school) and contact channels (mobile, online, through parents) has proved most effective.

Develop sustainable capacities. Support measures are only as good as the people who provide them. Training and empowering customer-facing employees in all support institutions from schools to employment agencies plays a key role in improving support quality in the long term.

Continuously track implementation and impact. Clear and measurable targets for all contributors and a transparent monitoring system for activities and outcomes empower policy makers and public managers to guarantee that youth-employment programs gain traction and become more than good intentions.

Nevertheless, as Berlin's new program demonstrates, successfully guiding young adults into the workforce requires attention to two overarching principles: first, concentrating support on the chief pain points—on actions to bridge the critical transitions, and getting and keeping all sources of support “together”—and second, actively coordinating efforts to ensure complete and effective coverage. The combination of this sharpened focus and coordinated action has increased Berlin's job-matching success, giving young adults a leg up on securing a livelihood and adding to the store of skills and trust available to strengthen civil society and economic prosperity. □

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