Residential location and youth unemployment: The economic geography of school-to-work transitions

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Abstract. In response to increased international policy attention to youth unemployment this study investigates post-secondary school transitions of school leavers. Multinomial logit models are estimated for male and female German youth. The models control for individual, parent, and household characteristics, for those of the youth’s region of residence and local labor markets. The findings suggest that immigrant youth has particularly low participation rates in continued education, and that youth unemployment is centered in high unemployment states and metropolitan areas. More generous academic benefit policies seem to be correlated with increased academic enrollment, and men’s transitions to the military do reflect recent changes in defense policies.

JEL Codes: J24, J64, J68

Key words: School-to-work, youth unemployment, local labor markets

1. Introduction

As of 1998 youth unemployment in the European Union was at 19.1% of the youth labor force. The literature provides ample evidence on the lifetime scars early unemployment experiences leave on workers’ labor market and criminal records (Ellwood 1982; Freeman and Rodgers 1999; for Germany Franz et al. 1997). This dramatic situation prompted government responses in several

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countries. France launched an ambitious youth unemployment program in 1997, which as of November 1998 covered 152,000 persons aiming at 350,000 by 2000 (OECD 1999a). The German government passed a “100,000 Jobs for Youth” program, with DM 2 bio allocated for the fiscal years 1999 and 2000 each.

With youth unemployment high on the policy agenda, it is important to understand its determinants and the potential role for labor market policies. So far, only a few studies investigated the labor market transitions of school leavers. The issue was discussed in the United Kingdom due to a concern about declining participation in continued education. The German case found attention in the United States following the Clinton administration’s suggestion to install some features of the German apprenticeship system there (Clinton and Gore 1992). Overall, existing studies are highly specific in their topics. Only few attempt to answer the broader questions of what young people do after leaving school, how their choices are affected by regional labor markets and by policy changes, and to what degree parental and household characteristics affect these transitions.

This study addresses these important issues at the example of Germany. It applies a comprehensive modelling approach to investigate the transition choices of all youth leaving school between 1984 and 1997, as observed in the German Socioeconomic Panel (GSOEP). This dataset permits the consideration of detailed household and parent background variables, which were omitted in prior analyses. The findings are relevant to the evaluation of the German government’s “100,000 Jobs for Youth” program, as one of the criticisms of this program relates to the equal spreading of program activities across labor market regions. To the degree that local factors are important for the success of youth labor market entry, regional differentiations in active labor market policies may be required. Finally, the study evaluates whether changes in training grant and military policies affected school-to-work transition patterns.

The paper proceeds with a summary of the German institutional framework for school-to-work transitions, and of policy changes, that may have affected transition decisions. It describes the German youth labor market, the main features of the “100,000 Jobs for Youth” program, and briefly surveys the school-to-work literature in Sect. 2. Section 3 discusses the econometric specification, presents the data and the estimation strategy. The results are discussed in Sect. 4. The study concludes with a summary, highlighting policy implications.

2. Institutional background and review of the literature

2.1. School-to-work in Germany

In contrast to other countries, the German school system introduces differentiated educational tracks after the first four grades of primary education. The tracks differ in their academic orientation and requirements. The basic school (Hauptschule) graduates individuals after six years of secondary education and is a preparation for blue collar occupations. The middle school (Realschule) also lasts six years and provides training for white collar jobs. Only the highest track (Gymnasium) provides another nine years of schooling. Graduating from