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Young people, employment programmes and the new deal

Immediately after the UK General Election in 1997, the new Labour government began to implement its '*Welfare to Work*' strategy. The aim of this strategy is to encourage and facilitate entry into work and, in the longer-term, to reduce dependency on welfare benefits. The strategy involves, first, a fundamental review of the tax and benefit system and, second, a series of labour market interventions under the 'New Deal' banner. The former is intended to increase the incentives to working while the latter is intended help non-working people into jobs and to increase their long-term employability.

The flagship programme within the New Deal is undoubtedly the New Deal for Young People. The success or otherwise of this programme will have immense social and political consequences and will shape views about the effectiveness of employment programmes for some time to come. This Bulletin considers the prospects for the New Deal for Young People in the light of the precedents and the emerging evidence from evaluation of the programme.

Previous programmes, 1982-1996

There has been a considerable number of labour market programmes operated in the United Kingdom over the past two decades and aimed at young people. The **Young Workers Scheme** (YWS) ran from 1982 to 1986 and was targeted on people aged 16-17 in their first year of employment. YWS paid employers a subsidy of £15 per week if an eligible young person was recruited to a job paying a wage of £40 or less (and a subsidy of £7.50 if the wage was between £40 and £45 per week). The subsidy was paid for 12 months. The YWS was replaced in 1986 by the **New Workers Scheme** (NWS) which extended the subsidy to recruits under 21 years of age. Employers could claim £15 per week for 12 months provided that the young person's weekly earnings were less than £55 (if aged 18-19) and £65 for 20 year olds.

Active labour market programmes during the late 1980s and early 1990s tended to focus on the supply side of the labour market. However, an important exception to this trend away from 'demand side' subsidies was **Workstart**. In 1993, pilot studies began on an employment subsidy programme aimed at the very long-term unemployed (people unemployed for over two years).

Workstart 1 was run in 1993-94 in four areas (London, Kent, Tyneside and Devon/Cornwall). The programme paid a flat rate subsidy of £60 per week for 26 weeks plus £30 per week for a further 26 weeks to employers who recruited a person who had been unemployed for two years or more. Workstart 2 commenced in 1995 in the West Midlands and in the North West Region. In the West Midlands, the level of subsidy and the duration of payment were not fixed but were negotiated with employers (a maximum was set of £2,800 for 12 months). In the North West a different regime existed. The subsidy paid varied with the length of time the individual had been unemployed. The subsidy was set at £700 for people unemployed for 2-3 years, £1,400 for those unemployed 3-4 years and £2,800 for those unemployed for more than 4 years. All subsidies were paid for 12 months. Workstart 3 was piloted in 1996 in Leeds and in Basildon. The subsidy took the form of a payment to employers of £1,000 for recruiting a long-term unemployed person. The subsidy was paid in two lump sum instalments, eight weeks apart.

The evidence relating to employment impacts

With active labour market programmes varying so much in terms of their objectives, delivery and size of subsidy, it is hardly surprising that the evidence relating to the employment impact of such programmes is rather mixed. The relevant issue to be considered here is whether or not such subsidies lead to additional[1] employment and, if so, the permanence and stability of the jobs so created.

Patterns of employer participation give an indication of the attractiveness of employer subsidies to different types of employer. The evidence suggests that subsidies aimed at job creation are more attractive to small employers while subsidies that are strongly linked to training are more attractive to large organisations. Small firms tend to be more attracted to subsidy programmes because the recruitment of a single person can make a noticeable difference to labour costs. Many small firms are also labour intensive and operate in competitive product markets. Labour cost savings will have a big impact on competitiveness and employment.

There is much research to show that, in general, small firms do little training. It is therefore not surprising that where subsidies are linked to training, it is the larger employers who take up the subsidies. In many cases such organisations have a tradition of training and adapt their previous training programmes to become eligible for subsidies. Evidence relating to the Youth Training Scheme (Deakin and Pratten, 1987) suggests that the subsidy element in youth training programmes had a high deadweight cost of around 30 per cent. In a recent study of employers participating in the Modern Apprenticeship initiative, Hasluck, *et al* (1997) found that only 16 per cent of employers would not have taken on any trainees (or would have taken on fewer) in the absence of Modern Apprenticeship. Where job creation is the programme objective, a requirement to provide training may be an impediment to participation by employers.

The Young Worker Scheme (YWS) paid a subsidy to employers for each young person employed. At the start of 1986 around 60,000 young people were covered by the programme and around 440,000 young people were covered by the scheme during the period 1982-1986. However, while the number of participants on YWS was large, it is estimated that as little as 16 per cent of this number were additional to the employment that would have existed in the absence of the wage subsidy. In a summary of the evidence relating to this and earlier wage subsidy programmes, Lindley (1986) shows considerable variation in these estimates related to the nature of the assumption made about deadweight, displacement and substitution associated with the schemes. In Scotland, the Training and Employment Grant Scheme (TEG) offered a subsidy to employers to meet both employment and training costs. The rules of the TEG required jobs filled under the scheme to be additional to the existing workforce. Perhaps because of this, deadweight was estimated to be only 16 per cent of jobs covered.

The Workstart pilot programmes had many parallels with the subsidised employment option of New Deal, and the experience of Workstart, appears to have greatly influenced the design of New Deal. For this reason the results of Workstart pilot programmes merit closer examination. The evidence suggests that deadweight[2] was very high in Workstart 2 and 3 (between 74 and 85 per cent). The additional employment impact of Workstart varies from 19 per cent for Workstart 1, 11 per cent for Workstart 3 and around 6-7 per cent for Workstart 2. If partial deadweight is regarded as additional employment, the additionality figures rise.

Significant substitution[3] effects were also evident in the Workstart pilots. Substitution of between 28-35 per cent was estimated for Workstart 1. In Workstart 2 the substitution effect was estimated at 19-24 per cent in the North West and 17-21 per cent in the West Midlands. Estimated substitution for Workstart 3 was around 20 per cent (Martin Hamblin, 1997; Burtney and Littler, 1997). These figures are fairly consistent and suggest a substitution effect of around one in five jobs covered by the subsidy. The evaluations also suggest that substitution effects increase in magnitude as the value of the subsidy increases.

The New Deal for Young People

This programme is aimed at people age 18-24 who have been claiming unemployment benefit (Jobseekers Allowance – JSA) continuously for six months. Participation is mandatory. Early entry to NDYP is possible and there are 11 groups who are entitled to enter NDYP before reaching the six month point. Early entrants include people with disabilities, lone parents, ex-offenders, ex-members of the regular armed forces, people with literacy or numeracy problems and a range of other criteria.

There are three key stages to NDYP. Those entering the NDYP first enter a Gateway period lasting up to four months during which the ES New Deal Advisors work with the young person to improve their employability and to find unsubsidised jobs for as many as possible. Those not finding a job will then move on to one of four Options:

- a six month period of subsidised employment,
- a course of full-time education and training,
- a job in the Voluntary Sector,
- a job in the Environmental Task Force.

Young people are offered a choice of Options but cannot remain on JSA. If a young person reaches the end of their option and still has not obtained a job, they can re-claim JSA and enter the follow-through period. During follow-through they claim JSA but receive intensive help with job search in order to find a job.

1 'Additional employment' refers to the net gain in employment associated with a particular scheme, having taken account of deadweight, substitution and displacement effects. For further details, see Hasluck (1998).

2 Deadweight refers to employment or recruitment that would have happened even without the programme.

3 Substitution occurs when a programme participant gains a job at the expense of another jobseeker.

A comparison with earlier programmes

The New Deal differs from its predecessors in a number of ways. First, it offers a 'menu' of choices to unemployed people (especially young people). Second, it incorporates a lengthy assessment phase (the 'Gateway'/Advisory Interview Process) during which the unemployed person receives and undertakes an assessment of their needs and wishes, help with job search, careers advice, and some may receive basic education in literacy, numeracy and IT skills. Third, there is a 'follow-through' phase during which the young person receives on-going support and assistance.

There is another fundamental way in which the NDYP and New Deal for the Long-Term Unemployed (NDLTU) differ from earlier programmes. Local delivery of the scheme was regarded as an important feature, together with the provision of variety in delivery methods. The intention was to enable the scheme to be tailored to match local labour market conditions. Delivery arrangements are complex and involve a number of different models, ranging from private sector contracts between the Employment Service and private employers to Joint Venture Partnership in which the local Employment Service is one of a number of equal partners who contract collectively to deliver the programme.

The Impact of New Deal for Young People

Implementation of the NDYP took place when the labour market was moving through a major transitional phase. The 'problem' of youth unemployment has been affected by demographic, educational and structural labour market factors. From a peak of over 1 million young persons claiming benefit in 1986, the number had fallen to around 360,000 by early 1998. When the programme was initiated, there were approximately 112,000 young people who were claiming unemployment benefit (Job seekers allowance) and who had been unemployed for six months or more.

Evaluation of the impact of the NDYP is continuing[4]. Early indications of the impacts, based largely upon qualitative research undertaken with participants, employers and Employment Services staff, shows that the scheme is viewed positively by all concerned (Atkinson, 1999; Legard and Ritchie, 1999; SCPR, 1998; Snape, 1998; Tavistock Institute, 1998). Young people view the scheme as benevolent, even some of those who remain cynical of its benefits. The elements of choice it contains are regarded positively, compared with earlier schemes such as Youth Training which was widely regarded as providing poor quality training with little prospect of sustainable employment. Statistical information obtained via administration of the scheme indicates that, one year into the programme a significant number (1 in 6) of young unemployed persons had pursued an education or training option upon completion of an evaluation phase. One third had entered unsubsidised employment. Some concerns have been raised that not all participants are offered the full range of choices the scheme initially advertised. Again, it remains too early to estimate the longer term impacts of the scheme.

Problems associated with the transitional process, particularly for young people moving through vocational education and training, cannot be treated in the same way that one seeks a remedy for ill health. The issue at stake here is whether or not the range of 'treatments' available is both adequate and sufficient given the scale of the transitional problems which become apparent as the economy moves through rapid structural change. In this respect the *New Deal for the Young Unemployed*, a programme aimed specifically at those who attempted to take a vocational route into stable employment and met with difficulty, combines what many regard as the best lessons we have drawn from the experience of dealing with transitional problems for young people. The programme combines assessment and counselling at an early stage, leading into a range of options including subsidised employment, education and training. Nonetheless, it remains a treatment to a problem, a potential 'curative' rather than a preventative measure. Only time will tell if this treatment works better than its predecessors.

4 For details of the monitoring and evaluation procedures, see Hall and Reid (1998).

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