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The New Deal for Young People: Implications for Employment and the Public Finances

This report evaluates the *difference* that the New Deal for Young People (NDYP) has made to unemployment and employment and how much it has cost. As such it assesses the consequences of the programme for the macroeconomy. It does not assess the effect of the programme on the lives of individuals who participate in it. Overall the evidence presented in this report indicates that the NDYP programme is having a beneficial impact on the UK economy, although the magnitude of this impact cannot be quantified exactly. Evidence from the first two years of the programme up to March 2000 suggests that:

- National income is around £0.5 billion per annum higher as a consequence of the programme, indicating a welfare gain to the economy as a whole.
 - A little over 200 thousand young people left unemployment earlier than they would have done without the programme during the first two years. Within this total, roughly 60 thousand more young people moved directly into work (including subsidised jobs) than would have been the case without NDYP.
 - The rise in the numbers flowing out of unemployment is almost twice as high as the rise in the numbers flowing into unemployment due to NDYP, so that the net impact of the programme is to reduce unemployment.
 - The increase in flows of young people into and out of unemployment in the first two years of the programme and the wider economy effects of these flows imply a reduction in unemployment among all age groups of around 45 thousand and a rise in employment of around 25 thousand. When those employed on the Environment Task Force (ETF) and Voluntary Sector (VS) options of the NDYP programme are taken into account, total employment in the UK economy was around 40 thousand higher as a consequence of the programme.
- Total youth unemployment is estimated to have fallen by 40 thousand due to NDYP. Long-term youth unemployment fell from 118 thousand in March 1998 to 52 thousand in March 2000. Without the NDYP it would have been almost twice as high.
 - The programme has raised youth employment by approximately 15 thousand, excluding those employed on the ETF and VS options. When these are taken into account, around 30 thousand more young people were in work in March 2000 as a consequence of the programme.
 - After taking account of lower benefit payments and higher tax revenues, worth about £3 in every £5 spent, the NDYP is likely to cost the Exchequer less than £150 million per annum over the course of the current Parliament until March 2002. This does not take into account possible social benefits due to the programme.
 - The annual exchequer cost per extra person in employment, including those in VS and ETF jobs, is estimated to be in the region of £4 thousand per annum. The cost per extra person in employment excluding those in VS and ETF jobs is about £7 thousand per annum. However, these amounts do not measure the cost to the economy as a whole. Indeed, since NDYP raises national income there is an economic benefit rather than a cost to the wider economy.

Executive Summary

The New Deal for Young People (NDYP) was introduced nationally in April 1998 as part of the Government's Welfare-to-Work programme. It is focused on those young people who have been unemployed for over six months and is intended to help them find lasting jobs and increase their long-term employability. During the initial Gateway stage of the programme, participants are given assistance in job search and basic skills development. Those who are still unemployed four months after entering the Gateway are offered a number of options, including further skills development through full-time education and training, and work experience through job placements and subsidised employment. Importantly, there is no 'fifth' option to opt out of the programme and remain on unemployment benefits.

Since the programme was introduced it has affected a large number of people. By the end of September 2000, 546.5 thousand young people had participated in the programme. Of these 254.5 thousand had moved at one time or another from the programme into employment (including subsidised jobs).

Inevitably, some of these people would have found a job anyway because of natural labour market turnover and the general expansion of employment in the economy. This report evaluates the *difference* that NDYP has made to unemployment and employment and how much it has cost, considering evidence from the first two years of its operation (i.e. to March 2000). As such it assesses the consequences of the programme for the macroeconomy. It does not assess the effect of the programme on the lives of individuals who participate in it.

Overall the evidence presented in this report indicates that the NDYP programme is having a beneficial impact on the UK economy, although the magnitude of this impact cannot be quantified exactly. Given the small size of the programme in relation to the economy as a whole, it is not possible to observe its impact on national income directly, but it can be

estimated using macroeconomic modelling techniques. These estimates suggest that:

- **National income is around £0.5 billion per annum higher as a consequence of the programme, indicating a welfare gain to the economy as a whole.**


Considering the impact on those leaving unemployment, the evidence suggests that during the first two years of the programme (up to March 2000):

- **A little over 200 thousand young people left unemployment earlier than they would have done without the programme.**
- **Within this total, roughly 60 thousand more young people moved directly into work (including subsidised jobs) than would have been the case without NDYP.**

The remainder who left unemployment because of the NDYP left for other destinations including the Voluntary Sector (VS), Environment Task Force (ETF) and Education & Training options that are part of the NDYP programme. Some of those who moved to options would subsequently have moved into work. Also, some of those who left unemployment because of the programme subsequently returned to it and this is reflected in an increase in inflows to unemployment – this includes those returning from options to the Follow-Through stage of NDYP.

- **The rise in the numbers flowing out of unemployment is almost twice as high as the rise in the numbers flowing into unemployment due to NDYP, so that the net impact of the programme is to reduce unemployment.**

The increase in flows of young people into and out of unemployment over the two-year period implies a fall in the count of people who are unemployed at the end of it. But the fall is smaller than the difference between flows out of and flows into unemployment.



This is because those who are helped out of unemployment by NDYP would not have remained unemployed indefinitely in the absence of the programme. Rather, the programme is helping people leave unemployment *earlier* than they would otherwise have done. In addition to these direct effects, the NDYP is likely to have reduced wage pressure and so allowed the economy to grow faster without triggering policy action to restrain inflation. Taking such indirect effects into account it is estimated that as of March 2000 the NDYP had:

- **reduced total youth unemployment by approximately 40 thousand.**
- **reduced long-term youth unemployment by around 45 thousand; this fell from 118 thousand in March 1998 to 52 thousand in March 2000, and would have been almost twice as high without the NDYP.**
- **raised youth employment by approximately 15 thousand, excluding those employed on the ETF and VS options. When these are taken into account, around 30 thousand more young people were in work in March 2000 as a consequence of the programme.**
- **reduced unemployment among all age groups by around 45 thousand and raised employment by 25 thousand, excluding those employed on the ETF and VS options. When these are taken into account, total employment in the UK economy was around 40 thousand higher as a consequence of the programme.**

The NDYP is being financed by the Windfall Tax that was levied on the privatised utilities. This report ignores the financial implications of this tax and focuses on the effects on the public finances of the NDYP programme itself. By March 2000, £668 million had been spent on the NDYP programme. This is much lower than was originally anticipated, partly

because of the continued fall in unemployment throughout the period, and because most participants leave the programme during the cheaper Gateway period of intensive job search assistance. The overall net exchequer cost is smaller than this because of lower expenditure on JSA and higher tax revenues due to the greater level of employment and national income sustained by the programme.

As with the impact on national income, the impact on the Government's budget cannot be observed directly, but it can be estimated using macroeconomic modelling techniques. The estimates suggest that:

- **After taking account of lower benefit payments and higher tax revenues, worth about £3 in every £5 spent, the NDYP is likely to cost the Exchequer less than £150 million per annum over the course of the current Parliament until March 2002. This does not take into account possible social benefits due to the programme.**
- **The annual exchequer cost per extra person in employment, including those in VS and ETF jobs, is estimated to be in the region of £4 thousand per annum. The cost per extra person in employment excluding those in VS and ETF jobs is about £7 thousand per annum. However, these amounts do not measure the cost to the economy as a whole. Indeed, since NDYP raises national income there is an economic benefit rather than a cost to the wider economy.**

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