

Department for Work and Pensions

Research Report No 168

# Findings from the Macro evaluation of the New Deal for Young People

Michael White and Rebecca Riley

A report of research carried out by the Policy Studies Institute and  
the National Institute of Economic and Social Research on behalf of the  
Department for Work and Pensions

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The conclusions and interpretations presented in this report remain solely the responsibility of the authors.

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## GLOSSARY

DWP	Department for Work and Pensions
ES	Employment Service
ETF	Environment Task Force, one of the Options available in NDYP
Follow-through	Period of assisted job-search following participation in an Option under NDYP
Gateway	Initial period of assisted job-search and assessment which all entrants to NDYP pass through
GDP	Gross Domestic Product
ILO	International Labour Office
JSA	Jobseeker's Allowance, the benefit for unemployed people
NDYP	New Deal for Young People
NiDEM	National Institute Domestic Econometric Model
NIESR	National Institute of Economic and Social Research
NMW	National Minimum Wage
Personal Advisers	Staff at Jobcentres responsible for NDYP clients, especially while they are taking part in Gateway and Follow-through
PSI	Policy Studies Institute
QLFS	Quarterly Labour Force Survey
UoD	Unit of Delivery (smallest administrative area for delivery of NDYP)
VS	Voluntary Sector, one of the Options available in NDYP



## SUMMARY

### The New Deal for Young People (NDYP)

NDYP is an extensive programme of assistance to young people who have been unemployed for six months or more, which began in April 1998. Its aim is to help these young people to find lasting jobs and to increase their long-term employability. Through NDYP, they are provided with an intensive support process to find a job, known as the 'Gateway', which is intended to continue for up to four months. If they remain in the programme beyond this period they are then required to enter one of four options:

- Employment Option, offering subsidised employment
- Full-time Education and Training
- Voluntary Sector Option
- Environment Task Force Option

NDYP is the largest labour market programme in Britain. By the end of January 2002, 753,600 young men and women had taken part or were taking part in NDYP. Currently about 83,900 people are participating.

### The Macro evaluation of NDYP

NDYP has been evaluated through a wide range of research projects. This report summarises results from one of the main groups of research projects, labelled the 'Macro' evaluation. The Macro evaluation was concerned with establishing both the *direct* effects of NDYP in terms of increasing employment and lowering unemployment, and its *wider* effects on the labour market and the economy. Its main aim was to estimate the impact of NDYP as comprehensively as possible, taking account of effects that went beyond the immediate participants.

Research was commissioned at the National Institute of Economic and Social Research (NIESR) and at the Policy Studies Institute (PSI), and some analysis was also conducted internally within the Department for Work and Pensions. The research teams covered different but overlapping aspects of NDYP's impacts.

The NIESR findings were published in two previous summary reports, the more recent appearing in December 2000.<sup>1</sup> The present report brings together and compares the NIESR and PSI findings for the first time.

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<sup>1</sup> Riley, R. and Young, G. (2000) *The New Deal for Young People: Implications for Employment and the Public Finances*, Research and Development Report ESR62, Sheffield: Employment Service.

### Changes in youth unemployment

The main findings in relation to the impact of NDYP on youth unemployment were:

- NIESR estimated that NDYP led to a reduction in *long-term* (of more than six months' duration) youth unemployment of 45,000. Long term youth unemployment would have been almost twice as high in March 2000 without NDYP.
- NIESR estimated that *total* youth unemployment was reduced by approximately 35,000 over the same period. This took account of some increased inflows into short-term unemployment following NDYP.
- PSI estimated the impact of NDYP in a different way, which is not directly comparable to the NIESR estimates. They estimated the extent to which NDYP participants were less likely to be unemployed at various points after they had started the NDYP scheme. Their estimates (covering the first year of entrants to NDYP) were 39,000 additional exits at six months from the NDYP entry-point, and 12,000 at 18 months from the entry-point. PSI also estimated that up to 17,000 additional young people had exited from unemployment *before* the entry point to NDYP.
- In addition PSI looked at the impact on the level of *total* youth unemployment (rather than at specific time points) and estimated a fall of around 40,000, which is close to the NIESR estimate.

### Changes in youth employment

The main findings in relation to the impact of NDYP on youth employment were:

- NIESR estimated that over the first two years of the programme, 60,000 more young people moved into jobs than would have been the case without NDYP. More than half moved into unsubsidised jobs.
- PSI estimated that, among the first year's entrants, 11,000 NDYP participants were in work six months after joining NDYP who would not have been if the scheme had not existed.
- NIESR estimated that NDYP had raised *total* youth employment by approximately 15,000 by March 2000, excluding those on the Environment Task Force and Voluntary Sector Options.
- PSI's analysis of the *total* youth labour market suggested a rise in youth jobs of about 40,000 per annum as a result of the stimulus provided by NDYP. This figure, which is higher than NIESR's estimate, could reflect a short-term effect and be unsustainable.

Both NIESR and PSI examined whether NDYP, by helping 18-24 year olds into work, had led to an increase in unemployment or a fall in employment for other age groups.

- NIESR concluded that there was little evidence of substitution. They found a reduction in the numbers within other age groups leaving long-term unemployment, particularly in the first two quarters after the introduction of NDYP, but as this was greatest in areas where NDYP was not yet fully implemented, it was not attributed to NDYP.
- PSI found no adverse effect for people in other age groups.

#### Possible mechanisms involved in NDYP's impacts

The different strands of the research looked at some possible mechanisms by which NDYP had an impact on employment and unemployment.

- PSI examined variation across local areas in the rates at which NDYP participants left unemployment. The main factors leading to higher local exit rates were a more intensive approach to the Gateway process, and higher expenditure on the Gateway and on Environment Task Force and Voluntary Sector Options.
- PSI found no evidence that job search had become more intensive among 18-24 year olds as a whole, following the introduction of NDYP. However, job search had previously risen following the introduction of Jobseeker's Allowance and this increase had been maintained.
- NIESR concluded that NDYP had helped to reduce wage pressure by reducing long-term unemployment.

#### Wider economic effects

The impacts on the wider economy were derived by simulation using NIESR's model of the UK economy. By increasing the effective labour supply, thus helping to restrain wages, NDYP could be expected to generate a beneficial response in the economy as a whole. The simulations also took account of changes in productivity and taxation resulting from NDYP. The main results were as follows:

- National income was around £500 million per annum higher as a result of NDYP, indicating a welfare gain to the economy as a whole.
- After taking account of lower benefit payments and higher tax revenues, worth about £3 in every £5 spent, NDYP was likely to cost the Exchequer less than £150 million per annum until March 2002. This did not take into account possible social benefits attributable to the programme.
- The annual Exchequer cost per extra person in employment, including those in Environment Task Force and Voluntary Sector work, was estimated to be in the region of £4,000 per annum. The cost per extra person in employment excluding those in Environment Task Force and Voluntary Sector Options was about £7,000 per annum.

#### Conclusion

NDYP produced positive impacts in terms of less unemployment and more employment for participants. The evidence about wider labour market and economic impacts was also generally positive. NDYP increased youth employment as a whole, without any detectable disadvantage to other age groups. By reducing wage pressure, NDYP led to an increase in total employment. Much of the cost of NDYP to the Exchequer has

been recovered through reductions in unemployment benefits and increased tax revenues, while by raising national income, NDYP provides a benefit rather than a cost to the economy as a whole.

## 1 INTRODUCTION

The New Deal for Young People (NDYP) commenced as a national welfare-to-work programme in April 1998, after operating in Pathfinder areas since January of that year. Its aim is to help young people who have been unemployed for six months to find lasting jobs and to increase their long-term employability. On reaching eligibility, young people enter the NDYP Gateway, in which they are given intensive support to find a job, over a period intended to continue for up to four months. Those that do not find a job then pass into one of the Options:

- Employment Option; a job with a wage subsidy and training provision
- Full-time Education and Training Option; leading to a vocational qualification
- Voluntary Sector Option
- Environment Task Force Option

Some further details of the programme are included in Section 2.1.

NDYP is the largest labour market programme in Britain. By the end of January 2002, 753,600 young men and women had taken part or were taking part in NDYP. Currently about 83,900 people are participating.

NDYP was accompanied by a wide range of research projects to evaluate its impacts. This report considers one of the main groups of research projects, labelled the Macro evaluation. Research was commissioned at the National Institute of Economic and Social Research (NIESR) and at the Policy Studies Institute (PSI). NIESR's findings have been published previously, but this report brings together and compares the main findings of the two evaluation projects for the first time. In addition, the report includes some results from analysis conducted internally within the Department for Work and Pensions (initiated in the former Department for Education and Employment).

The report is in seven chapters. Chapter 2 explains the nature of the evaluation and discusses some of the features of NDYP. Chapter 3 addresses NDYP's impacts on youth unemployment and on employment. Chapter 4 looks at the wider impacts on the youth labour market. Chapter 5 reports on some of the mechanisms by which NDYP may have produced its impacts. Chapter 6 looks at implications for the whole economy and public finances. Chapter 7 summarizes the chief findings and draws overall conclusions.

In presenting the results, we will refer to the various papers from which they have been taken by source and number: e.g., NIESR(1). The papers are listed at the end of this report.





## 2 THE NATURE AND AIMS OF THE MACRO EVALUATION

The Macro evaluation was concerned with establishing both the *direct* effects of NDYP, and its *wider* effects on the labour market and the economy. Even without labour market interventions, many people get jobs and leave unemployment. The research presented here seeks to net out these underlying outcomes and to measure the *additional* effect that can be directly attributed to the programme. The term ‘deadweight’ is used to describe money spent on those who would have got jobs anyway, even if there had never been a programme. Evaluating the effect of a programme on the participants is often called establishing the ‘net of deadweight’ effect.

In addition, by examining the *wider* effects of NDYP on the labour market and the economy, the Macro projects attempted to go beyond the customary scope of programme evaluations, which usually focus upon the impacts for those that participate. The Macro evaluation was also concerned with the impact on the whole youth labour market, on employment as a whole, and on the economy as a whole.

One of the reasons for embarking on this wider evaluation was to check that NDYP did not have adverse effects for those who were outside its remit. A welfare-to-work programme tries to make its participants *compete more effectively for jobs*, and to the extent that they do compete more effectively, they may take jobs from other people, who either remain in or enter unemployment as a result. These knock-on effects are often known as ‘substitution’ and ‘displacement’.

This need not happen, however, if employers respond to the increased availability and quality of job seekers by increasing the number of vacancies they offer, and/or if the increased competition for jobs helps to restrain wage pressures. Developments of these types can have beneficial effects for the wider economy.

As well as assessing the scale of wider impacts, the evaluation was also concerned with the mechanisms by which the programme’s effects were transmitted to the wider economy. For example, did young people look more extensively for jobs as a result of NDYP? Examining such mechanisms helps to work out the implications for the wider labour market and the economy. Knowledge of the mechanisms can also be of value for the design of future programmes.

The *main aim* of the Macro evaluation was to estimate the impact of NDYP as comprehensively as possible, taking account of effects that went beyond the immediate participants. The supplementary aim was to examine mechanisms that might transmit the effects of NDYP to the wider labour market.

## 2.1 The main features of NDYP: implications for the evaluation

NDYP has five features that are particularly important from an evaluation viewpoint.

### 2.1.1 A universal and mandatory programme

NDYP is a programme for **all** people aged 18-24 who reach six months of claimant unemployment (non-claimants of the relevant benefit, Jobseeker's Allowance (JSA), are not eligible). Participation is mandatory rather than voluntary, although there is substantial choice of pathways to follow within the programme.

This feature has important consequences for the evaluation. Most evaluations in the past have been based on comparing those who chose, or were chosen, for a programme with those who could have gone on the programme but did not. This is impossible in the case of NDYP, indeed no closely similar group of non-participants is available for comparison. An alternative approach is to make the comparisons on a before-and-after basis, using a different age group as the comparator. All the projects made considerable use of this approach, which will generally be referred to as the 'before-after group difference method', although it is also known as the 'differences in differences method'.

### 2.1.2 A sequential programme

There are up to three main phases of NDYP for a participant. The first phase, lasting up to four months in principle, is the Gateway, in which the participant receives intensive support for job search from a Personal Adviser. A large proportion of entrants leaves NDYP during the Gateway, for example by getting a job. The second phase, for those not leaving earlier, is participation in an Option. This can continue for six months, or even for one year for those in a full-time education and training course. For those who remain unemployed at the end of their Option, there is then a period of Follow-through, to enable participants to consolidate the training and experience gained on Options.

An important implication for the evaluation is that the full effect of NDYP requires a fairly long period to become apparent. Short-term outcomes give only a partial impression of NDYP's impact.

### 2.1.3 Multiple Options

As noted earlier, there are four main Options and participants are required to enter one of these, if they have not left unemployment during the Gateway. Selection of an Option results from personal choice, the guidance provided by the Personal Adviser, and the availability of places. Evaluating the separate effects of the Options was *not* an aim of the 'macro' projects. A separate evaluation study, using a different approach, was commissioned to assess the effectiveness of the Options relative to one another (see Bonjour *et al.*, 2001).

#### *2.1.4 NDYP participation affects unemployment status*

Unemployment status can be affected by participation in NDYP, and this can have consequences for comparisons of outcomes between pre- and post-New Deal periods or with other groups of unemployed people. This is particularly important because of the mandatory nature of the programme. It should be appreciated that there are two main definitions of unemployment in use in Britain, one based on being a claimant of the benefit Jobseeker's Allowance, the other based on the ILO definition which takes account of job search activity and availability for employment. While participants are on the Gateway, they remain on JSA and continue to be regarded as claimant unemployed. When they enter an Option, however, they exit from claimant unemployment, and may then be classified in a number of different ways. If after an Option they enter Follow-through, they again re-join JSA and become claimant unemployed, in what is regarded as a new period of unemployment. (For further discussion of the implications of NDYP for unemployment statistics, see Wood (1998)).

After New Deal it no longer makes much sense to compare claimant unemployment of more than one year's duration between 18-24 year olds and other groups. The structure of NDYP makes it nearly impossible for any 18-24 year old to reach one year of unemployment.

Furthermore, all comparisons of unemployment are affected, because the level of unemployment among 18-24 year olds is reduced by exit to Options, to a larger extent than occurs with movements into programmes for other age groups.

#### *2.1.5 NDYP delivered with local flexibility*

The delivery of NDYP was contracted to 144 local bodies known as 'Units of Delivery' (UoDs). All were operated as a partnership involving the Employment Service, employers, and educational, voluntary sector and environmental organisations. In the majority of cases, these were led by local units of the ES, but a small number were led by private organisations. The UoDs were permitted substantial flexibility in the way in which they delivered the programme.

The existence of these distinct local delivery bodies makes it possible for the evaluation to consider each UoD as contributing separately to NDYP's impact. It also raises questions about the extent to which the programme's effects varied across areas, and the reasons for such variation if it existed.

## 2.2 The content and methods of the Macro evaluation projects

There were two main projects that assessed the impact of NDYP from different perspectives:

- The project commissioned at NIESR produced four main outputs, which have already been published in previous summary reports (NIESR(3,5)):
  - The first two analyses used information aggregated at the level of the 'Unit of Delivery', the local areas in which NDYP is administered and delivered. They produced estimates of the NDYP impact on the unemployment of 18-24 year olds and on additional moves into employment from unemployment. They also included an assessment of potential adverse effects on unemployment in other age groups.
  - A further analysis was concerned with one of the main mechanisms by which NDYP might affect employment in the economy as a whole, namely wage pressure. This used both national and regional data on changes in wage levels.
  - The fourth part of the research made use of NIESR's model of the UK economy (NiDEM), which is used extensively for macroeconomic forecasting and policy analysis. This part of the inquiry produced simulation evidence of the impacts of NDYP on total employment in the economy and in the youth labour market, and also a number of other economy-level measures, including impacts on Gross Domestic Product, consumer spending, and Exchequer costs. These results took account of the wage impacts just mentioned, but also other implications of NDYP concerning productivity and taxation.
- The project commissioned at PSI also had four main types of output, all of which involved analysis of individual outcomes:
  - The first part of the project overlapped with the NIESR projects, and produced estimates of the impact of NDYP on unemployment rates and exits to employment, for the participants, at the end of their period of participation.
  - A second part of the project was concerned with how much the programme's effects on participants varied between the local delivery areas, and with identifying the 'ingredients' of local delivery policy which brought about improved results.
  - The two other parts of the project were concerned not with participants as such, but with changes across the youth labour market as a whole. These analyses used data from the Quarterly Labour Force Surveys. Estimates were produced of changes to job entry rates for non-employed young people, job changing rates for employed young people, and movement from jobs to non-employment. The possibility that younger workers were displacing older workers from jobs was also investigated, as were two other mechanisms of change in the labour market: job search activity, and movement between industries and occupational groups.

### *2.2.1 Dealing with differences in results across projects*

The differences between the projects' methods are likely to lead to some differences in the results. Such differences should not be seen as flaws in the methods being applied or the data used. All analyses involve assumptions, and different assumptions are often equally reasonable. However, it is often possible to judge whether the results are broadly compatible, taking account of how similar the methods and assumptions are.

The researchers sometimes feel unable to arrive at a single 'best' estimate, and offer instead a range of estimates based on varying assumptions. If it can be shown that different methods of measurement, applied with somewhat varying assumptions or limits, lead to results that are broadly consistent with one another, then this should increase confidence in the reliability of the evaluation's conclusions.

### *2.2.2 Common difficulties faced by the 'macro' evaluation projects*

Although the projects addressed different aspects of the evaluation, they shared some common difficulties, which arose from the nature of the programme to be evaluated and from the available information. Two of these are particularly noteworthy:

- It was not possible with the available information to identify movements into employment which took place after Options, or when there was a gap between leaving NDYP and entering a job. This is because the administrative databases used for this research only record the **first** destination after leaving unemployment. The implication of this limitation is that movements to employment are probably underestimated in those analyses, which rely on first destinations after unemployment. However, where the analyses extend over longer time periods or consider outcomes for the wider labour market, the contribution of Options should be reflected in the findings although their contribution cannot be separately identified.
- All the projects made use of 'before-after group comparisons'. These typically involve comparing the 18-24 year old target group for NDYP with older age groups, both before and after the introduction of NDYP. A potential difficulty with this method arises if the age groups being compared are differently affected by the economic cycle. If, for example, the 18-24 year olds benefit more than older groups from an improving economy, there would be a risk of supposing that NDYP was producing a gain which would have taken place without the programme. A similar problem is created if policies that are brought in at about the same time as NDYP affect 18-24 year olds differently from other age groups. Examples are the National Minimum Wage and arrangements concerning student finances. Several different approaches were applied by researchers to minimise this type of difficulty. These included:
  - using statistical methods to remove trends or other time-related influences which would bias the estimates of the NDYP impact;
  - using statistical methods to determine which periods before NDYP could most safely be used as the baseline;
  - referring to external information to assess the likely interference from economic trends or policy changes.

Since this is a non-technical summary, these methods are not discussed further in what follows, but details can be found in the papers from the projects.

### 3 THE EFFECTS OF NDYP ON YOUNG UNEMPLOYED CLAIMANTS

In this chapter we consider the Macro evaluation's evidence concerning the New Deal's impact on its client group, 18-24 year olds in long-term unemployment, and its impact on youth unemployment more generally. For the purposes of this report, unless otherwise stated, long-term unemployment means unemployment lasting at least six months. In the first part of the Chapter (Section 3.1), the focus is upon reductions in unemployment. In the second part (Section 3.2), the focus is upon increases in employment.

#### 3.1 Reductions in unemployment among young claimants

A reduction in unemployment is the most straightforward and simple aim of NDYP. It should be appreciated, however, that a reduction in unemployment cannot in general be equated with an increase in employment. Unemployment can be reduced through increases in government training or work experience programmes, through increased moves to economic inactivity (including full-time education, incapacity, and family care), and through increased movement off unemployment benefits to unknown destinations – as well as through increased employment. All the research projects therefore examined changes in unemployment as part of a wider analysis of destinations.

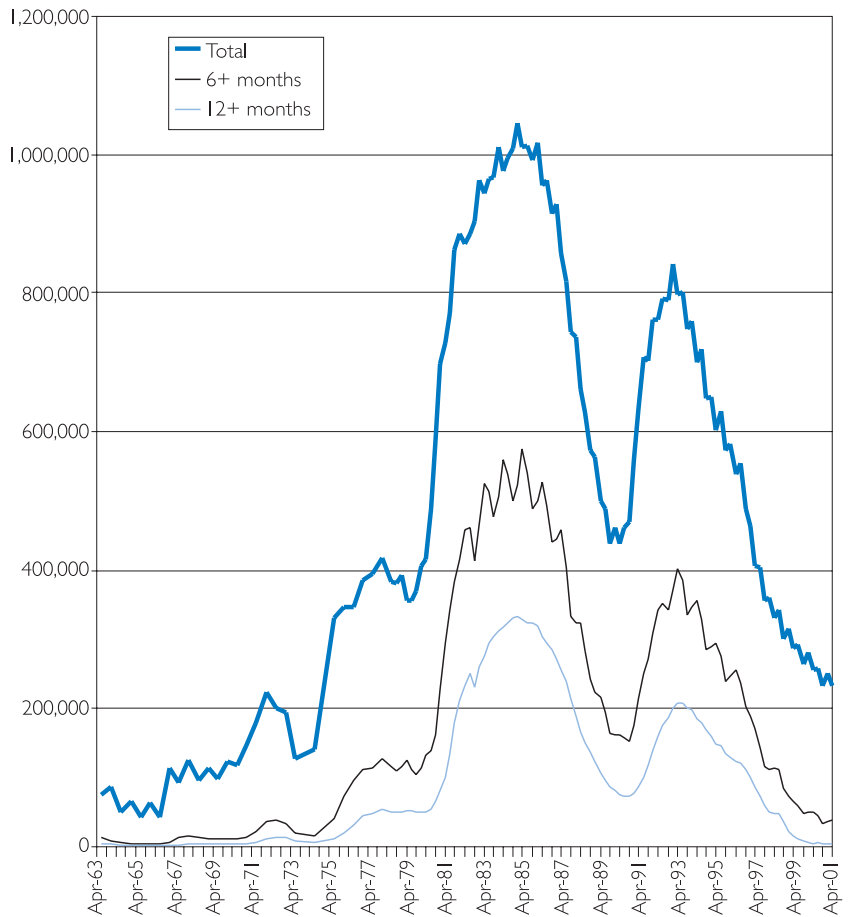
##### 3.1.1 *An analysis of unemployment using national statistics (DWP)*

**Long term youth unemployment fell by more than one half following NDYP.**

An analysis conducted internally by DWP used national statistics of flows into, through and out of unemployment (DWP (1)). This analysis confirmed NDYP's rapid progress towards its basic aim of eliminating long-term youth unemployment. In the first two years of the programme, long-term (six months plus) youth unemployment fell by 56 per cent, while total youth unemployment fell more slowly by 23 per cent (see Figures 3.1-3.2). Youth unemployment of 12 months or more had virtually disappeared by this time. The main reason for the latter was that, after 10-12 months of unemployment, all NDYP participants were required to enter an Option, which ended their unemployed status. There was a more than doubling in the proportion of the outflow to education and training for the young long-term unemployed group, during the first year of NDYP (see Figure 3.3). Figure 3.3 indicates that as a proportion of the total outflow, moves to jobs fell after the introduction of NDYP. But participants were leaving JSA more quickly under NDYP than they otherwise would have done, and overall the effect of the programme was to increase the number of moves into jobs relative to what otherwise might have been expected. This is discussed further in Section 3.2 in terms of results from the NIESR and PSI research.

Across Figures 3.1-3.3, it is notable that most of the changes took place during 1999 and 2000, with little further change between 2000 and 2001. This suggests that youth unemployment has stabilised following NDYP. However, it is not possible simply to 'read off' the net impact of NDYP from these results.

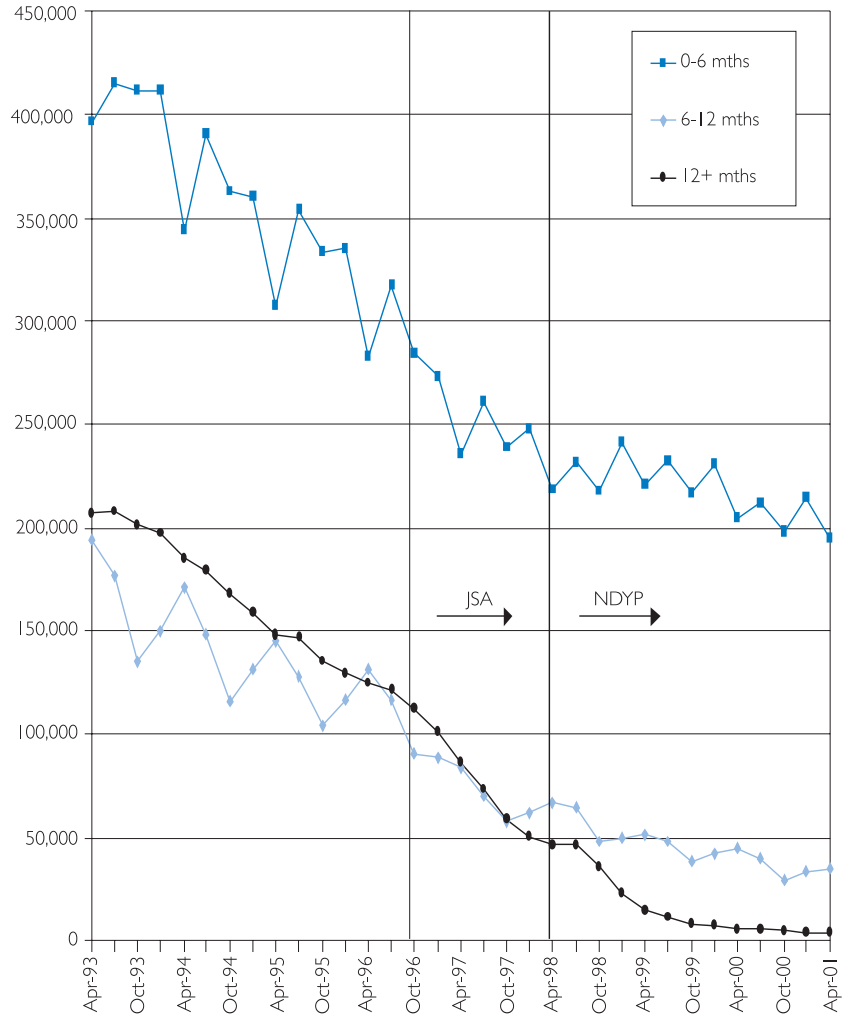
**Figure 3.1 Unemployment among 18-24 year olds, 1963-2001 (from DWP (1))**



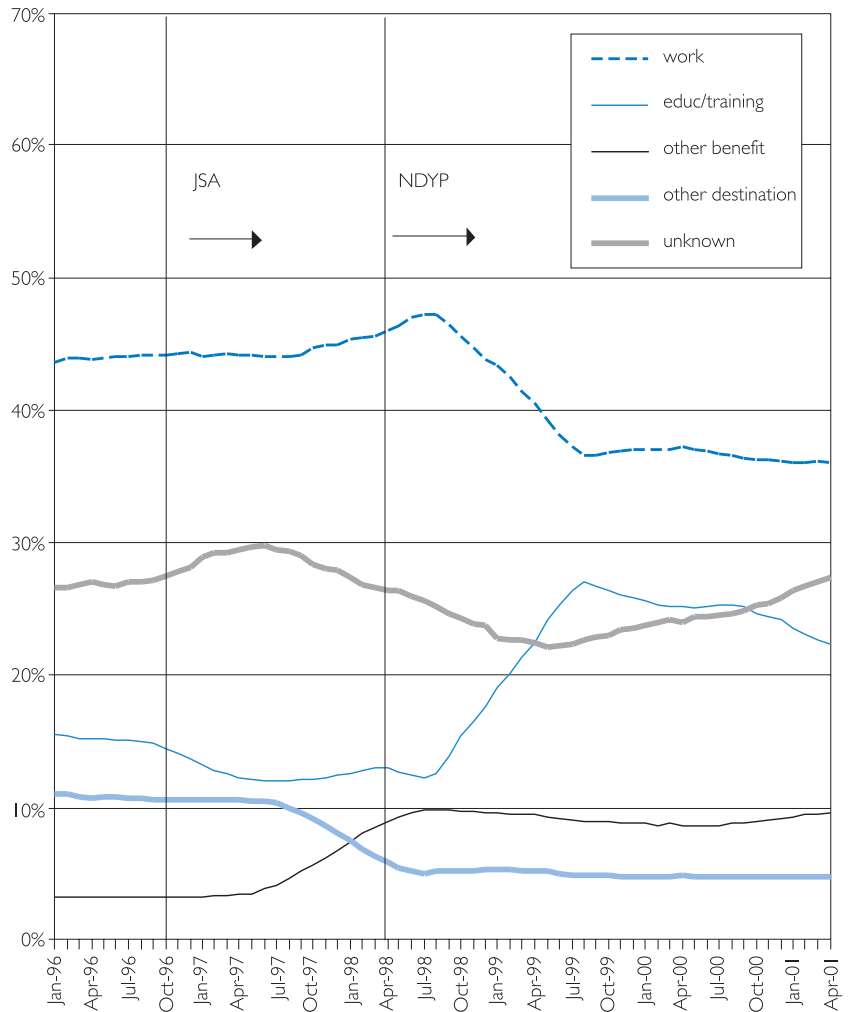
Note: 1962-82 shows the count of registrants, 1982-present shows the count of claimants



**Figure 3.2 Recent trends in youth unemployment (from DWP (1))**

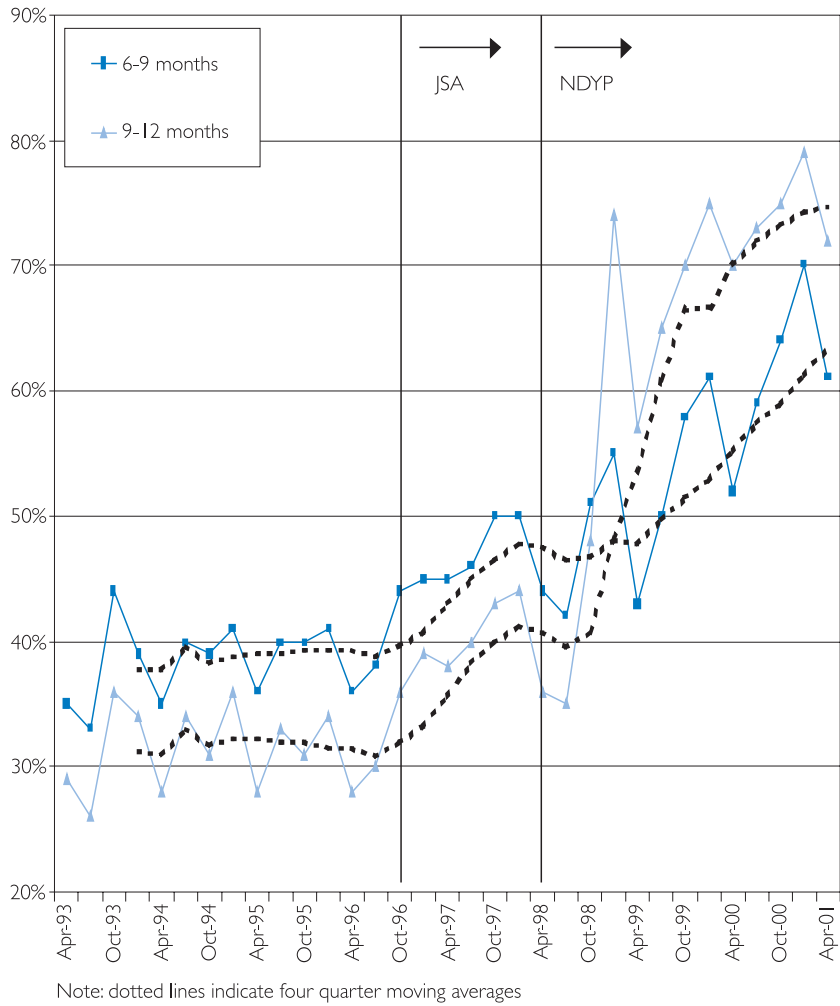


**Figure 3.3 Destination of 18-24 year olds leaving long-term unemployment (from DWP (1))**



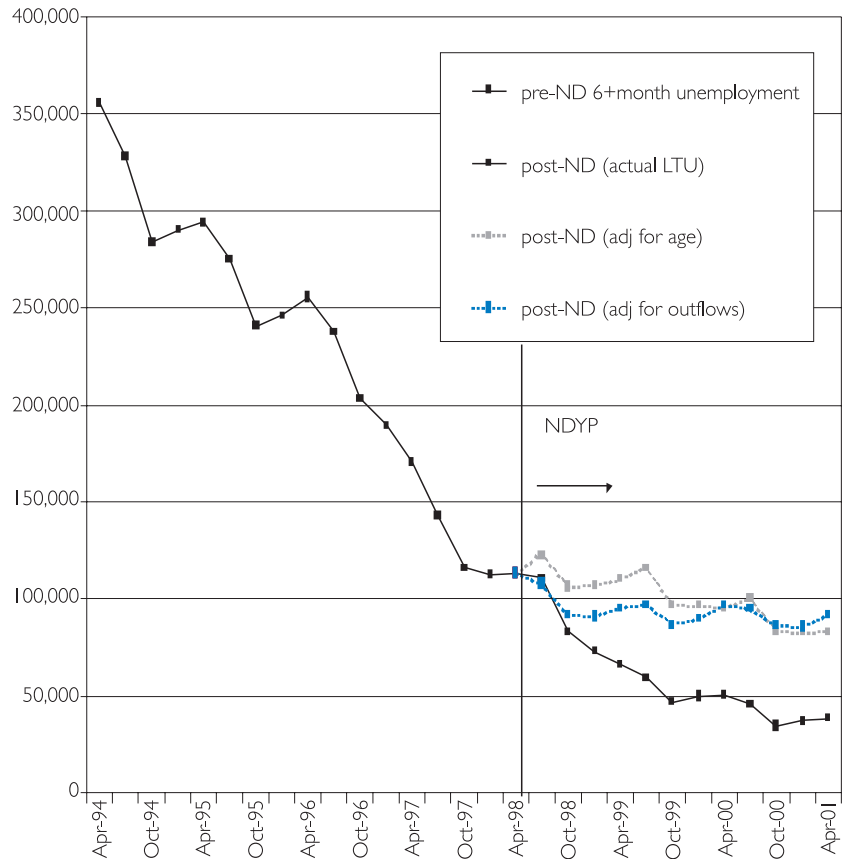
To obtain a first indication of the net effect of NDYP on unemployment levels, an estimate was needed of what the unemployment level would have been in the absence of NDYP. Using the national unemployment stock and flow statistics, this was derived in two ways (DWP(1)). The first was based on the assumption that the level of 18-24 year old unemployment would have *changed* over the 1998-2000 period in exactly the same way as the level of 25-49 year old unemployment changed over that period (since 25-49 year olds were unaffected by NDYP). The difference between the change actually observed for 18-24 year olds, and the change predicted on the basis of what happened to 25-49 year olds, was then attributed to NDYP. The second estimate was based on the assumption that outflow rates from long-term unemployment (six months plus), would have remained unchanged in the absence of NDYP. Although this might seem a strong assumption, it was consistent with the data for the 1993-96 period (see Figure 3.4), when the outflow rate from long-term youth unemployment appeared unresponsive to the changing economic situation: it increased only at the end of 1996, with the introduction of Jobseeker's Allowance. In applying this method, the pre-NDYP outflows were carried forward into the NDYP period to provide the comparison with the actual outflows from unemployment.

**Figure 3.4 Outflow rates from long-term youth unemployment during 1992-2001 (from DWP (1))**



The results of these two estimates are shown in Figure 3.5. The two methods led to some difference in numerical results, but both showed a positive impact. Using either 25-49 year olds as the comparison group or the before-after comparison methods, the estimated reduction in long-term youth unemployment was of the same order of magnitude as the comparable results from NIESR which were published previously (NIESR(3)) and are considered below.

**Figure 3.5 Estimates of the NDYP effect on unemployment under two different assumptions (from DWP (1))**



These estimates relate to the direct impact on the group eligible for NDYP. However, while reducing long-term youth unemployment, NDYP increased the circulation to short-term youth unemployment: this remained stable during the first two years of NDYP, while it might otherwise have been expected to fall in line with the generally improving labour market and economic conditions. If this increased back-flow is taken into account, the impact on youth unemployment as a whole is slightly reduced but this does not affect the overall qualitative conclusion.

An important issue is how far this reduction was attributable to the increased availability of Options as an alternative status to unemployment, and how far it was attributable to increased employment. This issue will be considered further at a later point.

3.1.2 Analysis using flow data  
aggregated at the locality level  
(NIESR)

**100,000 young people per year, in the first two years, left unemployment earlier than they would otherwise have done.**

**By March 2000, NDYP had reduced youth unemployment by 35,000.**

NIESR's estimates of the effects of NDYP on unemployment took account explicitly of the changing labour market conditions in which NDYP was introduced (NIESR(1,2)). Monthly data were drawn from the same source as used for the national unemployment statistics, for the period from January 1995 to March 2000. Separate series of data for each UoD area (for UoD, see 2.1.5 above) were the basis for these estimates. As a result, far more observations were available than for the analysis based on national statistics. The rates of movement in and out of unemployment each month were analysed, while also taking account of local differences in labour market 'tightness' based on job vacancy and unemployment rates. To obtain the net effect of NDYP, the change in the inflow or outflow rate for 18-24 year olds was estimated relative to that for other age groups who could not have been directly affected by the programme. Results were mostly presented relative to the 25-29 years age group. Comparisons with 30-49 year olds tended to give a more favourable but qualitatively similar impression of the impact of NDYP.

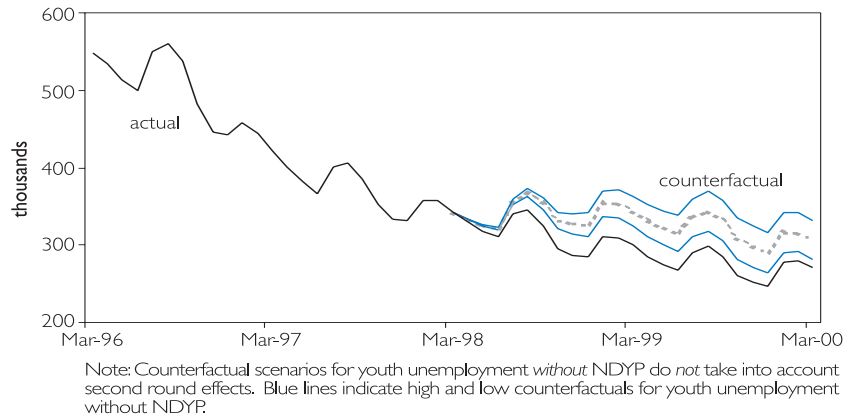
Having estimated the changes in inflows to and outflows from youth unemployment, NIESR went on to calculate the changes in the stocks or levels of unemployment which these would generate over a period of time.

The main difficulty was how to take account of any underlying trend, or change over time *other than from New Deal itself*, which might affect 25-29 year olds differently from 18-24 year olds. For this reason two sets of results are presented (NIESR(1,3)), in one of which a simple progressive trend is applied along with the NDYP effect, while in the other, half-yearly variation is permitted alongside the average NDYP effect. The conclusion reached was that the trend-adjusted results represented an upper limit for the NDYP effect, while the results incorporating half-yearly variation represented a lower limit (see Figure 3.6). A more definitive result could not be obtained because of the short time-period over which estimation was feasible, and because of the introduction of other policies almost simultaneously with NDYP.

A figure between the upper and lower estimates appeared a reasonable compromise. In fact, the simple before-after group difference between the 18-24 year olds and 25-29 year olds fell in the centre of this range. This middle estimate pointed to a decrease in youth unemployment of about 35,000 by Spring 2000, with the upper bound being 60,000 and the lower bound being 10,000.

As noted above, this represents the effect on the stock, or level, of youth unemployment, at a particular time. Changes in stocks are produced by considerably larger flows out of unemployment over the course of a year. NIESR estimated the increase in annual off-flows from youth unemployment, to all destinations, at approximately 100,000 per annum over the first two years of NDYP (NIESR(3)), implying that 100,000 young people per year left unemployment earlier than they otherwise would have done.

**Figure 3.6 Youth unemployment with and without NDYP (from NIESR (1))**



This estimate is *not* confined to the long-term unemployed who constituted the client group for NDYP. The analysis took account of exits from unemployment at *all* durations. The overall results which have just been cited were built up from separate, though linked, analysis of those leaving after various periods in unemployment: 0-3 months, 3-6 months, 6-9 months, and over nine months. Although the largest relative increase in outflow rates was, as might be expected, after nine months when Options enter the picture, there was also a discernible increase in outflow at both 0-3 months (five per cent) and at 3-6 months (seven per cent). This may in part reflect early entry to NDYP (approximately ten per cent of entrants were in special categories permitted early entry) and young people returning to Follow-through or Gateway, and in part a generally stimulating effect on young unemployed job seekers. The change in the inflow rate to short-term unemployment attributable to NDYP (NIESR(1)) was estimated at seven per cent.

### 3.1.3 Analysis at the individual level (PSI)

**Six months after reaching the NDYP entry point, claimant unemployment was estimated to be reduced by 39,000 for NDYP's first year intake. This fell to 27,000 at 12 months after NDYP entry point and to 12,000 at 18 months after the NDYP entry-point.**

**Estimated fall of 37-39,000 in the level of youth unemployment.**

PSI's analysis of the change in unemployment was based on individual administrative data concerning spells of claimant unemployment (PSI(1)). This contrasts with the NIESR project where the data consisted of totals at the local administrative level. The data used by PSI consisted of a representative five per cent sample of the national administrative records. This sample included the first whole year's intake to NDYP, together with comparative information from several previous years.

With individual data, some account could be taken of the changing composition of the different age groups over time. With individual data it also became possible to track people and see if they were unemployed at a point well beyond their time of exit from NDYP or of their participation in a New Deal Option. NIESR's analysis did this to some extent, since it included those entering and leaving the Follow-through stage of NDYP, but it did not separately identify them.

Table 3.1 summarises some of the main results from this analysis, which are given separately for men and for women. The results relate to three time-points after reaching six months of unemployment (the normal entry point to NDYP for 18-24 year olds). They take account both of people who remained continually in unemployment up to a given point, and of those who had left unemployment for any reason (including going onto New Deal Options) but who were again unemployed at that point in time.

The method is before-after group comparisons, with 30-39 year olds as the comparison group. (NIESR's results shown above used 25-29 year olds as the comparison group, but other evidence from the evaluation indicates that this difference was not important). It is assumed that the change in unemployment for 30-39 year olds reaching the same stage of unemployment represents what would have happened to 18-24 year olds if NDYP had not been introduced.

**Table 3.1 Estimates of the impact of NDYP on unemployment within the NDYP target group (from PSI (1))**

Estimated change in the mean probability of being unemployed	Men		Women	
	Change in Unemployment (thousands)	Estimate change in the mean probability of being unemployed	Change in Unemployment (thousands)	Estimate change in the mean probability of being unemployed
			At 6 months from NDYP entry date	
-0.213	-29	-0.185		-10
			At 12 months from NDYP entry date	
-0.139	-19	-0.147		-8
			At 18 months from NDYP entry date	
-0.054	-7	-0.088		-5

Six months after reaching the NDYP entry point, claimant unemployment was estimated to be reduced by 39,000 for NDYP's first year intake. This fell to 27,000 at 12 months after the NDYP entry point and to 12,000 at 18 months after the NDYP entry-point. These figures cannot be directly compared with those shown earlier in Figures 3.5 and 3.6: the present figures estimated how relative rates of unemployment changed at certain selected time points, whereas the earlier figures estimated changes in the unemployment level as a whole. As explained earlier (see Chapter 1), the results at six and 12 months from entry include the effect of movement into New Deal Options. At 18 months, however, Options are playing little role. The implied annual fall in the level of youth unemployment resulting from the reductions in the long-term unemployed was calculated as about 22,000 (16,000 men and 6,000 women). This may, to some extent, be an underestimate since it does not take account of any difference which may persist beyond 18 months from entry to NDYP.

To make the PSI estimate more comprehensive, a further analysis considered whether NDYP increased the numbers exiting from claimant unemployment *before* the point at which 18-24 year olds now become eligible for the programme. It was estimated that an additional 15,000-17,000 young people (mostly young men) exited unemployment before they reached their entry point to NDYP. This may have been for a number of reasons: for example, some may not have wanted to take part in the programme, or some may have been working already and feared detection. Alternatively, NDYP may have given a boost to the male youth job market in general (see Chapter 4).

Adding the change attributable to the short-term unemployed to that attributable to the long-term unemployed leads to an estimated fall of around 37,000-39,000 in the level of total youth unemployment. This is similar to the estimates produced by different methods by NIESR.



### 3.1.4 Conclusion on reductions in youth unemployment due to NDYP

The NIESR and PSI analyses used different methods of estimating the impact of NDYP on claimant youth unemployment, but their main estimates were closely similar. NDYP was estimated to reduce the level of youth unemployment by about 35,000-40,000.

### 3.2 The impact of NDYP on the employment of young unemployed people

Increasing the employment rate among long-term unemployed young people is a central aim of NDYP. It is recognised, in the programme's statement of aims, that this requires a progressive increase in employability for the group in question. Since the development of employability may be a process requiring substantial time, the evaluation of NDYP's employment impacts would ideally be carried out over an extended period. The main source of information on destinations used in this analysis consists of records of spells claiming JSA. This provides information on individuals' initial destinations (such as jobs) upon leaving benefit, but not on employment which takes place via other destinations such as training, education, or a period on a different benefit, since these are not included in the JSA database. The JSA database does however contain information about periods of Follow-through under NDYP, and moves to jobs from these spells have been included in the following results.

Measures of employment also, to some extent, depend on the definition used. Employment may be confined to unsubsidised jobs, or it may include jobs arranged under the programme with a subsidy for the employers. It is also possible to regard work experience and training placement Options as a type of temporary employment, although these are more usually classified under government training.

#### 3.2.1 Estimation of employment impact using flow data aggregated at the locality level (NIESR)

**Over the first two years of the programme, 60,000 more young people moved into jobs than would have been the case without NDYP. More than half moved into unsubsidised jobs.**

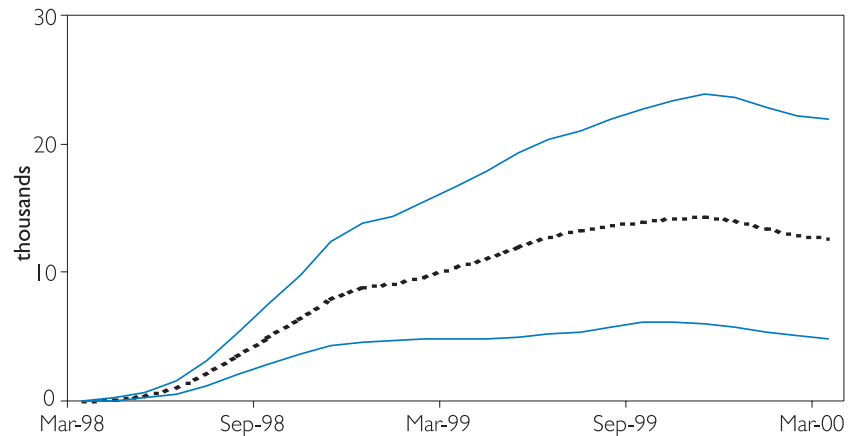
**By March 2000, NDYP had raised youth employment by around 15,000, excluding those on ETF and VS Options. When these are taken into account, around 30,000 more young people were in work in March 2000 as a consequence of the programme.**

As explained in Section 3.1, the estimates of change in youth unemployment produced by NIESR were derived from analyses in which rates of outflow to different destinations were modelled (NIESR(1)). The same method was used to derive the additional change in the level or stock of youth employment attributable to NDYP, with both subsidised and unsubsidised jobs (but not the work experience Options) included. The results are shown in Figure 3.7.

As in the case of the NIESR results concerning unemployment, there was a range of estimates, with the central estimate derived from a simple before-after group comparison, while the upper and lower bounds

represented the more complex analyses allowing for non-NDYP trends or time-related impacts. The numerical range of the estimates was from a 5,000 addition to the level of youth employment over the period, to a 20,000 addition. An intermediate figure of around 15,000 was regarded as a reasonable estimate, but the upper and lower bounds suggest that some uncertainty is involved.

**Figure 3.7 Estimates of the impact of NDYP on youth employment, under different assumptions (from NIESR (1))**



Note: Scenarios for changes in youth employment do not take into account second round effects. Employment excludes NDYP options other than the employment option. Blue lines represent high and low scenarios for the change in youth employment due to NDYP.

The change in the level of youth employment attributed to NDYP in Figure 3.7 was derived from estimates of the additional flows from youth unemployment to jobs which could be attributed to NDYP. NIESR estimated that these amounted to an additional 35,000 flows to unsubsidised and 25,000 flows to subsidised jobs over the first two years of the programme, an average annual rate of 30,000 extra moves to jobs, of which about 17-18,000 were unsubsidised (NIESR(3) Table 2.2).

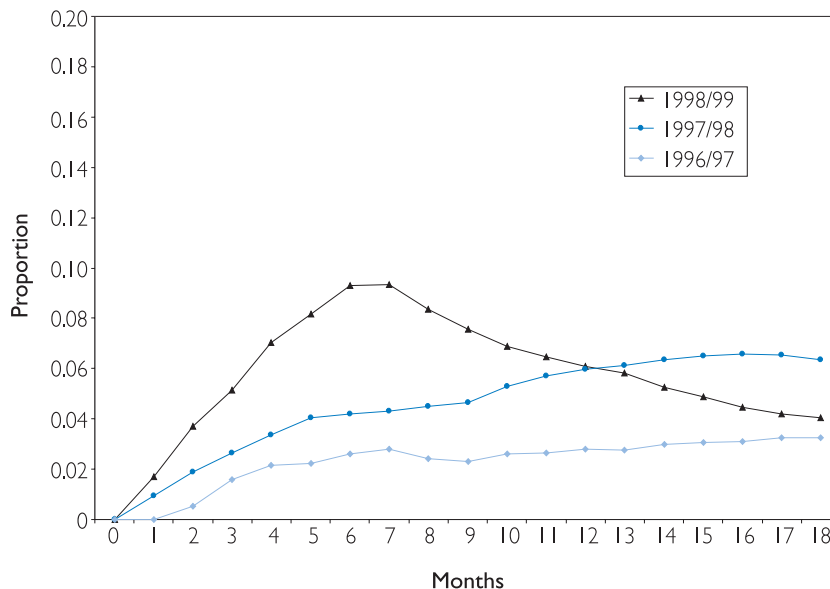
*3.2.2 Estimation of employment impact using individual data [PSI]*

**The net additional entry to employment implied for the NDYP group was 11,000 up to the six month point from New Deal entry (8,000 for men and 3,000 for women), with virtually no subsequent gain for men but a subsequent impact of 3,000 for women.**

In the PSI project, individual data were used to examine movements into employment from unemployment. As noted in Section 3.1, the use of individual data (rather than total flows from one status to another) permits some longer-term changes to be tracked. The analysis examined moves to employment each month for 18 months after eligibility for NDYP. These figures excluded moves to employment directly from Options, but did include movements from subsequent spells of unemployment. They, for the most part, reflect 'employment from the Gateway', although with some contribution from NDYP Follow-through.

These NDYP exits to employment were compared with the pre-NDYP pattern and the corresponding movements over time for 30-39 year old unemployed people. The resulting before-after group comparisons are shown in Figure 3.8.

**Figure 3.8 Employment of 18-24 year olds (compared with 30-39 year old unemployed) up to 18 months after New Deal eligibility date (from PSI (1))**



Until month 12 after the New Deal entry point, NDYP appeared to generate additional movement into employment in every month. From then on, the opposite took place, with NDYP results slipping month-by-month below the relative position of 18-24 year olds in the pre-NDYP period. However, beyond the 12 month point, there were scarcely any NDYP participants who had not already exited from unemployment, so the numbers going into employment from unemployment were exhausted. Because the chart only concerns employment *from unemployed status*, it does not reflect moves into employment from Options.

The net additional entry to employment implied for the NDYP group was 11,000 up to the six month point from New Deal entry (8,000 for men and 3,000 for women), with virtually no subsequent gain for men but a subsequent impact of 3,000 for women. This represented an increase of six percentage points in employment entry up to the 6 month point (for both men and women) and a five percentage point increase for women thereafter.

The use of individual data also made it possible to assess the stability of the jobs obtained. With more 18-24 year olds entering jobs from long-term unemployment, some reduction in stability might have been expected. PSI found, however, that there was no clear difference in this respect between the NDYP period and the two years preceding NDYP.

The conclusion was that the stability of jobs following youth unemployment had not been affected by NDYP.

*3.2.3 Conclusions on the impact of NDYP on the employment of young unemployed people*

The NIESR and PSI estimates of the NDYP effect on youth employment are not directly comparable with each other, but both indicate a positive impact on the level of youth employment. NIESR's main estimate indicated an increase in the level of youth employment of 15,000 by March 2000, while PSI estimated a gain in net employment entry of 14,000 from the first year's intake to NDYP.

**Job entry rates rose significantly for young non-employed men but did not change for young women.**

In this section, evidence about the impact of NDYP on movements across the whole youth labour market – both into and out of employment – are summarised. The implications of NDYP for the level of employment in the whole economy will be further considered in Chapter 6.

### 4.1 Possible existence of spillover and/or crowding out

The reason for undertaking the youth labour market study (PSI(2)) was to investigate ‘spillover’ and/or ‘crowding out’ effects beyond the immediate clientele of NDYP. ‘Spillover’ effects occur when non-participants see a gain in their labour market outcomes due to NDYP, whereas ‘crowding out’ occurs when fewer jobs are available to non-participants as a result of the programme. ‘Crowding out’, often referred to as ‘substitution’ and ‘displacement’, has received most attention in the past but ‘spillover’ also seems plausible in the context of a large programme. For example, by making young unemployed people more ‘job ready’ the programme would encourage employers to offer more vacancies for young people. Wage subsidies, which were offered under the employment Option, could also increase employers’ awareness of youth recruitment. Furthermore, nearly 80,000 employers were ‘signed up’ as potentially offering placements for NDYP. Once a youth vacancy had been created, an employer would not necessarily limit recruitment to those from NDYP, but would consider other young people who applied, so that the impact would spread out through the youth labour market. The increase in the employability of young people through NDYP would also increase competition in the labour market, helping to restrain upward pressure on wages more generally (see Section 5.3) and allowing employment to expand for other groups.

The main analysis of the youth labour market considered two types of movement into jobs:

- Those by non-employed people who found jobs (‘job entry’)
- Those by employed people who switched jobs (‘job changing’).

The chief findings, qualitatively, were as follows:

*Job entry rates for 18-24 year old non-employed men* rose markedly in the NDYP period, relative to 30-39 year olds (and, indeed, relative to all other age groups).

*Job changing rates for 18-24 year old employed men* did **not** rise to a significant degree during the NDYP period, relative to 30-39 year olds.

*Neither job entry rates nor job changing rates for 18-24 year old women* rose during the NDYP period, relative to 30-39 year olds.

The main impact was therefore among young non-employed men. Further analysis showed that job entry rates rose similarly within this group for those who were unemployed (according to the ILO definition), those who were students, and those in a residual non-employed category. This is consistent with the idea of a New Deal effect spreading widely through the youth job market.

The lack of an NDYP impact on the job entry rate of young non-employed women may seem surprising, since in Section 3.2 it was shown that NDYP had a positive impact on the employment of its female participants. However, the number of female participants in NDYP is relatively small compared with men, and the stimulus to the wider female youth job market could well be correspondingly small. There have also been indications in recent years that female youth jobs have been readily available while male youth opportunities (at the lower-skilled end) have been relatively depressed. There may therefore have been less scope for NDYP to improve matters on the female side of the youth labour market.

#### 4.2 Quantifying the NDYP impact on the male youth labour market (PSI)

**Estimates suggest a 40,000 net addition to male youth jobs.**

Quantification of the impact proved to be sensitive to the baseline period which was used in the comparison, somewhat similarly to the earlier results from the NIESR project (see Section 3.1). It was hard to separate any underlying trend, in favour of young people, from the successive and possibly cumulative impacts of Jobseeker's Allowance, in 1996, and NDYP, 18 months later. Because of this, the range of estimates that was statistically feasible was wide: between 56,000 and 80,000 additional job matches in each of the first two years of NDYP.

These figures should also be adjusted for any increase in *exits from jobs to non-employment*, which would offset the increased job entry rate in terms of an overall increase in employment. A small change in that direction could be detected in the figures, of 14,000 additional exits among 18-24 year olds. Allowance also has to be made for additional exits after reaching age 25. On this basis, the estimates for the net addition to jobs were in the range 40,000 – 64,000. The various figures are summarised in Table 4.1.

**Table 4.1 A range of numerical estimates of the NDYP impact on increased jobs for non-employed young men (from PSI (2))**

Analysis (main assumption about trend)	Basic numerical estimate	Adjusted for job terminations
(a) 1995-97 baseline (no trend after 1994)	80,000	64,000
(b) 1996-97 (ISA) baseline (no trend after 1995)	77,000	61,000
(c) 1997 baseline (trend to 1997)	56,000	40,000

On balance, the most plausible estimate appeared to be that of 56,000 additional job matches, since this was based on the most simple assumptions about the background trends. After taking account of an offsetting increase of 16,000 exits from jobs to non-employment, this implied a net additional rise of 40,000 youth jobs each year. This is larger than the estimates for additional employment for NDYP participants from the PSI analysis summarised in section 3.2, so that the results when taken together suggest that ‘spillover’ predominated over ‘crowding out’ within the male youth labour market.

This stimulus to the male youth labour market may however have been temporary. Whether the eventual equilibrium was at a higher level than the pre-NDYP equilibrium would depend on whether the youth labour market had become more efficient in some long-term way (e.g. by permanently reducing employers’ recruitment costs), or whether the gains were the result of a short-lived experiment in youth recruitment by employers.

#### 4.3 Crowding-out of other age groups

##### **No long-term adverse effects found for other age groups.**

When young unemployed or non-employed people became more successful in the competition for jobs, did this result in other age groups being to some extent ‘crowded out’? NIESR and PSI have both addressed this issue ((NIESR(4), PSI(3)).

A key *assumption* of PSI’s youth labour market analysis was that prime age workers are unaffected by what happens to young people’s jobs. So it was not possible to examine whether this group (the 30-39s - the control group) was affected by crowding-out. However, this could be considered for other age groups. Crowding-out was *not* found for any of the 25-29, 40-49, and 50-64 age groups among the male non-employed. Broadly speaking, the improvement in the position of 18-24 year olds was about the same relative to any of these age groups as it was relative to 30-39 year olds, whereas if there had been crowding out, the relative position of the other age group would have deteriorated.

However, it should be stressed that crowding-out is inherently difficult to detect by statistical methods, since it may be spread across numerous groups yet occur to such a small extent in any one of them as to be indistinguishable from random fluctuations in the figures.

NIESR assessed crowding-out for both the 25-29 age group and the 30-49 age group. The rates of inflow to unemployment and outflow from unemployment were forecast on the basis of economic trends before the NDYP period, and these expectations were compared with actual observations. Inflows to unemployment of 25-29 and 30-49 year olds were no higher than expected, indeed if anything they were lower. Outflow rates were also as expected for the shorter-term unemployed. For the longer-term unemployed in these age groups, however, outflow rates were significantly lower than expected, particularly in the two quarters immediately after the national roll-out of the NDYP. Subsequently the gap diminished, suggesting that any initial crowding-out was short-lived.

As a further check, the pathfinder areas, where the NDYP was piloted three months before the national launch, were contrasted with a set of other areas. Generally outflows from long term unemployment in the first half of 1998 appeared to be more adversely affected in areas where the NDYP was **not** yet fully implemented than in the pathfinder areas. This suggested that there was no crowding-out effect from the favourable treatment given to NDYP participants. It is possible there may have been some temporary diversion in Employment Service resources in preparing for and introducing NDYP, resulting in a short-term reduction in outflows for the long-term unemployed.



## 5 MECHANISMS OF CHANGE IN NDYP

Chapters 3 and 4 have indicated that there were positive impacts from NDYP in reducing youth unemployment, increasing the employment of young unemployed people, and increasing entry to jobs among young non-employed males more generally. A limitation of these analyses is that they tell us little about how NDYP produces such impacts. We know from their results that the Gateway probably produces a substantial part of the employment impact on the young unemployed (see Section 3.2), but no more. In this section, several additional analyses carried out as part of the NIESR and PSI projects attempt to fill this gap to some extent.

### 5.1 Local variation in reducing youth unemployment (PSI)

**Local differences in Gateway and Options found to be important influences on exit from long-term youth unemployment.**

As explained in Section 2.2, NDYP was delivered through 144 local organisations known as Units of Delivery (UoDs). Since UoDs were permitted some flexibility in how they delivered the programme, there was an opportunity to learn about aspects of delivery which were linked to higher levels of the desired outcomes. An analysis on this theme (PSI(4)) used information in the New Deal Evaluation Database, which contains records of the steps or actions through which each participant passes, together with unit cost data at the level of the UoD. The outcomes used in this analysis were the proportions in each UoD who had exited, from both unemployment and the NDYP programme, at two points in time from entry: at six months (representing a Gateway effect) and at 18 months (the longest period over which an NDYP effect could be estimated).

Five main indicators were selected. Two of these summarised the actions taken in the Gateway process (these were ‘Gateway intensity’ and ‘Option choice’), and three were unit cost measures (concerning the Gateway process, Full Time Education and Training, and Voluntary Sector plus Environmental Task Force Options).

Three of the five indicators were found to be related to the exit rates, either on the six month outcome or on the 18 month outcome:

- ‘Gateway intensity’ was the most influential aspect of delivery policy, positively affecting outcomes at both six and 18 months. This was a composite measure covering the timeliness and frequency of Personal Adviser interviews, and referrals to the sanctioning process.
- The UoD’s unit cost of Gateway services had a significant and positive impact at six months though not at 18 months.
- Conversely, the local unit cost of providing Voluntary Sector and Environment Task Force Options had no effect at six months (when very few clients would have completed placements) but did have a positive and significant effect at 18 months.

Overall, the results suggested that aspects of policy under local control could affect the New Deal’s outcomes. They confirmed the importance of Gateway processes, already evident in some of the earlier results, but also indicated the potential importance of Option quality (on the assumption that unit cost was an indicator of quality).

## 5.2 Job search and mobility in the youth labour market (PSI)

### **Higher youth job search levels following the introduction of JSA were maintained but not increased by NDYP.**

A substantial part of the NDYP impact appears to take place via the Gateway process. One possible mechanism by which Gateway might act is through a relative increase in job search activity by young job seekers compared with other age groups.

The analysis (PSI (5)) made use of information in the Quarterly Labour Force Surveys concerning the different methods (Jobcentre, private recruitment agency, newspaper advertisements, etc.) which the non-employed individual had used in seeking a job. Two measures could be constructed by this means:

- Using *any* job search method, as opposed to none, distinguishes currently *active* job seekers from non-employed people who are inactive.
- The *number* of different methods used was taken as an indicator of job search *effort*, or intensity.

It should be noted that other aspects of job search that are of potential interest, such as the number of hours per week spent searching, were not available in the QLFS data and so could not be investigated. The analysis was therefore not comprehensive.

The crucial factor in understanding what changes in job search had been taking place proved to be the role of Jobseeker's Allowance (JSA), introduced in October 1996 some 18 months before NDYP became a national programme. Compared to the pre-JSA years, JSA was found to have a significant effect in increasing the relative activity rates of both non-employed young men and non-employed young women. It also raised the relative job search effort (i.e. the number of search methods used) among young men, though not among young women. So before NDYP, some stimulation had taken place in the youth labour market through JSA.

The patterns of search activity and of search effort in the NDYP period were similar to those in the JSA period. Young non-employed people were therefore significantly more active, and searching harder, than people in the pre-JSA period, but they did not differ appreciably from their counterparts in the JSA period. NDYP had not brought about any *further* shift in job search behaviour among the 18-24 year olds. It had, however, maintained the changes that had been brought about by JSA.

A further analysis explored the possibility that NDYP altered the mobility between industries and occupations in a manner which might be favourable to young people (PSI(6)). Active labour market programmes would be particularly effective if they could shift workers into industries with labour shortages, which would typically be newer growth industries. Several analyses along these lines, however, found no impact of this kind being produced by NDYP. During both the JSA and NDYP periods, it was actually 30-39 year old non-employed women, and 30-39 year old employed men, who were gaining in access to growth industries relative to 18-24 year olds.

#### *5.2.1 Conclusions on NDYP's impact on job search and mobility in the youth labour market*

Although this part of the project did not identify any mechanisms by which NDYP produced its stimulus on the youth labour market, it may be useful in suggesting that other mechanisms were involved. As already mentioned, these could have involved an increase in employers' interest in youth recruitment because of the promotion of NDYP and the availability of wage subsidies. Such a change on the employers' side would have made it easier for young people to find jobs without needing to increase their job search.

If NDYP had the effect of restraining wage pressure, then it would create the scope for more employment growth, not just for the programme's clientele but for the wider economy. Conversely, if NDYP resulted in increased wage pressure, any direct effect on clients' employment chances could well be outweighed by wider constraints on employment. An analysis to assess the likely effects of NDYP in this respect was carried out as part of the work to link NDYP to the British macroeconomy (NIESR(2,3)).

When a large proportion of the potential work-force is in long-term unemployment, this tends to force up wage pressures for a given level of unemployment, because the long-term unemployed do not compete strongly for job vacancies. A large labour market programme for the long-term unemployed should convert many of them into effective competitors for jobs, and this will generally help to restrain wages. NDYP, with its effect of removing young people from long-term unemployment, should therefore have the effect of restraining wages. On the other hand, if this effect is largely 'cosmetic', for example if the young people taking part in NDYP are mostly re-cycled back into unemployment without any real gain in employability, the link between long-term unemployment and wages would be broken or weakened.

A complicating factor in assessing this issue was that, one year after the national implementation of NDYP, a National Minimum Wage (NMW) was introduced for the first time in Britain. The youth labour market is of course one of the areas where low pay is particularly concentrated, so that it should have been particularly affected by NMW (Low Pay Commission, 1998, 2000).

An initial analysis using national wage data (NIESR(2)) indicated that during the NDYP period, average wages increased significantly for 18-24 year olds, and indeed to a greater extent than for other age groups. However, this analysis did not take account of the NMW. The Labour Force Survey was then used to calculate separately by how much average wages would need to rise (for each age group) to bring everyone up to the NMW at its date of introduction. This very closely predicted the amount by which the age-related wages had actually risen, suggesting that NMW was the underlying factor.

National wage data cannot separate the effect of NDYP and the effect of NMW on wages, because they occurred too close together. The analysis resolved this difficulty (NIESR(2)) by using wage data for the UK regions. The impact of NMW would vary across regions depending on the proportion of workers below the minimum wage threshold, and/or on the change in the regional wage bill required to bring pay up to the NMW level. Similarly, NDYP varied across regions in the proportion of total services for the unemployed which were devoted to it. It was therefore possible to assess how large a role each factor had played in raising regional wages.

The results showed that NMW had the expected effect in raising average wages. However, the effect of NDYP was essentially zero. The regional evidence therefore suggested that additional wage pressure was associated with the introduction of NMW, and did not result from any weakening in the relationship between long-term unemployment and wages brought about by NDYP. Thus, it could reasonably be assumed that NDYP had contributed to a reduction in wage pressure consistent with its impact on long-term unemployment.



## 6 NDYP AND THE NATIONAL ECONOMY (NIESR)

NDYP, although a large welfare-to-work programme, is none the less too small for its effects on the whole economy to be estimated directly. An alternative approach is to simulate its effects using a macroeconomic model. This approach was adopted using NiDEM, the NIESR model of the UK economy (NIESR(2,3)). This is a long-established model that has been widely used for economic forecasting and policy analysis. The structure of the model is such that, in the long run, employment and unemployment are determined only by supply side factors. It is important to emphasise the uncertainty surrounding estimates of the wider economy effects of NDYP. Such estimates cannot be very precise and are less firmly based than those that rely on the comparisons of the participant group against a control group.

### 6.1 The whole economy effects of NDYP

**By March 2000 NDYP had reduced unemployment among all age groups by around 45,000 and had raised employment by 25,000, excluding those on the ETF and VS Options.**

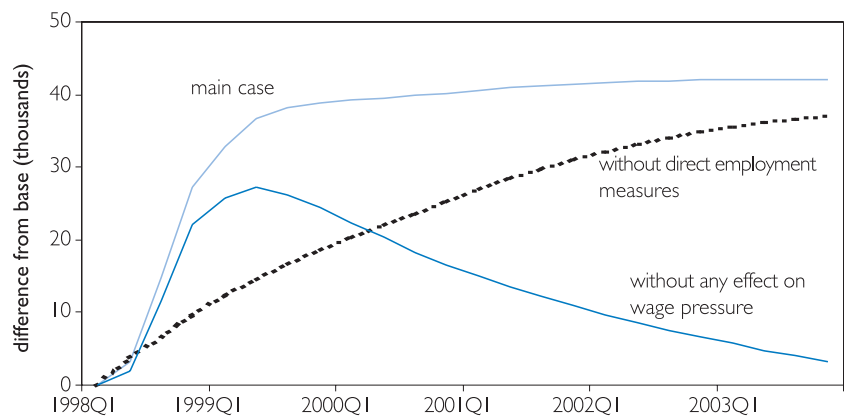
**NDYP increased GDP by a little under 0.1% per annum, worth £500 million each year.**

The NIESR model permits labour market policies such as NDYP to affect the wider economy in the long run especially through its effect on the wage determination process. As Section 3.1 showed, NDYP reduced long-term unemployment. Also, Section 5.3 showed that this resulted in a reduction in wage pressure. The fall in long-term unemployment therefore allowed aggregate demand to expand without putting upward (i.e. inflationary) pressure on prices. It was from this expansion of sustainable demand that a real long-term increase in employment would arise.

The NIESR model permits a number of other effects from NDYP to be taken into account in simulating its effect on the national economy. NDYP should increase the productivity of participants in Options (albeit by a small amount relative to the UK labour force). It was also assumed to increase the demand for labour across UK industries, through wage subsidies and direct employment creation. Some extra demand would also arise from the need to provide New Deal Personal Advisers, trainers and supervisors. The consequences of these changes can be calculated in the model, either with or without the wage effect discussed above.

To illustrate the importance of the effect on wage pressure, Figure 6.1 shows how employment would develop over a five-year period, under various assumptions. The light blue solid line shows the combined result of the wage effect and the other effects. Direct employment creation is responsible for the early rise in employment shown in the graph. The dotted black line shows the more gradual increase without direct job creation. The dark blue solid line shows the predicted result if there were no wage effect: employment would rise initially because of the direct job creation measures, but would soon fall back towards its initial level as these effects were extinguished by rising wage pressure.

**Figure 6.1 The response of employment to different effects of NDYP (from NIESR (2))**



The total employment effects indicated by the model simulations are shown in Table 6.1. The results are shown for the youth labour market, and for the aggregate (i.e. total including youth) labour market. Youth employment was estimated to rise by 15,000. Additional employment for other age groups was estimated to be around 10,000. Thus, taking into account the indirect effects on the economy, NDYP had raised employment among all age groups by around 25,000, excluding those working on the ETF and VS Options, and had reduced unemployment by around 45,000. It should be stressed that these estimates are of a different type to the estimates described in Chapter 3. The present estimates concern the economy-wide impact of the changes assumed to arise from NDYP, which were not considered in Chapter 3.



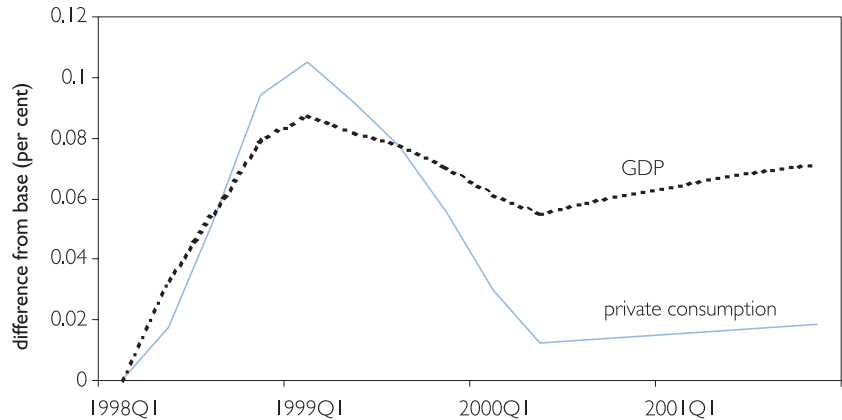
**Table 6.1 Impact of NDYP on the labour market (from NIESR (2))**

	<i>Difference from counterfactual (thousands)</i>			
	<b>1999q1</b>	<b>2000q1</b>	<b>2001q1</b>	<b>2002q1</b>
<b>Youth labour market</b>				
Short-term unemployment	+3	+7	+6	+6
Long-term unemployment	-47	-46	-46	-46
Employment	+13	+16	+16	+16
Government supported training	+14	+14	+14	+14
<b>Aggregate labour market</b>				
Short-term unemployment	+1	+5	+3	+3
Long-term unemployment	-48	-49	-47	-48
Employment	+19	+25	+27	+28
Government supported training	+14	+14	+14	+14

Notes: difference between the simulated case with the policy against a counterfactual without the policy; short-term unemployment is unemployment lasting less than six months; long-term unemployment is unemployment lasting more than six months; employment includes those on the NDYP employer option, but excludes government supported trainees.

The NIESR model also permitted calculations to be made concerning the rise in Gross Domestic Product and private consumption as a consequence of NDYP. The simulation results suggested that NDYP led to an expansion of GDP of a little under 0.1 per cent per annum (slightly less than the rise in national employment from NDYP). The monetary equivalent was £500 million per annum. Household consumption also rose, initially more steeply than GDP, partly because the fall in unemployment would make people feel more secure about their jobs and therefore spend more and save less (Figure 6.2).

**Figure 6.2 Simulated effects of NDYP on GDP and consumption (from NIESR (2))**



*6.1.1 Impacts on the public finances*

**On average in its first four years, the net cost of NDYP to the Exchequer is likely to be less than £150 million per annum.**

Table 6.2 (from NIESR(2)) shows detailed calculations of the impact of NDYP on the public finances. Up to and including 1999-2000, £668 million had been spent on NDYP. The second year’s spending represented about 0.1 per cent of total government spending in that year, equivalent to about 0.04 per cent of GDP at market prices.

The average net Exchequer cost due to NDYP over the period 1998-99 to 2001-02 was approximately £150 million a year, after allowing for the reduction in unemployment and related benefits from fewer people being unemployed, and the rise in tax receipts from increased national income and spending. However, this does not take account of possible wider social benefits of lower unemployment, such as reductions in crime, so the true net costs could be smaller; the wider social benefits are hard to measure.

**Table 6.2 Impact of NDYP on the public finances (from NIESR (2))**

	<i>Difference from counterfactual (£million)</i>				
	1998-99	1999-00	2000-01	2001-02	average
<b>Receipts</b>					
Indirect Taxes	+77	+99	+29	+27	+58
Direct Taxes	+40	+72	+70	+74	+64
<b>Expenditure</b>					
Social Benefits	-108	-121	-144	-168	-135
Gross NDYP Spending	+252	+352	+360	+370	+334
<b>Net Cost</b>					
Net Exchequer Cost*	+29	+80	+187	+194	+140
Cost per Job (£)	+4800	+3300	+7200	+7200	+7000

\* The net Exchequer cost is equal to the increase in expenditure less the increase in receipts. Total receipts and expenditure include further items not shown in the table. These are debt interest payments, profits on government trading, spending on fixed investment and social contributions paid to government.

Notes: difference between the simulated case with the policy against a counterfactual without the policy; financial years; jobs include those on the NDYP employer option, but exclude government supported trainees; additional spending of £35.4 million for 1997-8 and DfEE/DSS spending of £28 million not allocated to individual years but included in average net Exchequer cost; social benefits include JSA saving.

The estimate for net Exchequer cost of the NDYP can be combined with estimates of the number of jobs created (estimated at 20,000 per annum on average during these years) to calculate net exchequer cost per job. NIESR calculated the net budgetary cost of each additional job created as a consequence of NDYP, suggesting that the cost per job was in the region of £7,000 per annum. This excludes those on the ETF and VS Options. When these are included as jobs the average cost per additional job is around £4,000 per annum.

### 6.1.2 Conclusions on the cost of NDYP

NIESR's research suggests that in its first four years, the net cost of NDYP to the public purse is around 40 per cent of total spending on the programme. This does not take into account possible social benefits attributable to the programme. Also, 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 economy.



## 7 CONCLUSIONS

The *main aim* of the Macro evaluation was to estimate the impact of NDYP as comprehensively as possible, taking account of effects that went beyond the immediate participants.

The impacts considered were those that were *additional* to what would have taken place in the absence of NDYP. These included additional falls in unemployment, additions to employment, and changes to the wider economy.

### 7.1 Changes in youth unemployment

The impact of NDYP on the net unemployment of 18-24 year olds was both in terms of stocks (or levels) and in terms of flows. NIESR's estimates pointed to a decrease in youth unemployment of about 35-40,000 in the first two years of the programme. NIESR also estimated a reduction in *long-term* (of more than six months' duration) youth unemployment of 45,000. Long term unemployment would have been almost twice as high in March 2000 without NDYP.

PSI estimated exits from claimant youth unemployment, focusing on whether exits had taken place by certain time-points, such as six or 18 months after they had started the NDYP scheme. Their estimates (covering the first year of NDYP) were 39,000 additional exits at six months from the NDYP entry-point, and 14,000 at 18 months from the entry-point. PSI also estimated that up to 17,000 additional young people had exited from unemployment *before* the entry-point to NDYP.

From further calculations based on these figures, PSI estimated that there had been a reduction of 37,000-39,000 in the level of youth unemployment as a whole, for the first year's intake to NDYP. This is close to the NIESR estimate.

### 7.2 Changes in youth employment

NIESR estimated that NDYP had raised total youth employment by approximately 15,000, not including those on the Environment Task Force and Voluntary Sector Options. When these are included, around 30,000 more young people were in work in March 2000 as a consequence of the programme.

PSI estimated that there were 11,000 additional job entries for young unemployed people as a result of NDYP, within six months of entry, with some continuing gain thereafter for young women. This estimate is suggestive of a gain of about 15,000 jobs, or about a five percentage points increase in employment, for the participants in the first year of NDYP. As already noted, this does not include additional jobs entered from NDYP Options.

PSI's analysis of the effects of NDYP on the youth labour market suggested a net annual additional increase in youth jobs of about 40,000, which is higher. However, this finding may reflect a short-term response by employers to NDYP's promotion of youth labour, which was not necessarily sustainable.

### 7.3 Changes in the wider economy

The impacts on the wider economy were derived by simulation using NIESR's model of the UK economy (NiDEM). The main conclusions concerning the impacts on the macroeconomy and the public finances were as follows:

- By March 2000 NDYP had reduced unemployment among all age groups by around 45,000 and had raised employment by 25,000, excluding those working on the ETF and VS Options.
- National income was around £500 million higher, indicating a welfare gain to the economy as a whole.
- After taking account of lower benefit payments and higher tax revenues, NDYP was likely to cost the Exchequer less than £150 million per annum until March 2002. This did not take into account social benefits possibly attributable to the programme.
- The annual Exchequer cost per extra person in employment, excluding those in Environment Task Force and voluntary sector Options, was about £7,000 per annum.

### 7.4 Conclusion

A firm conclusion of these analyses was that NDYP produced positive impacts in terms of less unemployment and more employment for participants. The evidence about wider labour market and economic impacts was also generally positive. NDYP increased youth employment as a whole, without any detectable disadvantage to other age groups. By reducing wage pressure, NDYP led to an increase in total employment. Much of the cost of NDYP to the Exchequer has been recovered through reductions in unemployment benefits and increased tax revenues, while by raising national income, NDYP provides a benefit rather than a cost to the economy as a whole.

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New Deal no longer exists in its original format) and perhaps flirt with mentioning government subsidies.Â This is an important evaluation point. Many of the structural weaknesses and problems in Britain have been around for a long time and seem to have become embedded - for example the deep problem of functional illiteracy among millions of adults or the long-standing productivity gap between the UK and a number of advanced high-income nations.