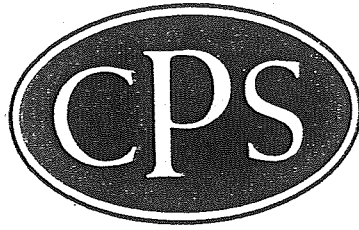


MEMORANDUM



THE FOUR FAILURES OF THE NEW DEAL

*Why the New Deal is a bad deal for the young, for business,
for other unemployed groups and for the taxpayer*

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MEMORANDUM

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INTRODUCTION

The New Deal for the Young Unemployed is one of the Government's flagship policies. Tony Blair has called it 'the biggest ever programme to get the young and long-term unemployed back to work.' Gordon Brown has claimed that hearing the experience of one successful New Deal trainee reminded him why he was in politics. And one of the five election pledges made in the 1997 Labour Party Manifesto was to 'get 250,000 under-25 year-olds off benefit and into work by using money from a windfall levy on the privatised utilities.'

The New Deal was launched in 12 pilot areas (or 'Pathfinder' areas) in January 1998 and the full national programme started in April. It has been backed by the full force of the Whitehall publicity machine, including an £8 million TV advertising campaign. And ministers have made much of their support for the programme.

Despite this, serious doubts about its cost and its effectiveness have already been expressed, both from the young unemployed and from business. What is the truth behind the spin and gloss? How effectively is the money being spent? And are the young unemployed the people who are most in need of the Government's munificence?

BACKGROUND TO THE NEW DEAL

Gordon Brown announced his original plans for the New Deal in October 1995 when he set himself the target of helping the 250,000 young people who had been unemployed for more than six months back into work. However, by the time the New Deal was first piloted in January 1998, there were only 118,000 young people aged between 18 and 25 who had been unemployed for more than six months.¹ The Government's self-imposed task is therefore much smaller than it appeared when Mr Brown made the commitment.

The New Deal has the following features: those aged between 18 and 24 years old who have been claiming Jobseekers Allowance continuously for six months are required to participate in the scheme.² They first enter a 'Gateway' period lasting up to four months, during which time the Employment Service and other bodies will try to find unsubsidised jobs for them, and help in other ways. Those who do not find a job move onto one of four 'options':

- a period of subsidised employment, for which the employer receives a subsidy of £60 a week for six months;
- a course of full-time education;
- a job with an Environment Task Force;
- a job in the voluntary sector.

The New Deal is funded from a windfall tax on the utility companies. The Government plans to spend £2.6 billion from the proceeds of this tax on the New Deal between 1998 and April 2002. (Note that the £2.6 billion to be spent is in addition to the costs of the benefits and allowances the unemployed continue to receive while on Gateway and the various options). The Government has not made a decision yet on whether it will continue the New Deal into the next Parliament, if it is re-elected.

¹ The 52.6% fall in youth unemployment between 1995 and 1998 can largely be explained by the success of the last Conservative Government's economic policies. As the OECD pointed out: 'In short, the United Kingdom's policy of maintaining an economic environment conducive to job creation has paid off in a better jobs and unemployment record than in many Continental European countries.' OECD, *Economic Survey*, 1996.

² Those who refuse to participate in the scheme lose most of their entitlement to Jobseekers Allowance.

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It is interesting to note that the Government does not expect spending on the New Deal to fall over the next four years. If the programme lived up to its own aims, and if its other economic measures were effective, it could be assumed that the programme would become easier to finance in the coming years. Instead, as Table One shows, this will not be the case.

Table One

Spending on the New Deal for 18-24 Year-Olds

1997/98	1998/98	1999/00	2000/01	2001/02	TOTAL
£50 million	£580 million	£660 million	£650 million	£650 million	£2,590 million

Source: *Pre-Budget Report*, November 1998.

The most recent statement issued by the Government suggests that by the end of September, nine months after the original Pathfinder areas started and six months after the full national launch, about 9,000 young people had found a subsidised job with an employer. There have been another 21,000 who have found unsubsidised jobs while taking part in the New Deal. Clearly these 21,000 jobs would have been on offer anyway, so it is hard to say that the New Deal can take any credit for placing these young people. Similarly, some of the 9,000 would also have been available anyway, since some employers would no doubt claim the subsidy even if the job were going to exist without the New Deal, *but the 9,000 can be accepted as the upper limit for the 'extra' number of jobs created for young people as a result of the New Deal.*

Table Two

New Deal Participants Finding Jobs, January to September 1998

	Numbers
Participants finding unsubsidised jobs	21,000
Participants finding subsidised jobs	9,000
Total	30,000

Source: Answer in the House of Commons by Andrew Smith MP.

By the end of August some 148,000 young people had registered for the New Deal.³

From the employers' side, there have been expressions of interest from 29,000 firms.⁴ Many of these firms have more than one post available for New Deal workers: the total number of jobs on offer is 45,600.

³ While in January 1998, there were only 118,000 participants eligible for the New Deal, the total number of participants in the scheme is larger as more people become eligible over time.

⁴ This number is changing. Andrew Smith MP gave a number of 33,000 to the House of Commons on 19 November 1998.

THE FIRST FAILURE: FAILING THE YOUNG

What is the reality behind the Government rhetoric? The following table shows what has happened to the 47,500 young people who had finished Gateway for the month up to August 1998.

Table Three

Destinations of those leaving The New Deal Gateway January to August 1998

	Number	%
Those finding a job without a subsidy:	16,890	35%
Those finding a job with a subsidy:	6,850	14%
Subtotal of those finding a job:	23,740	49%
Those entering education or training programmes:	5,600	12%
Those working in the voluntary sector:	1,980	4%
Those enrolled on an Environmental Task Force:	1,780	4%
Those returning to benefits:	3,450	7%
Other: ⁵	1,790	4%
Subtotal of those not finding a job:	14,600	31%
Those disappearing from the scheme but finding a job (estimate):	3,400	7%
Those disappearing from the scheme, not finding a job (estimate):	5,770	12%
Subtotal of those disappearing from the scheme: ⁶	9,170	19%
Total of all participants:	47,500	100%

Source: DfEE Statistical First Release, *New Deal for Young Unemployed People: Statistics*, 29 October, 1998 and calculations based on August follow-up estimates.

How is the New Deal is operating in practice? The most common worry is that it will become a 'revolving door' between benefits, with the inevitable cynicism that that this would foster among the young unemployed.

⁵ Includes those transferring to a training programme and those who have gone abroad.

⁶ Young people who leave the Gateway after registering for it should be distinguished from those who are failing to turn up for a first interview. It is perhaps likely that a significant proportion of the latter group would be 'scroungers' (i.e. those who are claiming benefits to which they are not entitled). In answer to a Parliamentary Question on 4 November 1998, the Minister Andrew Smith MP said that by the end of August 'almost 6,600 18 to 24 year-olds have left the New Deal and Jobseekers Allowance before attending their initial New Deal interview.' Not all of these 6,600 would have been illicitly claiming benefits; some may simply not be bothered with the New Deal. However, it is within this group – not the group who fail to complete the Gateway – where any scroungers are likely to be found.

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The figures are damning on this point. At the end of August, 3,450 young people had indeed transferred out of the New Deal onto other benefits – the option that has been dubbed ‘welfare to welfare’. This figure of 3,450 means that *24% of the 14,600 people who do not find a job stay on benefit.*

But this is not the most alarming figure. The number of young people remaining on benefits is dwarfed by the number simply disappearing from the system altogether. The DfEE figures show that 9,170 people were listed as ‘Destination not known’ when they left the Gateway by the end of August. This is despite the claim in the DfEE press release of 29 October that there is a ‘systematic follow-up of every young person who leaves the New Deal without their destination being recorded.’ This follow-up, which only covered those who had been contacted in August, revealed that only 37% of the disappeared had in fact found jobs. *So of the total of 9,170 who had disappeared from the Gateway, it can be estimated that only 3,400 found a job while 5,770 had not found a job.* This can be regarded as ‘Welfare to Nowhere’.

By adding together those who have gone through the revolving door back into benefit (3,450 young people) and those who have disappeared without finding a job after experiencing the Gateway (5,770 young people), the total number of those who do not find a job can be calculated: 9,220. This is equivalent to 19.5% of all those who had left the Gateway: *one in five of the young people who experience the New Deal leave with no satisfaction at all.* They have not found a job, they have not found a scheme, and they have not received any education or training.

One further group who are likely to be disillusioned are those who have to spend too long in the Gateway. From this point of view, it is noteworthy that the first group who joined, in January, contained a high proportion, 22%, who were still stuck in the Gateway at the end of August, having already spent twice as long as intended at that stage.

A further question which needs answering is: what proportion of young people unemployed for six months are still unemployed after nine months? The House of Commons Library has calculated that the proportion of long-term young unemployed still out of work after nine months was 60% in July 1997 (pre-New Deal) and 64% in July 1998. In other words, those who find it most difficult to find a job are finding it even more difficult now than they were before. Of course the advent of the New Deal is not the sole cause of this: wider economic conditions will be the main factor. What is clear, though, is that this group of young people has seen no sign of a positive effect from the New Deal on their chances of finding a job.

THE SECOND FAILURE: FAILING BUSINESS

No Government Minister could complain about the enthusiasm with which big and small business greeted the New Deal when it was first announced. Both the representative organisations and the individual firms themselves were positive about helping.

But today, the extent of the disillusionment is worrying. It is best summed up by a letter from the Director-General of the British Chambers of Commerce, Chris Humphries, to the Chairman of the New Deal Task Force, Sir Peter Davis, on 14 October 1998. In his letter, Chris Humphries explained:

Chambers, and their business members, have been strongly supportive of the New Deal, and many of our members have 'signed up', offering job placements, subsidised travel through their transport companies, and a variety of other contributions.

Their concerns now arise because very few, or in some cases, no young people have been referred to them. Many companies report that they have also had little or no contact from the Employment Service, and so a severe lack of information is magnifying their confusion and leading to significant disillusionment.

Where Chambers of Commerce are directly involved in the New Deal, they could provide a vital communications link with business members but they too report a marked lack of objective information from the Employment Service, reducing their capacity to help.

Inevitably, since businesses have to deal with Government on a long-term basis, public criticisms from individual firms have been few and far between. But a few real numbers have emerged. A month ago Bass PLC was reported to have taken on only two people despite having 50 vacancies in its various departments. A more recent check revealed that Bass has now found four employees for 50 vacancies in its pubs, and two for an unspecified number across the rest of the group. This is a large, sophisticated company that wants the New Deal to work. It is likely that smaller firms will have less patience, and ability to improve the system.

Telling evidence of the attitude of small businesses came from the Federation of Small Businesses' National Council Member for Merseyside, The Wirral, and West Cheshire, who runs a construction business. He says:

It may work in other industries, and I say good luck to it. But in terms of the construction industry I don't think it will. The minimum cost to us of employing a trainee is £200 a week, and the

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Government contribution is only £60, so who's subsidising who? We also pay levies to the Construction Industry Training Board, who can supply us with trainees, so effectively we are subsidising the Government twice.⁷

For some sectors that rely largely on well-qualified trainees, such as engineering, the New Deal is simply an irrelevance: the level of skills attainable on the New Deal would not make an individual trainee employable by an engineering company. While four months in the Gateway proves too long for some trainees, six months subsidised training is not enough for many companies to get an employee to a level where he or she is useful enough to make a decent contribution.

A more subtle problem for employers is revealed in some research produced by Andersen Consulting. This paper *The Attributes of Youth – young people, education and employability*, suggests that the New Deal is training young people the wrong way. Andersen make the point that it is designed to produce measurable qualifications, such as NVQs, when such skills are only one of the attributes employers demand. Employers are often more concerned with 'soft' difficult to measure virtues such as initiative, enthusiasm and commitment. Young potential employees have a very different perception of what employers are looking for, so there is great potential for misunderstanding, which the New Deal is doing nothing to correct.

Another failure as far as employers are concerned is the number of vacant places still on offer.

Table Four

Job Offers and Take-Up under the New Deal

Number of Employers	29,000
Jobs Offered	45,000
Jobs Taken Up	30,000
Percentage Left Vacant	33%

Source: DfEE Statistical First Release, *New Deal for Young Unemployed People: Statistics*, 29 October, 1998.

One in three potential New Deal jobs is left vacant – *at a time when the labour market has been relatively tight*. The most recent set of unemployment figures, which showed a rise in both the ILO measure of unemployment and the claimant count, suggests that over the next few months the situation for new job-hunters is likely to get more difficult. If the Government's growth forecasts are over-optimistic, then the number of experienced workers on the job market will grow markedly. If that happens, New Deal trainees will find it much more difficult to find a placement.

⁷ Quoted in the Federation of *Small Businesses Magazine*, October 1998.

THE THIRD FAILURE: FAILING THE REST OF THE UNEMPLOYED

The last set of unemployment figures showed that, of those unemployed for more than 6 months, only 15% were under 25. Indeed, by international standards, Britain has a remarkably *successful* youth employment record:

Table Five

Unemployment Rates of those aged 16 to 24 in the European Union, 1996

Spain	42%
Finland	42%
Italy	34%
Greece	31%
France	28%
Sweden	22%
Belgium	20%
Irish Republic	18%
Portugal	17%
UK	15%
Denmark	11%
Netherlands	11%
Germany	10%
Luxembourg	9%
Austria	7%
EU average	22%

Source: *Social Trends 28*, ONS, 1998 quoting Eurostat data.

Nevertheless, the Government is devoting far more resources to the young unemployed than to any other group. For example, the 'New Deal for the long-term unemployed', which began in June 1998, will cost only £479 million over the length of this Parliament.⁸ In simple financial terms, the Government therefore sees the New Deal for young people as over five times more important than the New Deal for the long-term unemployed.

⁸ The Government has assigned £479 million from the windfall tax to the New Deal for the long-term unemployed (DfEE press release 324/98). People aged over 25 unemployed for over two years will receive 'individually tailored interviews'. They will also be able to attend education and training courses for a year while claiming Jobseekers Allowance, and receive a £75 a week subsidy towards the cost of a job. The total cost of £479 million includes £129 million for pilots to test schemes for long-term unemployed adults similar to those available on the New Deal for young people, beginning in November 1998. On these pilots, long-term unemployed adults will enter a 'gateway' and then be offered a number of options, including subsidised jobs, voluntary and environmental work, and job-specific training.

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Table Six

Comparative Costs of the New Deals

	Total Cost (% in brackets)	% of unemployed for 6 months +
New Deal for Young People	£2,590 million (84%)	15%
New Deal for the long-term unemployed	£479 million (16%)	85%

Sources: *Pre-Budget Report*, November 1998, DfEE press release 324/98.

And this package of support for the long-term unemployed is to be spread over more people: in April 1998, the total number of those unemployed for more than two years was 194,479 – compared to 118,000 eligible for the New Deal in January 1998.

And the long-term unemployed in other age groups can be considered to need at least as much help as the young unemployed: indeed, the greater difficulty facing the older age groups was recognised in a recent report:

Although the younger age groups have the highest unemployment rates, it is those in the older age groups who find it harder to regain employment once they have lost their jobs. The likelihood, once unemployed, of long-term unemployment, that is, unemployment of a year or more, generally increase with age; unemployed men aged 50 to 64, and women aged 50 to 59, were more than three times as likely to be long-term unemployed as men and women aged 16 to 19.

Source: *Social Trends 28*, ONS, 1998.

That long-term unemployment among older adults is a more serious problem can also be seen from the following data:

Table Seven

Duration of Unemployment by gender and age, Spring 1997

Males	Less than 3 months	3-6 months	6-12 months	1-2 years	2 years +
16-19	40%	23%	21%	13%	-
20-29	26%	16%	16%	17%	24%
30-39	22%	11%	13%	16%	37%
40-49	22%	15%	14%	15%	34%
50-64	18%	12%	14%	11%	45%
Women	Less than 3 months	3-6 months	6-12 months	1-2 years	2 years +
16-19	45%	21%	20%	11%	-
20-29	42%	16%	19%	11%	12%
30-39	33%	17%	17%	15%	18%
40-49	38%	15%	16%	13%	10%
50-59	27%	16%	14%	15%	19%

Source: *Social Trends 28*, Office for National Statistics, 1998.

THE FINAL FAILURE: FAILING THE TAXPAYER

Most taxpayers do not begrudge money being spent on attempting to fight long-term unemployment, whether among the young or old, *so long as that money is being spent sensibly and effectively.*⁹ Certainly Governments of both parties have devoted considerable resources to tackling this difficult problem. So there is no controversy about the *ends* of the New Deal; the argument is over the effectiveness of the *means*: is the New Deal cost-effective in its range of solutions to the problem?

How much does the New Deal cost for every job? The Government spent £50 million on the New Deal in the last financial year, covering the start-up months of the programme, and is planning to spend £580 million this financial year. Since the latest figures relate to the first six months of this financial year, it is reasonable to halve £580 million, making £290 million, and reckon the New Deal has cost £340 million so far.

To move to the other side of the calculation, the Government claims the New Deal has created 30,000 jobs for young people. This includes all jobs, subsidised or unsubsidised, whether or not they would have existed anyway, and whether or not they would have been given to a young person. *On this basis, which is as generous as it is possible to be to the New Deal, the cost per job is £11,333.*

The cost per job, if only the subsidised jobs (i.e. those which may be extra to the normal run of job offers) are included, is even more expensive. *There are 9,000 of these jobs, so on that basis the cost-per-job is £37,700.*

How does this compare to previous programmes, which are now being run down to make way for the New Deal? The House of Commons Library has produced the following calculations:

Jobclubs,¹⁰ in 1996/97, created 78,292 job starts *at a cost of £443 per start.*

In 1996/97, the Restart¹¹ programme, created 25,552 job starts *at a unit cost of £282.*

⁹ This paper does not address the impact of Labour's supply-side reversals on the job market. However, the cumulative affect of the minimum wage, the social chapter, the working time directive and all the various other costs imposed on business will have a more lasting (and damaging) effect on the availability of jobs than any short-term measures to address long-term unemployment.

¹⁰ Jobclub offers two week guidance and training in jobsearch, including telephone and interview skills, preparation of a CV and advice on where to look for job opportunities.

¹¹ Restart courses are a mandatory series of interviews for all people unemployed for more than two years, involving an intensive one week course in confidence building, job search guidance, etc.

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Even the most expensive of these programmes, Training for Work,¹² created 215,000 job starts in 1996/97, *at a cost per job of £4,617.*

It can be clearly seen that the New Deal is hugely expensive for each job it finds compared with other measures.

¹² Training for Work provides training to those aged over 25 and unemployed for 12 months. It involves training for vocational qualifications, work experience and work on community projects.

CONCLUSION

The ambition behind the New Deal was to make the long-term young unemployed more attractive to employers with a mixture of wage subsidies, training, and near-work experience. Other countries have experimented with similar schemes, and there has been previous use of employer subsidies in the UK, through the Workstart scheme.

There is no evidence so far that the New Deal is proving more effective at helping the young long-term unemployed than previous, less all-embracing schemes.

Indeed it has been much more expensive than other schemes in terms of cost-per-job.

For too many young people, it has not proved the route from Welfare to Work which was promised.

Employers have been unwilling to sign up to the scheme in large numbers and are becoming increasingly frustrated by its inadequacies in providing suitable recruits.

The older long-term unemployed are comparatively neglected, especially in terms of the resources allocated to meeting their more pressing needs.

Finally, taxpayers are entitled to ask why this flagship programme is so much more expensive in providing jobs than previous measures.

It is clear that the ambitions invested in the New Deal have not been matched in reality.

ANNEX: TWO BRIEF CASE STUDIES

CASE STUDY ONE: LAMBETH

Lambeth was one of the 12 Pathfinder areas. The target set for Lambeth was 1,800 New Deal Entrants. By the end of July there were only 1,046 on New Deal. 796 were still in the Gateway and 250 had passed through it. Of these only 63 were with employers, 73 were in full-time education or training, 85 were in the voluntary sector, and 28 in the Environment Task Force.

Local opinion on the reasons for these disappointing figures suggest a lack of awareness among the jobless, and failures within the Employment Service to match individuals with the right opportunities. The Government rejected various local consortia who bid to provide Gateway training, and instead accepted national consortia, who had no particular expertise in local conditions.

CASE STUDY TWO: INDIVIDUAL AREAS

The failure of the New Deal can be seen in the lack of results achieved in selected areas:

	Total number of Participants	Number on Gateway	Number in Employment	Balance*
Westminster	306	293	1	12
Hackney	1872	1860	12	0
Cambridge	384	368	4	12
Leicestershire	1105	1085	8	12
Northants	581	564	8	9
Havering, Barking & Dagenham	725	679	13	33
Sheffield & Rotherham	3722	2493	392	837
Bury	258	227	31	0
Stockport	406	396	9	1
Durham	1616	1384	124	108
West Lothian	272	244	10	18
Shetland	20	20	0	0

* The Balance includes all those on training schemes, working in the voluntary sector or on an environmental task force.

Source: DfEE figures.

This is a cross-section of the country, and shows that nine months after it started operations, and six months after it was launched nationwide, the New Deal is proving ineffective at placing the young unemployed into jobs.