

ELECTION ANALYSIS

Welfare to Work: The Evidence on Labour's New Deal Policies

- The UK labour market currently has a high proportion of people in jobs. Around three quarters of working age people have jobs – a higher proportion than in France, Germany and even the United States.
- According to the government, 'At the heart of this success has been welfare to work policies such as the New Deal programme. Since it was launched the programme has helped almost a million people back to work'. By contrast, the Conservative Party is pledged to scrap most of the New Deal programme.
- The New Deal for the Unemployed comprises 'carrot and stick'. Everyone on Jobseeker's Allowance gets help with job search from a dedicated 'personal adviser' (after six months of claiming the allowance for unemployed people aged less than 25 years old and after eighteen months for others). If unemployed people still cannot find a job after four months, they are entitled to four options, including a full-time education/training option or a subsidised job. This is mandatory: there is no 'fifth option' of staying on benefits.
- By December 2004, there were 67,820 people under 25 years old and 51,970 people over 25 years old participating in the New Deal for the Unemployed.
- The best evaluations of the programme suggest that it has raised the chances of unemployed people finding a job by between 5% and 7%. This effect appears after four months and seems to persist for at least one year.
- Expenditure on the New Deal for Young People is forecast at £330 million in 2005/06. But most of this comprises unemployment benefits that would have to be paid even in the absence of the programme. So while the total number of jobs created is far below one million, the true cost is also modest, so it is likely that the program's benefits have outweighed the costs.



Introduction

The New Deal is a flagship policy of the Labour government and was inscribed as one of the 'five pledges' in 1997. Ministers see it as a key policy in bringing down unemployment to historically low levels in the UK. Employment rates for the working age population are 75%, much higher than the OECD and European Union averages.

Michael Howard has promised to 'scrap the New Deal' if elected. The Conservatives argue that the New Deal has not contributed to bringing down unemployment and is not good value for money.

This analysis describes the New Deal for the Unemployed, what have been its likely effects and what parts of it may be worth keeping.

What is the New Deal?

There is a proliferation of New Deals – for the disabled, for lone parents, for partners of the unemployed, etc. The first and best studied is the New Deal for the Unemployed, which involves a 'carrot and stick' approach. Everyone on Jobseeker's Allowance gets help with job search from a dedicated 'personal adviser' (after six months of claiming the allowance for people under 25 and after eighteen months of claiming the allowance for people over 25).

If unemployed people still cannot find a job after four months, they are entitled to four options: education/training; an employment subsidy; a subsidy for working in the voluntary sector; or a place on the environmental task force (government jobs). Participation in one of these options is mandatory. There is no 'fifth option' of staying on unemployment benefits.

The idea behind the New Deal was to improve the incentives and ability of the long-term unemployed to find jobs. The longer someone is in unemployment, the lower their chances of escaping it because of the loss of skills, motivation and job contacts.

Figure 1 shows the number of people participating in the New Deal for the Unemployed: by December 2004, there were 67,820 people under 25 years old and 51,970 people over 25 years old. Numbers peaked in mid-1999 and have been falling ever since.

Has the New Deal increased jobs?

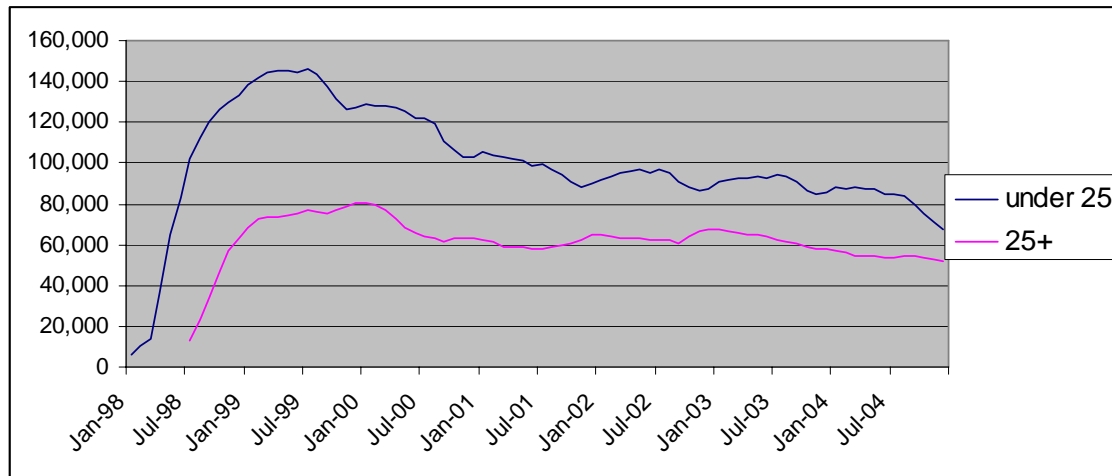
Although employment rates have risen since 1997, it is difficult to disentangle whether this is due partly to the New Deal or other factors such as continued robust economic growth. The government claims: 'At the heart of this success has been welfare to work policies such as the New Deal programme. Since it was launched the programme has helped almost a million people back to work.'¹

But not all the people going into employment after passing through the New Deal would have been unemployed in the absence of the New Deal, so the true impact of the programme on jobs is a lot lower than one million.

Researchers have tried two main methods to investigate the effects of the New Deal. First, the New Deal for Young People was introduced earlier in some 'pilot' regions at the start of 1998 before the subsequent national rollout. This enables the job prospects of young unemployed people in the pilot areas to be compared with similar young unemployed people in comparable areas before and after the introduction of the New Deal.

¹ Department for Work and Pensions (2004)

Figure 1: Total participants in the New Deal for the Unemployed, January 1998-December 2004



Source: Department of Work and Pensions (<http://www.dwp.gov.uk/asd/ndyp.asp>)

A second strategy is to take advantage of the fact that 24 year olds are affected by the New Deal after six months unemployment whereas 25 year olds have to wait eighteen months. By comparing 24 year olds who are eligible to 25 year olds who are not eligible, it is also possible to estimate the impact of the New Deal policy on moving people into jobs.

Using either non-pilot areas or age as a benchmark group, researchers have found consistent results that the New Deal raises job prospects. After the initial four months on the New Deal, young people were 5% more likely to find jobs.² Looking one year after joining the programme (that is, after people have been through options such as training), more recent research finds a similar, even slightly larger impact.

Is the New Deal worth the cost?

The fact that the New Deal has successfully increased employment does not mean that it is sound policy. There are many costs involved with the New Deal, such as administration costs for the Department for Work and Pensions and the distortions arising from the increased taxation necessary to finance the New Deal.

Some calculations suggest that the New Deal may have increased employment by about 17,000 jobs a year. Although far fewer than a million, the cost is also relatively modest. Although the headline cost figure for the New Deal for Young People seems high, (£327 million in 2005/06³) the bulk of this comprises payments that would have had to be paid in Jobseeker's Allowance even without the New Deal. Overall, the New Deal for the Unemployed appears to be reasonably cost-effective.⁴

Conservative plans are to cut the New Deals for the Unemployed and Lone Parents and replace them with a private sector led, contracted out job centre service. It is assumed that this 'Work First' programme would be vastly more efficient than the current New Deals so that it would require only £286 million instead of the current £666 million. This effectively involves moving people off benefits on an unprecedented scale. It is part of an overall planned saving of over £2 billion a year from the existing job centre system and could be regarded as rather optimistic, to say the least.

² Blundell et al (2004)

³ <http://www.dwp.gov.uk/publications/dwp/2004/dr04/expenditure/table7.asp>

⁴ Van Reenen (2004), Layard (2002)

Which parts of the New Deal work best?

Evidence is less clear over which are the best elements of the programme. Sanctions are probably the element that is most effective and best value for money, although they carry the danger of inequity (if the wrong people are sanctioned) and the danger that claimants are simply moved from benefits to inactivity. (There is some evidence that the introduction of Jobseeker's Allowance led to some increases in inactivity and crime.⁵)

Job search assistance via personal advisers is also likely to be cost-effective and create jobs – US programmes and the UK's own Restart Initiative in 1986 seem to confirm this.⁶ Wage subsidies are more expensive, but are also likely to have played a part.

The other options, especially education and training, are the most expensive. They are also least likely to have had an effect on jobs. International experimental evidence is quite pessimistic about the ability of government training schemes to increase the labour market prospects of young unemployed males. This is unfortunate since in the long run, raising the human capital of the unemployed is the best way to lift them out of the cycle of low pay and no pay.

Conclusions

The New Deal has attempted to 'activate' the unemployed into finding a job through a mixture of carrots – advice, job subsidies and training opportunities – and sticks – benefit sanctions. The political parties are divided over whether it should be expanded or phased out.

Existing evaluations have found that it has successfully got some people back to work, although fewer people than the government has claimed. It has managed to increase jobs at a relatively low cost. In terms of value for money, sanctions and job search assistance are probably best; job subsidies second best; while full-time education/training comes last.

For further information

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⁵ Machin and Marie (2004)

⁶ Dolton and O'Neill (2002)