

SLIM – Comment

Stemming the tide of Youth Unemployment - Government's New Youth Contract

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Back in the mists of time when the Coalition Government was new, it took the predictable decision to axe the Future Jobs Fund, criticizing it as “outmoded” and “expensive”. The Future Jobs Fund was a £1billion intervention which sought to get young people into work and prevent them becoming NEET. More than a little ironic then that Government has decided to tackle today's rising tide of youth joblessness by launching a new £1billion intervention to get young people into work and prevent them becoming NEET. Could axing the Future Jobs Fund have been a mistake? Have we witnessed a u-turn?

Highlights from last week's Youth Contract announcement include:

- £2,275 offered to any business willing to hire an unemployed 18- to 24-year-old
- It will provide opportunities to 500,000 unemployed people
- The scheme will run for 3 years
- The scheme will be administered by private-sector Work Programme providers and any young person taken on will have to complete the placement or be refused benefits
- Anyone rejecting a subsidised job offer will be required to undertake four weeks' mandatory work activity

U-turn or not, at least we have a Government response. Nick Clegg, being allowed to announce some good news for a change said: *We won't allow the children brought up in the boom to bear the brunt of the bust. The next generation must not pay the price for my generation's mistakes. So the coalition government won't sit on our hands and let a generation fall behind.*

These are difficult times for the Government. The Work Programme – a huge experiment is wobbling under increasing pressure. But then basing your new welfare to work scheme on payment by results in the middle of a once in every 100 years recession was always, how shall we put it, a tad optimistic... making the ongoing struggle between Cameron and Duncan Smith over who fronts it up seem even more bizarre.

In this SLIM-Comment we have a look at the new plans and set out the changes.

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The Government's Plans

Almost £1 billion will be spent over the next three years to provide unemployed young people with extra help as part of a new "Youth Contract", Deputy Prime Minister Nick Clegg and Employment Minister Chris Grayling announced last Friday.

Many of the options and recommendations adopted by the Government were set out very adroitly in the recent Centre for Social Inclusion document *Youth unemployment - A million reasons to act?*¹ This recognised the growing consensus that without further action "we risk a - lost generation of young people – shut out of the labour market and increasingly disconnected from work and learning. Youth unemployment is now above one million, with long-term youth unemployment above 250,000 for the first time since the early 1990s."

Much has been written of the scarring effects of long-term unemployment not only on work-readiness but also upon individual well being and society. Those suffering long term unemployment in their youth are far more likely to have periods of unemployment recurring through later life. In one study, the impact of six months of youth unemployment was estimated to lead to wages 13-21 per cent lower nearly twenty years later.² A further study finds lower wages and lower happiness over thirty-five years after a prolonged spell of youth unemployment, with greater scars the longer the person was unemployed.³ Unsurprisingly, the majority of 16 and 17 years olds have chosen to stay in education. The abolition of the Education Maintenance Allowance does not help here. Perhaps more emphasis on bursaries can assist in preventing the most vulnerable and disadvantaged young people from becoming NEETS.

The Youth Contract aims to provide nearly half-a-million new opportunities for young people, including apprenticeships and work experience placements. It also marks a substantial increase in the support and help available to young people through the Work Programme, Jobcentre Plus and Sector-Based Work Academies.

This package follows extensive discussions with businesses about the practical help Government can provide to make it easier for them to take on fresh talent. The key measures include:

1. Cash payments to encourage employers to recruit young people

There will be 160,000 job subsidies available, worth up to £2,275 each for businesses who take on an 18-24 year-old from the Work Programme. This is more than enough to cover an employer's National Insurance contributions for a year and exceeds the recommendations by the CBI in their recent report on youth employment. Each subsidy is worth half of the youth national minimum wage and lasts for six months. It is available to those who need the most help after three months and to all young people who are eligible for the Work Programme, including those on the Employment Support Allowance. All employers will be expected to pay at least the national minimum wage.

¹ Youth unemployment A million reasons to act? Centre for Social Inclusion. Introduction.

² Paul Gregg and Emma Tominey (2004) *The Wage Scar from Youth Unemployment*, CMPO, The University of Bristol

³ David N.F. Bell and David G. Blanchflower (2011) *Youth Unemployment in Europe and the United States*; IZA Discussion Paper No. 5673 April 2011

The wage subsidy is open to all businesses, including those that already employ large numbers of young people (like retail and construction) and emerging sectors (like the green economy, creative industries and ICT).

2. An extra 250,000 Work Experience places over the next three years

This will come with an offer of a Work Experience place for every 18 to 24 year-old after three months' unemployment who wants one, before they enter the Work Programme. Figures show that the Work Experience scheme is proving effective, with half of under-25 year-olds coming off benefits within three months. An additional 250,000 places will be provided – 195,000 more work experience places and 55,000 Work Academy places. It is not yet clear how these places will be created.

3. At least 20,000 extra incentive payments worth £1,500 each for employers to take on young people as apprentices

This will take the total number to 40,000 next year (2012/13). Incentive payments are for all 16 to 24 year olds. A decision is yet to be made on the budget for subsequent years.

4. More support for young people at job centres, such as extra time with advisers and a careers interview

This is in the form of weekly, rather than fortnightly, signing-on meetings, more time to talk to an adviser and a National Careers Service interview.

5. More for NEETS

A further £50m programme will target 16- and 17-year-olds who are not in education, employment or training. The scheme will focus on the 25,000 most disengaged young people.

Government has been at pains to differentiate this new programme from the Future Jobs Fund that they scrapped. The emphasis here, they say, is instead, upon equipping young people with the skills and opportunities to gain long-term sustainable employment in the private sector. As Nick Clegg puts it: *"This is a £1bn package and what's different about it, is it gets young people into proper, lasting jobs in the private sector... But it's a contract, a two-way street: if you sign up for the job, they'll be no signing on for the dole. You have to stick with it."* The other key differences are that the Future Jobs Fund subsidy was larger and the Public Sector was entitled to utilise it.

The Government also announced a new £150m programme to provide support to some of our most vulnerable 16-17 year olds NEET (Not in Employment, Education or Training) from 2012. This will provide vital support to help them to get back into education, an apprenticeship or a job with training.

The total amount of money available for the new initiatives will be almost £1 billion, which is in addition to existing funding for employment services. As to where this is coming from there seems to be some confusion. There had been concerns that it will be paid for out of working tax credits. The Treasury had been pressing for the money to come from a delay in the up-rating of welfare benefits, excluding benefits for the disabled and pensioners. Essentially, making the poorest pay. In response, Nick Clegg has stated that initiative would not be paid for by one single tax or spending measure and that a *"number of savings"* would be announced by Chancellor George Osborne when he gives an update on the state of the economy in his Autumn Statement.

This is making something of an open goal for the opposition, and Liam Byrne MP, the shadow Work and Pensions Secretary, has said: *"You couldn't make it up. This Tory-led government has put up unemployment and is now proposing cuts to working families' tax credits to pay for a back-to-work scheme. But it's bankers' bonuses that should be paying to help get young people back to work, not working families."*

The scheme will be administered by private-sector providers via the government's Work Programme, and any young person taken on will have to complete the placement or be refused benefits. Anyone rejecting a subsidised job offer will be required to undertake four weeks' mandatory work activity.

Each subsidy is worth half the current youth national minimum wage and will last for six months. It will be available to all young people who have been on jobseeker's allowance for nine months. All employers will be expected to pay at least the minimum wage. The subsidy will more than cover the cost of an employer's national insurance.

As ever with job subsidies there are the potential problems of substitution and deadweight, with employers incentivised to take on those who come with the subsidy instead of young people they may have taken on in any case.

Indeed, the CIPD, amongst others, have raised concerns about deadweight costs: *"By reserving wage subsidies for all young people unemployed for nine months or more, and for those deemed in greatest need of support and who have been unemployed for three to nine months, we think the government has gone a long way to minimising deadweight costs. Nonetheless, ministers will need to keep a close eye on any signs that the system is being manipulated at taxpayers' undue expense."*

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Government should be congratulated on recognising the Youth Unemployment problem and doing something about it. But is it enough?

With the economy continuing to flat line, is it realistic to assume that employers facing problems with market demand want to take on young workers, even if they only cost half the minimum wage? One of the dangers must surely be low take up or substitution for existing employees.

CIPD research shows employer reluctance to hire young people is most focused on a perceived lack of experience, so even short-term measures could make a difference. However, the CIPD has urged caution to avoid unnecessary 'deadweight' costs being incurred for the taxpayer, and also a close eye on avoiding a "cliff-edge" effect for the next generation of young people as subsidies are inevitably withdrawn.

In truth, we have had a problem with youth unemployment in the UK for many, many years. Yet surprisingly not all countries have this problem. There are other countries such as Germany and Austria, where employers deliver large scale Apprenticeship programmes recognise that they have a responsibility for supporting young people to make the transition from education into

work. In these countries youth unemployment is very similar to that for the population as a whole.

But that is for the longer term, how much difference will a short-term cash incentive make to this larger structural problem? The *Youth Inquiry* report by UKCES⁴ looked at the evidence behind the rise in youth unemployment since 2005 and found that it may at least be partly explained by reduced opportunities and the changing nature of the labour market. One such trend is the 'pull' of further and higher education; it also reflects the 'push' effect of the lack of jobs for young people. UKCES evidence shows that just under a quarter of employers recruited young people directly from education; this fell to just 6% taking on school leavers. Employer practice with regard to qualifications may also explain this apparent reduction in opportunities.

Research by Blanchflower and Bell notes that this change in the occupational structure hits young people in particular: *"Most young people enter the labour market in low-paying occupation/industry combinations, in which there has been a modest growth in employment. They may aspire to enhance their earnings by moving into better paying jobs. However, the route from lower-quality to better-quality jobs is becoming more difficult in the sense that employment is falling among those jobs paying around the median wage⁵."*

Nationally and regionally, young people's employment is dominated by certain sectors. Most notably, the proportions of young people working in hotels and restaurants and retail are far higher than for the working age population as a whole. While a greater proportion of the working age population work in the public sector, it is still an important employer of young people.

SLIM thus recommends a twin approach, firstly to address the immediate problems and secondly to address the structural weaknesses responsible for our appalling levels of youth unemployment since the 1970s.

Immediate

- Strengthen bursaries to keep young people from disadvantaged backgrounds in education
- Ensure schools give Impartial Careers Advice and Guidance
- Facilitate the ways that employers can link with schools
- Simplify funding for apprenticeships and work placements by using payment by results

Longer Term

- Simplify the learning and skills landscape
- Introduce a Young Person's Credit – as replacement for the EMA and available for all young people (15+) needing financial support to remain in education
- Employment Guarantee – all young people at 18 would be guaranteed one from: an HE place; employment via an apprenticeship, or; a combination of a Level 3 course and work experience
- Impartial All Age Careers Service (*one day dear readers, one day*)

⁴ The Young Inquiry: Employers' Perspectives on Tackling Youth Unemployment, UKCES 2011

⁵ Youth Unemployment: Déjà Vu? Bell and Blanchflower, 2009

- Link apprenticeships to pension support for businesses whereby older workers 60+ can reduce hours to make way for an apprentice with the Government paying the difference in the older worker's pension contribution – ensuring the older worker does not lose out in retirement and more places come available for apprentices at no extra cost to the employer
- Strengthen high quality 'youth apprenticeship' programmes
- Recognise that the failure is concerned with employers not hiring – so do more to make business rates and business taxes dependent upon offering apprenticeships and training

Further Reading

Youth unemployment: a million reasons to act?

<http://www.cesi.org.uk/publications/youth-unemployment-million-reasons-act>

Grayling: Figures reaffirm our commitment to growth and to getting young people into work

<http://www.dwp.gov.uk/newsroom/press-releases/2011/nov-2011/dwp127-11.shtml>

Clegg unveils £1bn scheme to help young jobless

<http://www.bbc.co.uk/news/uk-politics-15878796>

TUC: Youth joblessness milestone is the true mark of government economic strategy

http://www.aoc.co.uk/en/newsroom/aoc_news_releases.cfm/id/36CEF7CD-A470-4297-82ACB5BF684722E9/page/1

CBI responds to Government's youth unemployment package

<http://www.cbi.org.uk/media-centre/press-releases/2011/11/cbi-responds-to-governments-youth-unemployment-package/>

Youth contract offers hope of breaking “no experience, no job” cycle – but job supply will be the real challenge, and government will need close eye on deadweight costs

<http://www.cipd.co.uk/pressoffice/articles/youthcontract.htm>



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