

How effective are programmes for the unemployed? Example of the New Deal for Young People

In this second article about the New Deal, Michal Myck, Research Economist at the Institute for Fiscal Studies looks in more detail at the impact of a particular programme.

In the last issue of the Economic Review we presented the rationale for providing government assistance for the long-term unemployed and we discussed how the New Deal could help in reducing the level of unemployment in the UK. In this article we look at the methods to estimate the effect such programmes might have on the level of unemployment.

While youth unemployment has fallen since the introduction of the New Deal for Young People (NDYP) in April 1998, we have also seen reductions in the rates of unemployment among other groups (see table 1). This suggests that although the New Deal might have contributed to reductions in unemployment among the young, a large part of this may have been due to the overall performance of the economy. Before we can proclaim the NDYP a success we need to separate out general employment effects from effects due to the New Deal. It is also possible that the ND has effected people not actually on it or receiving it. If so then we have to account for possible employment effects the programme has had on these groups.

Below we look at these two issues in more detail. We refer to effects of overall changes in the economy as “macro-effects” and the effect of the New Deal on ineligible groups as “spill-over effects”.

Table 1. ILO unemployment rate by age group

Year (spring quarters)	All	18-24	25-49
1996	8.3	14.6	7.1
1997	7.2	13.1	6.0
1998	6.3	12.0	5.1
1999	6.1	11.7	5.0
2000	5.6	10.9	4.4
2001	4.9	10.2	4.0

Source: Labour Market Trends, National Statistics.

The “pure” New Deal effect

The problem of separating out the “pure” effect of unemployment programmes on “target” groups and their “spill-over” effects on ineligible groups is an interesting exercise. Unlike in physics or chemistry, in economics we cannot conduct experiments in laboratories where we can control all variables to single out the impact of the variable we are interested in (in our case the effect of the New Deal).

Therefore economists sometimes use “quasi-experiments” taking advantage of the design of projects and their various features. Studies in the UK focused on the

estimation of the effect of the Gateway within the NDYP. This part of the programme covers people who have been unemployed for more than six months and consists of extensive job search assistance (see previous article).

One interesting feature of the NDYP is that before its national roll-out in April 1998 it was first introduced in a selected number of Local Authorities. This “pilot” introduction provided a lot of information from which one can try to recover the “pure” effect.

Accounting for “macro-effects”

The advantage of introducing the policy in a few pilot areas first is that we can look at how long-term unemployment among eligible people (long-term unemployed aged 18-24) changed in pilot areas and then compare it with changes in long-term unemployment in the same age groups in areas where the programme was not “piloted”. If the overall macro-economic trends are the same across the country, then the difference in these changes will allow us to account for the effect of overall trends in the economy, and isolate the “pure” effect.

In Table 2 we present a simplified hypothetical example of how one might use this information to distinguish between the effects of the policy and the “macro-effects”.

Table 2. Using “pilot” areas to learn about “pure” effect of the NDYP Gateway

	“Target” group	Comparison group	
	Long-term unemployment rate, 18-24 year-olds in “pilot areas”	Long-term unemployment rate, 18-24 year-olds in other areas	The “pure” effect of the New Deal Gateway
Example 1			
Before the programme	15.5%	15.7%	
After the programme	14.1%	14.8%	
Difference: After - Before	- 1.4%	- 0.9%	-1.4% - (-0.9%) = - 0.5%
Example 2			
Before the programme	15.5%	15.7%	
After the programme	14.1%	14.3%	
Difference: After - Before	- 1.4%	- 1.4%	- 1.4% - (-1.4%) = 0%

We can see that in both examples in Table 2 unemployment among the target group in pilot areas falls by 1.4 percentage points. In the areas not covered by the programme

in Example 1 the fall in unemployment rate is 0.9 and in Example 2, the fall is 1.4 percentage points.

If in the real world we observed a situation such as that in Example 2, we would argue that the New Deal had no effect on unemployment, since the change in unemployment there was the same as for the rest of the country. However, in Example 1 the change in unemployment was greater in “pilot” areas than in the rest of the country suggesting that the New Deal is having an effect, reducing unemployment by an additional 0.5 percentage points.

Spill-over effects of the New Deal

A targeted programme of active employment assistance, apart from a direct effect on the group of people eligible for it, might have an indirect effect on other groups (people from other age groups or young short-term unemployed). First of all employment of people eligible for the programme might take place at the expense of other unemployed. For example, employers in their hiring decisions might prefer to employ someone eligible for the programme for whom they will receive a subsidy from the government or might even replace a current employee with a New Deal participant who would cost them less to employ. This is the so-called “substitution effect”.

On the other hand there might be a downward pressure on the wage level as a result of the New Deal. This is because the number of people actively competing for jobs on the labour market increases as a result of intensified job-search, training and education provided for the long-term unemployed as part of the programme. This could lead to higher levels of employment overall and not only among people eligible for the New Deal. We refer to this possible effect as the “wage effect”.

In the same way as we observe variation between unemployment rates in eligible groups in pilot and other areas, we can look at how unemployment changed among other groups, again comparing changes in areas covered by the programme and not affected by it.

This provides information how the NDYP affects other groups, whether employers substitute “New Dealers” for people from groups not eligible for the programme, and whether there are some positive “wage effects” on the labour market. Putting all this information together we can separate out the effects that the New Deal has on its “target” groups and on ineligible individuals.

What is the evidence? Has “Gateway” reduced unemployment?

In a series of recent studies economists have attempted to estimate the impact of the New Deal Gateway. One of them looked at the change in outflow rates from unemployment among young long-term unemployed. Outflow rates tell us what proportion of the unemployed find jobs in a certain period of time.

Using various comparisons Blundell, Costa Dias, Meghir and van Reenen (2001) find that the NDYP Gateway increased outflow rates in the first four months of long-term unemployment from 24% to 33%. This is the “pure” effect of the New Deal taking the

“macro-effect” into account. This means that while one in four people with unemployment spells over six months found jobs within a four months period in areas not covered by the New Deal, every third person succeeded in doing so in the “pilot” areas.

At the same time they find that other groups were not affected by the programme in any significant way. This suggests that either there have been no “spill-over” effects or that the negative “spill-overs” (substitution effects) and positive ones (wage effects) have cancelled each other out. The job-search element of the NDYP may thus have some important effect on reducing unemployment among the young without adverse effects on other unemployed.

Into the future

As we receive more information on people who have entered other parts of the New Deal we should see to what extent education and training improves the probability of finding a job. In doing that we will again have to bear in mind that simple changes in unemployment rates tell us little about the actual effects of the programmes. To find out how unemployment changes as a result of the New Deal we have to account for general economic trends and effects of the programme on the whole labour market.

For detailed discussion of the estimation procedures of the effect of the NDYP Gateway see: Blundell, Costa Dias, Meghir and van Reenen (2001), IFS Working Paper WP01/20, “Evaluating the employment impact of a mandatory job search assistance program”, www.ifs.org.uk