

“The disadvantage of being young in today’s labour market can only be overcome through a new educational offer...”

YOUTH LABOUR’S LOST

Matt Grist
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Contents

| | |
|---|-----|
| Acknowledgements | 7 |
| Executive summary | 9 |
| 1 The state of youth unemployment | 19 |
| 2 Transitions | 39 |
| 3 The NEETs | 57 |
| 4 Getting into work | 71 |
| 5 Conclusion and policy recommendations | 95 |
| Glossary | 109 |
| Appendix 1 Understanding and defining unemployment | 111 |
| Appendix 2 Post-16 education maps for 16–18-year-olds | 115 |
| Appendix 3 Savings for employer per employee of waiving national insurance and creating a national insurance credit from the rising government receipts | 119 |
| Notes | 121 |
| References | 133 |

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Any errors or omissions remain our own.

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October 2011

Executive summary

Before the financial crisis hit, youth unemployment had already been on the rise. In fact, UK youth unemployment has risen consistently as a share of total unemployment for the past 20 years. Experts are divided as to why this is. Some blame pressure from globalisation and immigration, while others blame the rise in employment rates of older workers.¹ Both of these explanations have been shown to be less than convincing.²

The young person's penalty

In this report, we present new research into the issue of youth unemployment in the UK. Rather than potential macro-economic and global causes, we are concerned with the way the education system and labour market have been shaped by policy so as to produce what we describe as a *young person's penalty*. As we argue, and the figures attest, young people face a disadvantage in the labour market. This penalty is, on the one hand, natural: young people lack work experience relative to older workers, and experience is one of the most powerful forms of currency in the labour market. However, this penalty exists also because policy has not been closely enough moulded around the needs of young people. Too often young people have had to fit into a bureaucratic system, rather than have that system fit around them.

This misdirection of policy has occurred in the following four areas:

- the provision of post-16 vocational education
- incentives to work
- job search support

- policy aimed at young people disengaged from education and the labour market

The provision of post-16 vocational education

The quest, undertaken by the last government, to create a single qualifications framework (the Qualifications Credit Framework) populated by flexible, ‘modular’ qualifications has encouraged further education institutions to offer short, often unconnected courses (often national vocational qualifications; NVQs), which do not add up to balanced, long-duration curricula that cumulatively develop skills.

This trend towards bureaucratic tidiness trumping students’ needs started in the late 1980s with the Youth Training Scheme (YTS) and the development of NVQs. Under the then Conservative government, too much time was spent on writing *descriptions* of skills, and too little attention paid to the practice of teaching them, or whether what was being learned was valuable.³ Moreover, funding arrangements under the last government compounded the negative impact. Through paying ‘training providers’ on the completion of courses the Labour government encouraged the offer of easy rather than challenging courses. And through paying per qualification rather than per student, they encouraged institutions to focus on how many qualifications they could get young people to take, rather than on what combination of courses would provide a balanced education.

In addition to poor provision of curricula, the advice given to young people on what vocational courses to take under the last three governments became almost completely disconnected from which ones were valuable in the labour market. Rather than helping young people prepare themselves best for the labour market, advice on what to study became based on bureaucratic frameworks and funding models.

Incentives to work

Young people, like others, have been disincentivised from working by a benefits system that has very low marginal returns

on entering work. The new Universal Credit aims to correct this problem and improve incentives to work. However, young people are also disincentivised by lower minimum wages. In the case of 16–17-year-olds, largely doing part-time work and almost always living at home, lower wages are mitigated by lower living costs. But for 18–20-year-olds, currently offered a wage of £4.98 per hour as opposed to the full rate of £6.08, there may well be no such mitigation. For this age group, the incentive to work is reduced at a time when many of them should be gaining valuable work experience.

Job search support

One important element in any policy framework for youth unemployment is one-to-one job search support. In the UK, governments have realised the importance of providing one-to-one advice but have not gone far enough in making it available as early as possible. The Labour Government's New Deal for Young People (NDYP) offered one-to-one support, but entry to the scheme only began once a young person had been unemployed for six months.⁴ The new Work Programme offers one-to-one support after three months to young people considered 'at risk', but delays this support until nine months for all other 18–24-year-olds (compared with 12 months for 24–60-year-olds, and six months for the over-60s).

By contrast, in Denmark, where youth unemployment is very low compared with the UK, one-to-one job search advice and other forms of one-to-one support are available very soon after a young person has become unemployed. Providing young people with quick access to one-to-one support and early advice is seen as critical in Denmark, given a young person's greater exposure to the risk of extended unemployment, and the relatively poor knowledge of the labour market they possess.

Policy aimed at young people disengaged from education and the labour market

The headline measure for young people who are neither working nor in education is that of being not in employment, education or training – NEET. This measure was first introduced for 16–17-year-olds who had dropped out of education but were not in employment. Over the years the definition has been expanded to include the entire 16–24 cohort not in education or employment, and as a result, has lost much of its power in helpfully targeting policy.

The NEET category is now too broad and is defined (unhelpfully) by what people are *not* doing (not working or taking part in education or training), rather than what they *are* doing. A 17-year-old with no GCSEs, no post-16 training and no job is counted as NEET alongside a 24-year-old with a degree, who is married and staying at home to look after his or her family. This broadness can lead to stigmatisation and bad policy.

Our research

In this report we try to get behind the headlines about youth unemployment and assess what can be done to tackle it, all the time bearing in mind the mistakes of past policy. Based on quantitative analysis from a range of sources, including the Longitudinal Study of Young People in England (LSYPE), education and employment data from the Office for National Statistics (ONS) and qualitative research with young people and UK employers, we draw the following conclusions:

- While total unemployment steadily declined since the 1990s up until the recent recession, youth unemployment as a proportion of total unemployment continued to rise during this period, underlining the changing nature of the labour market.
- Economic definitions often obscure the real labour market status of young people, especially as a result of increasing educational participation: once we unpick the somewhat confusing definitions we find more reason to worry about the position of 18–24-year-olds than 16–17-year-olds, even though according to

ONS statistics unemployment for 16–17-year-olds has doubled over the past 20 years.

- Despite the youth unemployment rate being lower in the UK than in many other developed countries, as a proportion of total unemployment it is substantially higher than comparable nations such as France and Germany: one in three unemployed people were aged 15–24 in the UK, compared with one in four in France and the USA, and one in six in Germany.⁵
- Young people’s pathways through education and employment are marked by ‘churn’ and flux, with those pursuing lower level vocational qualifications post-16 more likely to change between education, employment and unemployment. Once in employment a young person will on average change their job 3.5 times in their first 11 years of work.⁶ The churn and flux of young people’s educational pathways suggests that young people are not getting the right advice and guidance, and that the quality of the courses they are taking is poor. The frequency of job change is more a fact of the current labour market. Such volatility suggests that many young people need a broad base of skills that will allow them to navigate a flexible market, rather than sector specific training.⁷
- Too few young people with poor attainment at 16 go on to achieve core qualifications in maths and English, gain work experience, or do apprenticeships.
- OECD and HESA data suggest that a full-time university degree is still, on average, providing better protection in the current labour market than any other qualification. It is unclear whether this is because of a bias among employers, or whether those going to university are generally more employable. Whatever the case, although degrees do not any more always guarantee higher income, they do seem to provide better protection against unemployment on average.

From our focus groups with unemployed young people we found that:

- Several young people felt that their parents and advisers (teachers, Connexions staff) had pushed them into courses for

reasons other than career development. Some said that it was because Connexions and college staff needed to fill places on specific courses. Others pointed out that parents receive benefits if their children stay in college post-16.

- Financial hardship is a pressing issue for many young people. Without the cushion of parental support, young people can be quickly plunged into debt. Several of the young people we spoke to were in debt having had their housing benefit suddenly revoked. This normally followed a change in circumstances such as going off jobseeker's allowance to take up a minimum wage job, or a college course coming to an end.
- The majority of young people were a long way from the stereotype of being NEET. Rather than being feckless and workshy, these young people were often eager to work, and ambitious for their futures, but a lack of guidance left many with unrealistic aspirations and few good qualifications. These young people found it hard to imagine a middle ground on which they would be able to use their talents while earning a living.

From our employer case studies we found that:

- In a service sector setting, where many are working part-time, a mixed workforce including old and young employees is ideal. Young people are seen as having more energy, being better at taking direction and better with technology. However, they are less good at customer communication, more likely to call in sick, and less likely to stay in a job for a long period of time. In areas where young employees are not so strong, they are able to learn from older employees – and vice versa.
- Investment in young people through employment and training at an early stage can be mutually beneficial to employers and employees, particularly those employers with very specific skills needs (e.g. engineering).
- Employers felt that young people are getting poor quality advice in school, and that guidance is not provided early enough to help young people make the decisions they need to prepare them for employment and apprenticeships.

- The Government needs to continue promoting apprenticeships as an alternative to university and a pathway to sustainable and well-paid employment. This is needed to counteract the cultural bias that leads to parents and students viewing a ‘third rate university’ as more appealing than a ‘first rate apprenticeship’.

Policy recommendations

We present a number of policy recommendations aimed at introducing practical measures that serve the needs of young people, rather than serving bureaucratic concerns, or ideological agendas. We have based our recommendations on evidence about what is proven to protect young people against unemployment, and on what unemployed young people have themselves told us about their predicaments. There are no easy answers, but nevertheless a series of measures can restack the cards more in favour of young people, and start to reverse the long-term rise in UK youth unemployment.

We recommend that the Government should:

- *stipulate that publicly funded further education institutions offer flexible learning options* – as much as possible should be done to help young people who are studying to work part time, which would decrease youth unemployment while also providing valuable work experience and supplementary income
- *continue to promote apprenticeships as a high quality pathway from school to employment that doesn't necessarily entail university* – the current Government has put apprenticeships at the heart of its vocational education and youth unemployment strategy by increasing numbers and investment, but there remain a number of barriers for businesses offering apprenticeships, and cultural biases in favour of university; information, advice and guidance on apprenticeships must reach schools and students much earlier
- *encourage further education institutions to offer challenging, two-year Baccalaureate-style vocational courses* – under the umbrella of a WorkBacc with different areas of vocational specialisation,

further education institutions should be incentivised to offer coherent two-year curricula that combine core skills in maths and English with occupationally specific skills, generic transferable work skills, and some academic knowledge – good, well-designed curricula that enhance a wide range of useful skills

- *aim to raise the cap on student numbers so that more of those young people who want to study full time for a degree, and possess the requisite aptitude, can do so* – this policy is dependent on many other changes to the funding and oversight of higher education, which cannot be detailed here (see forthcoming Demos paper *Future Universities*⁸); our research shows that those with degrees achieved through full-time study are considerably better protected against unemployment than those without on average
- *guarantee access to the National Careers Advice Service for 14–16-year-olds, and hold schools accountable for providing high quality guidance* – careers advice in schools is patchy at best, biased at worst; the establishment of the new National Careers Advice Service (NCAS) and the closing of the poorly performing Connexions may be a step forward, but the Government must commit to holding schools to account for their duty to provide high quality advice and guidance early enough to make a difference
- *make one-to-one job search advice mandatory after three months of unemployment for young people, and available after two months for those deemed ‘at risk’* – a crucial factor in getting young people into work is one-to-one support that is tailored to individual needs; countries like Denmark, which have low youth unemployment rates and take the problem very seriously, invest in such one-to-one support
- *continue to invest in voluntary and charitable sector organisations that work with young people at risk of becoming disengaged from education and the job market because of personal issues* – some young people have poor qualifications, debts and live in areas of low employment, but others are also held back by personal issues resulting from deprivation, unhappy home lives and mental health problems; targeted interventions that build life-readiness as well as work-readiness are required for these young people
- *stop measuring ‘NEETs’* – the term NEET has become unhelpful: NEETs are a diverse bunch, comprising gap year students, lone

parents and prisoners (to name a few), as well as unemployed people; the rise in the participation age to 18 in 2015 offers an opportunity for the ONS to stop measuring NEETs

- *raise the minimum wage for 18–20-year-olds to the full rate of £6.08 an hour by 2015* – a rise in the minimum wage would incentivise work and provide greater financial stability for young people who find themselves very quickly falling into debt even when they are in work; this rise should be timed for 2015 to coincide with the raising of the compulsory school-leaving age to 18, in what should be presented as a new ‘deal’ for young people; postponing this rise to 2015 will also give the economy a chance to recover and employers a chance to prepare for the change; finally, increasing the minimum wage could encourage businesses to offer more apprenticeships, which have a much lower minimum wage
- *waive employers’ national insurance contributions for 18–20-year-olds and create a national insurance credit for employers of this age group, paid for by the increased revenues from employee taxes due to the rise in the minimum wage* – this waiver, plus a national insurance credit, would compensate companies that hired 18–20-year-olds for almost half of the increase in wages they would incur as a result of an increase in the minimum wage for this age group, and would be cost-neutral to the state

1 The state of youth unemployment

The youth labour market has become a decidedly tough place to be. The 2008 recession has dramatically affected young people's employment prospects. The latest figures for youth unemployment shows it is a startling 20.8 per cent⁹ – the highest level since comparable records began in 1992. The percentage increase in unemployment between the beginning of 2007 and the beginning of 2009 was twice as high among 18–24-year-olds as the working age population. Long-term youth unemployment is also increasing: the total number of 18–24-year-olds out of work for two years or more rose to 93,000 between May and July 2011, a 12 per cent rise on the previous quarter (the number of unemployed 18–24-year-olds rose by 77,000 in the three months to July 2011 to reach 769,00).¹⁰

Beyond short to medium-term trends there are worries over long-term structural changes to the youth labour market. Top-level statistics mask a more complex picture about the relative disadvantage of young people in the labour market, which has been a trend preceding the financial crisis. The youth unemployment rate has been rising in the UK since 2004, four years before the effects of the financial crash of 2008 were felt.¹¹ For the past two decades, the youth unemployment rate – even in the best of economic times – has been around twice as high as the rest of the working age population. In autumn 2011, the unemployment rate for young people is around three times higher.¹²

In this chapter we aim to untangle some of the complexity just outlined and present a clear and accurate picture of youth unemployment in the UK. To do this we completed a comprehensive review of the most relevant datasets and academic sources, including education and employment data from the Office for National Statistics (ONS), particularly the Labour Force Survey (LFS), labour force and education data from the

Organisation for Economic Co-operation and Development (OECD), and information from the Higher Education Statistics Agency (HESA) and the Longitudinal Study of Young People (LSYPE). Our analysis allows us to look in depth, beyond the headlines, to understand the diversity and complexity of the real drivers behind youth unemployment.

This analysis, combined with a review of existing evidence and studies, identifies the following six key trends concerning youth unemployment in the UK:

- Unemployment has been rising for all young people, but is most pernicious for 18–24-year-olds not in full-time education.
- The relative risk of unemployment for young people in the UK has been rising and is substantially higher than for peer nations.
- The UK's changing industrial profile, including the decline of the manufacturing sector and the rise of the service and financial sectors, has made it harder for young people to enter the labour market.
- There are a range of risk factors for young people, including skills, gender and regional location, which increase the likelihood of unemployment.
- The number of older workers in the economy is increasing, with potential consequences for youth employment.
- Young people in employment are much more likely to switch jobs and sectors than in the past.

We discuss each in turn in detail below.

Youth unemployment is clearly a serious problem in the UK, albeit one that does not have uniform effects on all young people. However, there is also reason for optimism. While the situation of young people is bad, in many ways the problems are not as severe as they were in the past: in the 1980s recession unemployment benefit claims among young people reached a million, and in the 1990s recession they reached 850,000, whereas they stand at under half a million for young people today.¹³

Unemployment is most pernicious for 18–24-year-olds not in full-time education

Top-level statistics show that unemployment is at historic levels for young people. But this misses the changing relationship young people have with education. One of the most substantial changes in the past two decades is in the higher participation rates in post-16 education (discussed in detail in the next chapter). This has meant that more young people are not able to engage in full-time employment. One of the major confusions for people looking at youth employment statistics is that a person can be both unemployed and in full-time education.

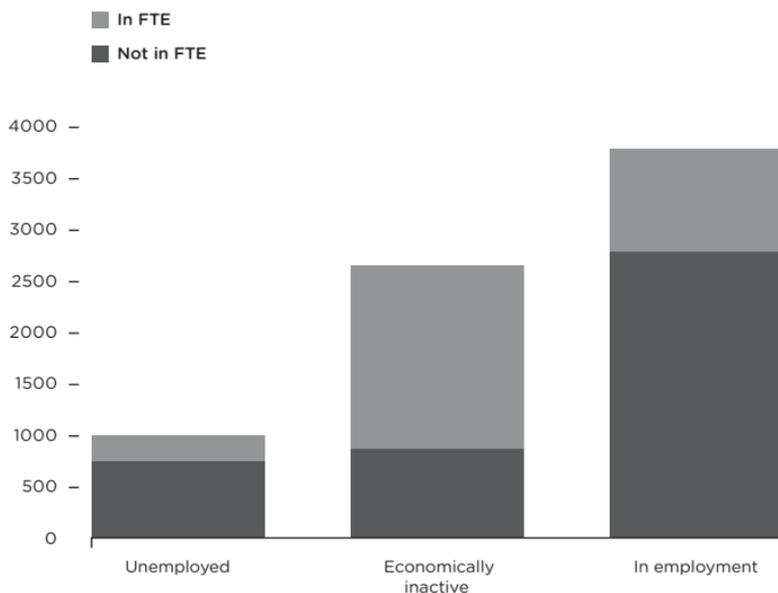
The primary definition of unemployment in the UK is taken from the International Labour Organization (ILO). A detailed description of how unemployment is defined is provided in the appendix. The key point is that under the ILO definition, a young person whose main activity is full-time education can still be classified as ‘unemployed’ if they have been actively searching for part-time work. This is distinct from the ‘economically inactive’ who may express a desire to work, but have not actively sought it in the past four weeks.

It is reasonable to be less worried about those young people who are in full-time education but are finding it hard to find part-time work than about those people who are not in full-time education and cannot find any work. The latter can end up in a cycle of disengagement and de-skilling if not helped. So once we understand that some young people are classed as unemployed simply because they cannot find part-time work while studying, we realise that the harm caused by youth unemployment is perhaps not as bad as might have been thought.

Figure 1 breaks down the different possible economic statuses of 16–24-year-olds by whether they are in full-time education. It shows that a substantial number of students are looking for work while in full-time education.

Taking account of the ILO definition of unemployment allows us to build a more nuanced picture. Figure 2 shows the unemployment rates among those aged 16–17 and 18–24 for those who are not in full-time education. The graph shows that

Figure 1 **Number of young people aged 16–24 who are unemployed, in employment, or economically inactive (000's)**



Source: ONS, *Labour Force Survey*, May 2011

the proportion of 16–17-year-olds who are unemployed and not in full-time education has remained relatively constant since 1993, partly because there has correspondingly been a substantial increase in the proportion of 16–17-year-olds in full-time education who are not seeking employment. Conversely, the unemployment rate of 18–24-year-olds who are not in education has been broadly rising since 2004 – increasing by around half by 2010. This sort of unemployment – where a main rather than supplementary income is sought, and where no education or training is taking place – is potentially pernicious. It is also different from the NEET category, which includes the economically inactive, for instance a young person on a gap year.

Understanding the nuances of the figures allows us to identify more precisely the problems faced. If such a high percentage of 16–17-year-olds in full-time education are seeking employment, this implies there is a problem with the supply of part-time jobs for this age group. It could also mean that young people at 16 and 17 are not engaged in their education and are looking instead for employment, as well as highlighting a desire for supplementary income. However, young people aged 18 years and older and in full-time education are more likely to be living away from home, less likely to be getting pocket money, and more likely to rely on a car for transport. With the abolishment of the educational maintenance allowance (EMA), financial pressures on this group may have increased further, underlining the importance of part-time work to supplement living costs.

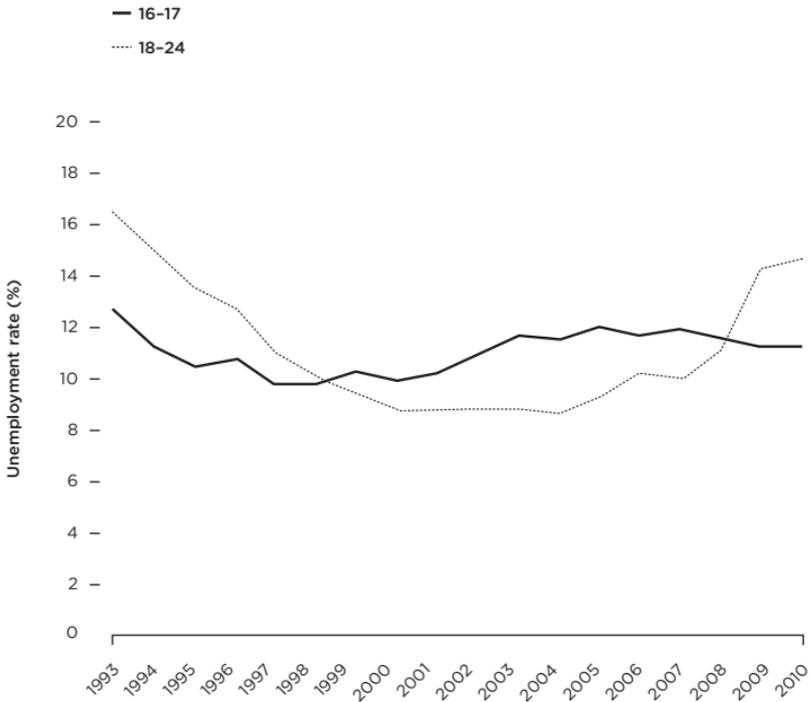
Increase in the relative risk of unemployment for young people in the UK and comparison with peer nations

The financial crisis of 2007 forced up unemployment in the UK. In May to July 2011 unemployment was over 8 per cent overall¹⁴ and, as has been stated, it is far higher for young people. Many of our peer nations also saw youth unemployment at levels not reached for two decades. The UK moved closer to the very high levels of youth unemployment found in France. The exception to this trend was Germany, as figure 3 shows. Between 1980 and 2004 Germany's youth unemployment remained below 10 per cent, half the level of the UK and France.

Yet looking at the absolute level of unemployment says nothing about the sorts of people who are unemployed and the relative risks for different groups of unemployment. A more detailed look at the statistics shows that young people in the UK make up a far higher share of the unemployment than in peer countries.

Importantly, the UK has had a historically lower level of unemployment than its peers for various reasons, including its more flexible labour market. UK unemployment in 2010 was about 2 per cent lower than in France, the USA and other

Figure 2 **Estimated unemployment and not in full time education rates by age group**

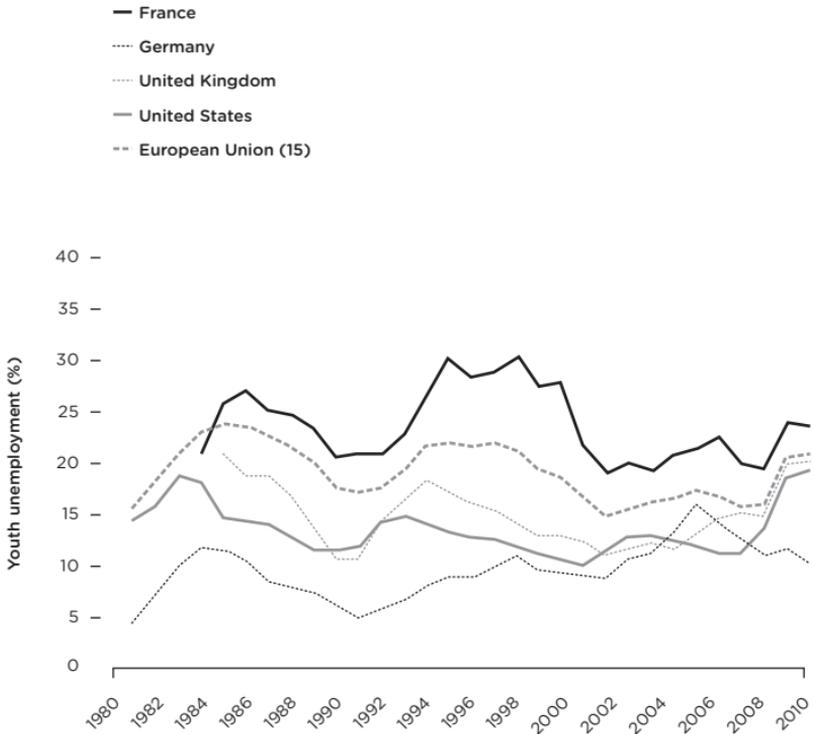


Source: Demos analysis of ONS Labour Force Survey data

countries in the European Union. After over a decade of unemployment below German levels, in 2010 it slightly edged above the German rate. Taking account of this difference in long-term unemployment rates, and instead looking at who makes up the unemployed in those countries, shows that the UK is doing particularly badly.

From the proportion of unemployed people who are 15–24 we can see that the ‘relative risk’ of unemployment falls heavily on young people, far more than among peer nations: one in three unemployed people were aged 15–24 in the UK, compared with one in four in France and the USA, and one in six in Germany.

Figure 3 Youth unemployment rates for 15–24 year olds

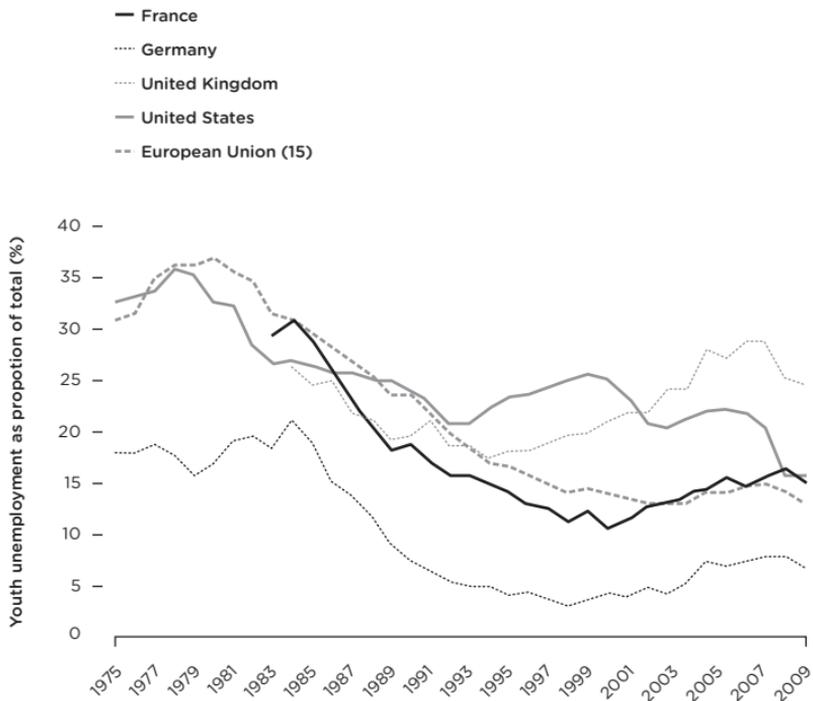


Source: OECD, *Labour Statistics*

Further, not just is the relative risk greater, but it has been increasing. As economic growth took hold again after the recession in the early 1990s, and the longest economic boom in British history began, young people did not get their share of economic growth, and were left behind in unemployment.

Figure 4 shows that since approximately 2002, youth unemployment as a proportion of total unemployment in the UK has exceeded that in peer countries like France, Germany and the USA. Even during the boom time of the late 1990s and early 2000s, young people were at a significant relative disadvantage in the UK labour market.

Figure 4 Youth unemployment (15–24 year olds) as a proportion of total unemployment

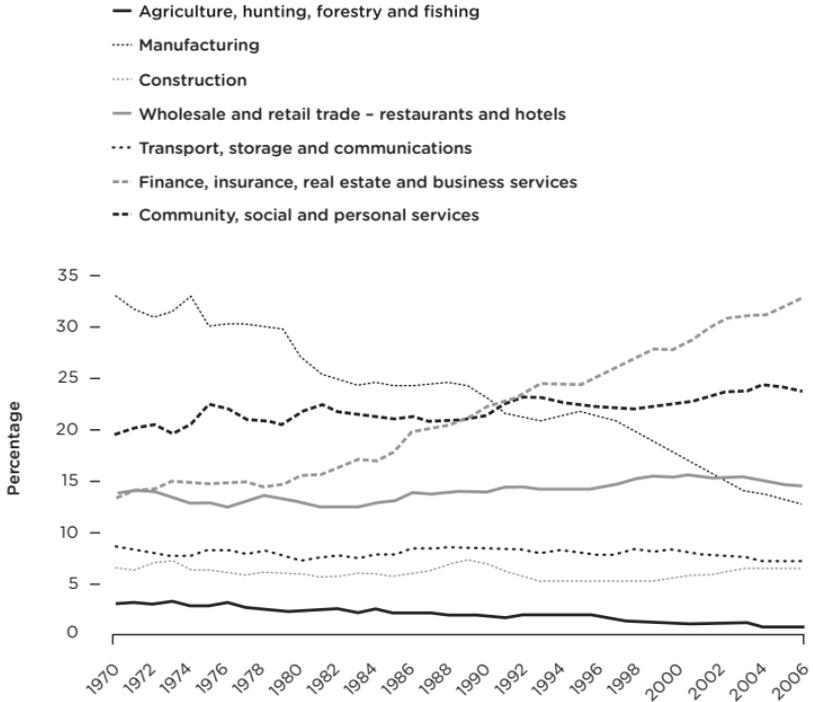


Source: Demos analysis of the OECD's *Labour Statistics*

The UK's changing industrial profile has made it harder for young people to enter the labour market

As the demands made on the British economy have changed, and technology has advanced, so too the labour market has had to adapt. While globalisation and innovation have been able to increase growth and business profitability, for many they have also increased job insecurity and squeezed earnings. The problem is particularly acute for young people: if they are not equipped with the skills they need to properly engage with the

Figure 5 The changing share of value added to the UK economy by different sectors



Source: ONS, *Labour Force Survey*

economy, they are shut out of it. On the other hand, young people are also in the prime position to take advantage of the changing economy by readying themselves with the skills needed in the key growth industries.

The clearest change in the drivers of economic growth over the past 40 years is the declining contribution of manufacturing and the rising role of the finance and personal services sector. Figure 5 shows the changing share of value added to the economy by different sectors between 1970 and 2006.

Manufacturing's contribution to total economic output fell by more than half during this period.

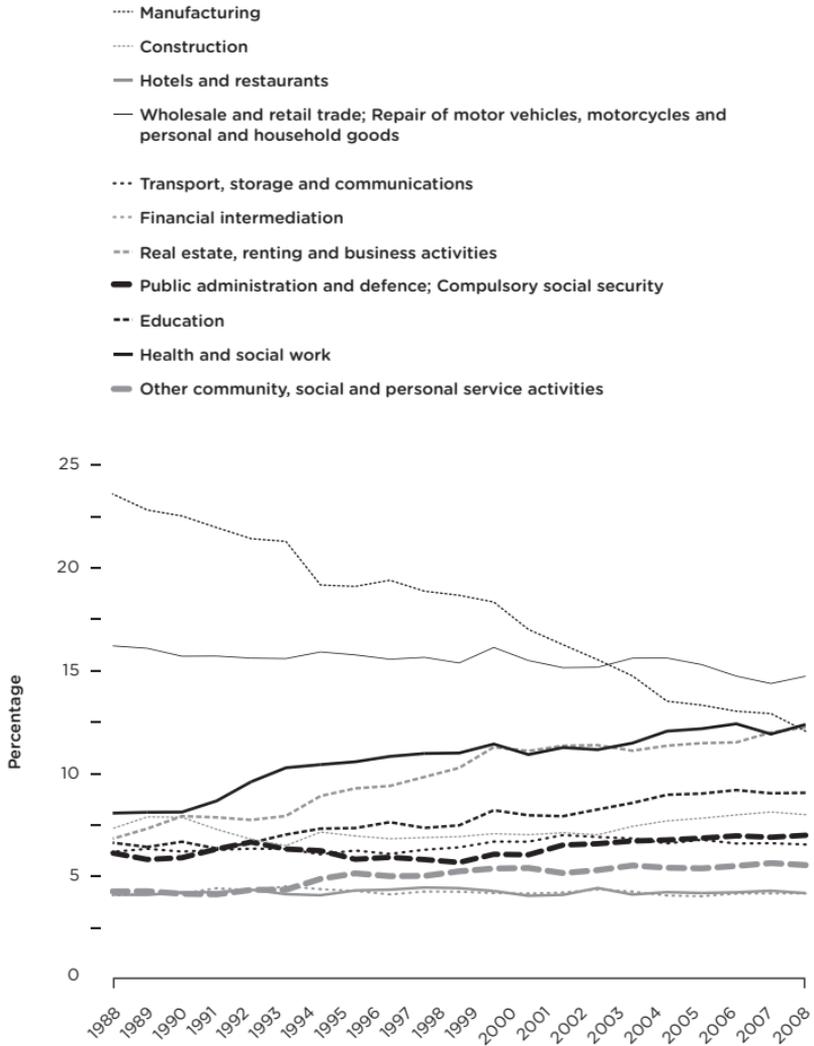
In *The Forgotten Half* we argued that the decline of the manufacturing sector and other craft-based employment in the UK has deprived the current generation of young people who do not go to university from a pathway to semi-skilled and gainful employment.¹⁵

The factory floor of today is a world away from that of 30 years ago. Routine manual work is performed by machines and so the work of people in the manufacturing sector is becoming increasingly skilled. A study from several years ago showed that only about a third of the people who work in manufacturing are employed in production work that is semi-skilled. In fact, around a third of employees in manufacturing are now 'professional'.¹⁶ The Coalition Government aims to rebalance the economy towards exports and manufacturing,¹⁷ but doing so will have only a small impact on the labour market, as these jobs will still require an increasingly high level of technical skill.

In 2010 four in five jobs in the UK were in the service sector – a third more than in 1980.¹⁸ Figure 6 shows the change in the proportion of UK employees working in different industries between 1988 and 2008. While financial and business services have accounted for an increasing share of value added, it has not been the industry with the largest expansion in employment. In particular, real estate and health and social work have seen some of the largest growth in employment in recent years. The NHS alone employs 1.3 million people, or around one in 23 of the working population.¹⁹

Young people need to have better information and advice about the current labour market, growth sectors and necessary skills. Increasingly, science, technology, engineering and maths (STEM) and advanced maths and technical skills will be in high demand, as will communication and soft skills apt for the service sector. But, as we argue further below, the average young person will switch jobs, sectors and even occupations much more frequently than previous generations. As a result, young people need to have a core range of broad skills that allow them to adapt to this type of flexible labour market. The implications of this for

Figure 6 **Proportion of employees working in different industries, over time**



Source: Demos analysis of the OECD's *Labour Statistics*

the school system are significant. Rather than simply feeding students knowledge for them to reproduce in exams, schools need to focus on providing students with problem-solving skills and the capability to learn that allows them to adapt to different situations.²⁰

Risk factors for young people

Although unemployment is affecting a wider range of young people, including previously secure graduates, success in the labour market can to some extent be predicted by a set of characteristics or risk factors, including education, gender and regional differences. The next chapter explores risk factors associated with education and skills in more depth. Here we just consider gender and location.

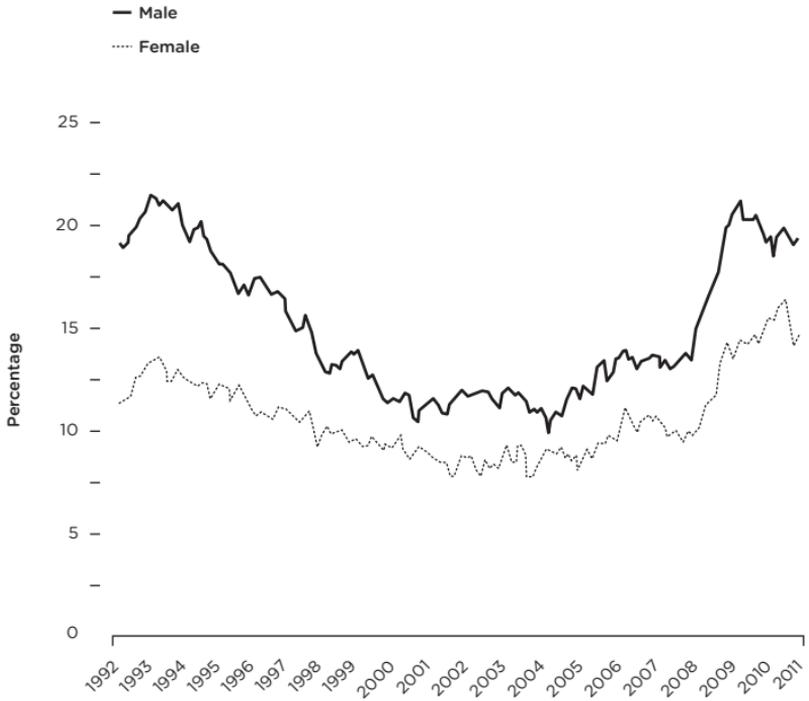
Gender disparities

The unemployment rate for 18–24-year-old men in 2011 was about 5 per cent higher than for women (figure 7). The gap has closed over time, standing at just under 10 per cent in the early 1990s. But the continued difference reflects an entrenched mismatch between demand and supply of work for young men.

This difference in unemployment rates between genders is associated with a number of factors including the higher rate of very low qualifications among men. Another chief factor continues to be differences in the sectors young men and women go into. Looking just at those aged 18 in the LSYPE, women are six times more likely to go into human health and social work than men. As this was one of the industries of expanding employment and value added, the difference is likely to disadvantage young men. Moreover, young men going into construction were more likely to face limited job opportunities following the 2007 recession and housing market collapse.

Table 1 shows the industries 18-year-olds in the UK work in, broken down by gender.

Figure 7 **Unemployment for 18-24 year olds by gender**



Source: ONS, *Labour Force Survey*

Regional differences

The employment opportunities available to young people are unevenly spread across Britain. The Coalition Government's commitment to reducing the size of the public sector will particularly hit the north of England, where state expenditure can contribute in excess of 50 per cent of local GDP. As figure 8 shows, the take up of unemployment benefit in the UK varies widely by region – the benefit claimant count is far less concentrated in the South East and South West of England than elsewhere in the country.

Table 1 **The industry 18-year-olds in England work in, by gender, 2009**

| | Men (%) | Women (%) |
|--|---------|-----------|
| Wholesale and retail trade; repair of motor vehicles and motorcycles | 28 | 29 |
| Accommodation and food service activities | 13 | 14 |
| Human health and social work activities | 3 | 18 |
| Construction | 18 | 1 |
| Manufacturing | 10 | 3 |
| Administrative and support services activities | 4 | 4 |
| Arts, entertainment and recreation | 4 | 4 |
| Education | 2 | 5 |
| Transport and storage | 4 | 2 |
| Financial and insurance activities | 2 | 4 |
| Public administration and defence; compulsory social security | 3 | 2 |
| Professional, scientific and technical activities | 2 | 3 |
| Other service activities | 1 | 8 |
| Other | 4 | 3 |

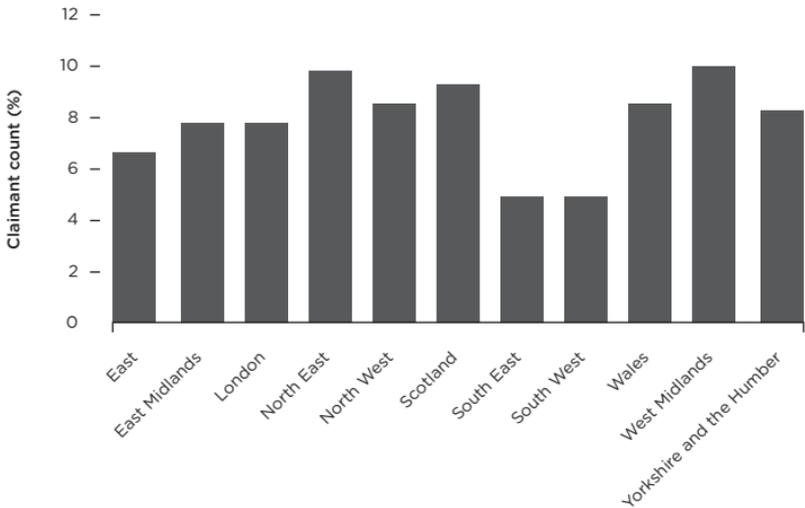
Source: LSYPE wave 6 and YCS cohort 13, sweep 3

Increase in number of older workers in the economy

The Coalition Government's abolition of the default retirement age earlier this year will almost definitely bolster employment rates for older workers. As older workers are being encouraged to work beyond the retirement age to reduce the financial burden of an ageing population, this could make it more difficult for young people to find employment.

Figure 9 shows changes in employment rates for different age groups in the UK between 1984 and 2010, based on OECD statistics. Interestingly, while the proportion of over 65s in employment is still small, it has nearly doubled over the past 30 years. Also, 55–64-year-olds are increasingly likely to be in employment. By contrast, there has been a substantial fall in the employment rates of 15–19-year-olds over the past 30 years, corresponding to the increased participation in full-time education of this age group.

Figure 8 Unemployment benefit claimant count, by region



Source: ONS, *Labour Force Survey*

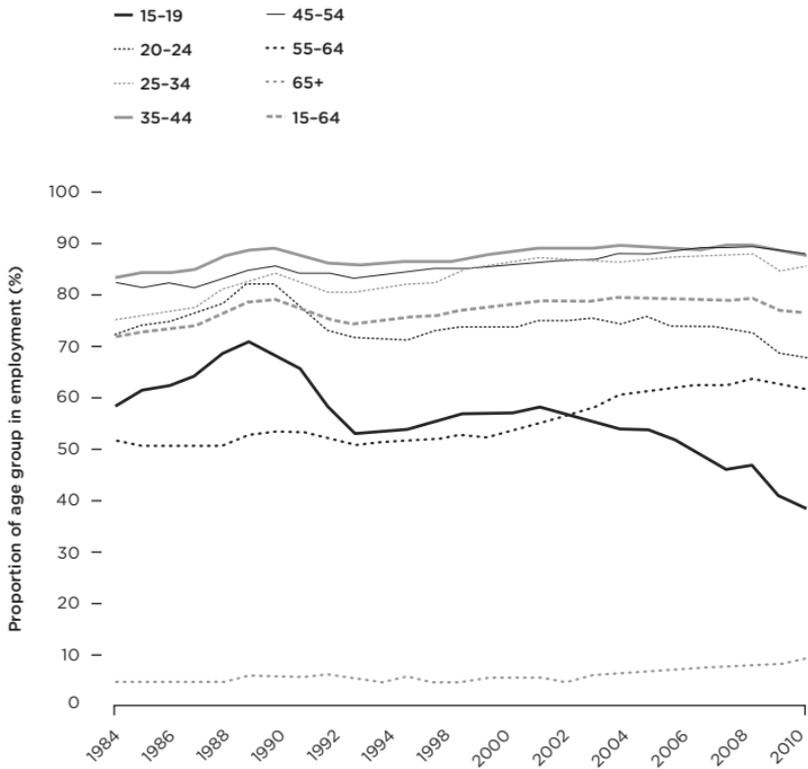
Older people leaving work allowed a natural churn, opening spaces for new employees. Yet with the end of working life becoming increasingly flexible, and the comparative lesser need for investment in the skills of older workers, there are powerful incentives for employers to rely on existing workers, instead of employing and training young people.

Moreover, older workers are more likely to be seeking part-time work to give them flexibility in retirement. These could be the same part-time jobs that young people are pursuing while at school, or in their first attempts to gain work experience.

This trend appears particularly acute in countries like Italy, which have a severely ageing population. In Italy, older people's participation rate in work is significantly rising while that of younger people is substantially falling.

As figure 10 shows, since 2000, youth employment has been tumbling in Italy, while simultaneously rising at almost the

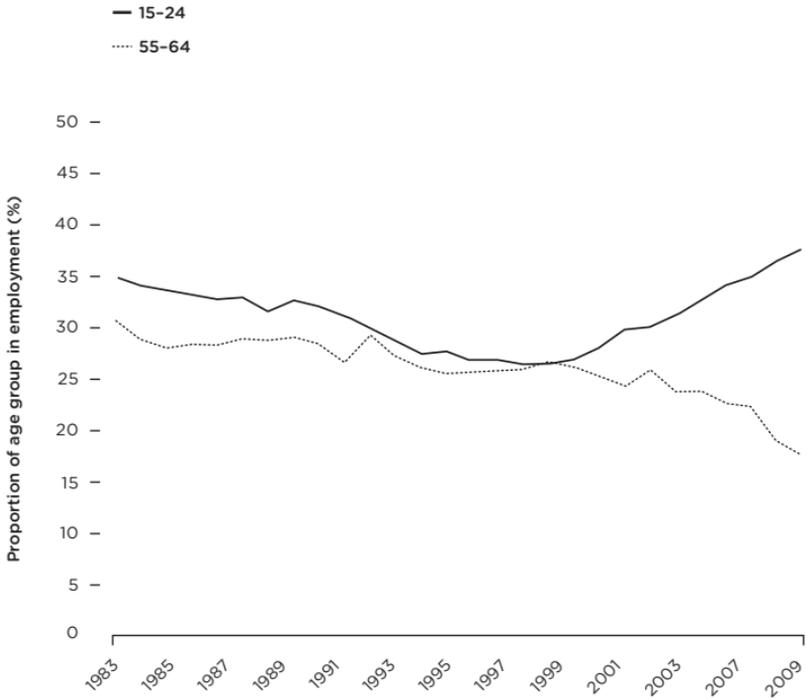
Figure 9 **Employment rate by age group, over time**



Source: OECD, *Labour Statistics*

same rate for older workers. This situation seems to imply an over emphasis on ensuring an ageing population can pay for itself and an under emphasis on getting the young into work, despite young people being the base for future growth. And there is evidence of this increased preference for older workers in the UK (see our case study in chapter 4). In 2008 and 2009 the number of entry level graduate jobs fell substantially, and subsequent improvements in 2010 and 2011 have not been able to make up for this drop in the number of jobs. Meanwhile there

Figure 10 Employment saturation rate in Italy



Source: OECD, *Labour Statistics*

has been a substantial increase in the number of graduates.²¹ By contrast, employment rates among the oldest group of workers are continually rising.

This tendency to hire older workers is not to imply that they are necessarily blocking jobs that would be taken up by young workers, because it can lead to greater overall productivity and hence investment in further jobs. But the UK should be wary of sleep-walking into a situation where over-reliance on older employees combined with under-investment in younger ones has the cumulative effect of harming productivity

in the medium and long term. Thus the problem with an over-reliance on older workers is not necessarily that they are *just* blocking jobs for young people, but rather that there is now a generation of workers who are under-skilled.

Young people switch jobs and sectors more than in the past

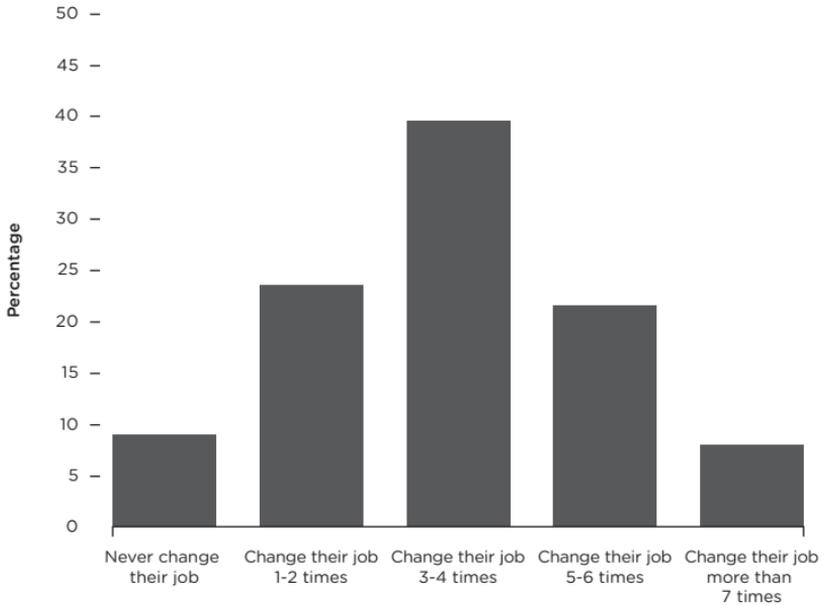
Young people in employment are much more likely to switch jobs and sectors than in the past. The journey of young people who are successful in gaining a foothold on the employment ladder is increasingly characterised by flux. Almost two in three young people in employment aged between 17–18 and 18–19 have changed sector, according to the Wolf Review, which shows there is ‘considerable occupational churn’ in this age bracket.²² Figure 11 shows that on average 20–25-year-olds change their job 3.5 times in their first 11 years of work.

Dividing young people into nine different occupational codes for each of the two years when they enter the labour market (age 17–18 and 18–19) we can see that 42 per cent of young people have a different code for the different years. This demonstrates that almost half of young people have changed occupation within two years of entering employment. Moreover, 62 per cent of young people changed sector in this same period.²³

Policy aimed at tackling youth unemployment should focus on understanding what industries are growing and therefore what skills are becoming more valuable, bearing in mind the high degree of churn that characterises a young person’s journey through employment. Because young people tend to switch often between occupations during their initial years in employment, where they enter in the labour market often has little bearing on where they are in it by age 25. Looking at the key sectors where young people have success in employment does not reveal where we should focus our resources, because of the degree of occupational change.

Given this high degree of churn, one might expect young people to report job dissatisfaction. In fact, some evidence suggests that when young people are in work they report high

Figure 11 Rate of job change in first 11 years of working for 20–25 year olds



Source: Analysis of British Household Panel by the Centre for Analysis of Youth Transitions

levels of job satisfaction. Analysis of the LSYPE shows that seven in ten 18-year-olds in employment found their job interesting, were satisfied with their pay, and said their job makes them ‘feel worthwhile’, and almost two in three are pleased with promotion prospects; four in five say their job is secure and over nine in ten people get on with their boss and colleagues (table 2).²⁴

This research suggests that young people are happy when they are in work and happy to move jobs many times in order to help themselves progress their careers. Given their apparent feelings of job security we might suggest that a lot of employment churn is due to choices young people are making rather than instability in the labour market.

Table 2 **Opinions of 18-year-olds in the UK on their job, based on LSYPE, 2009**

| | Strongly agree | Agree | Don't know | Disagree | Strongly disagree |
|--|----------------|-------|------------|----------|-------------------|
| There are no promotion prospects | 8 | 22 | 3 | 45 | 22 |
| Present job is part of a career | 18 | 30 | 3 | 27 | 21 |
| I am pleased with promotion prospects | 12 | 49 | 6 | 25 | 9 |
| I am satisfied with pay | 11 | 59 | 1 | 21 | 9 |
| My job is interesting | 17 | 53 | 1 | 22 | 7 |
| Current job is a stepping stone providing experience | 24 | 50 | 2 | 19 | 6 |
| My job makes me feel worthwhile | 16 | 56 | 3 | 19 | 6 |
| My job makes a contribution to society | 14 | 57 | 6 | 19 | 4 |
| My job is secure | 22 | 61 | 5 | 11 | 2 |
| I get on with boss | 33 | 58 | 1 | 6 | 2 |
| I get on with colleagues | 45 | 52 | 1 | 2 | 0 |

Source: LSYPE

Given young people's willingness to engage with a flexible labour market, policy responses like the New Deal or Future Jobs Fund (examined in more detail in chapter 4), which 'guarantee' employment for unemployed young people, take the wrong tack. The right approach would be to supply young people with the skills – core, employability and (where appropriate) technical skills – that would allow them to feel able to negotiate the UK's flexible labour market. In other words, the right approach is to 'teach a man to fish', rather than provide him with subsidised fish. Or in more technical language, build young people's capabilities and ensure they have the core skills needed to navigate a flexible labour market. In the following chapters we discuss approaches to tackling youth unemployment within a flexible labour market along these lines. The next chapter looks specifically at young people's transitions through post-16 education, what qualifications they are achieving and how valuable these qualifications are in the labour market.

2 Transitions

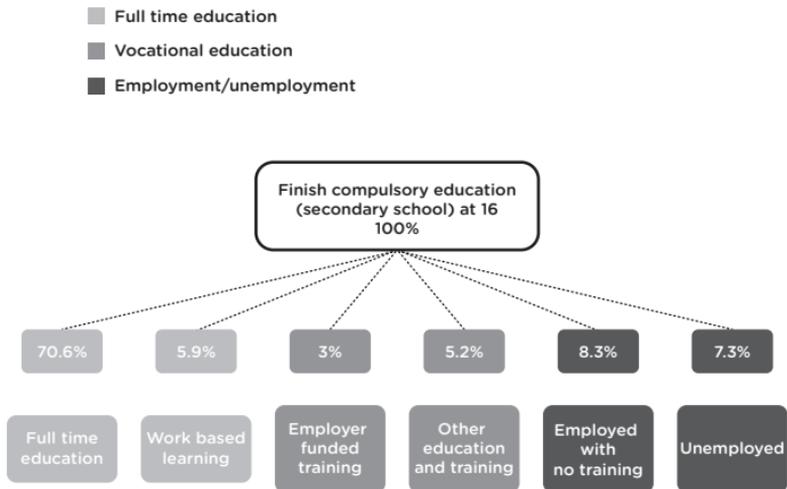
This chapter builds on previous Demos research in *The Forgotten Half* in order to map young people's transitions from school, through post-16 education and training, into employment.²⁵ In order to get a full picture of the state of the youth labour market we need to know the pathways young people take to get there. To do this, we have compiled a series of visual maps, some presented below and others in the appendix to this report, based on new analysis of the most recent provisional figures on the participation in education, employment and training of 16–18-year-olds for 2010 (provided by the Department for Education).²⁶

Multiple pathways post-16

Compulsory education up to level 2 is currently defined as lower secondary education (although this will change when the rise in the compulsory participation age to 17 in 2013 and to 18 in 2015 comes into effect). The majority of students at this stage will study for GCSE examinations in the year that they turn 16. Some students may have supplemented their GCSE studies with some vocational qualifications at levels 1 or 2. The Edge Foundation notes the trend towards pre-16 vocational qualifications: the number of vocational qualifications completed in 2009 more than doubled compared with 2008.²⁷ This trend is likely to reverse as the Government plans to reduce the number of vocational qualifications in secondary school counted as equivalent to GCSEs, and to restrict the amount of the curriculum that can be dedicated to vocational learning to 20 per cent (while at the same time promoting the more 'academic' EBacc curriculum).²⁸

Upper-secondary education, commonly known as sixth-form education, takes place predominantly in further education

Figure 12 Main activity of 16–18 year olds in 2010



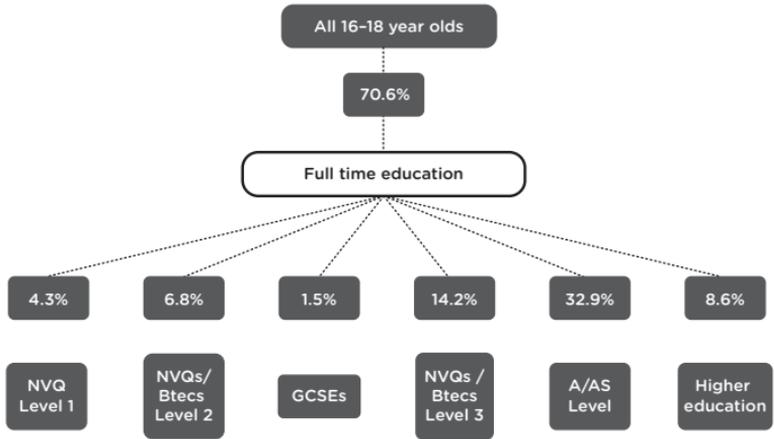
colleges: 82 per cent of 16–18-year-olds attend a state-maintained institution such as a school, academy or further education college; 6 per cent attend an independent sixth form; and 12 per cent of the total 16–18 population have already moved on to higher education.²⁹ Upper secondary education is what we are interested in mapping in this chapter.

Figures 12 and 13 provide the most accurate spread of upper secondary participation across the 16–18 cohort in December 2010. The average cohort size each year for students between 16 and 18 years old is approximately 600,000, with a combined 16–18 cohort equal to approximately 1.8 million young people.

Using these figures and the Wolf review of vocational education, we provide a sketch of six pathways young people take through post-compulsory education:

- the academic route
- the ‘higher’ vocational route following success at level 2

Figure 13 **Qualifications being studied for by 16–18 year olds in full-time education in 2010**



Source: DfE, *Participation in Education, Training and Employment by 16–18 Year Olds in England*

- the ‘lower’ vocational route after few or no qualifications are gained from compulsory education
- the work-based learning (apprenticeship) route
- the employment route
- the unemployed or other route

The academic route

Young people on the academic route – which is the most common pathway post-16 – study AS and A-levels almost exclusively. This includes approximately 38 per cent of 16–17-year-olds in full-time education and just under a third of the entire 16–18 cohort.³⁰ Slightly below half of the population go on from A-levels (or equivalent) to university.³¹

The 'higher' vocational route following success at level 2

This is the second most popular post-16 route, and most commonly involves a Business & Technology Education Council (BTEC) National Diploma at Level 3. This group comprises one in five of 16 and 17-year-olds in full-time education.³² Students on this pathway often progress to a level 4 vocational degree and/or a university degree.

The 'lower' vocational route after few or no qualifications are gained from compulsory education

Young people on this pathway have struggled to achieve five GCSEs at A*–C grades at 15 or 16 years old. After they leave compulsory education, they overwhelmingly tend to pursue level 1 and 2 qualifications, the vast majority of which are vocational (often NVQs). This group consists of just over a third of 16 and 17-year-olds in full-time education based on data from 2009/10. As we argue further below, young people on this pathway experience significant amounts of churn between courses, employment and periods of inactivity or unemployment. Moreover, as the Wolf Review points out, very few of these young people obtain valuable maths and English qualifications post-16. This is a significant failing that experts have pointed out is unique to the English system and is in drastic need of being corrected. Moreover, unless they are combined with an apprenticeship or followed by a level 3 qualification, almost all lower level vocational qualifications provide meagre or sometimes negative returns in the labour market.³³

The work-based learning (apprenticeship) route

Sixteen to eighteen-year-olds on the work-based learning route are a lucky few. The latest figures show approximately 6 per cent of 16–18-year-olds undertook an apprenticeship in 2010. This is despite the fact that apprenticeships (especially for those apprentices who reach level 3) lead to higher wage returns in the labour market,³⁴ and that the work experience they provide helps develop the social and workplace skills that employers highly value. However, not all apprenticeship provision is of

high quality, and some level 2 apprenticeships are arguably not worthy of the name since they are short term and contain training elements of dubious quality.³⁵ Moreover, even though apprenticeships are on the whole a valuable route into work and higher education, the Coalition Government has found it hard to keep expanding the numbers of 16–19-year-old apprentices.³⁶ This is probably because employers are not offering enough of them and the result of negative attitudes towards apprenticeships among young people and their parents.

The employment route

Fewer and fewer young people between 16 and 18 are going straight into employment from school. At present, approximately 8 per cent of 16–18-year-olds are in employment without training. The decline in this pathway is due to two interrelated trends: a ‘collapsing’ labour market for this age group and increasing numbers of young people remaining in full-time education until 18. On the one hand, the UK economy has seen the rise of service and professional sectors, which require levels of social skills that 16–18-year-olds may not have developed. On the other hand, as more and more young people remain in education, those who do not are stigmatised in the eyes of employers as low achievers. While young people on this pathway are gaining valuable work experience, despite a lack of formal on-the-job training or qualifications, their likelihood of earning a high wage is very small. Less than two-thirds of the one in eight 16-year-olds who choose to go directly into employment stay on this path; 9 per cent are not in education, employment or training (NEET) for a period while almost a third choose to return to education.

The unemployed or other route

According to the most recent figures, approximately 7 per cent of 16–18-year-olds are unemployed and not in full-time education (NEET – figure 12). Young people in this category are dealt with in detail in the next chapter; they tend to be a mixed bunch. On

the one hand are those with severe problems (eg learning difficulties, drug and alcohol problems, mental health issues) who are considered ‘entrenched NEETs’. But there is also a wide range of 16–18-year-olds who spend at least some time in this category and for whom there are no special personal difficulties barring entry to the labour market.

Getting UK young people on the right path post-16

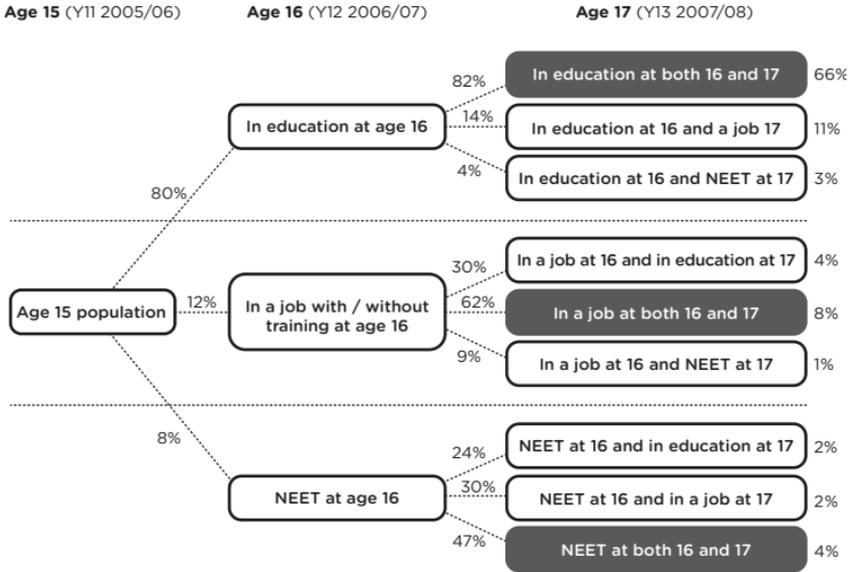
The pathway illustrations above provide a rough picture of the options and progressions available to young people today. They are, however, by no means static. The most striking finding of Professor Wolf’s Review is that these routes are porous, particularly for those not pursuing A-levels, level 3 vocational qualifications, or work-based learning,³⁷ with approximately 20 per cent of 16–18-year-olds churning between periods of employment and education.³⁸

Analysis of data from the Longitudinal Study of Young People in England (LSYPE) shows that, in total, almost one in four 17-year-olds in that cohort study had a different employment or education status from the one they had at 16 after leaving secondary school. During these two years 12 per cent of the cohort became NEET at some point. However, only 4 per cent were NEET for the whole period. For the most part, a period as NEET represents a disruption in a young person’s progression towards employment, rather than a consistent disengagement with education and employment. According to Wolf, the fact that the overwhelming majority of young people who experience churn are on lower level qualification courses suggests that they are responding to the fact that the qualifications they are studying for have little value in the labour market, as well as to a lack of opportunities for progression.³⁹

Figure 14 shows the participation paths of 15–17-year-olds from 2005/06 to 2007/08, based on data from LSYPE and the Youth Cohort Study (YCS) cohort 1.

In addition to channelling far too many young people into lower level vocational qualifications post-16 with little to no

Figure 14 Young people's participation paths between the ages of 15 and 17



Source: Wolf Review, based on LSYPE data

value in the labour market, young people are being disadvantaged in the labour market because:

- they lack good quality maths and English qualifications post-16
- they lack work experience and work-based learning post-16
- there is a virtual educational apartheid, which means that young people who take the 'lower' vocational route do not study GCSEs that might be useful to them in the labour market (eg languages and humanities)

The most egregious example of how the education system (or the choices young people are making within it) is not serving

to prepare young people for the world of work is that less than half of students leave school with five A*–C grade GCSE passes including English and maths, and only 1.5 per cent of those in post-16 education studying for level 2 work towards GCSEs of any kind. The majority instead pursue vocational qualifications with key skills components (now being replaced by functional skills), which are roundly criticised as being of very poor quality.⁴⁰ This preference for key skills over GCSEs comes in spite of the fact that the latter qualifications are of ‘critical importance’ according to Professor Alison Wolf, and the most highly regarded by employers, with significant wage returns of 10–20 per cent.⁴¹ Our report *The Forgotten Half* echoed the findings of the Wolf Review in suggesting that focusing on obtaining English and maths GCSE must be a priority for all students at 16 and beyond.⁴²

Moreover, although work experience as part of vocational education has been shown to be valuable in the labour market, less than one in five studying for vocational qualifications are getting such experience while only 6 per cent are undertaking an apprenticeship.⁴³ The number of apprentices post-18 years old is rising, however employers are still reluctant to take on younger apprentices. According to the Wolf Review, this is because of health and safety concerns, as well as the perception that these young people are low achievers and lack other employability skills (this perception being driven by the trend of more young people remaining in full-time education).⁴⁴

As a result, young people not on the academic pathway are overwhelmingly combining dubious vocational qualifications with poor literacy and numeracy qualifications and no work experience. As we argue later in this report, these young people should instead as a matter of course combine *some* vocational qualifications with *some* academic ones (especially if they lack maths and English GCSE) and *some* work experience.

The next section extends the analysis beyond post-16 education to explore pathways through university and the link between qualifications, employment rates and wages.

Education level, employment rates and wages

It is a common assumption that the higher the level of your qualification, the better protected you are in the labour market, and the more likely you are to earn higher wages. Research demonstrates that this common assumption is broadly correct. However, most young people (and people in general) are unaware of just how much better off you are likely to be depending on which qualifications you obtain. This section attempts to make those differences clear in a way that is accessible: research into wage returns to qualifications can be incredibly complex because of the wide diversity of qualifications in the UK, and the methodologies involved.

Using data from the OECD's *Education at a Glance 2010* (figure 15) and the Higher Education Statistics Agency (HESA) (figure 16), we present a series of pen portraits based on the most recent research. These portraits illustrate the connection between the multiple pathways laid out above, and education level, employment rate and wages.

Low-skilled, few qualifications (below level 2)

More than one in five people in the UK (22.4 per cent) either have their highest qualification at level 1, or no qualifications at all.⁴⁵ This group is understandably the most at risk in the labour market. In 2006, this group's employment rate was less than 50 per cent,⁴⁶ compared with 75 per cent for the rest of the working population. Even those lucky enough to be in work are unlikely to receive any training to improve their lot – just 4 per cent of those with no qualifications receive training, compared with 20 per cent of those with degrees.⁴⁷ Moreover, as the demand for reasonably well-paid low-skilled employment continues to decline in the UK, prospects for this group will continue to shrink. Those young people who fail to achieve a qualification at level 2 at 16 are at much greater risk of ending up in this group, particularly because of the poor offer of short-term vocational courses that we have highlighted. With inadequate advice and guidance, there is a risk that a significant minority of young people will churn through post-16 education, employment and

unemployment gaining few skills or qualifications and end up in this category.

Educated to level 2 (lower secondary) (figure 15)

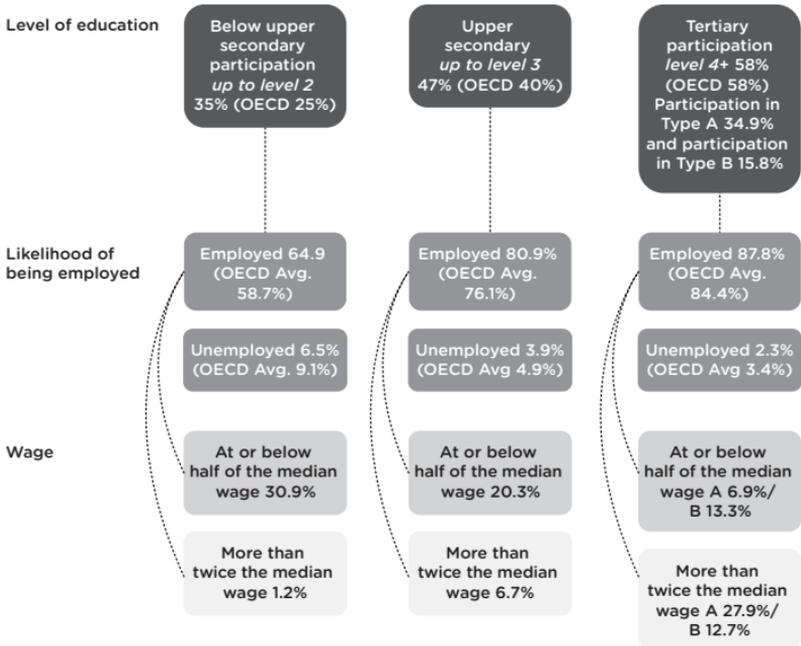
Just over one in three people in the UK are educated to level 2 but no higher. This group includes those who achieved GCSEs at 16 and went straight into employment, and those who went on to achieve level 2 qualifications post-16. As the pathways above suggest, this group overwhelmingly pursues vocational qualifications post-16 with poor quality literacy and numeracy components and little work experience. While more likely to be employed than those with no qualifications, almost a third of this group earn very low wages (half the median wage or less) and only 1.2 per cent earn twice the median wage.

There are differences in wage returns based on what kind of level 2 vocational qualification is achieved. For example, the Department for Business, Innovation and Skills (BIS) estimates there is a 12 per cent wage return for someone with BTEC level 2 compared with someone with qualifications below level 2, whereas a National Vocational Qualification (NVQ) brings only a 1 per cent wage return.⁴⁸ Though wage returns are poor on average for those with NVQs at level 2, even these qualifications are more likely to secure someone employment – people with these qualifications are 12 per cent more likely to be employed than if they had lower qualifications. Nonetheless, individuals in this group are likely to remain in low-skill employment, with little chance for progression.

Educated to level 3 (upper secondary) (figure 15)

Just under half (47 per cent) of the UK population fits in this group, compared with an OECD average of 40 per cent (ranking the UK fifth out of the 24 OECD countries). While this group's rate of employment is above the national average, and the majority are employed, they are still likely to earn middle-level or low wages. Of those employed, one in five earns half the median wage or less, while 6.7 per cent earns twice the median wage.

Figure 15 **Wage and employment status depending on level of education**



Notes: The first tier of figure 15 shows levels of education and the proportion of the population who held this level in 2007, and the OECD average figures.⁴⁹ The second tier maps the percentage of each of these three groups who were employed⁵⁰ and unemployed⁵¹ in 2007, related to the OECD average. The third tier shows the percentage of those employed in 2008 at the different levels of education who are earning a low (at or below half the median) or high (more than twice the median) wage.⁵²

Source: OECD, *Education at a Glance 2010*

Moreover, the type of level 3 qualification has an effect on earnings – with the highest wage returns occurring for those with A-levels, and slowly decreasing from BTECs down to NVQs and other vocational qualifications.⁵³ The likelihood of employment and wage returns also vary according to gender, sector and

occupation. Research from BIS demonstrates that with level 3 NVQs, men are 9 per cent more likely and women 17 per cent more likely to be employed than men and women with level 2 NVQs.⁵⁴ In general, returns are stronger for men in traditional industries such as manufacturing, construction and lower skilled occupations, and stronger for women in office or service sectors.⁵⁵

Box 1

Returns to vocational qualifications

In The Forgotten Half, we summarised previous research showing negative returns to low-level vocational qualifications.⁵⁶ More recently, analysis from BIS adds some nuance to the picture of returns to lower level qualifications.⁵⁷ According to this analysis, level 2 and level 3 NVQ qualifications show positive (albeit often small) returns if they are gained before the age of 25 years old. Moreover, the new BIS analysis suggests that all vocational qualifications are associated with an increased likelihood of being in employment.

The other '50 per cent'

The analysis of the three groups above provides a view as to what young people can expect in the labour market if they do not go to university (these three groups add up to just over half of the population). As we argued in *The Forgotten Half*, every young person should be encouraged to pursue and achieve a level 3 qualification as a minimum. In general, young people experience better outcomes if they have a strong qualification in maths and English, a BTEC vocational qualification up to level 3, and work experience under their belts – in particular, as part of an apprenticeship. At level 2 and level 3, an apprenticeship provides very good returns. BIS estimates the lifetime benefits of a level 3 apprenticeship to be between £77,000 and £117,000, and lifetime benefits for a level 2 apprenticeship are between £48,000 and £74,000. However, there is still much work to do to ensure that there is a high quality non-university pathway for young people in the UK. The creation of university technical colleges and the

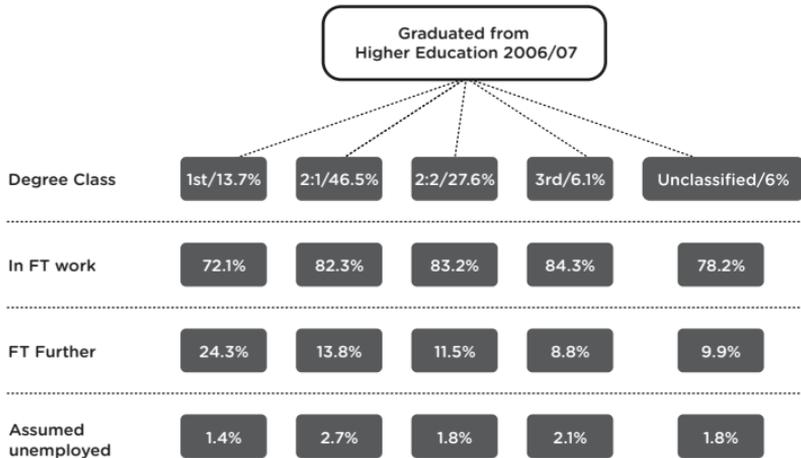
Government's emphasis on apprenticeships will help, but much more still needs to be done. In the UK, universities remain supreme, both culturally and in their labour market value: there are very high returns to university degrees in the English labour market compared with other European countries.⁵⁸ Our analysis in the two remaining pen portraits below confirms this, and suggests that at present, full-time study towards a university degree still leads on average to the best employment outcomes compared with other qualifications and pathways.

Graduates without a 2.1 degree

For many, getting to university is a significant achievement. But the work does not end there. Whether an undergraduate achieves a 2.1 or above or below a 2.1 is often seen to be correlated with future employment and earnings. However, our research suggests that simply going to university full time – no matter how well you do – is correlated with a very high likelihood of being in employment. Figure 15 shows the main activity of full-time graduates; data on part-time graduates can be found in the report by the Higher Education Statistics Agency, *Destination of Leavers*.⁵⁹ Part-time students, by contrast, are more likely to do poorly in university than full-time students. Of the 58 per cent of the UK population who have attended university, 39.7 per cent of full-time education students (presented in figure 15) and 59.4 per cent of part-time students graduating in 2010 finished with a 2.2, 3rd or unclassified degree.

Part-time students are less likely to be in full-time employment (79.5 per cent compared with 84.8 per cent of full-time students), and more likely to be unemployed (6.8 per cent compared with only 1.9 per cent among full-time education students). Although completing university after full-time study, regardless of a student's grades, acts as protection against unemployment (with only 1.9 per cent of full-time education graduates 'assumed to be unemployed'), unfinished degrees or low classifications of degrees undertaken part time do not necessarily ensure participation in the labour market. We have no idea why students who study full time and achieve poor

Figure 16 **Main activity of 2006/07 graduates in Nov 2010, by class of degree**



Source: Higher Education Statistics Agency, *Destination of Leavers*

grades are very well protected against unemployment whereas those who study part-time and achieve such grades are not.

Figure 16 shows the common routes following graduation from university for those studying full time.⁶⁰ The percentage of graduates pursuing work, further study, a combination of the two, or assumed to be unemployed in 2008 is shown in boxes, by degree classification.⁶¹ Just under half of the total population of 17–30-year-olds in 2009/10 participated in higher education: 46.5 per cent.⁶²

Graduates with a 2.1 or higher degree (figure 16)

Twenty per cent more full-time education students graduate with the top two classifications than part-time graduates. The majority of full-time university graduates (60.2 per cent) finish with a 2.1 or higher, compared with just 40.6 per cent of part-time students

graduating in 2010. Of those graduates who studied full time and achieved a 2.1 or a 1st in 2006, on average, 77.2 per cent entered full-time employment while just 2.1 per cent are assumed to be unemployed. The drop in the rate of employment compared with graduates who obtain a degree below a 2.1 is offset by the greater percentage of those who achieve a 2.1 or higher pursuing further study. It is of great interest though that the unemployment rate is slightly worse for graduates of full-time study with 2.1s than it is of such graduates with grades below 2.1. We have no idea why this is, and the difference is not large. But we might perhaps expect graduates of full-time study with 2.1s and above to be significantly better protected against unemployment than their less qualified fellow graduates. That they are not suggests that getting a degree *in general* guards against unemployment, and that having more young people attend university, while not necessarily leading to higher wages for all who do, may well lead to higher employment rates.

Taking the right path

These pen portraits illustrate the obvious point that higher-level qualifications offer better protection from unemployment and greater likelihood of earning a higher wage. Those who are low-skilled with few qualifications below level 2 and those educated only to level 2 are most at risk. In general, too many young people – around a third – are not getting above a level 2 education by the time they are 16 and end up churning through short-term, low-level vocational courses, employment and unemployment. These young people are also not pursuing those qualifications that actually have value in the labour market – most strikingly maths and English GCSEs – and as a result, young people in these groups have employment rates nearly 25 per cent lower than those with a degree.

At the same time, too few students taking the vocational route, whether to level 2 or 3, are mixing valuable ‘academic’ subjects (maths, English, sciences, languages, a humanity) with vocational qualifications, or gaining work experience and thus employability skills. Combining vocational qualifications with an

apprenticeship still leads to a much stronger position in the labour market than vocational qualifications alone, despite the fact that recent BIS analysis suggests the wage return gap between such qualifications achieved in the classroom versus those achieved through training while in employment is beginning to narrow.⁶³

Nevertheless, only a small percentage of the large proportion of young people pursuing vocational qualifications is fortunate enough to take on a high quality apprenticeship. Moreover, an apartheid between academic and vocational students remains, as does the supremacy of a university degree. While some university degrees inevitably offer better wage returns than others, the above makes clear that all degrees obtained through full-time study still offer very good protection against unemployment: even accounting for poor grades, those educated to level 2 are 2.8 times more likely to be unemployed, with those educated to level 3 being 2.5 times more likely.

The long and winding road to employment

Young people's educational pathways have a significant bearing on the likelihood of them becoming unemployed. While it is not necessary for students to have mapped out their entire career paths by the time they finish compulsory education, these figures show that a significant proportion of young people fork away from their employment path, either reverting back to education or, in a minority of cases, slipping into non-activity. Rather than staying on a consistent path, for a significant minority of young people, the route through education and employment consists of repeated shifts in direction, signalling that the provision of qualifications for employment is not sufficient to guarantee straightforward progression.

Churn in and out of education and/or employment seems, in part, to be caused by a lack of information, or indeed misinformation regarding education and employment choices. There is a lack of awareness among young people about what employers value. For example, they may not know that spending a year retaking maths and English GCSEs would give them far

more protection against unemployment (and far higher wages) than a whole host of low-level vocational qualifications. If young people were aware of the positive reasons for following a certain path, they would be better placed to understand the importance of general education and transferable skills, as well as the value in pursuing more focused technical skills to higher levels. At worst, students are actively pushed into pursuing low-level and largely irrelevant vocational courses, which fail to address poor literacy and numeracy levels in a way that is recognised by employers. At best, they seem to drift across these different pathways through post-compulsory education.

This chapter has focused on the different pathways young people take through post-16 education, and how well those pathways prepare them for the labour market. The next chapter looks more closely at those young people classed as NEETs. A significant proportion of young people spend at least some time NEET. Others find themselves NEET much more frequently, and for longer periods of time. We investigate who is likely to be NEET and the experiences of those who are.

3 The NEETs

Since around 1992, measurements of young people who are NEET have been available. After a peak of around 12 per cent after the early 1990s recession, levels fell in the late 1990s, but rose again in the early 2000s to a peak of around 11 per cent in the mid-2010s.⁶⁴ According to the most recent figures from the Department for Education, the NEET level for 16–24-year-olds has reached 16.2 per cent, compared with 14.4 per cent in the same quarter in 2010.⁶⁵ At the same time, the number of 16-year-old NEETs has decreased by around 2 per cent between 2009 and 2011. These two contrasting figures bring us to the heart of the problem of measuring NEETs: the decrease in the overall rate is probably due to more 16–18-year-olds staying in education in order to avoid a hostile labour market. But the rise in over-18 NEETs is due to young people being made unemployed or being unable to find a job. So hidden in the figures are two very different groups: those deciding whether to stay in full-time education and those unable to find work once they have left it.

This heterogeneity begs the question of whether it is useful to measure overall levels of NEETs at all. In fact, the term NEET is one of a series of terms used to talk about social exclusion among young people. Since the phrase was coined in the late 1990s, there has been an ongoing debate about the appropriateness of the NEET category as a tool for policy-making.

The term ‘NEET’ was preceded by the term ‘status zero’, a technical expression derived from careers services records where status 1 referred to young people in post-16 education, status 2 those in training and status 3 those in employment. However, it soon came to represent what one critic described as ‘a powerful metaphor’ for the fact that ‘status zero’ young people appeared to ‘count for nothing and were going nowhere’.⁶⁶ NEET (not in

employment, education or training) was seen as a more neutral term.⁶⁷

NEET as a category

The issue of NEETs has commanded a significant amount of attention in policy circles. This is primarily because of the high negative economic and social costs associated with some young people who experience prolonged periods of being NEET.

Being NEET seems to denote poor educational achievement, a lack of qualifications, few skills and thus an increased likelihood of long-term unemployment, as well as poor health and a criminal record. As early as 1993, research into the costs of disengagement at age 16–17 estimated that the cost of the 30–40 per cent of 16–17-year-olds who started on courses of study only to drop out was around £500 million per year.⁶⁸ More recently, the financial cost of NEETs has been estimated at ‘£7 billion in resource costs, and £8.1 billion in public finance costs at 2000/01 prices’.⁶⁹

Yet the boundaries of the age group covered by the NEET category are notoriously unclear. While NEETs were originally only young people between the ages of 16–17, some research on the group stretches the age range to as high as 24 or even 25. In addition to this, the raising of the school participation age to 18 will present new problems in how to categorise NEETs, as will the government’s recent pledge to provide funding for vocational and work-training opportunities up to the age of 24.

There is also the issue of the ‘positive NEET’ group. Very little work has been done on this category, which takes in parents who are not working, young people on gap years, those carrying out unpaid charity work, or those economically inactive while they wait to join the armed forces (to name a few examples). When newspapers report record highs in NEET numbers⁷⁰ they probably have no idea that a 24-year-old mother taking time out to raise her child is counted as NEET.

Recent research into the NEET phenomenon has begun to unpick the various assumptions that have become attached to individuals who make up this category. Traditionally, NEETs

have been seen as ‘work-shy’ individuals who are likely to have low aspirations, negative opinions about their future prospects and low levels of academic attainment. The survey by the National Federation for Economic Research (NFER) in 2009 refuted these assumptions, revealing that the majority of NEET young people differ little in their aspirations from their employed peers.⁷¹

Criticisms of the term NEET tend to focus on the negative stereotypes surrounding the group. Commentators have argued that the stigma attached to being NEET can in itself act as a barrier to getting into employment.⁷² There is also debate about the potential pitfalls of ‘defining individuals by what they are not’⁷³ – NEET is a ‘statistical residue’ made up of individuals who don’t fit into other categories, rather than a coherent group in itself. Therefore policy based on the premise that NEETs form a coherent group is likely to be less effective than policy that recognises the myriad needs that NEET individuals are likely to exhibit.

As academics at the Institute of Education point out, the potential scope of the term ranges ‘from the most disadvantaged and disengaged to those who become NEET by virtue of dropping out of a course or losing a job’.⁷⁴ Thus there are many different routes into the NEET category. While some individuals become NEET straight from school, others start a job or training and then quit, and a further group becomes NEET having been made redundant.

Recent studies have also challenged the assumption that young people who are NEET have no – or very low level – qualifications. Analysis of the Youth Cohort Study (YCS) showed that more than 40 per cent of NEET young people had qualifications up to level 2, which is slightly above the 35 per cent of the general population educated to this level (see figure 15).⁷⁵ In addition, it has been argued that in many entry-level jobs, qualifications take second place to social and ‘soft’ employability skills such as interview techniques and networking abilities. This means that the focus on skilling-up young people as a way of reducing NEET numbers may be ineffective if it fails also to increase their soft skills.

Thus, since 2009, policy-makers have moved away from a model in which individuals are defined by membership of a discrete group characterised by some form of disadvantage. Having recognised NEETs are not a homogenous group, decision-makers have attempted to develop a set of sub-groups, which will allow for more targeted policy-making.

The NEET sub-categories tend to include:

- care leavers
- carers
- young parents
- offenders
- young people with low educational attainment
- persistent truants
- young people with physical or mental health problems
- young people with drugs or alcohol abuse problems

Thinking in terms of these groups is useful in that it allows for more targeted interventions, which aim to engage with the individual challenges that a person faces. However, the headline NEET figures still include all sorts of other individuals (such as gap year students without a confirmed place at university, as mentioned above) with very different needs.

Another useful dissection of NEET young people was developed by the NFER in 2009, following an analysis of the YCS data.⁷⁶ The NFER divides the NEET cohort into three large groups based on their attitude towards their current situation and their prospects for the future:

- *Those who are open to learning* – These make up the largest group in the dataset, forming 40 per cent of the NEET group. Typically members of this group have made some bad choices about their progression, but are not strongly opposed to returning to training or education. They tend to be positive about their future prospects, and many have achieved level 2 qualifications.
- *Those who are undecided* – This is the smallest group at 22 per cent. These young people are unable to make up their minds about what they want to do, or are unable to access the type of

provision they want to pursue in the area where they live. In the YCS, 60 per cent of this group were still in the NEET cohort after a year, compared with around 30 per cent who had re-engaged in education or training, although many could be expected to find their way into jobs over time.

- *Sustained NEETs* – 38 per cent of the NEET cohort falls into this group. These young people typically come from deprived backgrounds, have no recent history of employment, low educational attainment and very negative experiences of school, including a record of truanting in many cases. Some 60 per cent were still in the NEET cohort after a year, although some may have short-term experience of jobs without training.

Interestingly, policy-makers in Scotland and Wales have rejected the NEET label in favour of a less loaded term. In Scotland, young people who would be categorised as NEET are instead known as ‘young people in need of more choices and more chances’. Scottish research has also revealed the impact of school exclusions on the likelihood of young people becoming disengaged from education and employment. A report on the recent work by the Scottish Executive into youth unemployment revealed that

*the statistical evidence suggests that school exclusion policies and practices appear to have a significant impact on the level of NEETs. There are marked differences in rates of exclusion both within and between education authorities; however there appears to be a clear correlation between high rates of exclusion and NEET ‘hotspots’.*⁷⁷

In Scotland, ‘The five authorities with the highest rates of exclusion per 100 pupils were among the seven identified NEET hotspots.’⁷⁸

Young people ‘at risk’ of being NEET

A significant amount of research in recent years, including previous Demos research, has focused on identifying those individuals at risk of becoming NEET in order to provide pre-

emptive interventions.⁷⁹ While the prevailing wisdom would see ‘at-riskness’ as signified by having poor academic and social skills and being disconnected from school culture, the fact that around 41 per cent of NEETs have qualifications up to level 2 potentially undermines this assumption.

The NFER researchers use the following three key points to describe the risk factors associated with being NEET:

- educational disadvantage and lack of achievement
- personal issues and circumstances (eg disability, mental health issues, pregnancy, or drug and alcohol problems)
- structural factors such as regional location (eg there are a higher number of NEETs in areas that experienced a decline in a traditional manufacturing industry, such as the North East of England).

The NFER researchers also stress the importance of ‘alternative factors’ in leading people to become NEET, including ‘family or cultural expectations, young people’s belief systems, peer pressure and the attractiveness of certain lifestyles outside the mainstream (including not liking the prospect of work or attending a course)’.⁸⁰

NEET interventions

Ideally, interventions to help NEETs with personal problems would focus less on specific employment, education and training outcomes, and instead assist individuals in making a sustainable progression that is tailored to the individual. However, the reality of many government schemes designed to tackle youth unemployment over the past decade (New Deals, e2e, etc) seems to have been that despite an awareness of these subcategories being present in the literature, the focus is very strongly on moving young people into employment, education or training as quickly as possible. Schemes that do not first recognise the importance of dealing with other issues and challenges that may impede a young person’s ability to hold down a job have been

shown to have lower retention rates than those which take a more long-term approach.⁸¹

The lived experience of young people who are NEET: residents of The Foyer Federation

To further understand the lived experience of some young people who are categorised as NEET, Demos held focus groups with residents of The Foyer Federation, an organisation that supports young people aged between 16 and 25 to progress into education, employment or training, while being provided with ‘supported accommodation’. The eligibility criteria for a place at a Foyer is based on housing need, and applicants must also show a demonstrable willingness to participate in education or training, or to attend courses run by the Foyer. To a certain extent the Foyer’s selection process means that the young people we spoke to all had a similar perspective on their situation: they had made a decision to move forward with their lives, even if they were not yet sure of the direction in which they were going.

Our focus groups highlighted a number of obstacles facing young people who often find themselves in the NEET category. We found that:

- Young people are often pushed into college courses or placements for financial or logistical reasons, rather than because they represent genuine career progression.
- Financial hardship is a pressing issue for many young people.
- Most of the young people we spoke to were positive about the value of education.
- Young people are aware of the stigma of being NEET and living in a Foyer.
- Some young people’s aspirations were unrealistic.

Young people undertaking college courses or placements for financial or logistical reasons

Several of the young people we spoke to felt that in the past their parents and advisers (teachers, Connexions staff) had pushed them into courses for reasons other than career development. Some said that it was because Connexions and college staff needed to fill places on specific courses. Others pointed out that parents receive benefits if their children stay in college post-16. There seemed to be a distinct lack of careers guidance from the local colleges, with many young people feeling they had been cut adrift either after or during courses:

I got my qualification and was basically told there was nothing much else I could do after that.

Young man

Sometimes [Connexions] just put you in a course to keep you in education.

Young man

People at Connexions just want to fill every course. You don't tell them what you want to do. They tell you what you can do.

Young man

Two of the young people we talked to said that they had only gone to college so their parents would continue receiving child benefit. One young woman at Braintree Foyer told us that she had only applied to her college course the day before term began, and that she had chosen it because she had a friend who was doing it. A support worker told us:

Usually what happens is that people take a placement which is completely irrelevant to the course just to stay in college.

Some of the young people weren't clear about exactly what they had gained from completing their courses. While the young people at Braintree Foyer could reel off qualifications from A-levels to first aid certificates, several of the young people at Ravenhead Foyer didn't seem to be sure what qualifications they had. This suggests that for some there is a disconnection between

qualifications and real career progression, where young people are not sure what they are qualified in, or what they are qualified to do.

Financial hardship

Financial hardship is a pressing issue for many young people. While there is lively public debate around financial hardship at university, the issues around financial hardship post-16 have received much less public scrutiny. Without the cushion of parental support, young people can be quickly plunged into debt. The young people we spoke to described struggling with their utility bills and rent. Several had found themselves in debt having had their housing benefit suddenly revoked. This was normally due to a change in circumstances such as going off jobseeker's allowance for a minimum wage job, or a college course coming to an end:

I'm in so much debt from working at McDonalds. From day one I said my problem has been budgeting – I don't understand council tax and that.

Young woman

A support worker at one of the Foyers told us,

Lots of people have found themselves in a trap of hundreds of pounds of debt because their benefit has been stopped, to be restarted. But in the time between, they've lost housing benefit. They quite literally find themselves in £400 of debt in a number of weeks.

Several of the young people we spoke to described the logistical challenges presented by trying to be self-sufficient with no parental support and little money. A big barrier to gaining employment is travel. S is a 23-year-old man who has lived at the Foyer for the last four months. He has some GCSEs but left school at 16. Previously, S started a course in mechanics at college and took on a work placement at a local Peugeot depot. When the depot closed S could not travel to the nearest replacement site because he couldn't drive:

I've got an interview on Friday for O2 in a customer service role. Ideally I'll get the job and then stay living at the Foyer for a few months to build up a bit of cash. The problem is that a lot of young people leave home and they're fine for a few months and then they just get into so much debt. The issue is debt – in this country we're hammering people with debt.

Other Foyer residents told us of similar problems:

For me the biggest barrier [to employment] is travel. Didcot is not far away but you have to drive.

Young person

Young people can't get jobs because they don't have the money to start with and travel is a real issue. We should get funding to help us to drive.

Young person

If your job starts at 7am and you don't drive, it's a real problem because there are restrictions on the buses.

Support worker

I wouldn't get a job in Chelmsford because if you're paying for the train, you're losing so much money it becomes pointless, there's no point working in Chelmsford, and even if you do drive you pay so much for petrol you can't win.

Young woman

Current financial instability and the burden of existing debts made the young people particularly cautious about going to university on a student loan:

If you go to university you start off your adult life with debt. And what's the point in that?

Young woman

Even before the fees went up, the whole idea of university put me off because I knew I would end up in debt and probably without a job I wanted, earning nothing. So I didn't do it.

Young woman

I still want to go. But the debt scares me.

Young woman

Two young people told us they had failed to get qualifications despite completing, or nearly completing, their courses. They had both missed their final exams at college because they had recently been made homeless. They then were unable to retake the exams they had missed because there were retake fees of between £200 and £300.

Most young people in Foyers value education

Most of the young people we spoke to were aware of the value of education and training, but some were reluctant to commit to any course or a job that didn't have a clear path towards their chosen career:

I wish I'd listened at school because now most jobs you have to have maths and English, even if you want to be a teacher or a model. I have done certificates in maths and English at the Foyer but it might be too late.

Young man

The stigma of being NEET and of living in a Foyer

The young people told us that their lives are made more difficult by the social stigma that comes with living in a Foyer. In addition to negative perceptions around being NEET, the young people also described the stigma attached to low paid jobs such as supermarket work and employment in a fast food chain:

We have to do the jobs nobody likes because we didn't listen at school and we dropped out of college; that's why we have to do the horrible jobs.

Young woman

I handed out a CV to every shop in Freeport shopping centre a few months ago and they all rejected me except Burger King – who I rejected because I don't want to work for them. You get a free lunch there every day but I'd be

so unhealthy and fat. I wouldn't work in McDonald's either because it's embarrassing.

Young woman

It's got to the point now where I'd do any job except one that would be in public and embarrassing – like cleaning toilets. Even now you have to have a grade D GCSE and above to work in McDonald's, so I can't get a job there.

Young man

Unrealistic aspirations

Several of the young people aspired to professions that rely largely on personal attributes or innate talent, rather than on qualifications or training. Of the 12 young people we spoke to in Braintree, two were aspiring models, one wanted to be an actress, one wanted to be a DJ and two were keen to realise their dreams of being professional football players.

While it is entirely possible that the young people did have the necessary talent to achieve these aims, they are all competitive jobs that come with little job security. These young people found it hard to imagine a middle ground on which they would be able to use their talents while earning a living:

I got to year 10 at school and just thought I don't care anymore. But I don't want to do a normal job – models have to build up portfolios like actresses, but most end up working as waitresses. But if you have a dream that's too hard to achieve, then that's what happens.

Many of the young people we spoke to lacked positive role models and proper guidance that might connect their aspirations to what is achievable. This lack of positive role models can be seen, according to one Foyer Federation employee, in the fact that many young people in Foyer Federation accommodation decide they want to be youth workers, because these are the first positive role models that they encounter. This highlights the importance of being given high quality guidance at school at an earlier age, and increasing engagement between schools and

local businesses to raise awareness of different professions and opportunities.

Most people in Foyers did not fill the stereotype of being NEET

Despite some unrealistic expectations, the vast majority of young people we spoke to at the Foyer Federation were a long way from the stereotype of a NEET young person. Rather than being feckless and workshy, these young people were often eager to work, and ambitious for their futures. They were frustrated and humiliated by the difficulties they were facing in finding work or completing their courses.

In particular, we got the impression that the time at college for some young people is an ongoing struggle between trying to make positive choices, and college authorities with their own agendas. We were also struck by the financial hardship that many of the young people had to contend with, particularly when it came to financing travel to and from placements and jobs.

Moreover, the few who were NEET and had nothing lined up for the future were often in this position for reasons over which they had no control. For example, they were struggling with mental health problems or abusive family backgrounds, and the period during which they were NEET was a time of welcome respite during which they could, in the words of one young man, 'get back to square one'.

4 Getting into work

This chapter outlines what services the young unemployed can access, investigates past and present policies that have shaped the youth labour market, and examines employers' attitudes to hiring younger and older workers. We also analyse Labour's New Deal for Young People (NDYP), the Coalition's Work Programme and the policy response to youth unemployment in Denmark. We then present two employer case studies that we conducted for this report. We carried out case studies with two national UK employers, both of which employ workers under age 25. They provide insights into the decisions made before employing young people.

The New Deal for Young People

Labour launched the centrepiece of its welfare-to-work strategy when the youth unemployment rate was just over 13 per cent.⁸² The NDYP aimed to make 250,000 18–24-year-olds active in the labour market and get them off expensive benefits. The scheme consisted of weekly meetings with job search advisers, training and job creation schemes.

When it began in 1998 the NDYP was billed as the most concerted attempt to solve the UK's unemployment problem since a supply-side approach became dominant (an approach whereby governments concentrate on investing in the quality of the supply of labour through training and education).⁸³ Yet, critics argued the novelty of the New Deal lay more in its packaging than its substance – seeing much continuity with policies pursued by the Thatcher and Major governments'.⁸⁴

Studies have found that job finding rates increased by around 20 per cent for participants in the New Deal.⁸⁵ Research also shows that roughly 25,000 fewer young people remained

unemployed for six months or more in the year after the introduction of NDYP, than in the preceding two years.⁸⁶ But a common criticism of the strategy was that it did not succeed in helping young people to find sustained employment, and that the Labour government failed to engage the voluntary sector seriously in helping people to get jobs.⁸⁷ One study carried out between 1999 and 2000 revealed that a quarter of young people leaving the programme returned immediately to benefits; that another 50 per cent returned to benefits within six months; and that only around a fifth never went back to benefits.⁸⁸

Geography played an important role in the NDYP, with local labour market conditions having a large effect on the likelihood of success in the longer term. Unfortunately different regions produced data of varying quality,⁸⁹ so while we are unable to draw solid conclusions from the evidence available, it is fair to say that regions such as the East Midlands and the North East produced a lower success rate because their economies were less robust than those in the South East.

Despite the modest success of the NDYP, there was a relatively unexplained rise in youth unemployment between 2004 and 2008. The fact that this increase came about before the recent recession requires further scrutiny. Some have attributed the increase to rising migration and a larger cohort of young people (both factors which increase competition for jobs), although there is little evidence for these explanations.⁹⁰ A more plausible explanation seems to be that government funds were funnelled away from job-searching services for young people to vulnerable groups around this time.⁹¹ This shows the specific importance for the young unemployed of one-to-one job search advice.

The Future Jobs Fund

Following the New Deal programme, Labour launched the £1.4 billion Future Jobs Fund in 2009. The scheme targeted unemployment 'hotspots' across the country. For example, between March 2010 and March 2011, the Be Birmingham Future Jobs Fund offered 118 jobs to young people at a rate higher than

the national minimum wage, and another 2,587 young people were offered work placements (whereby they continued to receive benefits).⁹² While this city-wide scheme received a largely positive reaction, some participants registered disappointment at having to leave their placement after six months. Worries over whether the Future Jobs Fund yielded sustained employment for participants became the dominant criticism of the programme, combined with attacks on its expensive price tag: the cost has been estimated at £6,500 per job compared with £3,480 for NDYP.⁹³

Coalition policies

In May 2011 the Coalition Government published their youth employment strategy, outlining an approach focused on raising skill levels, and encouraging private and public sector work opportunities, while also strengthening support services for out-of-work youths.⁹⁴ The Coalition's policies are in some ways continuous with the previous government's focus on increasing the skills of young people and providing one-to-one job search support. However, the Coalition has shied away from straightforward job subsidies such as were offered by the Future Jobs Fund, cutting funding to this programme. Conversely, the Coalition has increased spending on training – particularly for apprenticeships, but also for any training up to level 3 for under 25-year-olds.⁹⁵

The Coalition's youth unemployment strategy focuses on providing localised and targeted support for young people who are unemployed or at risk of becoming NEET, and making work pay by reforming the benefits system.

Briefly, the following initiatives have been announced to improve targeted support:

- investing £12 million in voluntary and community sector organisations such as the Prince's Trust and Tomorrow's People to support young people who are NEET or at risk of becoming so
- investing £60 million in early access to the Work Programme (the Coalition Government's flagship welfare-to-work programme for all long-term unemployed people), so that young

people will be guaranteed access after nine months of unemployment (12 months for older claimants), with only a three month wait for those 'at risk'

- increasing the capacity of Jobcentre Plus, in partnership with local authorities and careers services, to support the 5,000 most disadvantaged 16–17-year-olds claiming jobseeker's allowance (JSA) each year, including through access to work experience and work clubs (local clubs that hope to spread knowledge of job opportunities through informal social networks)
- establishing a £10 million per annum fund that supports voluntary and charitable organisations to develop innovative approaches to stopping young people becoming and remaining NEET
- introducing a national careers service to be used regularly in conjunction with targeted job search support

It is too early to say whether the Coalition's strategy on youth unemployment will be effective, so we reserve comment. However, we do note in the policy recommendations below how it might be strengthened.

To improve incentives to work, the Coalition's flagship welfare reform is the universal credit, which is due to become nationally operative some time after 2015. Its principal aim, apart from simplifying the benefits system, is to ensure that marginal returns on entering work from benefits are greater, and easier to understand, than has previously been the case.

While appealing in principle, doubts have been raised about the feasibility of the powerful centralised computer system needed to operate the universal credit system.⁹⁶ Other criticisms have focused on the fact that incentivising work through wage supplementation (essentially by continuing out-of-work benefits as reduced in-work benefits) can lead to perverse incentives to stay in part-time work rather than move to full-time work (since an optimal marginal return on labour is reached in part-time work).⁹⁷ Yet even if ambitions to integrate all benefits into a single credit prove logistically unfeasible, the idea of better incentivising work for those young people who are long-term unemployed is crucial.

Beyond the universal credit, the Coalition's approach to welfare-to-work through the Work Programme is distinguished from NDYP in that it is ostensibly a payment-by-results scheme, with private sector contractors like Serco and Ingeus Deloitte contracted to run many programmes. The companies will be incentivised to find jobs for the unemployed by payments of up to £4,050 for a JSA claimant aged 18–24. Around 600,000 people are expected to go through the Work Programme in 2011/12.⁹⁸

It is too early to say whether the Work Programme will be a success or not, but one worrying aspect of the programme is the amount of time young people have to wait to enter it. Young people are not offered targeted assistance until the ninth month of unemployment. This is worrying since the withdrawal of targeted job search advice in 2004 seems to have contributed to the youth unemployment rate ticking upwards in the first place.

The new skills agenda - apprenticeships

The Government's reform of the skills system will also see the number of adult apprenticeships expand to 200,000 (75,000 more than Labour planned) by 2015 – at an extra cost of £180 million. In addition, young adults aged 19–24 and studying for their first level 2 or level 3 qualifications are promised full funding to encourage skills development. The Coalition has also pledged to fund an extra 80,000 work placements over the next two years, on top of the 20,000 planned by the Labour Government, providing valuable work experience opportunities. These work placements will be arranged for 18–21-year-olds via their local job centre and mean young people can work unpaid for up to eight weeks without losing their benefits. Under the Flexible New Deal (a version of the NDYP) they could only work for four weeks before risking the loss of their benefits.⁹⁹

Also pivotal to the Coalition's skills policy post-16 are apprenticeships,¹⁰⁰ whereas the Labour Government was more concerned to increase access to qualifications through training (work based and otherwise), although it too was moving towards a prioritisation of apprenticeships. While there has been rapid growth in the provision of 'adult' apprenticeships, growth in

16–19 provision has remained relatively static in recent years. In 2009/10 116,800 16–18-year-olds in England started apprenticeships, compared with 102,800 in 2010/11. This slight fall in numbers comes despite rising spending levels, with £688 million spent in 2009/10 and an estimated £780 million in 2010/11.¹⁰¹

Making apprenticeships attractive to young people is a long-term task and one that depends on the quality of provision as much as an enthusiastic push for quantity. It remains to be seen whether the Government's quality assurance measures such as the Specification of Apprenticeship Standards (published in January 2011) will raise quality. It is also important that more advanced (level 3) and higher (level 4) apprenticeships become available.

As of 2010/11 there were an estimated 218,000 16–18-year-olds working towards apprenticeships in England, with the most new starts taking place in London.¹⁰² This figure is almost double the previous year's cohort. But despite these encouraging figures, the numbers of young people receiving training while in work has reduced steadily over the last decade or so, with training for 16–19-year-olds at 21.3 per cent in 2009, down from 25.5 per cent in 1998.¹⁰³

In 2009, 8 per cent of all employers offered apprenticeships. Of large employers with 500-plus staff, 30 per cent offered apprenticeships and 22 per cent had at least one apprentice.¹⁰⁴ According to the National Employer Skills Survey for England, just under a quarter of employers recruited a young person under the age of 24 direct from full-time education in 2009. Of those 79,000-plus employers, most found young people well or very well prepared for work, with preparedness improving with time spent in education.¹⁰⁵ Yet a small but significant minority of employers said a lack of experience, especially among school leavers, was to blame for poor preparedness for work. Indeed, recent research shows lack of experience is the most common reason cited by young people when asked what barriers prevented them from working.¹⁰⁶

The UK Commission for Employment and Skills recently highlighted the efforts of large multinationals (which normally recruit high numbers of graduates) to enter into the apprentice-

ship marketplace. For instance, in 2010 IBM recruited its first 20 apprentices into a variety of roles, including in IT, consultancy and project support. According to the Commission, IBM viewed its decision as a positive step, which ‘creates a talent pipeline for specialist staff within the organization’.¹⁰⁷ Similar schemes are run by BT, Honda and Network Rail.

International case study: Denmark

Although there is limited scope for international comparisons of policy toward youth unemployment in this report, we include an analysis of the Danish approach. Both the UK and Denmark were hit with high youth unemployment rates in the early 1990s, but since then the Danish and UK experiences have varied drastically: the current youth unemployment rate is 5.1 per cent in Denmark, compared with roughly 20 per cent in the UK.

At the same time that the Labour Government introduced the New Deal for Young People, the Danes launched their Youth Unemployment Programme (YUP). At the time, the YUP was introduced the youth unemployment rate was 14 per cent.¹⁰⁸ Three years later (in 1999) the Danish youth unemployment rate had halved and was among the five lowest in Europe. In 2010 the Danes updated YUP with the project Youth – Well Underway as part of its youth strategy (*ungepakken*), and have invested half a billion Danish kroner (equivalent to £78 million) in helping young people find work.

There are a number of features that distinguish the Danish from the British approach to youth unemployment, of which the most relevant are:

- greater priority given to increasing skill levels rather than finding immediate employment
- mix of insurance and welfare principles (eg the existence of a voluntary insurance scheme)
- early access to one-to-one support

The spending levels in Denmark on youth unemployment are 4.8 per cent of GDP, compared with 0.9 per cent in the

UK.¹⁰⁹ According to January Hendeliowitz, director general of the employment region for Greater Copenhagen at the Danish National Labour Market Authority, ‘we are a country who spends the most on youth activation policies in the world I think – as youth unemployment is seen as a very high priority’.¹¹⁰

Our research suggests that Denmark focuses on increasing skill levels among the unemployed because the average wage in Denmark is higher than the UK’s (although the cost of living is higher) and employers demand a wider range of qualifications and work experience before offering someone a full-time job. As a result, there is a much greater emphasis on focusing on young people from the age of 15 and ensuring that they complete their education by the time they are 18. Hendeliowitz said:

If you look at the Danish strategy you can see there is a policy for all young people over the age of 15. Every single youth must be either in education or some training or job programme until they are 18 and so it really is very comprehensive. Nobody is left behind and they have to take part as it is a duty.

As we’ve mentioned earlier, this is the approach the UK is taking in raising the compulsory school leaving age in 2015. But there is still a significant need in the UK to ensure that young people from 14 onwards are receiving high quality information, advice and guidance.

Perhaps the most interesting aspect of the Danish system is the comprehensive unemployment benefits system, which consists of a voluntary insurance scheme (for those eligible) and extensive state social assistance (for those who are not eligible for the insurance scheme).

The voluntary unemployment insurance scheme (UI) is privately run by trade unions and professional bodies but receives most of its revenue from the state. Around 80 per cent of those who are a member of a UI fund are also a trade union member. Overall, 77 per cent of the whole workforce and around 16 per cent of young people are members of a UI scheme.¹¹¹

Young people are only eligible to join a UI scheme if they have completed a full-time education course or spent at

least one year working, adding further incentives for young people to study and work. To receive UI benefits a young person must pay around £30 a month for a policy. In return a young graduate receives a maximum of £1,500 a month, reduced to £288 a month for under 25s who live with their parents and are not graduates.

On top of their UI benefits a young person receives subsidised job training and personalised support from their local job centre. If an insured youth has not found work after three months they can also claim just over 80 per cent of their available state social assistance (a maximum of £48 a day).¹¹²

Unemployed people who are not covered by the scheme – and most young people are not covered – can receive benefits of up to £60 a day for a maximum of two years. After six months, unemployed young people not on an insurance scheme are required to take part in an ‘employment activation programme’. This 18-month programme could include private or public job training, job search courses and targeted education.

Studies have shown that two-thirds of the young uninsured and unemployed in Denmark found work by the time they would have become eligible for the 18-month-long activation period. About one-third of uninsured young people found a regular job within six months, while another third started general education. The remaining 33 per cent entered the 18-month ‘activation period’.¹¹³ Other research reveals that five out of six uninsured youths are without an upper secondary education – compared with three in ten in the insured category.¹¹⁴ Uninsured Danish youths receive a minimum pre-tax social assistance payment of over £700 a month, compared with £51 a week in JSA payments for British youngsters (although of course young Brits may receive housing and council tax benefits too).¹¹⁵

Table 3 lists the principles of unemployment insurance in Denmark, Germany, Spain and the UK.

The most recent update to the Danish youth unemployment strategy Youth – Well Underway implements a range of measures, including:

- mentoring of individuals by job centre staff

Table 3 **Principles of unemployment insurance in Denmark, Germany, Spain and the UK**

| | Denmark | Germany | Spain | United Kingdom |
|---------------------------------|--|--|---|--|
| Public vs. private | Public but administration through trade unions (more than 30 independent funds) | Public | Public | Public |
| Voluntary vs. compulsory | Voluntary | Compulsory | Compulsory | Compulsory |
| Contributory vs. tax financing | Contributory financing (partly flat rate) global contributions to the Labour Market Fund | Contributory financing of unemployment insurance, tax financing of unemployment assistance and deficit financing | Global contributions to social security system, the state covers the costs of unemployment benefits that are not covered by contributions | Mix of contribution financing (contribution-based JSA*) and tax financing (income-based JSA) per capita national insurance fund contribution dependent on income |
| Insurance vs. welfare principle | Mix of insurance and welfare principles: strong welfare component due to low ceilings | Insurance principle: strong relation between former earnings and benefits through high ceilings; the introduction of the basic benefit (ALG 11) has weakened the insurance principle | Insurance principle: strong accordance between contribution time and benefit period, benefits dependent on former earnings | Welfare principle: global contribution to general national insurance and flat rate benefits |

Table 3 **Principles of unemployment insurance in Denmark, Germany, Spain and the UK – *continued***

| | Denmark | Germany | Spain | United Kingdom |
|--|------------------------------------|------------------------------|---------------------|--|
| Means for redistribution** | High: 4.49 (2.66) | Relatively high: 3.46 (2.31) | Medium: 2.22 (1.50) | Low: 0.81 (0.29) |
| General redistribution (theoretically) | + | – | – | ? (welfare principle, weak contributory system but relatively low expenditure) |
| Family related redistribution | – (strongly individualised system) | + | + | – (contribution-based JSA) + (income-based JSA) |

Note: * JSA: Job Seekers' Allowance, ** Public labour market programme expenditure (total expenditure and expenditure on passive benefits in brackets) as percentage of GDP in 2004 (OECD 2006)

Source: J Leschke¹¹⁶

- weekly meetings between the employer, young person and their job centre mentor to ensure good progress when they begin a training scheme
- cuts in benefits for parents whose children do not finish their education
- special training for youngsters with dyslexia, literacy or numeracy problems
- nutritional and psychological advice for those who need it
- reading and writing courses at job centres

A new national youth unit will also tour local job centres and councils to share best practice in tackling youth unemployment. Since 2007 employment policy powers in Denmark have

been devolved to local councils. This means councils can tailor employment assistance to local needs within a national framework. It is also the responsibility of councils to run local job centres and to distribute unemployment benefits to uninsured youths.¹¹⁷ Kurt Nielson, of the national youth unit, said:

Everyone agrees youth unemployment is a large, serious and acute problem and that far more young people need help to get into education or jobs. Many non-skilled jobs have disappeared during the economic crisis, and they won't return. We need more people in education and we must make sure they finish that education.

Finally, it has been suggested that young people in Britain are not engaged quickly enough with employment or training at an early stage of unemployment and are not skilled to a high enough level to enter the workplace in a sustainable fashion. In Denmark, in addition to the 18-month 'activation policy', all 18–29-year-olds are entitled to one-to-one support with an adviser within one week of being unemployed.

Government policy on youth unemployment – what works?

A continuous thread running through all UK governments' welfare-to-work policies has been the desire to improve the skills of young people looking for work through training. From the Youth Training Scheme to the New Deal, governments have tried to equip young people with the skills to thrive in a flexible labour market. And it's true that this human capital approach appears to be more suited to equipping young people for today's labour market than job creation schemes such as the Future Jobs Fund. The problem, as we saw in chapter 2, is when training and education are short-term and of low-quality. It is notable that the Danes' 'activation period' is 18 months long, and can only be undertaken when full-time education has been completed to an agreed standard.

The other continuous thread running through UK policy has been recognition of the need to provide young people with

one-to-one job search advice. Unfortunately, the level of such support in the UK still does not match world leaders in tackling youth unemployment such as Denmark.

UK employer case studies

Demos carried out two case studies for this report in order to better understand the barriers young people face when trying to enter the labour market, and why employers do and don't hire young employees.

The first case study was with B&Q, which is considered to be well disposed towards older workers and the positive benefits of employing older as well as younger workers. The second case study was carried out with Network Rail, which runs a range of apprenticeships and graduate schemes to recruit and train the next generation of Network Rail employees. B&Q, a retailer in the service sector, expressed concern over a lack of communication skills and stability among young employees in order to explain its tendency to hire older workers. Network Rail, on the other hand, focuses in many instances (though not exclusively) on recruiting bright young employees and training them to a high degree of technical ability.

B&Q

Roughly one-quarter of B&Q's 39,000 staff are aged over 50 and another quarter are aged 24 and under.¹¹⁸ Some B&Q employees are working well into their 90s in the company's stores¹¹⁹ – reflecting a trend that has seen more than one million people working to or beyond pensionable age in the UK.¹²⁰

In the late 1980s the B&Q brand was rapidly expanding and to meet this demand the company turned its focus towards untapped recruitment groups like older workers and women returning to work after a career break. In 1989 a store in Macclesfield opened, staffed entirely by people over 50. An evaluative study published by the University of Warwick two years after the Macclesfield opening revealed that profits at that store were 18 per cent higher than average for the sector and staff

turnover was six times lower.¹²¹ In 1989 B&Q also lifted its compulsory retirement age, allowing staff to work beyond 60. B&Q allows all employees to have a phased or partial retirement, and has conducted research that shows its customers are reassured by the experience projected by staff.¹²²

Our research

We conducted structured interviews with three employees over the age of 50, the manager of Waltham Forest B&Q in outer London, and B&Q's head of human resources (HR). We asked all of them what they felt older workers brought to the workplace, what they thought were the different perceptions of older and younger workers and whether training programmes should be tailored to suit different age brackets.

In general, those we spoke to felt that the benefits that older workers bring include confident decision-making, good communication skills, lower short-term sickness rates and stronger loyalty to the company. They were also seen as more likely to stay in the job for longer:

Older workers are very good at customer service and have more confidence in talking to people. Whereas younger people can be nervous when they enter the workplace and look to more experienced employees for advice... Often they have a better work ethic and more loyalty than the younger workers.

B&Q HR director

I would say I got far less one-day sick leave from my older employees, but more long-term sickness, which at least you can plan for as it's usually a hospital procedure.

B&Q store manager

I think older workers bring a lot to B&Q. We are very good at communicating with the customers, we are more eloquent and we can talk in a more mature way. Also, when the young people are unsure to make a decision they usually turn to us.

B&Q employee, age 56

We also have more loyalty to the company, as the young people just see this job as a stop-gap to something better.

B&Q employee, age 56

On the other hand, young people were seen as being quicker learners, having more energy, better able to take directions and much better with computers and technology:

Younger people take instructions better and they also bring a lot of energy to the team. I think you just have to communicate with mature employees a bit differently and make them understand the reasons behind a decision that's been made – we have to empower them.

B&Q store manager

As a lot of our systems are computerised: that can be a challenge for older employees. They do get training and they are more than capable of doing it. The other possible problem we can have is more mature people are very much independent thinkers and coming to a corporation like us can mean they need to balance their experience with working as part of a larger team – which can be quite difficult. The benefit of this is that older workers have more confidence to make decisions in the workplace.

B&Q store manager

Younger people are quicker than us at picking things up and they do a lot more on the computer; they know how to copy and paste. I can do the simple tasks on a computer but nothing more.

B&Q employee, age 51

When older workers are trained I think it takes us longer to take it in, but once it's absorbed we retain it. Companies just need to have a bit of patience when they teach us things.

B&Q employee, age 56

Views on in-work progression slightly differed. The store manager felt that older workers and younger workers were equally likely to progress:

In terms of in-work progression I would say older workers are just as likely to move up, but it depends on what their ambitions are as well.

B&Q store manager

However, an older employee felt that older employees were less ambitious and less likely to want to progress up through management:

I think the older you get, the more you stay where you are because the harder it is to get a job, whereas younger people see no future in working here unless they want to move up the management ladder. If you asked all three of us if we wanted to move up to management level we'd say no because we're at an age where that just sounds like too much work.

B&Q employee, age 56

In general, managers and employees themselves felt that the best approach was to have a mix of older and young employees. While younger employees had more energy and better computer skills, it was felt that older employees can help to improve the attitudes and capabilities of their younger co-workers. Older workers at B&Q seem to have an advantage over younger workers in their stronger communication and social skills, and in their greater reliability and more positive attitude to work:

If you get a good mix the older workers share their life skills as well, acting as an unofficial mentor to the younger members of the team.

B&Q HR director

But a diverse team is the best solution, because then you get the best of both worlds.

B&Q store manager

Network Rail

Network Rail supports one of the largest advanced apprenticeship schemes in the UK, with around 200 young men and women joining the programme in 2011. This year's scheme

received a record 8,000 applications for 217 places – up from 4,000 in 2010. The rise has been attributed to the growing number of university leavers who cannot find a graduate job.¹²³ The three-year course leads to a job as a maintenance engineering technician and can focus on track, signalling, electrification and plant or telecoms.

In the first year, apprentices attend the Network Rail training centre in Gosport before working shifts with maintenance teams across the country. Those who complete the apprenticeship will leave with an NVQ, BTEC and Institute of Leadership and Management (ILM) qualifications. A small number of apprentices go on to complete a part-time Higher National Certificate (HNC) or Higher National Diploma (HND) qualification while working for Network Rail. In the future the company is looking to widen out the scheme to the broader engineering community, so apprentices would end up working for Network Rail's contractors, as well as the company itself. There is also the possibility that the company may offer an apprenticeship more focused on administration in the future. As we argue below, this case study makes clear the mutual benefits of on-the-job training and development for both the employer and employee or apprentice. Moreover, as Network Rail points out, employees do not need to pass through university and they are keen to provide training and skills development to non-graduates.

The company spends around £13 million a year on vocational training for its 35,000 employees and previously took part in the government schemes Backing Young Britain and Graduate Talent Pool to provide 18 unemployed young people with eight weeks of paid work experience. In addition to this, Network Rail is pledging to recruit and train another 1,400 apprentices by 2014 – each at a cost of around £50,000 over the three years.

Network Rail also offers a graduate scheme that covers a variety of disciplines, including civil engineering, finance and IT. Graduates receive a £24,500 salary and a £3,000 golden handshake. In 2010 more than 220 (including 80 on the MSc course) university leavers were recruited to Network Rail – double the

previous year's intake.¹²⁴ It is expected that 100 graduates will be taken on in 2011. Moreover, for the last three years Network Rail has sponsored two MSc courses at the University of Warwick and University College London in project management. Each year 80 students receive a £5,000 bursary on top of having their fees and accommodation paid for. There is a guaranteed job at the end for those who successfully complete the course – with a tie-in to work for Network Rail for at least three years without having to pay back their investment. The decision on whether to continue with this course will be made in early 2012, depending on how many graduate-level positions the company needs to fill.

Our research

We carried out a structured interview with the head of resourcing at Network Rail, whose responsibility is to initiate HR strategy and to manage a 54-strong recruitment team. We also gathered insights from a former apprentice. Our questions to Network Rail were focused on understanding how companies approach youth employment and what can be done to harness the skills of young people most effectively. We discussed whether the lack of certain skills and aptitudes in young people creates barriers to being hired; what employers hire and train for, and the Government's attitude towards apprenticeships.

Box 1

The apprentice

D is 23 and works in and around Croydon. He left school with six A–C grades at GCSE and studied for an NVQ in electrical engineering for one year at college, before applying to the Network Rail apprenticeship scheme. D is now a senior technical officer earning around £32,000 a year. He says becoming an apprentice was the 'best thing that ever happened to me':

Doing the apprenticeship made me realise how much my mum does at home with all the cooking, cleaning and washing. Spending ten months sharing a room with three guys made me grow up a bit – I basically learned a lot of social skills and

became more mature. We also learnt how to use bench machinery at Gosport and did a course in leadership management.

When I started out on the job in the second year of the apprenticeship it was hard. Some thought we were spies from head office or that we were on a fast-track course that would see us promoted above them really quickly. But once you started getting stuck in and showed you were there to work they gave you some slack.

Older people have been in their jobs a while and know what they are doing. But processes have been updated and with a bit of tact you can suggest other ways to do things that are new, as sometimes they haven't thought of them. So, just recently I've thought of a new way to measure the timber we put under bridges to strengthen them. This will hopefully save us time and money in the future.

I think work experience placements should be longer and I think we need to change the attitudes of people about manual labour jobs. When I was going to apply to the apprenticeship people at school going to university said 'see you at the job centre in a few years'. Now half of them don't have jobs. Most of my friends work in shops or are waiters and one of them is a teacher. I've just bought my first house with my girlfriend at 23. I went straight on a pension scheme as an apprentice – this is a job for life.

This example highlights the fact that an investment in young people at an early stage in their careers makes sense for a company with very specific skill needs, such as Network Rail. It also highlights that young people benefit from the mixture of work experience and challenging study that good apprenticeships offer, and that there is a shortfall in literacy and numeracy skills. According to Network Rail, young workers can add value to the workplace as they are more likely to be aware of new technical developments, potentially saving money and improving efficiency for their employers.

However, employers like Network Rail faced challenges in recruiting qualified young people. Part of this is due to a lack of

awareness of the variability of jobs within Network Rail. Schools need to be more willing to open their doors to recruiters and companies at an early stage so that children understand the different careers available to them:

What we find is that people know little about our organisation and the opportunities it might bring. We have a really tough job on our hands to communicate what it is our employees do, how complex and technical some of the work is, and how vital it is.

Network Rail head of resourcing

We need to tell people what these jobs are but I don't think there are many careers sessions in schools that focus on this kind of role. Our thoughts are that the quality of careers advice people are getting could be better.

Network Rail head of resourcing

It was felt that young people are getting poor quality advice at school, and that that advice is not happening early enough – before GCSE course selection. Moreover, much greater emphasis was needed on encouraging science, technology, engineering and maths (STEM), especially for girls, and a more robust focus on literacy and numeracy skills:

I think it's fair to say that sometimes the low level of literacy and numeracy we get presented with [by young people] surprises us. If you are trying to persuade an employer to take you into a role we expect people to have invested in themselves – eg to have checked for spelling errors in CVs.

Network Rail head of resourcing

Sometimes the basic disciplines are lacking – for example punctuality, reliability and physical presentation. We believe these need more emphasis at school. We don't expect young people to be engineers when they join us but we look for evidence they have good listening skills, problem-solving and communication skills. We want to see basic competency in spelling and grammar because they are going into a safety-critical environment where it really matters.

Network Rail head of resourcing

We believe people are making early career decisions which take them out of this job market. So we need to encourage students, especially girls, to take STEM subjects at GCSE level because a lot of schools aren't that flexible at A-level. The schools want students to do A-levels they will get good grades in and students just don't realise the decisions they make pre-GCSE are really serious, and that's something we need to tackle. A careers information evening after GCSEs is too late.

Network Rail head of resourcing

Our research also revealed that the Government needs to ensure demand does not outstrip supply for apprenticeships, while continuing to raise the status of this route into work among students and parents. According to Network Rail, there is still a significant cultural bias towards university and away from apprenticeships. It was felt that the Coalition Government has been good at putting apprenticeships up the agenda, but could continue to do more by speaking about alternative pathways to employment that do not involve going to university:

A lot of parents would prefer their child to go to a third class university rather than work for a first class company, and that's really sad. Because I think their career will progress better in a first-rate company, than a third rate university.

Network Rail head of resourcing

We are quite happy to take young people without a degree – it's not a degree or nothing. Getting that message out is difficult as there has been an overwhelming message that any degree is good. But in the last six months the Government has been pushing the idea that there is an alternative and apprenticeships have been coming to the fore – and large companies have been taking up the mantle.

Network Rail head of resourcing

This Government has managed to get the apprenticeship agenda out there and the difference in the last six months has been visible. I wouldn't say there was a difference in passion between the previous and current governments, I just think this Government is pushing the message when

other stories have come out, like university fees, which has made it easier to get the relevant air time.

Network Rail head of resourcing

The Network Rail case study also pointed to some of the perverse incentives of the Government's current policy toward funding apprenticeships. At present, most government funding is targeted to under-19 apprentices. It was felt that this could result in smaller businesses ignoring those in the 20–24 age bracket because it does not make financial sense to take them on:

We have a conflict between Government saying more money is being invested in apprenticeships and what we, as a company, have access to. This is because under-19 apprenticeships attract government funding whilst funding is not available for older people. Companies (including Network Rail) will miss out on this funding because we apply a meritocracy and do not consider a person's age (and therefore the subsidy available) when we make recruitment decisions. Because we are a large company we can absorb that training cost, but smaller companies may not be able to and could be tempted to make recruitment decisions based on where the money is being directed.

Network Rail head of resourcing

Summary

In this chapter we have explored the current and previous governments' attempts to tackle the issue of youth unemployment through a range of policies. We have compared the British approach with that of Denmark and have supplemented the discussion with two case studies of UK employers. Labour's NDYP and the Future Jobs Fund proved to be a modest success but did not foster in young people a robust ability to survive in a flexible labour market. Our evaluation of Danish youth unemployment demonstrates that young Danish people are supported through early and specialised interventions and a localised approach to employment assistance, as well as through an expectation that all young people will complete full-time education to a good standard.

Our work with B&Q and Network Rail revealed that employers and their employees mutually benefit from hiring a mixture of older and younger workers. Early investment in training can also reap substantial rewards for companies that require a workforce with a specific skill set.

5 Conclusion and recommendations

It is clear that the recent downturn in economic activity has disproportionately affected youth unemployment, as economic downturns always do. Yet beyond the impact of the recession there is a more fundamental and long-term problem of rising youth unemployment that predates the recent economic slowdown. The policy approach to this long-term problem should be based on equipping all young people with the skills to protect themselves (recessions notwithstanding) against unemployment, while also making work more financially rewarding for young people. This ‘capabilities plus incentives’ approach is being pursued more or less by the current Coalition Government, and is one that a fair analysis of the problem supports.

In tackling the long-term problem of youth unemployment, wherever possible, the emphasis should be on young people taking responsibility for improving their own futures through work and study. The best way to engender such responsibility is through a combination of better quality vocational education (including apprenticeships) and better incentives to work, rather than a slew of interventions. But where interventions are needed, (such as in the case of job search advice and psycho-social interventions for disengaged youth), they should be made as early as possible and be of the highest quality, as our case study of Denmark shows.

Recommendations

Our policy recommendations fall into four areas:

- making it easier for young people to take part-time work while studying

- improving the educational offer – the provision of 16–19 vocational education and the further expansion of access to university
- providing high-quality targeted support services such as one-to-one job-search advice, and psycho-social interventions for young people ‘at-risk’
- improving the financial rewards for work

Making part-time work easier to access while studying

The Government should stipulate that publicly funded further education institutions offer flexible learning options.

Given the proven benefits of early experiences of work, as well as the greater financial stability part-time work can bestow, the Government should encourage further education institutions to offer more flexibility to enable students to combine work and study. Further education institutions should make it easier for students to organise their courses around the rest of their lives, not the other way round. Ofsted should incorporate flexibility of learning into its inspection remit – for example checking that wherever adult classes in the evenings for the same qualifications are available, full-time students are able to rearrange their curriculum and take them.

Improving the educational offer post-16

The Government should build on recommendations of the Wolf Review and encourage further education institutions to offer challenging, two-year Baccalaureate-style vocational courses that include core skills in maths and English and more of a mixture of academic and vocational subjects – under the umbrella of a ‘WorkBacc’ with different areas of specialisation.

The Government is changing the funding of post-16 education so that money follows students not courses. This will go some way to discourage the piling up of short and next-to-useless vocational qualifications by young people. The next step is to

incentivise further education institutions to offer coherent two-year curricula that combine core skills in maths and English with occupationally specific skills, generic transferable work skills, and some academic knowledge – good, well-designed curricula that enhance a wide range of useful skills. The aim should be for students to pass a single certificate comprising a good spread of component courses (with individual grades) but with room for specialisation too, in the mould of a Baccalaureate (available at levels 2 and 3). The ‘Workbacc’ would be a certificate signalling that certain requisite components had been studied and passed and that the holder possessed a balanced set of skills.

There should be a special insistence on the inclusion of maths and English GCSEs in the Workbacc if students have not already attained those qualifications, and of maths at AS-level for level 3 qualifications that are technical in nature, as well as the inclusion of a large project so as to develop initiative and ‘self-starting’ skills so valued by employers. Either a language or a humanity course at GCSE (level 2) and AS or A-level (level 3) should be included to stop the ‘apartheid’ that has grown up between vocational and academic routes, and to equip young people with valuable skills in cultural awareness and foreign languages that employers say they lack. Level 3 WorkBaccs should also always connect up to higher education via the UCAS system.

The Government should continue to promote apprenticeships as a high quality pathway from school to employment that doesn't necessarily entail university.

The Coalition Government has put apprenticeships at the heart of its vocational education and youth unemployment strategy by increasing numbers and investment. It has pledged an extra £180 million to provide an additional 50,000 apprenticeships to those aged 19 and over. In total, the Government plans to encourage and support 250,000 more apprenticeships, compared with the Labour Government, over the next four years.¹²⁵ It also plans to cut red tape in order to further encourage UK employers to offer apprenticeships. These moves are all very welcome, but there remain a number of barriers for businesses offering apprentice-

ships, and cultural biases in favour of university. To counteract these, the Government must work with the National Apprenticeship Service, skills sector councils and employers to ensure that the quality of apprenticeships remains high (primarily at level 3 and above). Moreover, information, advice and guidance regarding apprenticeships must reach schools and students much younger, and be of higher quality. Our research in *The Forgotten Half* suggested that information provided to students on apprenticeships was superficial and ill-informed, with a bias towards advising students to prefer further education colleges and universities.¹²⁶

The Government should aim to raise the cap on student numbers so that more of those young people who want to study full time for a degree, and possess the requisite aptitude, can do so.

This is a policy dependent on many other changes to the funding and oversight of higher education that cannot be detailed here (see forthcoming Demos paper *Future Universities*). Moreover, the Government has already committed to funding an extra 10,000 university places in 2010/11 and 2011/12.¹²⁷ Nevertheless, our research suggests that at present those with degrees achieved through full-time study are better protected against unemployment on average than those without degrees. And around 200,000 applicants to higher education were locked out by the cap on numbers in 2010.¹²⁸

We are not arguing that the cap be removed entirely (although that is ultimately desirable), but that it be steadily lifted. The reason for the cap is in part to contain the costs of underwriting loans before repayments start. But it is mainly to contain the costs of loans that will not be repaid in full. Although the case cannot be made here in detail, a rejigging of repayment terms (so they are moderately less generous to students), alongside an end to the gross mismatch between supply and demand that allows universities to charge fees that are too high, would mean that more student places could be provided without great cost to the Exchequer. As the Government began to lose less money in unrepaid loans, it could afford

to underwrite an increased number of loans in total, and so raise the cap on total student places.

The issue for politicians here should not only be the fairness of how the costs of higher education are borne by individuals, but the fairness of allowing all who are capable of benefitting from higher education to gain access. Moreover, expanded access to higher education overwhelmingly helps poorer students.

While it is true that degrees do not always guarantee a graduate premium of higher wage returns, with much depending on what and where you study (although the vast majority do), according to the analysis of Higher Education Statistics Agency (HESA) statistics we carried out in chapter 2, a university degree appears almost always to be a sound investment against unemployment if studied for full time. The data from HESA that we analysed were admittedly on how students graduating in 2007 were faring in the labour market in November 2010. These students may have found jobs before the financial crisis properly hit and recession started, so their employment trajectories may not accurately represent the youth labour market post-2008, although they have shown themselves to be resilient against the ‘last to be hired, first to be fired’ phenomenon. However, the data do cover the bulk of the post-recession period, and, bearing in mind caveats about the past accurately predicting the future, despite the graduate unemployment rate being around 20 per cent in November 2010, the unemployment rates at this time for graduates three years after graduation were still strikingly low. Of course there still may be much variation in the *kind* of jobs graduates with different kinds of degrees, with different grades and from different universities are getting, but when considering the chances of securing employment *per se*, it seems pretty much all higher education, when attended full time, is a safe bet.

Providing quality support and advice to young people

The Government should guarantee access to the National Careers Advice Service for 14–16-year-olds, and hold schools to account in providing high quality guidance.

Careers advice in schools is patchy at best, biased at worst. The Government has announced it will close the poorly performing Connexions service and replace it with a new all-age National Careers Advice Service (NCAS). However, in autumn 2011 it had not done enough to guarantee the availability of universal one-to-one careers advice for 14–16-year-olds in schools.

The Government is planning to put a duty on schools to secure access to ‘impartial and independent careers guidance for every pupil in Years 9 to 11’. In other words, schools and colleges will have to commission their own careers service, which presumably could include the NCAS or other private providers, such as U-Explore. This approach will hopefully increase competition among career advice services and improve quality, while at the same time giving greater flexibility and decision-making to schools, but the Government must ensure that schools are taking responsibility for providing high-quality advice and guidance to young people, starting from the age of 14 if not earlier. The Government claims it will consult about extending this down to Year 8 and up to Year 13, which we would recommend. Moreover, there must be a mechanism for the Government and Ofsted to hold schools to account in ensuring that they are meeting their duty to provide advice and guidance. In particular, there needs to be a greater focus on advice about which GCSEs to take, and which options are available post-16 given which GCSEs are taken. Moreover, Ofsted should judge schools on the frequency and quality of their engagement with external businesses and initiatives to raise awareness and employability.

The Government should make one-to-one job search advice mandatory after three months of unemployment for young people, and available after two months for those deemed ‘at risk’.

A crucial factor in getting young people into work is providing one-to-one support that is tailored to individual needs. Some economists attribute the unexplained rise in the youth unemployment rate in 2004 to the shifting of resources by Gordon Brown from job search services for young people to vulnerable groups

such as lone parents and disabled people. Countries like Denmark, which have low youth unemployment rates and take the problem very seriously, invest in such one-to-one support. We recommend that rather than wait nine months to be entitled to one-to-one job search support (three months if a young person is ‘at risk’), all young people enter the Work Programme after three months of unemployment, with those deemed ‘at risk’ entering after only two months. This early intervention is important because extended unemployment for young people is damaging in the long term, and the number of young people staying unemployed for extended periods has been steadily rising.

The Government should continue to invest in voluntary and charitable sector organisations that work with young people at risk of becoming disengaged from education or the job market because of personal issues.

As we stated in chapter 3, some young people who are NEET have poor qualifications, significant debts and live in areas of low employment. But many other young people in this category are held back by personal issues due to deprivation, unhappy home lives and mental health problems. For these young people, targeted interventions that build life-readiness as well as work-readiness are required – for example, schemes like the Prince’s Trust’s Young Ambassadors. The Government has committed £10 million to an innovation fund for charitable and voluntary sector organisations to innovate approaches to supporting young people at risk of serious disengagement. We urge the Government to look to increase this pot of money if funded pilots prove to be successful, as well as to consider providing core funding for successful organisations. Moreover, the new health and wellbeing boards proposed as part of the Government’s NHS reforms should provide coordinated and holistic support aimed at getting young people ‘at risk’ into employment.

The Government should stop measuring NEETs.

NEETs are a diverse bunch, comprising gap year students, lone parents and prisoners (to name a few), as well as young people

who are simply unemployed. Because of this heterogeneity the term has become unhelpful. The rise in the participation age to 18 in 2015 offers an opportunity for the ONS to stop measuring NEETs. The term will not apply to 16–18-year-olds after the participation age is raised anyway (since they should not be in employment at all unless it is combined with work-based training), and anyone over 18 should simply be counted as unemployed or economically inactive (like the rest of the population). The evidence cited in chapter 3 suggests that it is only when specific psycho-social issues are identified and tackled that progress is made for some young people. Rather than take a blanket approach to NEETs, support services should be aware of each individual's barriers to employment and plan to remove them. For some young people barriers will be removed if they are given advice and support on searching for jobs, for others, something more will be needed.

Improving the financial incentives to work

The Government should raise the minimum wage for 18–20-year-olds, giving them entitlement to the full rate of £6.08 an hour by 2015.

In 2010 the age of eligibility for the adult rate of minimum wage was lowered from 22 to 21. This should be extended, through a gradual phase-in (alongside the extension to compulsory education to 18), to all those over the age of 18. By 2015 all young people over 18 should receive the same 'adult' minimum wage as a 21-year-old does currently. Such a move would help incentivise those young people, at a critical stage in their skill development, to enter and stay in the workplace.

This measure would also provide greater financial stability for young people, who can very quickly fall into debt even when they are in work. An 18–20-year-old earning the minimum wage and working 40 hours a week would gain £44 in gross earnings a week. Students trying to support themselves while at university – burdened with much larger fees and increases in the costs of student accommodation – would also benefit from this increase in the minimum wage when working part time. The higher wages

of these younger workers would also increase demand in the economy by increasing disposable incomes.

The minimum wage has proved to be a highly successful policy overall, with a likely neutral effect on employment.¹²⁹ In fact, in some low-skilled industries it may have increased wages and employment.

But there are understandable fears that raising the minimum wage for 18–20-year-olds to the same levels as older workers during a period of weak economic growth will penalise young people even more and worsen the state of youth unemployment. For example, the CBI argues that young people's employment is wage sensitive, therefore having a lower minimum wage for them is crucial to ensuring their participation in the labour market.

As has been stated in this report, the unemployment rate for 16–24-year-olds has risen higher than any other age group in the recent recession. Given continuing economic instability there is a risk that a higher minimum wage will push this rate up further. Why hire a young person when you can hire an older and probably more experienced person for the same price? But such a line of reasoning is flawed. Our proposal must be looked at in the context of the wider arguments made in this report. First, we have argued that young people need to be better equipped with the right skills for employment. Ensuring a more robust educational system could remove a large part of the 'young person's penalty' and make young people more employable. If the majority of younger workers who neither attend university nor pursue apprenticeships were equipped with a 'WorkBacc' as we have suggested, then younger workers would be more productive and more on a par with older workers. Second, a higher minimum wage for 18–20-year-olds would further incentivise employers to develop apprenticeships, since the minimum wage for apprentices is considerably lower (£2.60 compared with a main rate of £6.08). Third, the economic position of 18–20-year-olds is not substantially different from that of people in their early 20s. Both are at the beginning of their working lives, bear key financial burdens, and are likely to suffer from unemployment. Therefore it becomes difficult to

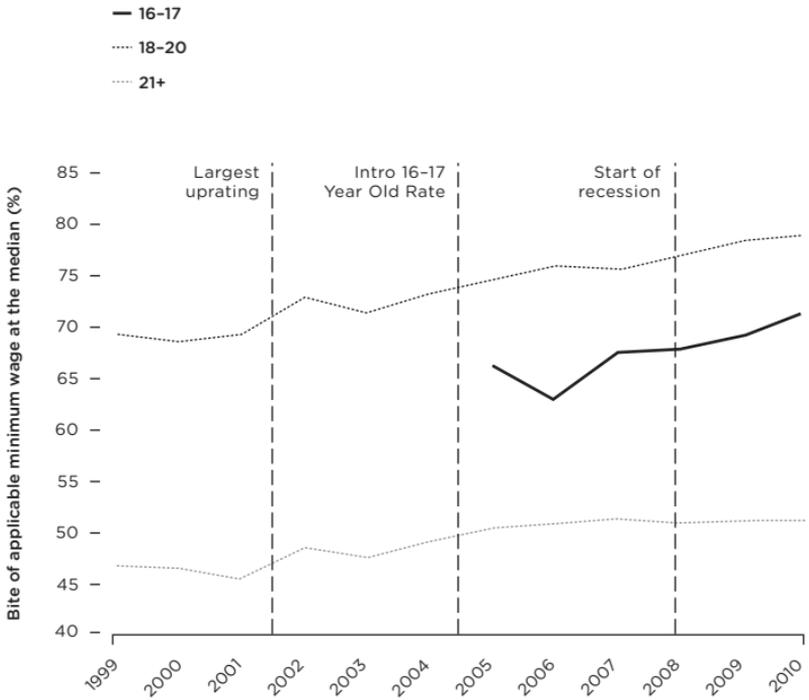
justify 18–20s being given a substantially lower minimum wage than those in their early 20s.

One of the main reasons given for paying young people a lower minimum wage is the relative ‘bite’ of the minimum wage for certain age groups (figure 17). The ‘bite’ is the rate of the minimum wage relative to the median wage of workers in the same age group. The smaller the bite, the larger the difference between minimum wage and median wage, and (it is argued) the less likely the minimum wage in question will have a negative effect on employment. The worry is that the bite for young people is growing. The bite for older people has stayed steady at around 51 per cent of the median wage since the introduction of the minimum wage. Yet for those aged 16–17 it has risen to 79 per cent in 2011, and for 18–20-year-olds to 71 per cent. This increase in the bite for young workers, it is claimed, has a dampening effect on employment as employers become less able to afford wages.

But using ‘the bite’ as a proxy for the right level of minimum wage is misplaced for young people. The earnings disparity at 18–20 is far lower than that among older people because young workers are at the beginning of their careers and so are all earning very similar wages. Therefore the larger bite merely reflects lower wage differences between young people overall.

The Government should waive employers’ national insurance contributions for 18–20-year-olds and create a national insurance credit for employers of this age group, paid for by the increased revenues from employee taxes due to the rise in the minimum wage.

This waiver, plus a national insurance credit, would compensate companies that hired 18–20-year-olds for the increase in wages they would incur as a result of the proposed increased minimum wage for this age group. For an 18–20-year-old employee working 40 hours per week and 45.5 weeks per year, employers would face a £2,002 increase in wages per annum. The proposed national insurance waiver and credit would yield a mitigation of £916.92, reducing the increase to £1,085.08 per annum, and

Figure 17 **Bite of the minimum wage at the median, by age**

would be cost neutral to the state, paid for out of increased income tax and employee national insurance revenues (see appendix for more details on the costs and benefits of this proposal). Moreover, some of the cost to employers of higher wages for 18–20-year-olds might be offset by greater productivity due to improved incentives, along with improved skills through possessing a WorkBacc. Once the measure were established, although 18–20-year-olds would be more expensive to hire than in the past, they would be attractive compared with older employees and this would incentivise employers to hire them alongside older employees (a combination our research has shown to be optimal for some companies). In addition, this measure would be an efficient way of recompensing employers

for hiring young people at the new higher rate since it can be implemented entirely through the existing tax system.

This recommendation is an updated version of a recommendation we made in *The Forgotten Half*, where we called for a tapered waiver of employee national insurance contributions for workers under 25.¹³⁰ The current proposal has the merit of being more targeted at workers in the crucial 18–20-year-old period, as well as dovetailing with the proposed rise in the compulsory education participation age to 18, and being less costly to the Exchequer.

Conclusion

These policy recommendations should go some way to shaping the education system, welfare-to-work system and labour market around the needs of young people, so that the ‘young person’s penalty’ can be reduced.

Some of the recommendations do not come with new costs to the Exchequer, but are simply different ways of doing things. For example, it costs no more to teach a balanced two-year curriculum to 16-year-olds (our WorkBacc proposal) than it does to teach a series of short courses that produce very few valuable skills. Other recommendations come with costs that should be seen as investments for the sake of medium and long-term savings. For example, there may be a cost to providing personal job-search advice earlier to young people, as well as to providing access to one-to-one advice from the new National Careers Advice Service. But the pay-off in getting young people into work quickly and making better educational choices could be immense in the long term.

Of course, as economies suffer the results of a widespread debt crisis, with low growth and weak job creation, young people will suffer unduly in the labour market, since the last to be hired are often the first to be fired. But the remedies for creating growth and a healthy economy are not specific to young people. Therefore, we have left aside the vexed issue of restoring the economy and concentrated on the elements of the labour market that affect young people particularly. We don’t claim to have

covered every aspect of the youth labour market, but we do hope to have presented a set of mutually reinforcing proposals that get to the heart of some of the most persistent problems around youth unemployment. Previous policy approaches have too often simply tinkered around the edges of these problems.

We conclude that until the 16–19 educational offer is improved, until incentives for young people to start low-status starter jobs are improved (with the skills and confidence to use them as stepping stones to better jobs), and until support services for the young unemployed are swift and of high quality, the long-term trend of rising youth unemployment will continue, whatever we do to fix the economy. The good news is that the changes required to make the necessary improvements are not beyond our ken.

Glossary

BTEC Firsts and Nationals

BTECs are practical-based vocational qualifications from entry level to level 7. BTEC Firsts are level 2 qualifications. BTEC Nationals are level 3 qualifications, which can lead to university study. The units are an award (smallest), a certificate, and a diploma (largest). A level 2 BTEC First diploma is equivalent to four GCSE passes at A*–C grades.¹³¹

Entry to Employment (E2E)¹³²

A qualification that students study for while working. It is focused on key skills and skills for life, and does not last a fixed amount of time. It is in the process of being phased out and replaced by progression pathways.

Foundation learning (NVQ level 1)

Foundation learning qualifications at lower than level 2 consist of learning based on key skills and work-related competences.

National Vocational Qualification (NVQ)

A ‘competence-based’ qualification ‘based on national standards for various occupations’. NVQs can be completed at levels 1 to 5.

Appendix 1 Understanding and defining unemployment

Headline labour market statistics often confuse the public, who are not given the definitions of the terms. For instance, many are unaware that a person can be both ‘unemployed’ and in ‘full-time education’ – a fact that makes youth unemployment look particularly severe.

Defining unemployment

The primary definition of unemployment in the UK is taken from the International Labour Organization (ILO). It is the same definition used across Europe and most of the world and so allows a level of comparability. It states that those over 16 years old are unemployed if:

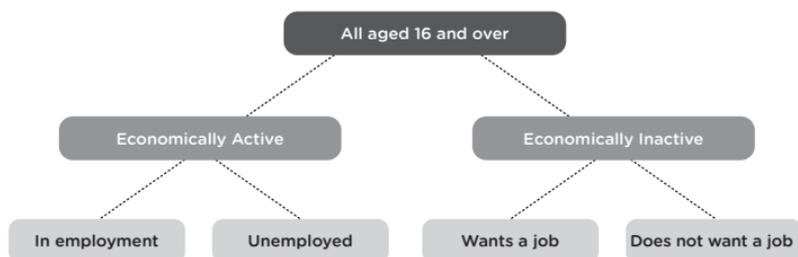
- they are without a job, want a job, have actively sought work in the last four weeks and are available to start work in the next two weeks
- they are out of work, have found a job and are waiting to start it in the next two weeks

In general, even if a person performs just one hour of paid work a week, or is temporarily away from a job, they are still classified as ‘in employment’. Also, those in government-supported training schemes are counted as ‘in employment’.

Those who are out of work but do not meet the criteria of unemployment are classed as ‘economically inactive’. Figure 18 shows the categories of those classed by the ILO as economically active and economically inactive.

Therefore, under the ILO definition, a young person whose main activity is full-time education can still be classified as ‘unemployed’ if they have been searching for part-time work. In

Figure 18 How level of economic activity is defined



our increasingly flexible labour market, part-time work is becoming increasingly the norm. A quarter of jobs in Britain were part time in 2010 and those in full-time education are increasingly taking up such jobs.¹³³

Measuring youth unemployment

The UK operates a quarterly survey of 60,000 households to gauge the state of UK employment through the Labour Force Survey (LFS). It has been running since 1975 as part of a European directive for all EU member states to identify the number of unemployed – allowing a common measure of unemployment for all states. However, its current, more comprehensive form – being conducted quarterly and broken down for different demographic subgroups – has only been in operation since 1992. The survey approximates unemployment according to the ILO definition – an individual is unemployed if:

- the person is without a job, wants a job, has actively sought work in the last 4 weeks and is available to start work in the next 2 weeks
- the person is out of work, has found a job and are waiting to start it in the next 2 weeks¹³⁴

Another proxy measure of unemployment is also often used: the 'claimant count'. This measures the number of people in receipt of unemployment related benefits – today's jobseeker's allowance (JSA). This information is collated by Jobcentre Plus databases and a figure is calculated monthly. In order to get a result as a proportion of the labour force this figure is weighted against the estimated size of the population.

The two measures of unemployment – LFS and claimant count – are not directly comparable. One reason is that while a significant proportion of 16–17-year-olds classify themselves as 'unemployed' on the LFS, it is only in exceptional cases that they would receive JSA and so they are not included in the claimant count. Similarly, those who receive a state pension or are in full-time education may be classed as 'unemployed' by the LFS, but will not receive JSA. The two measures also do not cover the same time period – the LFS is a rolling quarterly survey while the claimant count is a monthly measure taken from the Department for Work and Pension's administrative systems.

Appendix 2 Post-16 education maps for 16–18-year-olds

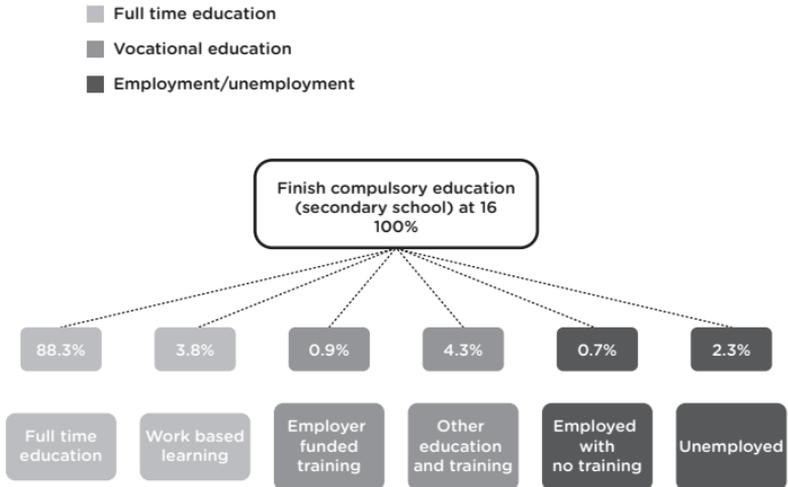
16-year-olds in 2010

- The number of 16-year-olds in full-time education continues to increase, while the number going into employment continues to decrease.
- In 2010 nearly all (97.1 per cent) 16-year-olds in 2010 were in some form of full or part-time education or training with 88.3 per cent of these in full-time education.
- The percentage of 16-year-olds in full-time education has risen almost 4 per cent since 2009. At the same time, only 0.7 per cent of them, compared with 1.1 per cent the previous year, have entered into the labour market.
- While the majority of 16-year-olds – 64.4 per cent – are studying at level 3, one in five 16-year-olds are studying for qualifications at level 2 or below.

17-year-olds in 2010

- The number of students studying for level 1 and 2 qualifications has dropped from over 20 per cent to 13 per cent between the 16-year-old cohort and the 17-year-old cohort and the number of students studying for GCSE (level 2) qualifications is only a quarter of that at age 16 – down to 0.8 per cent.
- Work-based learning placements increased from 3.8 per cent of the population to 6.6 per cent as more students start intermediate and advanced apprenticeships and part-time study.
- The number of young people unemployed or in employment without training more than tripled from 2.9 per cent to 10.1 per cent.

Figure 19 Main activity of 16-year-olds in 2010



18-year-olds in 2010

- At age 18, the level of participation in level 3 and above full-time courses has dropped from two in three at 16 – one in six students. Many students have progressed from level 3 to university, employment or unemployment (which could include a gap year).
- The percentage of 18-year-olds in work-based learning has doubled from those in the 16-year-old cohort, with 7 per cent of the 18-year-old population studying and working as apprentices.
- From the age of 16 to the age of 18 the proportion of young people who are either unemployed or employed in work without training increased to include almost a third of the 18-year-old cohort as students drop from their pathway through education and training to a more unsettled path incorporating some time without any training, or, in 12.4 per cent of cases, without training or employment as a NEET.

Figure 20 Main activity of 17-year-olds in 2010

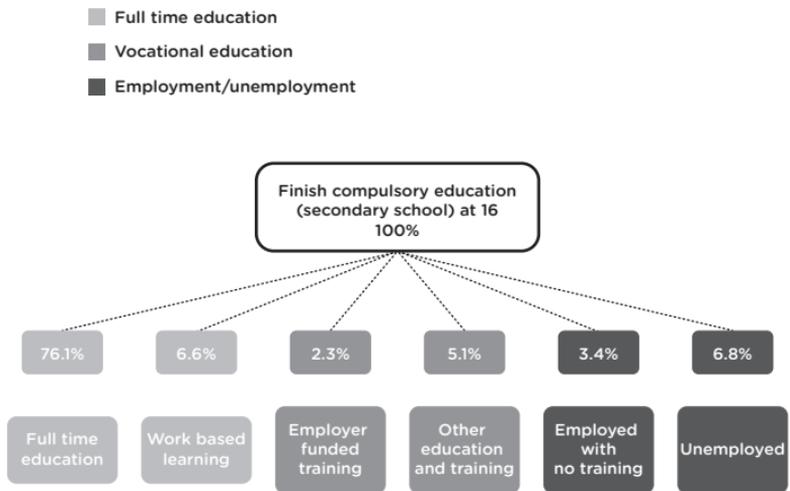
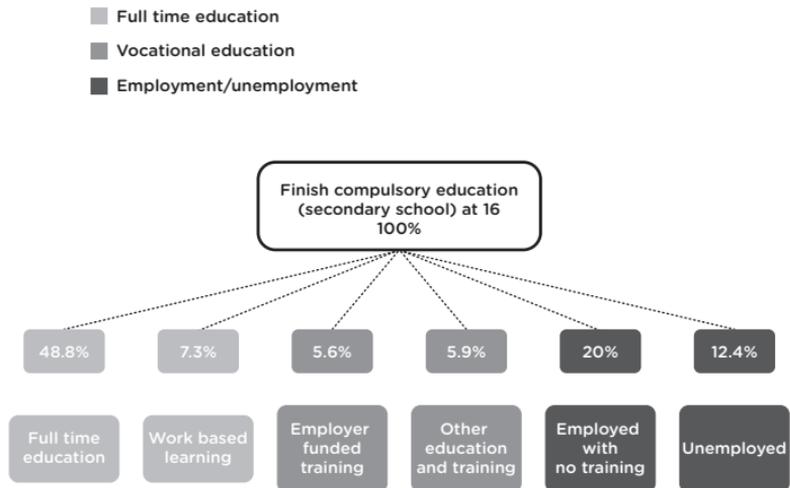


Figure 21 Main activity of 18-year-olds in 2010



Appendix 3 Savings for employer per employee of waiving national insurance and creating a national insurance credit from the rising government receipts

The current level of minimum wage is £6.08 for those aged 21 and over and £4.98 for those aged 18–20. If an individual aged over 21 works a 40-hour week on the minimum wage for 45.5 weeks a year (accounting for holiday), their gross earnings from employment are £11,065.60. A person working the same hours aged 18–20, and so on a lower minimum wage, would receive a gross income from employment of £9,063.60. This is a difference of £2,002.

Assuming that both were paying the main form of national insurance, the younger person on the lower minimum wage pays £220.27 per year and their employer pays £274.84 a year in national insurance. The older person pays £460.51 and their employer pays £551.12 a year in national insurance. The younger person pays £317.72 in income tax and the older person pays £718.12.

If the minimum wage level for 18–20-year-olds is brought up to the same level as those aged 21, their national insurance and income tax levels rise accordingly to the same level. The proposal of waiving national insurance contribution for employers who employ those aged 18–20 would bring a saving of £551.12 in what they pay for older people on the same minimum wage, or a £274.84 saving on what they were paying before.

The impact on government receipts of the rise in the minimum wage is an increase of £400.40 in income tax and a loss of £34.60 in lower national insurance contributions. The net effect is therefore an increase of £365.80 in receipts. This is to be

given as a national insurance credit to employers of young people. Therefore the net effect of the rise in the minimum wage for 18–20-year-olds for an employer is the extra wage cost, which is £2,002, after accounting for the employer contribution waiver, which is £551.12, and the national insurance credit, which is £365.80. This net figure is therefore an increased cost to the employer of £1,085.08.

Notes

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Youth employment is currently in crisis, with nearly a million young people registered unemployed. Yet beneath a recession-driven short-term squeeze on job creation lies a potentially more serious problem: the steady rise of youth unemployment as a share of total unemployment over the last 20 years. Arguments that this rise is due to competition from immigrant labour and older workers are inconclusive. More plausibly it seems there exists a ‘young person’s penalty’, whereby younger workers are held back by the fact they lack experience, yet they are pushed through a system that often does little to make up for this.

Youth Labour’s Lost draws on quantitative analysis from a range of sources, including the Longitudinal Study of Young People in England and education and employment data from the Office for National Statistics. It also draws on qualitative research with young people and UK employers. Through these two lenses researchers identify the salient patterns in the UK’s youth labour market, and attempt to isolate the underlying causes of its long-term problem with youth unemployment.

In order to reverse the growing trend of youth joblessness, this pamphlet suggests that there are four crucial areas of intervention: post-16 vocational education; incentives to work; one-to-one job search advice; and targeted programmes for young people with personal problems. Government is moving in the right direction on all these fronts, but unless it is both more consistent and more radical in presenting a new offer for young people, the UK will continue to see its youth’s labour lost.

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