

PO - CH/NL/0220

PART A

Chex
Lawson

PART A



PO -CH /NL/0220



PART A

CHANCELLOR'S PAPERS ON
EMPLOYMENT POLICY AND
LABOUR MARKET STATISTICS

PO -CH /NL/0220
PART A

Begins: 5/1/87
Ends: 6/1/88 (CONTINUED)

DD: 25 years

13/9/95

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FROM: A A DIGHT

DATE: 15 January 1987

MR P L PATTERSON

COMBINED RELEASE OF LABOUR MARKET STATISTICS ON 14 JANUARY

The Chancellor has seen and was grateful for your minute of 13 January.

A handwritten signature in black ink, appearing to read "A A Dight".

ANTHONY DIGHT



Who has
this been
copied
out to?

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....
6460 Switchboard 01-213 3000 GTN Code 213
Facsimile 01-213 5465 Telex 915564

3 March 1987

Restricted

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

*Pls be as helpful
as possible in
answering
questions
confronted.*

CH/EXCHEQUER	
REC.	4 MAR 1987
ACTION	FST v 4/3
COPIES TO	

Nigel

I am concerned about my Department's inability to produce self-employment estimates for local areas except, once every ten years, from the Census of Population. The new national unemployment rates which we produce do of course include the self-employed in the denominator. It is a particular disadvantage that this cannot also be done for the monthly local unemployment rates because we do not have the data. As a result, we publish local unemployment rates which are significantly higher than they would be if they were to include the self-employed and, of course, compare unfavourably with the new national rates.

I answered a Lords Question today from Lord Campbell of Croy about the computerisation of the national network of offices of inspectors of taxes. From the briefing I received for this, I discovered that it may well be possible to exploit the computerisation of Schedule D operations to produce local estimates of self-employment. I also gather that the computerisation of Inland Revenue work may bring positive benefits for our benefit fraud work. John Lee will be following this up in detail with Norman Lamont but I would like to stress how important I think it is that our officials work together closely to exploit fully these potential benefits.

Lee
Norm



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B/f with advice

CH/EXCHEQUER	
REC.	13 JUL 1987 ✓ish
ACTION	FST
COPIES TO	

The Rt Hon Nigel Lawson MP
 Chancellor of the Exchequer
 HM Treasury
 Great George Street
 LONDON SW1

13 July 1987

Dear Nigel

David Young wrote to you on 3 March expressing his concern about the lack of self employment statistics for local areas and suggesting that it might be possible to derive such estimates using the computerisation of Inland Revenue's Schedule D operations. I share his concern in this area. My Department currently publishes local unemployment rates which are both significantly higher than they would be if the denominator included self employment, and inconsistent with the main national and regional rates which do include self employment. I do not find this position acceptable given the growing importance of the self employed in our economy.

Following David Young's letter, officials in DE and IR have identified a method for producing local area self employment estimates using data extracted from the CODA system. I would like to proceed to develop this method and produce local area estimates as quickly as possible. In view of the importance of local unemployment rates and my Department's responsibility for employment statistics, I would meet the additional costs of this work, which I understand to be development costs of up to £1.1m and running costs from 1990/91 of £450,000 p.a., within my overall resources.

However, I understand that Inland Revenue could not take on this extra work without your agreement to any necessary changes in the priorities being given to various parts of their work schedule. I hope you will be able to agree to this important work being given the priority necessary for results to be produced in mid 1990 which is, I understand, the earliest practical date.

Yours ever *Norman*



CONFIDENTIAL

FROM: STEVE MATHESON

INLAND REVENUE
MANAGEMENT DIVISION
SOMERSET HOUSE

*Miss Sinclair
initials*

3 August 1987

CHANCELLOR

*Ch/ Content to write?
(A few suggested amendments to
the letter.)* *JS* *3/8*

*OK with 24
& views of
EP.*

SELF-EMPLOYMENT STATISTICS

1. Mr Fowler's letter of 13 July asks for you to agree that the Inland Revenue makes the necessary changes to the CODA system to enable local estimates of self-employment to be obtained from it. The current lack of these statistics means that DE's published local unemployment rates are not only inconsistent with the main regional and national figures but they also give an unemployment rate significantly higher than if they were included. Mr Fowler confirms that he is prepared to meet the additional costs of this work - up to £ml.1 in development costs and £450,000 pa running costs from 1990/91 - from within his overall resources.

2. I had a conversation about this with Lord Young (when briefing him to answer a PQ on our behalf in the Lords) early this year which set the latest initiative in train. This letter follows detailed work which has since been carried out by officials at DE and Inland Revenue and which has concluded that CODA provides the

- c. Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir Peter Middleton
- Mr Butler
- Mr Monck
- Mr Scholar
- Miss Sinclair
- Mr Cropper

- Chairman
- Mr Rogers
- Mr Pollard
- Mr Isaac
- Mr Painter
- Mr Calder
- Mr Cherry
- Mr Matheson
- Mr Dearman
- Mr Crawley
- Mr Yard
- Mr Pinder
- Mr Paterson
- Mr Glassberg
- Mr Nield
- PS/IR

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only viable mechanism for obtaining local self-employment statistics. The resource requirement in manpower terms for this work is comparatively modest, representing around 6 to 10 man-years of effort. But, as you know, our resources at the Telford Development Centre are very tightly constrained and we will have to bring in more people from the private sector to enable us to do the necessary work. The major cost, however, will be the purchase of the software needed to ensure that all our records are postcoded.

3. The postcoding exercise is something that we would have wanted to do anyway when we had the resources in order to secure from the Post Office further discounts on postal charges but the offer from the Secretary of State to pay for it enables us to do so sooner. In order to meet DE's needs, we need to spend some £m $\frac{1}{2}$ in 1988/89; a further £m $\frac{1}{2}$ in 1989/90 and running costs thereafter, as Mr Fowler says, of the order of £450,000 pa.

4. By bringing in additional support from the private sector we could avoid any adverse effect on our current work, including that needed for Independent Taxation. But the PES bids we have made are tightly drawn as a basis for meeting our existing priorities. We could not take on any further work for Department of Employment unless they are prepared to transfer the necessary resources to us. Mr Fowler has agreed that his department would meet the additional costs of the work. His department will, therefore, presumably be prepared to transfer the necessary PES provision to us.

... 5. I attach a draft reply to Mr Fowler which seeks confirmation of this.

Steve Matheson

STEVE MATHESON

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GJ1

Psc type/sj

DRAFT REPLY FROM THE CHANCELLOR TO THE SECRETARY OF STATE FOR EMPLOYMENT

Your letter to me of 13 July asks for my agreement to the proposal that the Inland Revenue undertakes the work necessary to derive local self-employment statistics from the Schedule D computerisation project.

Changes in the priorities being given to the Revenue's work schedule will in part be determined by the outturn of the current PES discussions with the Department and the Treasury. ~~but~~, subject to that, I am content for this additional work to be done on the basis as you propose, ^{that} ~~that~~ you will meet the additional costs from within your overall resources. ^{These will comprise} ~~This will be~~ development costs of some £m½ in both 1988/89 and 1989/90, and running costs ~~as you say~~ of some £450,000 per annum thereafter. It will be necessary to arrange a transfer of PES provision from your department to the Inland Revenue ^{after} ~~when~~ the current PES round ~~has been completed~~.

NIGEL LAWSON

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Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

4 August 1987

The Rt Hon Norman Fowler MP
Secretary of State for Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

Dear Secretary of State

Your letter to me of 13 July asks for my agreement to the proposal that the Inland Revenue undertakes the work necessary to derive local self-employment statistics from the Schedule D computerisation project.

Changes in the priorities being given to the Revenue's work schedule will in part be determined by the outturn of the current PES discussions with the Department and the Treasury. Subject to that, I am content for this additional work to be done on the basis that you propose, viz that you will meet the additional costs from within your overall resources. These will comprise development costs of some £1m in both 1988/89 and 1989/90 and running costs of some £450,000 per annum thereafter. It will be necessary to arrange a transfer of PES provision from your department to the Inland Revenue after the current PES round.

Yours sincerely

John Tom Taylor

pp. NIGEL LAWSON

*[Approved by the Chancellor
and signed in his absence]*

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Butler
Mr Monck
Mr Scholar
Miss Sinclair
Mr Cropper
Mr Mattheson - IR
PS-IR



Caxton House Tothill Street London SW1H 9NF

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David Norgrove Esq
10 Downing Street
LONDON
SW1A 2AA

CHIEF SECRETARY	
REC.	24 SEP 1987
COPIES	Mr Gray
FFF	
TO	CX, PST, AMG, EST
	Sir P. Morrison, Mr Butler, Mr Moran
	Mr Angus, Mr Kerr, Mr Johnston, Mr Ginnel
	Mr Wood, Mr Chimes, Mr Howard, Mr Tiele, Mr Cow

[Signature] September 1987

Dear David,

YTS IN THE PUBLIC SERVICE

Thank you for your letter of 29 July to John Turner. You explained that the Prime Minister was concerned at the proportion of YTS trainees participating in schemes run by local authorities.

I should explain that only in a minority of cases are these YTS trainees directly employed by the local authorities attached. The analysis of YTS trainees by sector in the annex to my Secretary of State's minute, understates the participation of employers from commerce and industry in YTS since many organisations which run YTS schemes do so as managing agents. The managing agents extensively involve other employers in their schemes: typically, local authorities acting as managing agents (often through colleges of further education) provide the required off-the-job element which is a feature of the bulk of all YTS schemes, while local industry and commerce provide on the job training and work experience.

In addition, local authorities provide a high share of "premium" places ie places for initially hard-to-place youngsters with special needs and in areas where there are insufficient employer-based places. Premium places make up only 15% of all YTS places, but local authorities provide just under half of the premium places.

It is the Department's objective to reduce the level of non-employer led premium schemes. However, this will take time, particularly while YTS absorbs the effects of the forthcoming changes in the entitlement of young people to supplementary benefit. My Secretary of State is therefore satisfied that, as matters stand, the Government could not fulfil its guarantees to unemployed 16 and 17 year olds without the level of places which local authorities provide.



I am copying this to Private Secretaries to members of the Cabinet, Michael Stark and Trevor Wooley.

Sincerely,

Beverley Evans

BEVERLEY EVANS
Private Secretary

→ cc PS Ministers
PS Secretary
Mr ~~David~~
Mr ~~Waller~~
Mr ~~David~~
Mr Russell

4
220

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DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

The Rt Hon Norman Fowler MP
Secretary of State for Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

CHIEF SECRETARY	
REC.	21 SEP 1987
ACTION:	Mr Gibson / Mr MacArthur
COPIES TO:	Mr Sir Peter Middleto
	Mr Butler Mr Anon
	Mr Neave Mr Mowbray
	Mr Burgess Mrs Perrin
	Mr Turnbull Mr Gray

Norman Fowler

*Mr McIntyre
Mr Cropper Mr Call*

BENEFIT SANCTIONS

I was pleased to receive your agreement, in your letter of 10 September, to my proposal to strengthen the benefit sanctions provisions applying to people who refuse or leave training and I am grateful for your agreement to include the amendments in your Bill. Instructions have already been put to Counsel, both on the general point and the more specific matter of ensuring that sanctions will be available in connection with the Community Programme when it becomes benefit plus.

I am content that our officials should keep in touch about the application of sanctions to Jobclub refusers and that this point should be looked at when you have completed the process of taking back Jobcentres and their related functions. I hope that progress can then be made on this point, and on the approval of JTS courses to which you refer. Sanctions will be right in principle in these circumstances and, of course, will reduce Government expenditure by way of the benefit savings they will produce.

I am copying this to H Committee colleague and to Sir Robert Armstrong.

John Moore

JOHN MOORE



rec. 21/9.

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6420
Switchboard 01-213 3000

The Rt Hon John Moore MP
Secretary of State for
Health and Social Security
Alexander Fleming House
Elephant and Castle
LONDON
SE1

6 September 1987

Dear John.

BENEFIT SANCTIONS

Thank you for your letter of 2 September about the application of benefit sanctions to the voluntarily unemployed.

I agree that the same benefit sanctions should apply to approved training as currently apply to employment. We also need to ensure that we can apply the same sanctions to participants in the new Community Programme: as you know whereas CP participants are currently "employees" for this purpose they will in future be treated as "trainees". The change to the law on benefit sanctions would not of course affect the position of YTS trainees since 16-18 year olds will in future be prevented from claiming benefit. The new JTS would not automatically be affected but there may be a case for making the new JTS "approved" training once it has become an established scheme.

I am happy to include this amendment in my Bill but as you know I am also working on a tight timetable and would therefore appreciate it if your solicitors could draft instructions to Counsel as quickly as possible.

Turning to Jobclubs, I am glad to have your confirmation that the existing powers in the 1975 Act are already wide enough to



cover people who refuse a place on a Jobclub. As you know, I am in the process of taking back from the MSC the Jobcentres and a number of associated functions (including Jobclubs) and creating from them and the Unemployment Benefit Service a new unified employment service operating within my Department. Once this is in place at the end of October I intend to see how we might use the Restart process to be tougher than hitherto in testing availability for work and in following up those who, for no good reason, refuse to take up the help on offer from the Jobcentre. I think it would be appropriate to consider the application of sanctions to people who refuse a Jobclub place in that wider context, rather than make a separate announcement on the subject. If you agree, I will ask my officials to keep in close touch with yours about our developing proposals.

I am sending copies of this letter to the members of H and to Sir Robert Armstrong.

NORMAN FOWLER



REC.	22 SEP 1987
ACTION:	CST
TO	

CHIEF SECRETARY
 10 DOWNING STREET
 LONDON SW1A 2AA

REC. 23 SEP 1987

TO Mr. GOM.

From the Private Secretary

22 September 1987

Mr. GOM.
 Mr. P. M. ... Mr. B. ...
 Mr. A. ... Mr. K. ... Mr. T. ...
 Mr. L. ... Mr. C. ... Mr. G. ... Mr. G. ...

YTS IN THE PUBLIC SERVICE

X The Prime Minister has seen your letter to me of 18 September about YTS in the public service.

Mr. HANSARD.
 Mr. ...
 Mr. ...

The Prime Minister remains concerned about the scale of local authority involvement in YTS and has noted that areas where trainees are difficult to place may also be those where the local authority itself is not well run (Liverpool, Sheffield and Manchester for example). With the changes in employment policy, including withdrawal of benefits from 16-18 year olds and making the Community Programme benefit plus, the Government is likely to be attacked for "forcing" people into what will be reported as "inadequate programmes". This makes it all the more important to ensure that the quality of the programmes is high.

The Prime Minister has asked that your Secretary of State should review the arrangements for monitoring the quality of both YTS and JTS, including the type of work placement provided and the success rate in gaining employment at the end of a scheme. In the meantime she would be glad to receive a report summarising what information is currently available on these matters.

The Prime Minister would also like to take stock later in the autumn of progress towards the changes announced in the Conservative Party Manifesto, and more generally to review the employment strategy. We shall be in touch to arrange a time, probably in the early part of November. I should be grateful for a paper in due course which could serve as a basis for discussion.

I am copying this letter to Jonathan Taylor (HM Treasury) and Trevor Woolley (Cabinet Office).

DAVID NORGROVE

Ms Beverley Evans
 Department of Employment.

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PRIME MINISTER

EMPLOYMENT STRATEGY

blf wilt
advise.
QUER
6/10/87
CST

Objectives

1. The objectives of our employment strategy for this Parliament must be to maintain the growth in employment of the last four years and the downward trend in unemployment which began in the middle of last year.
2. Growth in employment will depend mainly on our economic performance and the effective operation of the labour market, and the prospects remain encouraging. I shall seek to develop the programmes to support employment growth for which I am responsible. They include the Department's Small Firms, Tourism, and Enterprise measures (including the Enterprise Allowance Scheme) designed to promote self-employment and employment growth in small firms, and the important work of the MSC to encourage employers to improve through their own training arrangements the skills of their managers and other employees so that we match the efforts and achievements of our competitors.
3. This paper, however, focusses on the narrower but crucial issues of what further action we can take
 - to get longer term unemployed people back into the effective labour force and
 - to tighten up the benefit regime in the new Employment Service so that only those genuinely unemployed receive benefit.

These are the two main approaches we need to develop further in order to secure a continuing reduction in unemployment.

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The Current Position - falling unemployment and youth unemployment

4. The fall in unemployment could not have occurred without the growth in jobs associated with six years of sustained economic growth. But the timing and rapidity of the fall in unemployment over the last 15 months owe much to the measures introduced over the last 18 months to tighten benefit procedures and create incentives for people claiming benefit to return to work. Since 1982 the economy has grown at an average annual rate of 3% but, despite this, unemployment continued to rise until May 1986. The lesson is clear. To reduce unemployment, employment growth must be accompanied by effective measures to help and encourage unemployed people back to work and to ensure that unemployment benefit claimants do not remain on the count when they are no longer unemployed. There was clear evidence of the need for such measures in the Labour Force Survey for 1985, before our recent measures were introduced, which showed that those seeking work fell between Spring 1984 and Spring 1985 (from 2.91 million to 2.81 million) whereas during the same period the monthly claimant count actually increased by 160,000 to 3.13 million.
5. It is significant that the fall in unemployment has occurred during a period when a succession of measures has been introduced which have the effect of tightening the benefit regime - compulsory Restart, Availability Testing, the deployment of Claimant Advisers. The average monthly fall in seasonally adjusted unemployment is now running at about 40,000. Much of this is directly attributable to the increase in the number of jobs available. But DE statisticians estimate that about half of the fall may be attributable to the effect of the above measures.
6. Unemployment for school leavers is no longer the major problem. For young people under 18 we are already in a position to fulfil the first of the Manifesto guarantees - "a place on the Youth Training Scheme for every school leaver under 18 who is not going directly into a job". This in turn makes it possible to withdraw

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benefit entitlement altogether from this age group and that will be done next year when the necessary powers are available. There is no longer need for any young person under 18 to be unemployed.

The New Priority - helping long-term unemployed adults back to work

7. Long-term unemployment of adults has now replaced youth unemployment as the key problem. This includes the crucial 18-25 age group. So the main thrust of my policy needs to be in two main directions:
 - to help long-term unemployed adults to achieve the motivation and skills they need in order to get back to work and take advantage of the expanding job opportunities of a growing economy, and
 - to intensify our efforts to ensure that only the genuinely unemployed are claiming benefit and therefore counted as unemployed.

8. With the rapid decline in unemployment over the last 15 months, we have reached a turning point in our programmes for the adult unemployed. I agreed in PES discussions to abolish some schemes which are not focussed on the long-term unemployed, including the Job Release Scheme and the New Workers' Scheme, and to reduce expenditure on other traditional employment and training measures. The objective now is, with the remaining resources, to aim our programmes mainly at the long-term unemployed covered by our Manifesto commitments - that is the 18-25s with 6-12 months' unemployment and the 18-50s with over 2 years' unemployment - and getting these groups back to work.

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9. At present our approach to helping the long-term unemployed back to work is too short-term and piecemeal. Our programmes are dominated by the Community Programme - a temporary employment programme with little training content and an indifferent record in helping people back into permanent employment. We are expanding the Job Training Scheme to provide training for some of those who have been unemployed for 6-12 months. But these separate approaches are unlikely to meet the requirements of a future in which there will be an increasing number of jobs and (as the number of young people entering the labour market falls rapidly) an increasing demand for adults with the skills and motivation to fill them.
10. We therefore need to refocus our programmes:
- to give the highest priority to long-term unemployed people because they are the least equipped to benefit from improvements in the economy;
 - to shift the emphasis of our provision for this group away from 'make work' activity to providing, through training, the motivation and skills to help them get jobs; and
 - to persuade employers to increase their contribution to training the long-term unemployed.
11. A proposal for a new approach is set out in paragraphs 12-15 below. This would be accompanied by a stricter benefit regime outlined in paragraphs 16-18 so that we would have both better targetted and more effective training for the long-term unemployed and a further tightening up of benefit procedures to ensure that they and other unemployed people took up the jobs, training and other opportunities now available for them.

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A Unified Training Programme for Unemployed Adults

12. I propose that we should bring together our present provision for unemployed adults (the Community Programme, the new Job Training Scheme and a range of smaller programmes) into a single unified training programme for long-term unemployed adults. The new programme would be operated within the reduced PES provision for this group of programmes. It would involve the substantial reform of the Community Programme to get away from the "rate for the job" and part-time work, reduce the role of local authorities and at the same time greatly enhance its training content. The aim would be to improve significantly on the number of people who obtain jobs at the end of the programme.

13. The main features of the new programme would be:

- (i) Priority would be given to the long-term unemployed and thus enable us to meet our Manifesto commitments. The programme would be of particular value in the areas of greatest need, including the inner cities and large council estates.
- (ii) It would offer each long-term unemployed person up to twelve months' planned training and work experience suited to his or her particular needs and abilities. Much of the training would need to be very basic such as literacy and numeracy. The average period on the programme would be about 6 months.
- (iii) Long-term unemployed people would enter the programme following a Restart interview and advice from a training agent on an appropriate training plan. There would then be a mixture

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of work experience and training on and off the job related to the person's abilities and potential and to local skill requirements. In some respects the scheme would be the equivalent of a YTS for the long-term unemployed. It would be a shift from CP temporary work schemes to a new training programme and would resemble the shift we made from the Youth Opportunities Programme to YTS.

- (iv) The aim would be to get as many employers as possible to provide the training and work experience (on the JTS model). But for a transitional period we should also need a substantial element of project-based training (like CP but without its worst features) in order to guarantee sufficient places for the long-term unemployed.
- (v) Participants on the programme would receive a "benefit plus" training allowance. This would enable us to offer places on the programme to even the highest benefit recipients. We should, therefore, while providing positive help for the group, also be able to make a reality of testing people's willingness to look for work and make a real attack on the benefit culture.

14. When fully established, the programme should be able to cope with about 600,000 entrants a year. This would be enough to meet our Manifesto commitments to the long-term unemployed within the lifetime of this Parliament. It would also represent a major investment in training and in upgrading the basic skills of the workforce.

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15. Background work has been proceeding on these proposals and there have already been some Press reports suggesting the possible merger of CP and the new JTS. It is important that we keep the initiative and obtain the credit for any new developments. Accordingly I propose that I should announce our general intentions and the principles of the new scheme in a statement on the lines of the outline at Annex 1 before the MSC next meet on 19 November. I would then invite the MSC to let me have their comments on the new concept in early January so that we could announce the new scheme later in January or early in February in the context of a White Paper in which we would set out our employment and training strategy.

A Stricter Benefit Regime

16. If we are to maintain the present downward trend in unemployment, the development of the new unified training programme to help the long-term unemployed back to work must be accompanied by an extension of the measures taken to tighten up benefit procedures and keep up the pressure on benefit claimants to take the jobs, training or other opportunities which are now increasingly becoming available to them.
17. The merging of the Unemployment Benefit Service and the Jobcentres last month into a single Employment Service under my direct control will enable us to push ahead with a number of initiatives to ensure that benefit claimants are genuinely unemployed. These are set out in Annex 2. In brief I propose:
- (i) to introduce early next year a revised form to test availability for work. The new form has fewer questions requiring a "yes" or "no" answer and it will therefore be much harder for organisations which are hostile to our programmes to publish advice to claimants on how to give the "right" answer.

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- (ii) to extend progressively the practice of using more senior staff to interview all new claimants for benefit and to ensure that when people claim benefit for the first time they are fully aware of the jobs and training opportunities available to them and of existing "in work" benefits. Resource constraints may dictate the pace of change but substantial benefit savings could result.
- (iii) to combine Restart and Availability Testing in a single programme which will require every unemployed person to complete a questionnaire every six months and submit it to the Employment Service before attending their Restart interview. This will ensure that the Availability Test is brought to bear on all existing (not just new) claimants at regular intervals and that Restart interviewers have a full account of each person's circumstances and history before an interview begins. This should reduce the number of interviews which need to be carried out, detect doubtful availability and ensure that those which do take place are more structured and positive in outcome than is currently the case. Subject to satisfactory piloting this could begin next April.
- (iv) to ensure that the Restart interviews give claimants a much stronger steer towards the jobs and other opportunities available to them (including Jobclubs, which will continue to expand) and that, as soon as resources allow,

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those who unreasonably refuse to take up the opportunities available to them or who say they will but do not appear on programmes or rapidly drop out from them are automatically referred to Claimant Advisers for an immediate and thorough review of their benefit entitlement. And we should be prepared to see a more vigorous application of benefit sanctions on those who are not prepared to take up opportunities like Jobclubs designed to help them back to work.

- (v) to continue to expand the effort of Claimant Advisers and fraud staff until they have reached the limits of their effectiveness. This again depends on the availability of the staff resource required.

18. I am not at this stage seeking increased resources for any of the measures listed above. In the first instance I would like to see what can be achieved within existing provision in the Employment Service. But if we can continue to get high returns of benefit savings from reduced unemployment which exceed the required increases in staff costs I would like to have flexibility to continue to switch resources from programme expenditure into running costs. This would make more effective use of the resources available to me for reducing unemployment. I would, of course, consult the Treasury on any specific proposals for such switching as they arise.

CONCLUSION

19. I propose:

- (i) to bring together the existing temporary work and training programmes for the long-term

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unemployed into a unified training programme to help them take full advantage of the increasing job opportunities.

(ii) to announce the new programme before 19 November with a view to consulting the Manpower Services Commission and including the details in a White Paper on our employment and training strategy to be published around the end of January.

(iii) to tighten up further benefit procedures and sanctions in the new Employment Service to ensure that unemployed people take up the job, training and other opportunities which will increasingly be available to them.

20. I aim to carry these approaches forward within the reduced resources available to me following the outcome of the PES discussions. I may, however, wish to propose switches in resources, including between programme and running costs, to achieve the maximum impact on unemployment in which case I would consult the Treasury on all specific proposals.

21. I am copying this minute to Nigel Lawson and to Sir Robert Armstrong and Norman Blackwell.

N F

6 November 1987

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OUTLINE OF POSSIBLE STATEMENT

- Unemployment has now fallen for 15 months in succession and by a record 400,000 over the last 12 months
- now is the right time to review programmes for unemployed people
- school leaver unemployment eliminated.
- Priority must be to provide training for the long term unemployed
- emphasis has to be switched away from providing temporary jobs as an alternative to unemployment and towards providing training to enable unemployed people to get back into permanent jobs
- need to bring unity and coherence to the plethora of training programmes which have grown over the years
- must ensure that the training we provide is flexible and geared to needs of both individual trainees and the economy
- need a programme which will carry us through into next decade.
- I have therefore decided to bring together all the existing programmes for unemployed people over 18 in a single new programme offering up to 12 months training for anyone who has been out of work for more than 6 months.

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- Entry through Restart interviews.

- Training
 - (i) tailored to the needs of individual on the basis of assessment

 - (ii) will take place either with employers or on training projects or a mixture of the two, with college based tuition whenever appropriate

 - (iii) cover a wide spectrum, from training in basic working skills, including numeracy and literacy, to higher levels of skill.

- All trainees to be paid a "benefit plus" training allowance

- every effort to be made to find them jobs when they leave programme.

- Within available resources but stress that they are substantial.

- Overall target: to provide training for up to 600,000 people a year.

- Programme will make a major contribution to fulfilling our Manifesto commitments to the long-term unemployed.

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A STRICTER BENEFIT SCHEME - THE ROLE OF THE NEW EMPLOYMENT SERVICE

1. The last 18 months have seen a considerable build up in the resources devoted within Jobcentres and the Unemployment Benefit Offices to ensuring that only the genuinely unemployed are claiming benefit and are therefore counted as unemployed:-
 - under the Restart programme all claimants unemployed for over 12 months have been interviewed and approaching 90% offered a job, a training place or some other opportunity designed to get them back to work. The programme has now been extended to the 6-month plus group; in total over 2 million interviews have taken place since 1986. Consistently more than 10% of those invited to interview leave the register shortly after receiving their invitation and without an interview taking place;
 - a formal test of availability for work, involving completion of a detailed questionnaire, has been introduced for all new claimants. As a result some 4% are now referred to an independent Adjudication Officer for a decision on their availability compared with less than 1% previously. An additional 4% are deterred by the new procedure from pursuing their claim;
 - 650 Claimant Advisers (previously Unemployment Review Officers of the DHSS) are now in post in Unemployment Benefit Offices both to help claimants back into work and to tighten the controls on those who should not

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be claiming at all. They are currently interviewing some 45,000 claimants a month, at least a third of whom are leaving the register following interview;

- the number of fraud investigators in the DE has been nearly doubled in the past 3 years. Last year they investigated some 350,000 cases of whom some 60,000 withdrew their claims as a result.

2. Taken together these measures have led to a major tightening of the benefit regime which has been clearly reflected in the unemployment figures. Nevertheless, the split between Benefit Offices and Jobcentres and the fact that the latter have until now been managed at one remove from the Department of Employment have constrained further development. With these constraints now removed the following are early priorities for the the new Employment Service:-

(i) A revised availability for work form

The existing questionnaire, though effective, has been compromised by the action of various organisations who have published "guides" on how to complete it so as to avoid disallowance of benefit. The present form makes this easy in that it invites fairly simple yes/no answers. It is proposed to introduce a revised version early in 1988 which will:

- ask questions to which it will be more difficult to provide stock answers;

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- seek more information relating to the claimant's circumstances and search for work;
- tie these questions in - at least in certain locations - with actual job vacancies against which the claimant's availability can be more easily tested.

(ii) In depth interviewing of new claimants

Currently new claims to unemployment benefit are taken by Administrative Officers (formerly Clerical Officers). They are limited both by ability and by grade as regards the extent to which they can probe a claimant's availability, circumstances and employment intentions. Within the new Employment Service it is intended - subject to piloting - to move progressively to in-depth interviews conducted by Executive Officers at which they will attempt to place claimants into jobs and thoroughly check their benefit entitlement before taking a claim to benefit. Early results of experiments in UBOs suggest that substantial benefit savings should result, although clearly resource constraints will dictate the pace of change.

(iii) Combined Restart and Availability Testing

Despite the introduction of Claimant Advisers and of the availability test for new claimants there is still no systematic check of availability after the initial claim stage,

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To remedy this it is proposed from next April (subject to satisfactory piloting) to include a test of availability as an integral part of the Restart procedure. Restart invitations will henceforth be accompanied by a questionnaire which the individual will be asked to complete and bring to the interview. The questionnaire will be designed to:

- establish whether the basic availability criteria continue to be satisfied, including the extent to which the unemployed person has been seeking out jobs and other opportunities in recent months;
- identify other aspects (eg training needs) which might be hampering the claimant's job search;
- allow interviewers to obtain useful information about the claimant's job requirements, their experiences in looking for work and how their prospects of employment could be improved.

(iv) Restart Follow-up

Currently some 18% of those attending a Restart interview turn down all offers of help. A further substantial percentage accept such an offer at the time but fail to act on it. Others begin a JTS course but rapidly drop out. Current resources do not permit any systematic follow-up of these

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"refusers". With the advent of the new Employment Service it is intended, as soon as resources allow, to refer all such cases to Claimant Advisers for a thorough examination of their benefit entitlement. Linked to this move it would be possible to provide that henceforward benefit sanctions will be applied to those unreasonably turning down a place in a Jobclub or on a Job Training Scheme. The power to invoke such sanctions - which lead to loss of benefits - already exists but has not thus far been invoked.

(v) Additional Claimant Advisers and Fraud Investigators

There are currently some 650 Claimant Advisers and 720 fraud investigators in the Unemployment Benefit Service. The recently agreed PES provision allows for a further increase of 300 and these will be split between Claimant Advisers and fraud investigators according to need and cost-effectiveness. However, existing rates of return for both groups are between 4:1 and 5:1 and there is no sign yet of diminishing returns having set in. Further increases beyond the 300 now agreed are therefore likely to prove both justifiable and highly cost-effective.

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David Norgrove Esq
10 Downing Street
LONDON SW1A 2AA

9 November 1987

Dear David,

LABOUR MARKET STATISTICS

... I am enclosing our standard brief on the labour market statistics which are to be issued on Thursday. The brief is of course personal and confidential until 11.30 on 12 November and confidential thereafter.

I am copying this to **Allex Allan** (Treasury), Sir Peter Middleton (Treasury), Mr Hibbert (CSO), Mr Footman (Bank of England), Trevor Woolley (Cabinet Office), Timothy Walker (DTI), Sir Brian Hayes (DTI), Robert Gordon (Scottish Office), Sir William Fraser (Scottish Office), Jon Shortridge (Welsh Office), David Watkins (Northern Ireland Office), Sir Robert K Andrew (Northern Ireland Office) and Norman Blackwell (No 10 Policy Unit).

*Yours,
Angela*

ANGELA WILKINS
Private Secretary

COVERING PERSONAL AND CONFIDENTIAL

Unemployment
-regions and sexUNEMPLOYMENT - regions and sex: Oct 1987
SEASONALLY ADJUSTED EXCLUDING SCHOOL LEAVERS

REGIONS	NUMBER (Thousands)		UNEMPLOYMENT RATE (Per Cent)*		
	At Oct 1987	Change in month since Sept 1987	At Oct 1987	Change in month since Sept 1987	Change in year since Oct 1986
(1)					
South East	624.2	-16.1	6.8	-0.2	-1.5
(Greater Lond	(338.5)	-6.3	7.9	-0.1	-1.4
East Anglia	66.0	-2.1	6.9	-0.2	-1.5
South West	163.0	-4.9	8.0	-0.2	-1.8
West Midlands	278.3	-6.1	10.8	-0.2	-2.1
East Midlands	169.1	-4.0	8.9	-0.2	-1.4
Yorks & Humber	261.2	-5.8	11.1	-0.2	-1.7
North West	372.1	-7.2	12.4	-0.2	-1.8
North	197.6	-3.5	13.7	-0.2	-1.6
Wales	145.4	-3.1	12.1	-0.3	-1.9
Scotland	315.4	-4.4	12.8	-0.2	-1.2
GREAT BRITAIN	2592.1	-57.4	9.6	-0.2	-1.6
Northern I.	122.8	-1.0	17.9	-0.1	-0.8
UNITED KINGDOM	2714.9	-58.4	9.8	-0.2	-1.6
<u>MALES AND FEMALES</u>					
UK Males	1900.7	-39.0	11.6	-0.2	-1.7
UK Females	814.2	-19.4	7.2	-0.2	-1.5

* Percentage of whole working population (new basis, taking account of self-employed and armed forces)

COVERING PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON 12/11/87 THEREAFTER CONFIDENTIAL
LABOUR MARKET STATISTICS: NOTES FOR PRIME MINISTER

- A. 1. SUMMARY
- 2. KEY FACTS BRIEF

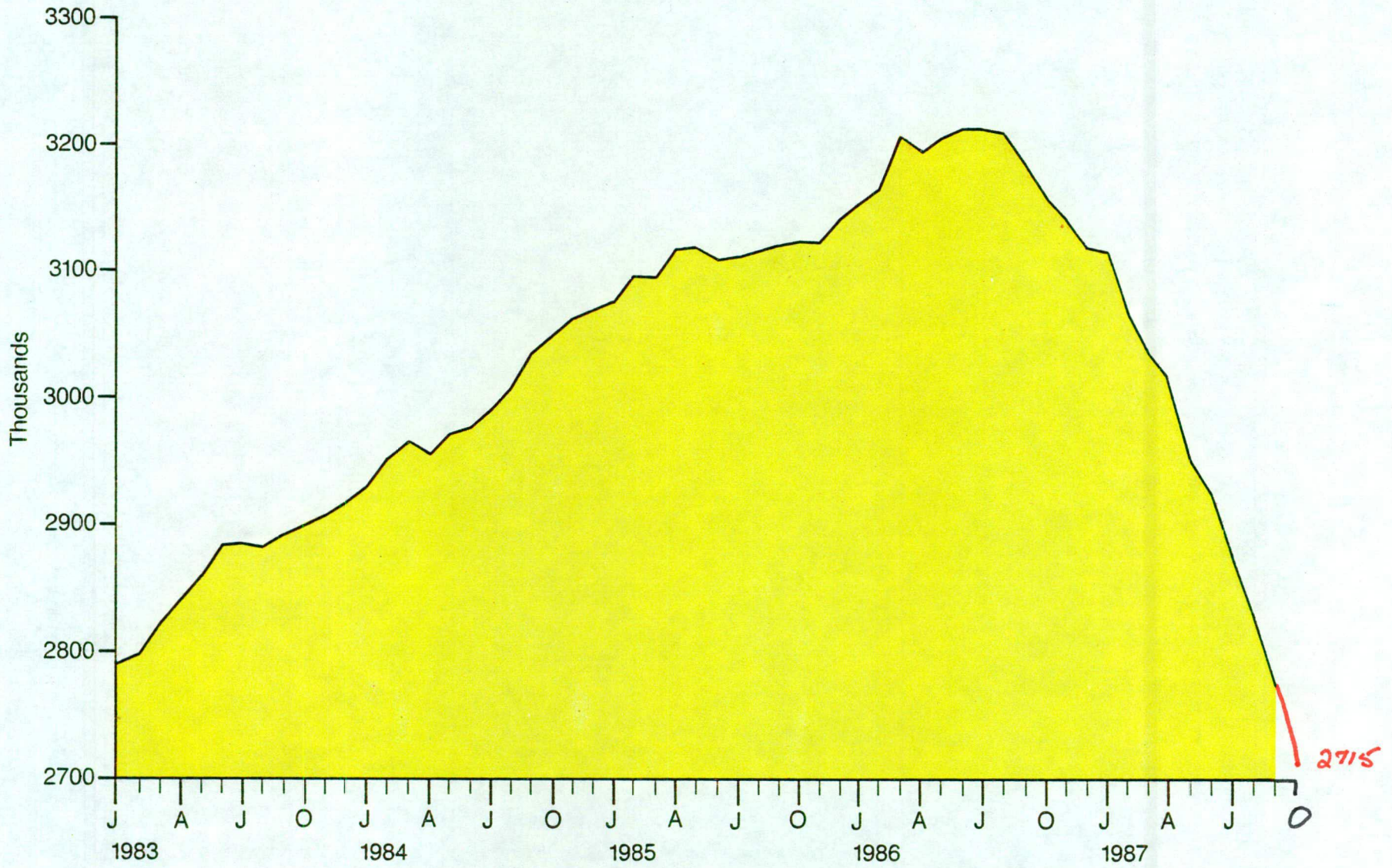
- B. DRAFT PRESS NOTICE

- C. DETAILED ANALYSIS AND BACKGROUND INFORMATION
 - 1. GRAPHS: 1a UNEMPLOYMENT
 - 1b UNEMPLOYMENT RATES BY REGION

 - 2. UNEMPLOYMENT: ADDITIONAL DATA BY REGION
 - 3. LONG TERM UNEMPLOYMENT AND UNEMPLOYMENT BY AGE
 - 4. EMPLOYMENT MEASURES
 - 5. UNEMPLOYMENT: INTERNATIONAL COMPARISONS

- D. ADDITIONAL INFORMATION
 - 1. Unemployment: comparisons with 1930s
 - 2. Unemployment: coverage of the count: comparison with Labour Force Survey estimates.
 - 3. Unemployment: changes in coverage of the count.
 - 4. Unemployment: coverage of the count: summary of possible additions and exclusions.
 - 5. Labour Market: job changes and flows.
 - 6. Demographic and labour force background.
 - 7. Employment: methodology.
 - 8. Employment: double jobbing and special measures.
 - 9. Employment: international comparisons.
 - 10. Employment: additional data.
 - 11. Earnings.

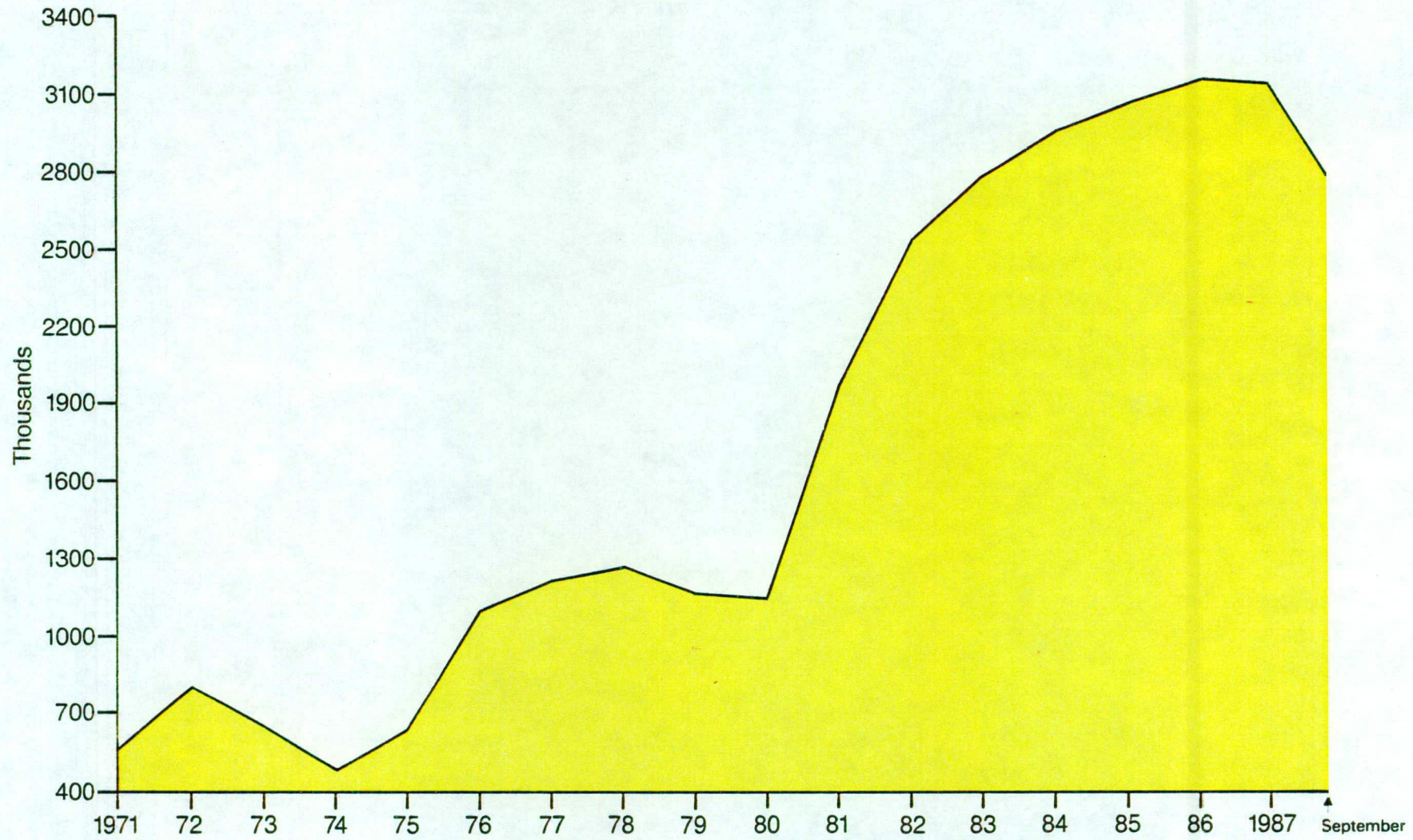
Unemployment: UK: 1983 to 1987



Note: Seasonally adjusted excluding school leavers

Figure 1

Unemployment: UK: 1971 to 1987



Note: Seasonally adjusted excluding school leavers

Unemployed Claimants aged under 18: UK

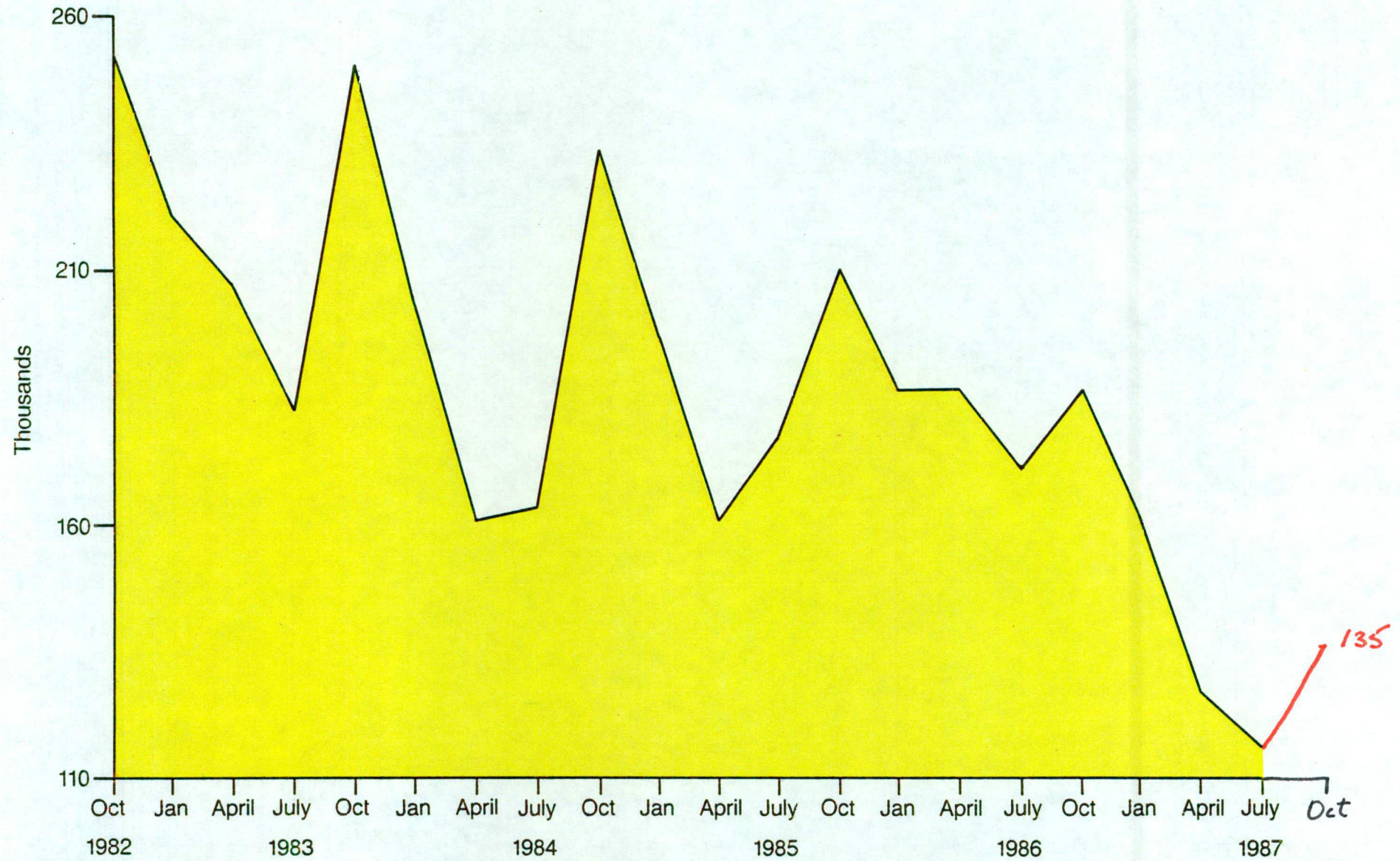


Figure 3

Long-Term Unemployed Claimants: UK

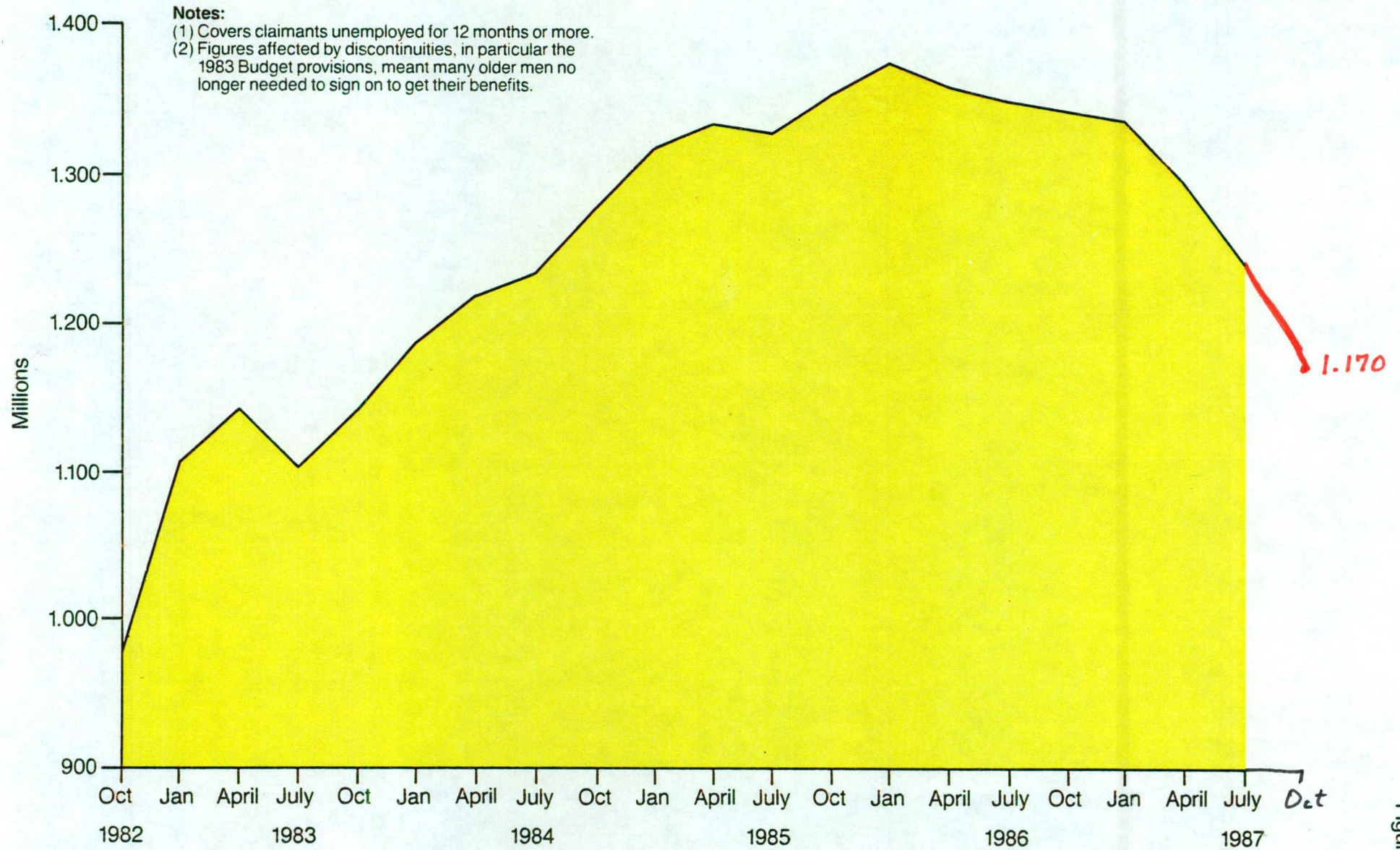


Figure 4

The Population of Great Britain

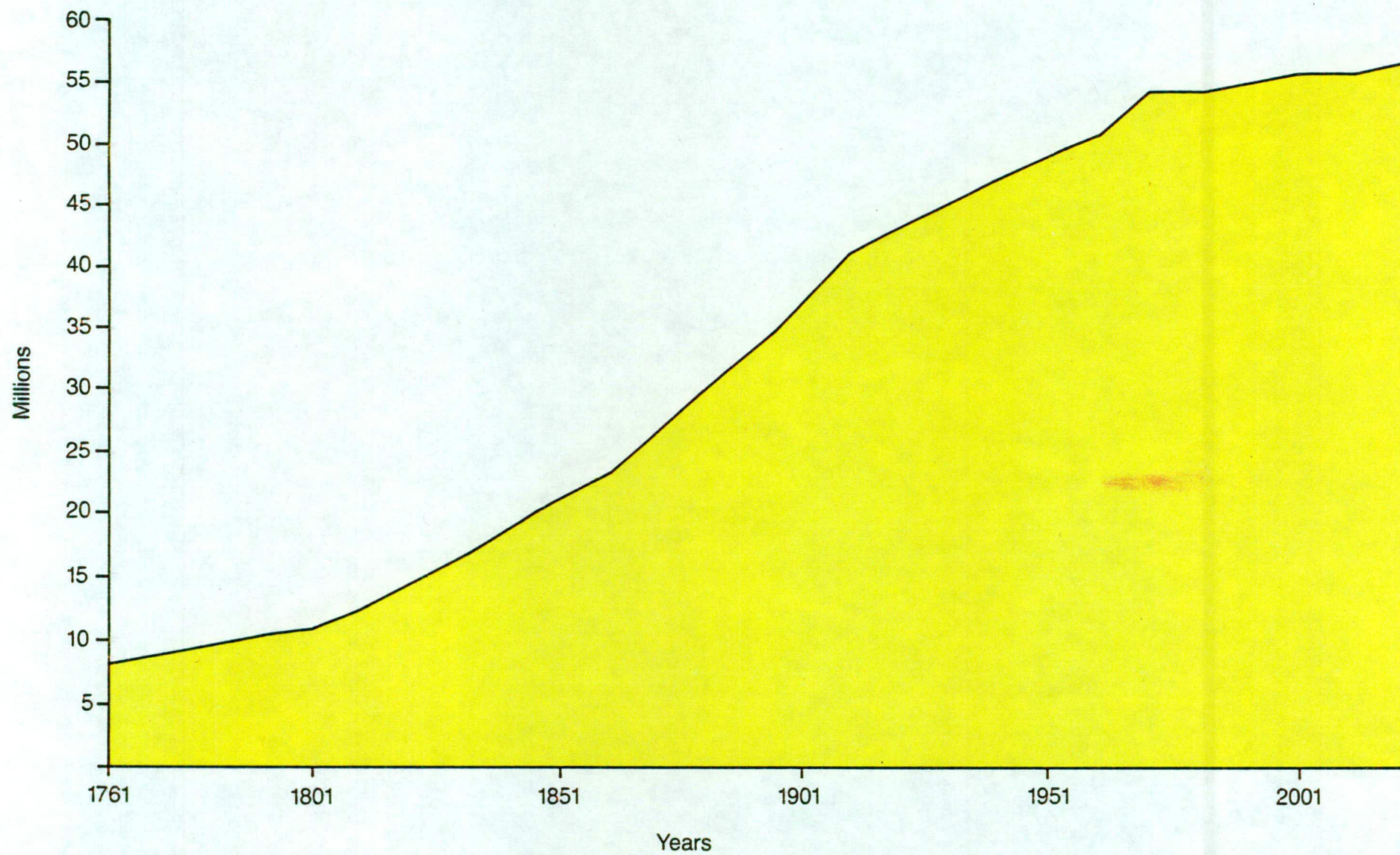


Figure 5

GB population aged 16 to 19 years

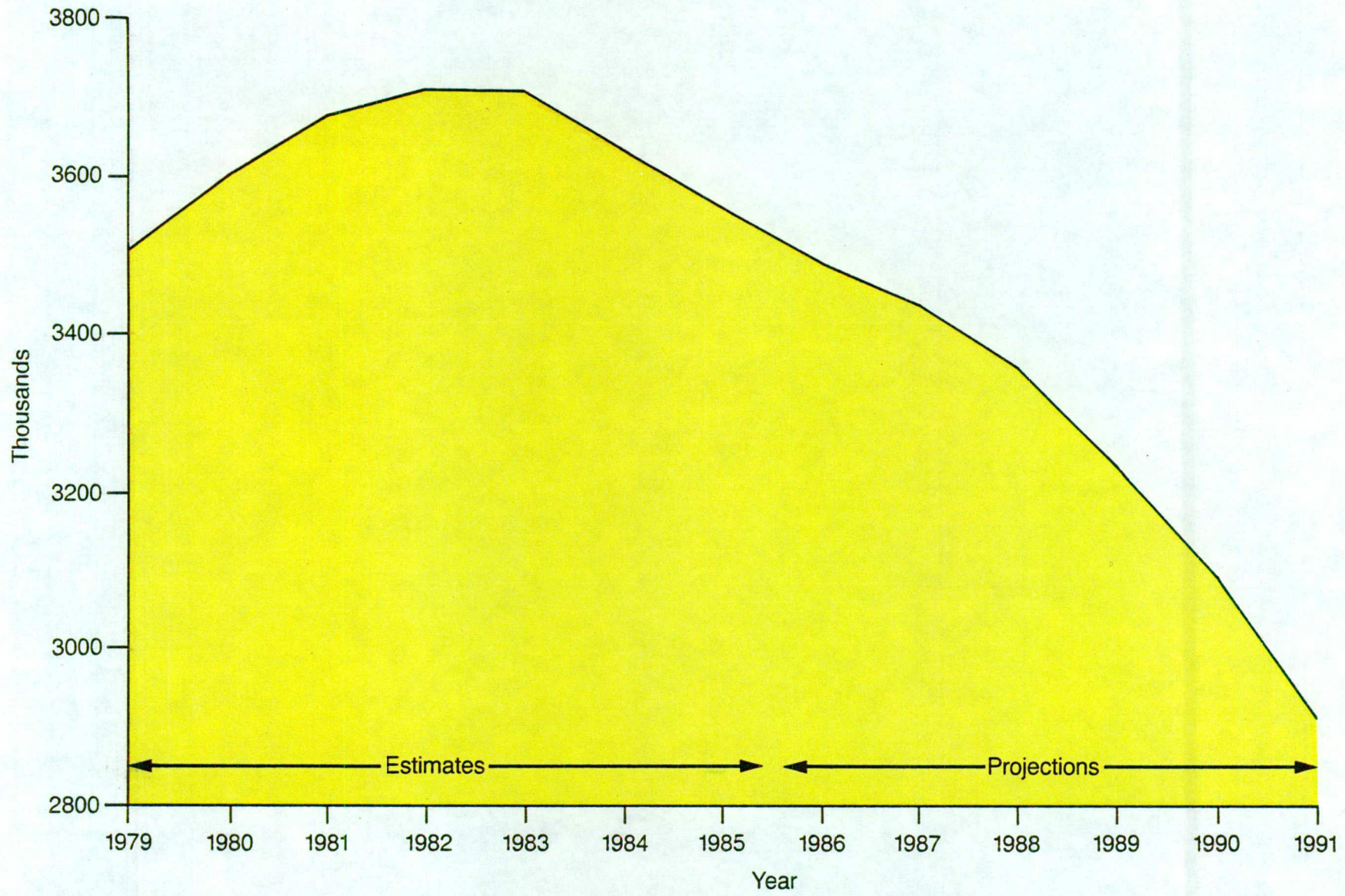


Figure 6

Change from present programmes to the new programme

Current programmes for the adult unemployed	Entrants forecast for 1987/88
Old Job Training Scheme	41,000
<ul style="list-style-type: none"> - Management Skills - Clerical Commercial - Shorthand/Typing - Hotel and Catering - Engineering, Science and Technical - Automotive - Construction - Management Services - Health Training and Welfare - Service and Selling Occupation - Computer Skills 	
Wider Opportunities Programme	28,000
<ul style="list-style-type: none"> - Prep English Second Language - Transfer of Employment - Bridge Programme - Prep Literacy/Numeracy - Skills Linked English Second Language - Training for the Disabled - Women Only Courses 	
Community Programme	260,000
New Job Training Scheme	115,000
Employment Rehabilitation	16,000
Training for Enterprise	50,000
<ul style="list-style-type: none"> - Graduate Enterprise Programme - Business Enterprise Programme - Young Entrepreneurs - Management Extension Programme - New Enterprise Programme - Local Consultancy Grants - Graduate Gateway Programme 	
Other Programmes	14,000
Special Groups: Women and Ethnic Minorities	
Female Technicians	
Industrial Lang Training	
	524,000



The new programme, which will begin in September 1988 and will build up to about 625,000 entrants in 1989/90

The paths people will take on the new programme

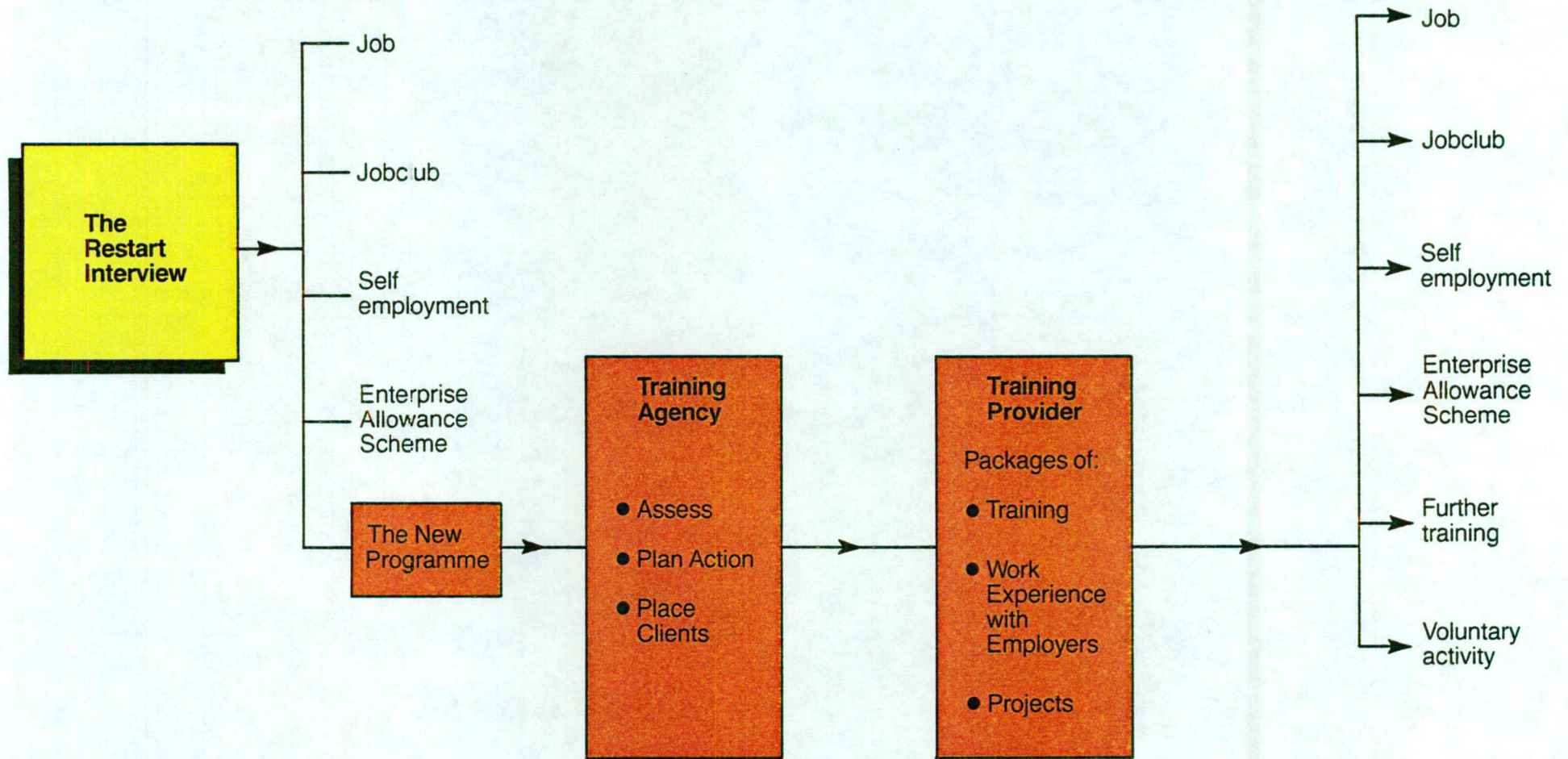


Figure 8

A Stricter Benefit Regime

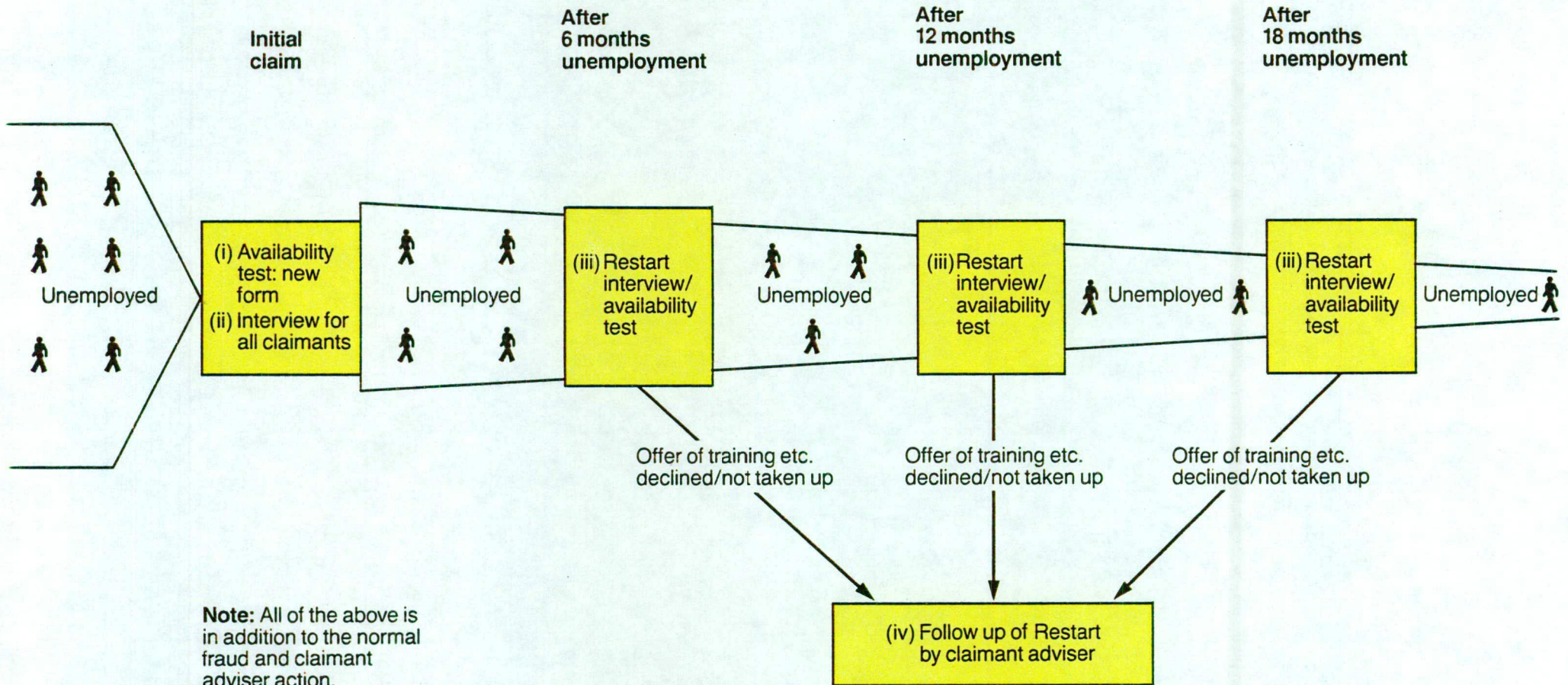


Figure 9

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Prup.

From: P R C GRAY

Date: 9 November 1987

CHANCELLOR

*Copy
list*

cc ~~Chief Secretary~~
Sir P Middleton
~~Mr F E R Butler~~
Mr Anson
Mr Monck
Mr Burgner
~~Mr Luce~~
Mr Turnbull
Mr McIntyre
Mr MacAuslan
Mrs Brazier
Mr Tyrie
Mr Call

PRIME MINISTER'S MEETING ON EMPLOYMENT: 11 NOVEMBER

The Prime Minister may have had three items in mind in calling the meeting:

- progress towards meeting the Manifesto guarantees and aims for the unemployed (Mr Norgrove's letter of 22 September attached);
- dependence on local authorities for delivering DE programmes (same minute);
- the tradition of autumn meetings on employment.

2. Mr Fowler's minute to the Prime Minister of 6 November sets the agenda. He proposes major changes to DE programmes for the long term unemployed and further changes to the checks on claims for unemployment benefit. The changes seem broadly sensible. Mr Fowler is not bidding "at this stage" for more money. But he reserves the right to propose switches from programme to running costs.

3. Your objectives are to

- get agreement that changes be made without increases to the overall DE Group totals agreed in the Survey (eg no increases to reflect assumed social security savings), and without switches from programme to running costs.
- ensure changes yield the maximum improvements in supply performance.

Key points to make are appended to this minute.

BACKGROUND

4. Manifesto guarantees and aims

- (i) "a place on the YTS to every school leaver under 18 who is not going directly into a job".
- (ii) "within a year we aim to guarantee a place, either on the Job Training Scheme or on the Enterprise Allowance Scheme or in a Jobclub, for everyone aged between 18 and 25 years who has been unemployed for between 6 and 12 months".
- (iii) "to provide the Restart service ... at 6 monthly intervals to all those who have been unemployed for more than 6 months".
- (iv) "Over the next 5 years we will aim (NB not a commitment as Mr Fowler's paper implies) ... to offer everyone who is under 50 and who has been unemployed for more than 2 years, a place in the Job Training Scheme or in the new Community Programme, in a Jobclub, or in the Enterprise Allowance Scheme".

Survey Outcome

5. Increases of 208/235/234 to DE group programmes were agreed before the Survey (for expansion of Restart interviews, the new Job

Training Scheme, and the Enterprise Allowance Scheme; and for the withdrawal of income support from 16-17 year olds). These increases were offset by assumed savings in DHSS benefit expenditure. The DE increases have now been broadly unwound in the Survey (savings of 170/241/295).

6. Savings included:

-Community Programme participants to get benefit plus a premium of £10 (not £15 as DE proposed) and stay on the scheme under 9 months on average

-estimating savings in 1988-89 on the new Job Training Scheme (which is way below target for expansion)

-reductions in the scale of the old Job Training Scheme (with a review of the Skills Training Agency which currently only survives as a favoured supplier of training under that scheme)

-reductions in the YTS grants and other training schemes, and abolition of the Job Release and New Workers Schemes.

7. Unlike the January package the Survey settlement did not allow Mr Fowler credit for social security savings eg from appointing more claimant advisers.

8. Correspondence between the Chief Secretary and Mr Fowler confirmed the Survey settlement and that it was open to Mr Fowler

"to propose switches between the different programmes in the light for example of emerging trends. I said that I would be prepared, within the normal guidelines and arrangements, to consider any such proposal sympathetically". (CST 2 October).

This formulation does not give Mr Fowler carte blanche to swallow up underspends by switching within his totals; nor does it guarantee sympathetic consideration of switches into running costs ("I will look at them on their merits", CST 28 October).

FOWLER'S PROPOSALS

9. Mr Fowler's proposals are in 2 groups, discussed separately below. The first leg involves more effective help for the genuine long term unemployed; the second leg tougher action to deter benefit scroungers.

Measures for the long term unemployed

10. Mr Fowler proposes that measures for the long term unemployed (mainly the Community Programme and new Job Training Scheme) should be merged into a new programme for those unemployed over 6 months, to be financed within the existing envelope. The new programme might help 600,000 entrants a year. The contribution of local authorities as providers might gradually be reduced; and the programme could help inner cities.

11. You can welcome the proposal which has substantial advantages:

- (i) MSC could offer individually tailored packages of remedial training, skills training, project work and employer-based work experience.
- (ii) more work experience with employers (less lengthy project work with voluntary bodies and local authorities), and more tailored help for less able people (rather than make work for the more able) should mean a bigger boost to effective labour supply.
- (iii) participants would all get benefit plus a small premium to subsume normal travelling expenses. This small improvement over the terms of the new JTS may help defuse union opposition and get the scheme off the ground (but it will be important to limit the size of the premium to the £10 agreed for CP in the Survey).
- (iv) this, and the merging of the schemes, will mean that there should be no difficulty in meeting the Manifesto guarantee of an offer for all 18-25 year olds unemployed 6-12 months. At no extra cost the Government will appear

to be doing more for the long term unemployed (who are frequently concentrated in the inner cities), taking much of the wind out of the sails of those advocating tackling this problem via building improvement programmes, recruitment subsidies etc.

12. Against that there are some less good side-effects:

(i) Community Programme participants are at present classified as employees counted in the employment statistics. DE now think that under benefit plus they should not be counted as employees (though this point is not mentioned in the paper). That could mean that as the change is made (from September 1988) there will be a cumulative reduction in measured employment of as much as 200,000. DE should be asked to find ways to minimise this blip in the employment figures.

(ii) more use of employer placements will mean more deadweight, and more substitution for and displacement of other employees. This could reduce the short term count impact and benefit savings of present schemes, and in turn increase the measured net cost per person off the count.

Checks on unemployment benefit claims

13. At present new claimants fill in an "availability" form and give it to Administrative Officers in the Unemployment Benefit Offices. Some get interviewed at that stage. If they remain unemployed they are then given Restart interviews every 6 months. Those having surprising difficulty getting off the count (eg those with skills in demand) are - selectively - helped/challenged by Claimant Advisers. In addition, fraud staff investigate possible abuse.

14. Mr Fowler seeks authority progressively to introduce 5 measures as resources allow. These are described in paragraph 17 and Annex 2 of the paper. In summary he proposes to:

(i) alter the availability form to make it more difficult for pressure groups to brief claimants how to complete

it (no significant cost).

- (ii) have more senior staff take new claims in order more effectively to deter or detect invalid claims (though not quoted in the paper DE estimate extra staff costs of £7.7 million in a full year).
- (iii) issue a new availability questionnaire for completion before the Restart interviews to deter scroungers and make the interviews more effective (no cost).
- (iv) have claimant advisers follow up the 40-50% of interviewees who refuse all offers of places on schemes etc or accept offers but do not get places, with greater use of benefit sanctions for those refusing places on schemes (extra staff cost of about £10 million).
- (v) more claimant advisers and fraud staff for other purposes, depending on the availability of staff resources.

15. All these proposals seem sensible. You can welcome them all on the basis that their costs are absorbed within existing DE totals including running costs totals.

Overall Impact of Proposals

16. Mr Fowler's paper is very light on assessment of the impact of his proposals. He does not, for example, estimate the likely impact on the unemployment count and DHSS benefit expenditure. And the paper is not copied to Mr Moore, whose programme costs could be significantly affected.

17. Tighter checks on claimants would undoubtedly reduce the count and benefit payments. DE have given us guesstimates suggesting up to £100 million benefit savings; but these seem substantially on the high side, and probably include double counting between different elements of the package.

18. The paper does not acknowledge at all the possibility that the revamping of the training programmes could increase the measured

count, and increase benefit spending, in the short term (see paragraph 12 above). Quantification is extremely difficult, and it is difficult to judge whether such effects would be greater or less than the impact of tighter claimant checks. You may want to draw attention to this omission in the paper, and the need to take this factor into account when drawing up detailed proposals, while stressing your support for the training proposals given their longer term and supply side benefits.

19. There may also be discussion of the relation between Mr Fowler's package and the overall employment/unemployment position and prospects. Three points on this are:

(i) you will want to draw attention to the impact on the employment statistics (paragraph 12 above).

look e later from interview (x on 2/3)
(ii) Mr Fowler asserts (paragraph 5 of the paper) that half the recent fall in unemployment is due to DE measures. The DE evidence for this claim is unconvincing, but it may not be profitable to pursue the point in this context.

(iii) You may be asked what the general prospects are following the stock market fall. In the context of this meeting you will need to strike a delicate balance; you might say that both the rise in employment and fall in unemployment might now be expected to be less than we have seen to date.

Timing

20. Mr Fowler would like to write to the Commission early next week asking them to work up a programme along these lines following a short statement in the House. He would then like to publish a White Paper in late January or early February covering these and other developments in train. This would allow MSC to get the programme off the ground from September 1988. This handling seems sensible, but you might reserve your position on the proposed White Paper at this stage until the circumstances of the publication of the PEWP and nature of your Budget are clearer.

REC.G.

NO 10 MEETING ON EMPLOYMENT: POINTS TO MAKE

*Welcome general direction of proposals to refocus agreed resources in yet more cost-effective ways within DE Group totals agreed in Survey with John Major; happy to agree direction of change in principle.

*Right to reduce spending on those already most able to get work in order to focus more on least able. Paper does not bring out possibility of adverse short term count effects of switch from make-work schemes to more employer-based training; must bear this in mind in considering detailed proposals for the transition, but welcome the longer term supply side benefits.

*Key parameters for training programme must be:

- programme for 6 months + unemployed only, and not extended down to the under 6 months unemployed.
- programme may well cope with 600,000 entrants a year. But should not be a published target or commitment; depends on resources and trends in unemployment.
- premium over benefit on new combined programme should be as agreed in Survey for Community Programme (£10) or less.
- DE must look at ways of reducing impact on measured employment statistics of reclassifying 200,000 Community programme participants as no longer employed.
- DE to formulate objectives and broad evaluation strategy, and monitoring methods for improvements to Employment Service.

*Happy to try to resolve immediate issues in time to clear text of statement to House and letter to commission for next week. Statement and letter must make clear that changes are within DE Survey settlement agreed with John Major and announced in Autumn Statement. Would also be helpful if Statement stressed employers' responsibilities for training.

*Let's look again at nature and timing of possible White Paper when we see MSC's reactions and when wider context is clearer - no need for commitment now.

*Once detailed proposals for both legs of package are worked up

-as agreed in Survey, Treasury prepared to consider proposals for switches between programmes sympathetically (but within normal rules eg scrutinising gross costs of new training scheme at Main Estimates time.)

-welcome proposal to see what can be achieved on tighter checks in first instance from within existing provision for Employment Service. Will be important to maintain and demonstrate tight grip on running costs. [If pressed; as Chief Secretary has indicated, will look at any running costs proposals on their merits.]

*Pleased to see proposals that changes be accompanied by more use of benefit sanctions as in your letter of 10 September to John Moore. Officials should by about next March bring forward such proposals for Jobclubs and your new scheme. X

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FROM T R H LUCE
 10 November 1987
 Room 55/G
 Ext 4544

CHANCELLOR

cc Chief Secretary
 Sir P Middleton
 Mr F E R Butler
 Mr Anson
 Mr Monck
 Mr Burgner
 Mr Turnbull
 Mr Hansford
 Mr McIntyre
 Mr MacAuslan
 Mrs Brazier
 Mr Tyrie
 Mr Call
 File A
 File B

PRIME MINISTER'S MEETING ON EMPLOYMENT: 11 NOVEMBER

1 From a running costs perspective, I agree with the line suggested in Mr Gray's brief of yesterday - that any switch Mr Fowler may propose from programme to running costs should be properly "considered on its merits".

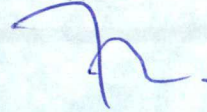
2 We would not want to prevent Mr Fowler from getting better value from his programme expenditure if that really would be the effect of what he is proposing.

3 But you will wish to bear in mind that the running cost outcome of the recent Survey is already slightly in excess of our aim, and will be awkward to present in the PEWP - the increase in provision for 1988-89 over 1987-88 will be 6½% (2% in real terms) before any further increases that may have to be conceded to Employment.

4 Mr Fowler uses a curious phrase in paragraph 18 of his minute of 6 November to the Prime Minister, where he says: "I would like to have flexibility to continue to switch resources from programme expenditure into running costs". He does not have

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and should not be given such flexibility. Like other Ministers, he has to live within agreed running cost limits; and has to negotiate any change with Treasury Ministers. You may want to make just enough of the running costs issue to get this in the meeting minutes.

A handwritten signature in blue ink, consisting of a stylized, cursive 'T' followed by 'R' and 'H'.

T R H LUCE

pwp

ms x

PERSONAL AND CONFIDENTIAL UNTIL 11.30 ON 12 NOVEMBER 1987 THEREAFTER

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Labour Market Statistics

Summary

Unemployment again fell sharply in October and the unemployment rate is below 10.0 for the first time since July 1982. The other indicators reveal little extra about the labour market, with a continued rise in vacancy stocks and decline in manufacturing employment; growth in the underlying index of average earnings remains unchanged at 7 $\frac{3}{4}$ %.

Unemployment

UK unemployment (seasonally adjusted claimants, excluding school leavers) fell very sharply again, by 58,400 between September and October, bringing the total down to 2.715 million, the lowest for 5 years (on a consistent basis). The unemployment rate, at 9.8 per cent, is below 10 per cent for the first time since July 1982. The series has now fallen for 16 consecutive months, by 498,000 altogether since June 1986. Other comparisons and records are given in 'key facts'.

The downward trend now appears to have reached about 50,000 per month. Over recent months, employment and training measures have been having a broadly neutral effect on the trend in adult unemployment. Various other administrative measures are likely to be still having favourable influences on the trend, although these have become increasingly difficult to quantify as the measures have become established. But the strength of the economy probably now explains the majority of the fall in the unemployment series.

X |

The inflow into unemployment remains considerably lower than a year ago. The outflows are also slightly lower compared with last year although they remain relatively high as outflows rose quite sharply last Autumn. The inflows only began to improve a little later, mainly this spring.

Regional comparisons

Unemployment continues to fall among both men and women in all regions. Over the past 12 months, the unemployment rate has fallen most in the West Midlands and Wales. Northern Ireland still stands out with the smallest fall over the period.

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UNTIL 11.30 a.m. ON 12.11.87.....

THEREAFTER CONFIDENTIAL

Headline total

The UK 'headline' claimant total (unadjusted including school leavers) fell very sharply by 119,000 to 2.751 million in October, 9.9 per cent. This was 486,000 lower than a year ago, again a record 12 month fall.

The fall of 119,000 in the total resulted mainly from a fall of 110,000 among adult claimants. The fall among school leavers was only 9,000, rather small for October. This modest fall follows the much smaller than normal rise in September. The most likely explanation for these movements is that some of this summer's school leavers were deterred from signing on for a short period from the beginning of September if they already had a job or YTS place lined up. Some may have wrongly believed they were not eligible for benefit following publicity about the forthcoming changes to the rules for under 18 year olds.

The school leaver total was 83,000 in October, some 34,000 or 29 per cent lower than in October 1986. Much of this improvement is due to last year's school leavers now starting their second year of training on YTS.

Long-term unemployment

Full analysis of October's unemployment figures by duration is not yet available, but early provisional estimates suggest a fall of over 60,000 in the quarter since July in the number of claimants unemployed for more than a year. In the year since October 1986 there is likely to have been a fall of the order of 170,000.

November headline total

There is normally little change in the unadjusted headline total in November from seasonal influences, with a small rise in adults offset by a fall among school-leavers. Given the current trend, a further fall is therefore likely.

Employment

The number of employees in employment in manufacturing industry in Great Britain is estimated to have fallen by 6,000 in September and 20,000 in the third quarter. This compares with falls of 21,000 in the whole of the first half of the year but 38,000 in the corresponding quarter of 1986.

Figures for employees in the rest of the economy and the employed labour force (employees in employment, the self employed and HM Forces) in Great Britain remain the same as reported last month. The employed labour force

is estimated to have increased by 372,000 in the year ending June 1987 and by 1,362,000 between March 1983, when the upward trend first began, and March 1987.

Overtime working by operatives in manufacturing industries was estimated at 12.97 million hours per week in September giving an average for the third quarter of 12.66 million hours per week. After fluctuating around 11½ to 12 million hours a week through 1986, overtime working has for several months been above the peak level of some 12 million hours a week which was reached in much of 1985. Hours lost through short-time working in manufacturing industries remain very low, 0.21 million hours per week in September.

Vacancies

The stock of vacancies at jobcentres (UK, seasonally adjusted and excluding Community Programme) increased sharply again to reach 261,000 in October. This was 26 per cent high than a year ago and again the highest since the current series began in 1980. These stock figures probably exaggerate the improvements but inflows of notified vacancies were also at a record level in October, some 8 per cent higher than a year ago. Outflows showed an increase of only 4% while recorded placings in October were down by nearly 2% on a year ago. Thus, part of the increase in the stock figures probably continues to reflect a slow down in vacancies coming off the books, due to reduced activity on jobcentres in following up placings.

Earnings

The underlying increase in average weekly earnings in the year to September was 7¾ per cent, similar to the increase in the year to August. The underlying increase was unchanged despite the payment in September of a further stage of this year's non-industrial civil service settlement and the large increases in London Weighting for banking employees. These were offsetting movements elsewhere (mainly a lower annual increase in earnings in the construction industry.)

Next Labour Market figure

The next labour market briefing will be issued on Monday 14th December in advance of the press release on Thursday 17th December. It will contain unemployment figures for 12th November, manufacturing employment and average earnings data for October and vacancies for 6th November.

PERSONAL AND CONFIDENTIAL UNTIL 11.30AM THURSDAY 12 NOVEMBER 1987
 LABOUR MARKET STATISTICS - KEY FACTS

Unemployment

Seasonally adjusted (excluding school leavers)

- fall of 58,400 in October to 2.715 million
- fall of 445,000 over past 12 months, largest since similar records began in 1948
- Unemployment down for 16 months running, by 498,000 since June 1986, the largest sustained fall on record.

Average fall of 51,000 per month over past six months, also a record.

- Unemployment now the lowest for 5 years (since ~~October~~ ^{September} 1982).
- Unemployment rate 9.8%; below 10% for the first time since July 1982.

Unadjusted including school leavers

- Now 2.751m, 9.9%, fall of 119,000 since September
- fall of 486,000 compared with a year ago, largest 12 month fall recorded since similar records began in 1948.

Unemployed school leavers (under 18) 83,000 in October, 34,000 lower than a year ago and the lowest October total since 1979.

Employment - employed labour force increased by 134,000 in Q2, largest ~~fall~~ ^{increase} since Q4 1984

- also increased by 372,000 in year to June
- manufacturing employment fell 6,000 in September

Earnings - Underlying increase in average earnings in year to September unchanged at 7 $\frac{3}{4}$ %.

PERSONAL AND CONFIDENTIAL UNTIL 11.30am THURSDAY 12 NOVEMBER 1987

<u>ADDITIONAL POINTS</u>		<u>Reference</u>
<u>Vacancies</u>	(seasonally adjusted, excluding CP) Unfilled vacancies at jobcentres 261,400 in September, 26% higher than a year ago.	Press Notice table 6, 7 & 8
<u>Regional unemployment figures</u>	Unemployment fell in all regions in September	Press notice table 3
	Unemployment rate fell in all regions over last 12 months with largest falls in West Midlands and Wales. In the 16 months since June 1986, falls have been largest in these regions and also the North-West	C6
<u>Long term unemployment quarterly figures)</u> (NB October figures available shortly)	Fell by 110,000 in year to July Biggest annual fall on record Largest falls in Wales, North and West Midlands	C5a
<u>Youth unemployment</u>	Under 25's unemployment rate in July 16%. Latest EC comparisons for 1986 showed UK 18% compared with EC average 23% (Italy 34%, France 23%, Belgium 20%, Ireland 27%, Greece 24%, Portugal 29%, Spain 48%)	C5b
<u>Flows into and out of unemployment</u>	Unemployed not a static pool - some 400,000 a month enter and leave. A quarter leave within a month, half leave within 3 months.	D5
<u>International comparisons</u>	In recent months, UK rate fallen faster than any other major industrialised country. Latest OECD standardised rate for UK now 9.8% (August). Unemployment higher in France (10.9%) Belgium (10.6%), Spain (20.1%) and Ireland (19.4%).	C4a,b,c
<u>Employment</u>	Increased every quarter for 4 years. Over 1.3 million jobs created since 1983.	Press Notice table 5 D10a

PERSONAL AND CONFIDENTIAL UNTIL 11.30am ON 12 NOVEMBER

DEFENSIVE BRIEFING

Reference

<u>Effect of government measures on count</u>	<p>Traditional measures (Community Programme etc) have not grown over recent months. Cannot estimate effects of Restart because gateway to other schemes which help into jobs eg Community Programme, Enterprise Allowance Scheme, Job Clubs. Successful because 'Pushing an open door' when economy growing. Availability testing will discourage some people who were not interested in getting work - cannot assess how many.</p>	C3
<u>Fiddling the figures</u>	<p>Only acknowledge 6 discernible changes since 1979; three administrative and three statistical including only two changes to method of compilation. Publish consistent back series to assess the trend in unemployment. Nothing to hide.</p>	D3
<u>International definition of unemployment</u>	<p>Based on those without work who are available and have actively looked for work in last month. Latest figures for GB 2.98 million when comparable claimant count was 3.17 million. Figures of 5 million sometime quoted include all those who say they would like work, even if they have done nothing to look for a job (include the early retired, those looking after home, and sick).</p>	D2
<u>Employment growth 'not real jobs'</u>	<p>Two thirds of growth in employment in last year was in jobs for women (244,000). Half those jobs were part-time (120,000), a much smaller proportion than in recent years.</p> <p>- Participants in a special measures eg Community Programme EAS are employed in precisely the same way as any other employee.</p>	

PERSONAL AND CONFIDENTIAL
UNTIL 11.30am ON 12.11.87

LABOUR MARKET STATISTICS

NOVEMBER 12 1987

SUMMARY STATISTICS

				<u>Thousands</u>		
				Level	Change on previous period	Change on previous year
<u>Unemployment (UK)</u>						
Total (not seasonally adjusted)	October	8	2,751	- 119	- 486	
Total (excluding school leavers)	October	8	2,715	- 58	- 445	
<u>Employed Labour Force</u>	June; Q2	1987	24,359	+134	+ 372	
<u>Employees in employment</u>						
Services	June Q2	1987	14,492	+ 99	+ 366	
Manufacturing	June Q2	1987	5,085	+ 10	- 66	
Manufacturing employment	September	1987	5,065	- 6	- 48	
<u>Vacancies (UK at jobcentres)</u>	October	2	261	+ 15	+ 55	

Percentage change on previous year
(underlying increase)

Index of Average Earnings

Whole Economy	September	7 $\frac{3}{4}$
Services	September	7 $\frac{1}{4}$
Manufacturing	September	8 $\frac{1}{2}$

Notes

1. All figures seasonally adjusted GB except where otherwise stated.
2. The employed labour force comprise employees in employment; the self-employed and HM Forces.

The latest figures available on developments in the labour market are summarised below.

Summary

Unemployment (UK seasonally adjusted excluding school leavers) fell by 58,400 in the month to October. Male unemployment decreased by 39,000 and female unemployment decreased, by 19,400. Over the past six months there has been a fall of 50,500 on average compared with a fall of 23,600 per month over the previous six months to April 1987.

The unadjusted unemployment total, decreased in October by 118,811 to 2,751,384. This includes 83,226 school leavers aged under 18. In October, total unemployment was 485,770 lower than a year ago.

The number of employees employed in manufacturing industry fell by an estimated 20,000 in the third quarter, after allowing for seasonal factors. This continues the slow, though rather unstable, downwards drift of the last twelve months.

The latest estimates of the employed labour force in the whole economy in Great Britain remain as published last month, showing an increase of 134,000 in the second quarter.

The stock of vacancies (UK seasonally adjusted excluding Community Programme) increased by 14,800 in October to 261,400. Over the past six months there has been an increase of 7,400 per month on average.

The underlying increase in average earnings in the year to September was 7½ per cent, similar to the increase in the year to August.

Additional and more detailed information on unemployment, employment, vacancies, average earnings, unit wage costs, hours of work, productivity and industrial disputes is to be found in subsequent sections of the press notice.

LABOUR MARKET STATISTICS

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UNEMPLOYMENT

The seasonally adjusted level of unemployment in the UK (excluding school leavers) decreased by 58,400 to 2.715 million in October, 9.8 per cent of the working population*.

Over the past six months on average unemployment has fallen by 50,500 per month.

The recorded total of unemployed claimants, including school leavers, decreased by 118,811 between September and October to 2,751,384 giving an unemployment rate of 9.9 per cent of the working population. Unemployment is 485,770 less than a year ago. The total included 83,226 school leavers, 34,255 lower than a year ago.

Recent figures are shown in tables 1, 2 and 3.

TABLE 1: UNEMPLOYMENT - UNITED KINGDOM

THOUSAND

TABLE 1: UNEMPLOYMENT - SEASONALLY ADJUSTED excl. school leavers - UNITED KINGDOM

	Male	Female	Number	Change since previous month	Unemployment rate: Percentage of working population*	Average change over 6 months ended	Average change over 3 months ended
1986 Oct	2171.8	987.8	3159.6	-23.6	11.4	-6.2	-17.6
Nov	2166.3	977.1	3143.4	-16.2	11.3	-9.5	-21.9
Dec	2152.8	966.6	3119.4	-24.0	11.2	-15.5	-21.3
1987 Jan	2146.9	967.4	3114.3	-5.1	11.2	-16.4	-15.1
Feb	2122.8	943.0	3065.8	-48.5	11.0	-23.9	-25.9
Mar	2107.9	931.8	3039.7	-26.1	10.9	-23.9	-26.6
Apr	2092.7	925.4	3018.1	-21.6	10.9	-23.6	-32.1
May	2053.6	898.7	2952.3	-65.8	10.6	-31.9	-37.8
Jun	2036.2	889.0	2925.2	-27.1	10.5	-32.4	-38.2
Jul	2004.6	871.6	2876.2	-49.0	10.4	-39.7	-47.3
Aug	1971.9	857.2	2829.1	-47.1	10.2	-39.5	-41.1
Sep(r)	1939.7	833.6	2773.3	-55.8	10.0	-44.4	-50.6
Oct(p)	1900.7	814.2	2714.9	-58.4	9.8 **	-50.5	-53.8

** The separate rate for males was 11.6 per cent, and for females 7.2 per cent.

* See note A5

(p) Provisional and subject to revision (see note A6)

(r) Revised

TABLE 2: UNEMPLOYMENT - UNADJUSTED incl. school leavers - UNITED KINGDOM

		Male	Female	Number	Unemployment rate:percentage of working population*	School leavers	
					Claimants	Non Claimants**	
1986	Oct	2,199,803	1,037,351	3,237,154	11.7	117,481	. .
	Nov	2,200,167	1,016,600	3,216,767	11.6	98,169	. .
	Dec	2,221,545	1,007,622	3,229,167	11.6	88,980	. .
1987	Jan	2,272,426	1,024,810	3,297,236	11.9	89,190	. .
	Feb	2,233,932	991,877	3,225,809	11.6	79,936	. .
	Mar	2,181,037	962,333	3,143,370	11.3	72,281	. .
	Apr	2,158,222	948,906	3,107,128	11.2	66,572	. .
	May	2,080,369	906,084	2,986,453	10.8	74,930	. .
	Jun	2,022,964	882,361	2,905,325	10.5	69,397	103,552
	Jul	2,008,482	897,971	2,906,453	10.5	63,922	128,903
	Aug	1,970,318	895,484	2,865,802	10.3	56,135	115,669
	Sep	1,973,776	896,419	2,870,195	10.3	92,406	. .
	Oct	1,903,620	847,764	2,751,384	9.9+	83,226	. .

+ The separate rate for males was 11.6 per cent, and for females 7.5 per cent.

** Not included in totals, see note A4

*See note A5.

TABLE 3: UNEMPLOYMENT - REGIONS October 8 1987

THOUSAND

	SEASONALLY ADJUSTED (P) (EXCLUDING SCHOOL LEAVERS)				UNADJUSTED (INCLUDING SCHOOL LEAVERS)			
	Total	Change since previous month	Unemployment rate (R) percent- age of working population*	Change since previous month	Total	Change since previous month	Unemployment rate (R) percent- age of working population*	School leavers population*
South East (Greater London)	624.2 (338.5)	-16.1 (-6.3)	6.8 (7.9)	-0.2 (-0.1)	624.5 (341.3)	-28.8 (-14.2)	6.8 (8.0)	10.6 (5.6)
East Anglia	66.0	-2.1	6.9	-0.2	64.2	-3.0	6.7	1.4
South West	163.0	-4.9	8.0	-0.2	163.3	-4.9	8.0	3.0
West Midlands	278.3	-6.1	10.8	-0.2	285.6	-13.8	11.1	9.5
East Midlands	169.1	-4.0	8.9	-0.2	169.2	-8.3	8.9	4.5
Yorks and Humberside	261.2	-5.8	11.1	-0.2	266.9	-13.2	11.4	11.0
North West	372.1	-7.2	12.4	-0.2	377.7	-18.0	12.6	12.4
North	197.6	-3.5	13.7	-0.2	201.8	-9.4	14.0	7.4
Wales	145.4	-3.1	12.1	-0.3	148.1	-6.9	12.3	5.1
Scotland	315.4	-4.4	12.8	-0.2	325.5	-7.2	13.2	15.5
GREAT BRITAIN	2,592.1	-57.4	9.6	-0.2	2,626.7	-113.5	9.7	80.5
Northern Ireland	122.8	-1.0	17.9	-0.1	124.7	-5.3	18.2	2.8
UNITED KINGDOM	2,714.9	-58.4	9.8	-0.2	2,751.4	-118.8	9.9	83.2

* See note A5

(P) Provisional see note A6

(R) Revised see note A5.

TABLE 4: UNEMPLOYMENT FLOWS - STANDARDISED, UNADJUSTED - UNITED KINGDOM THOUSANDS

		INFLOW				OUTFLOW			
Month ending		Total including school leavers		Total excluding school leavers	Change since previous year	Total including school leavers		Total excluding school leavers	Change since previous year
		School leavers	School leavers			School leavers	School leavers		
1986	Oct	459.5	24.7	434.8	+ 7.0	563.2	41.8	521.4	+ 35.8
	Nov	415.2	12.3	402.9	+ 14.2	432.9	22.8	410.1	+ 16.2
	Dec	356.6	8.7	347.9	- 9.1	343.2	13.3	329.9	- 6.8
1987	Jan	368.7	13.3	355.4	- 8.3	294.9	8.1	286.9	+ 61.4
	Feb	398.8	11.6	387.2	+ 11.8	460.8	14.5	446.3	+ 44.1
	Mar	342.1	8.5	333.7	- 23.7	431.4	11.5	419.9	+ 50.3
	Apr	357.1	7.0	350.1	- 3.8	396.4	8.4	388.0	+ 6.6
	May	320.8	21.9	298.9	- 38.2	425.4	10.7	414.7	+ 14.2
	Jun	315.5	10.2	305.3	- 38.3	403.4	11.7	391.8	+ 9.3
	Jul	429.1	10.7	418.4	- 35.2	427.9	12.1	415.7	+ 16.7
	Aug	384.4	8.0	376.4	- 14.8	419.6	10.1	409.6	+ 20.9
	Sep	456.6	55.5	401.1	- 41.9	451.8	12.9	438.9	- 3.9
	Oct	420.2	25.6	394.6	- 40.2	549.0	30.5	518.5	- 2.9

EMPLOYMENT

The number of employees in employment in manufacturing industry in Great Britain is estimated to have fallen by 6,000 in September and 20,000 in the third quarter. This compares with falls of 21,000 in the whole of the first half of the the year and 38,000 in the corresponding quarter of 1986.

Figures for employees in the rest of the economy and the employed labour force (employees in employment, the self employed and HM Forces) in Great Britain remain the same as reported last month. The employed labour force is estimated to have increased by 372,000 in the year ending June 1987 and by 1,362,000 between March 1983, when the upward trend first began, and June 1987.

Recent figures are set out in Table 5.

TABLE 1
THE EMPLOYED LABOUR FORCE IN GREAT BRITAIN

Thousand: seasonally adjusted

		Employees in employment											Employed labour force including self-employed and HM Forces)			
		Manufacturing Industries			Energy & Water Supply Industries			Service Industries		Other Industries		All Industries and Services				
		Levels	Changes			Levels	Changes		Levels	Changes	Levels	Changes	Levels	Changes	Levels	Changes
			Mon-thly	Three* monthly	Quar-terly		Mon-thly	Quar-terly								
1985	November	5,247	-14	- 3		562	- 4									
	December	Q4 5,244	- 3	- 7	- 21	557	- 5	- 11	13,968	+ 74	1,300	-10	21,069	+ 32	23,951	+ 34
1986	January	5,238	- 6	- 8		547	-10									
	February	5,212	-26	-12		545	- 2									
	March	Q1 5,205	- 7	-13	- 39	540	- 5	-17	14,043	+ 75	1,291	- 9	21,079	+ 10	23,964	+ 13
	April	5,197	- 8	-14		537	- 3									
	May	5,167	-30	-15		534	- 3									
	June	Q2 5,151	-16	-18	- 54	530	- 4	-10	14,126	+ 83	1,292	+ 1	21,099	+ 20	23,987	+ 23
	July	5,132	-19	-22		526	- 4									
	August	5,120	-12	-16		522	- 4									
	September	Q3 5,113	- 7	-13	- 38	520	- 2	-10	14,213	+ 87	1,281	-11	21,127	+ 28	24,041	+ 54
	October	5,110	- 3	- 7		517	- 3									
	November	5,111	+ 1	- 3		512	- 5									
	December	Q4 5,106	- 5	- 2	- 7	510	- 2	-10	14,279	+ 66	1,284	+ 3	21,179	+ 52	24,117	+ 76
1987	January	5,083	-23	- 9		503	- 7									
	February	5,082	- 1	-10		502	- 1									
	March	Q1 5,075	- 7	-10	- 31	496	- 6	-14	14,393	+114	1,298	+14	21,262	+ 83	24,225	+108
	April	5,070	- 5	- 4		490	- 6									
	May	5,077	+ 7	- 2		490	0									
	June	Q2 5,085	+ 8	+ 3	+ 10	491	+ 1	- 5	14,492	+ 99	1,303	+ 5	21,371	+109	24,359	+134
	July	5,072R	-13R	+ 1R		488	- 3									
	August	5,071R	- 1R	- 2R		487R	- 1R									
	September	Q3 5,065	- 6	- 7	- 20	488	+ 1	- 3								

* = Average monthly change over last three months
R = Revised to incorporate late data now available.

VACANCIES

The stock of unfilled vacancies at jobcentres (seasonally adjusted and excluding Community Programme vacancies) increased by 14,800 in the month to October to reach 261,400. Over the past three months to October, seasonally adjusted vacancies have increased on average by 8,700 per month.

Unadjusted, there was an increase of 16,950 unfilled vacancies in the month to 312,156. There was an increase of 18 Community Programme vacancies.

The inflow of notified vacancies increased on average by 5,300 per month in the three months ending October 1987, the outflow increased by 2,100 per month, and placings increased by 1,200 per month.

Recent figures are shown in tables 6, 7 and 8.

TABLE 6: UNFILLED VACANCIES - UNITED KINGDOM

THOUSAND

		VACANCIES AT JOBCENTRES+*					VACANCIES AT CAREERS OFFICES	
		UNADJUSTED		SEASONALLY ADJUSTED (R) EXCLUDING COMMUNITY PROGRAMME			UNADJUSTED	
		Total	Community Programme Vacancies	Total excluding Community Programme	Number	Change since previous month	Average change over 3 months ended	
1986	Oct	261.1	34.9	226.2	209.5	7.5	5.4	14.7
	Nov	248.2	32.2	216.0	212.5	3.0	4.0	13.5
	Dec	223.3	29.0	194.3	210.6	-1.9	2.9	12.5
1987	Jan	218.1	30.1	188.1	212.0	1.4	0.8	11.9
	Feb	216.0	27.9	188.1	207.0	-5.0	-1.8	13.8
	Mar	226.1	25.4	200.7	214.2	7.2	1.2	13.9
	Apr	240.0	24.5	215.5	217.7	3.5	1.9	15.9
	May	265.4	26.0	239.5	230.5	12.8	7.8	19.0
	Jun	275.8	28.0	247.9	233.7	3.2	6.5	23.5
	Jul	272.3	28.6	243.7	235.2	1.5	5.8	23.9
	Aug	269.9	30.2	239.6	236.9	1.7	2.1	22.6
	Sep	295.2	31.9	263.3	246.6	9.7	4.3	23.7
	Oct	312.2	32.0	280.2	261.4	14.8	8.7	23.1

* See note C1.

(R) see note C4.

+ Vacancies at jobcentres are only about a third of all vacancies in the economy. See note C3.

PERSONAL AND CONFIDENTIAL

UNTIL 11.30 a.m. ON 12.11.87...

TABLE 7: VACANCY FLOWS AT JOBCENTRES-SEASONALLY ADJUSTED (EXCLUDING COMMUNITY PROGRAMME)

		UNITED KINGDOM				THOUSAND	
		INFLOW (R)		OUTFLOW (R)		of which: PLACINGS (R)	
		Level	Average change 3 Months ended	Level	Average change 3 months ended	Level	Average change 3 months ended
1986	Oct	220.9	1.0	217.8	3.1	162.4	1.8
	Nov	225.4	2.1	220.8	3.3	164.5	2.2
	Dec	222.4	0.0	224.0	2.8	165.6	1.7
1987	Jan	218.9	-0.7	217.0	-0.3	161.2	-0.4
	Feb	209.2	-5.4	213.9	-2.3	159.0	-1.8
	Mar	232.0	3.2	227.9	1.3	168.0	0.8
	Apr	230.2	3.8	225.0	2.7	162.4	0.4
	May	213.3	1.4	202.3	-3.9	147.6	-3.8
	Jun	229.9	-0.7	223.5	-1.5	162.5	-1.8
	Jul	220.0	-3.4	217.9	-2.4	154.3	-2.7
	Aug	222.7	3.1	218.5	5.4	154.8	2.4
	Sep	228.8	-0.4	215.9	-2.5	154.5	-2.7
	Oct	235.9	5.3	224.2	2.1	158.0	1.2

TABLE 8: *UNFILLED VACANCIES - REGIONS - 2 October 1987

THOUSAND

	VACANCIES AT JOBCENTRES			SEASONALLY ADJUSTED (R) (EXCLUDING COMMUNITY PROG VACANCIES)		VACANCIES AT CAREERS OFFICES
	UNADJUSTED*			Number	Change since previous month	UNADJUSTED
	TOTAL	Community Programme Vacancies	Total excluding Community Programme			
South East (Greater London)	115.6 (48.7)	5.2 (2.7)	110.4 (46.0)	101.6 (41.9)	7.7 (3.4)	14.2 (8.2)
East Anglia	10.2	0.6	9.6	8.9	0.6	0.7
South West	24.8	2.7	22.1	21.1	1.2	1.2
West Midlands	31.1	4.4	26.7	24.6	1.8	1.8
East Midlands	16.0	1.6	14.4	13.3	0.2	1.1
Yorks and Humberside	21.5	3.0	18.4	17.1	0.8	0.9
North West	32.0	3.5	28.4	26.7	0.9	1.2
North	17.8	4.0	13.8	12.9	0.5	0.4
Wales	15.6	2.9	12.7	12.4	0.9	0.3
Scotland	25.4	3.4	22.0	20.7	1.1	0.4
GREAT BRITAIN	309.9	31.5	278.5	259.2	14.7	22.1
Northern Ireland	2.2	0.5	1.7	2.2	0.1	1.0
UNITED KINGDOM	312.2	32.0	280.2	261.4	14.8	23.1

* The proportion of total vacancies at Jobcentres varies by region. See note C3.
(R) revised see note C4.

AVERAGE EARNINGS UNTIL 11.30 a.m. ON 12/11/87...

The underlying increase in average weekly earnings in the year to September was about 7½ per cent, similar to the increase in the year to August.

The actual increase in the year to September, 7.9 per cent, was slightly above the estimated underlying increase because changes in the timing of some pay settlements meant that some employees had received two settlements in the twelve month period.

TABLE 9: INDEX OF AVERAGE EARNINGS OF EMPLOYEES IN GREAT BRITAIN: WHOLE ECONOMY

	Index January 1980 = 100	Seasonally adjusted		
		Index	Percentage increase over previous 12 months	Underlying percentage increase over previous 12 months
1986				
July	187.9	186.3	8.2	7½
August	187.2	187.0	8.0	7½
September	186.8	187.1	6.1	7½
October	188.3	188.7	8.3	7½
November	191.2	190.2	8.1	7½
December	193.4	191.3	7.4	7½
1987				
January	190.4	192.8	7.6	7½
February	191.2	193.4	7.4	7½
March	194.5	194.8	6.7	7½
April	196.0	197.4	6.5	7½
May	198.1	198.5	8.7	7½
June	200.0	198.1	7.7	7½
July	203.1	201.3	8.1	7½
August	201.6	201.3	7.6	7½
September*	201.6	201.9	7.9	7½

* Provisional

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 UNTIL 11.30 a.m. ON 12.11.87

In production industries, the underlying increase in average weekly earnings in the year to September was about 8½ per cent, similar to the increase in the year to August. Within this sector, in manufacturing industries, the underlying increase in average weekly earnings in the year to September was about 8½ per cent, similar to the increase in the year to August. These increases include the effect of higher overtime working this year than a year ago.

The actual increases for production industries and manufacturing industries in the year to September were 8.4 per cent and 8.5 per cent respectively.

In service industries, the underlying increase in average weekly earnings in the year to September was about 7¼ per cent, similar to the increase in the year to August. The actual increase in the year to September was 7.6 per cent and was slightly inflated by the change in the timing of some pay settlements.

TABLE 10: INDEX OF AVERAGE EARNINGS OF EMPLOYEES IN GREAT BRITAIN
 MAIN SECTORS

Seasonally adjusted

	Production industries*			Manufacturing Industries**			Service Industries***		
	Index	Percentage increases over January previous 1980=100	seas adj underlying	Index	Percentage increases over January previous 1980=100	seas adj underlying	Index	Percentage increases over January previous 1980=100	seas adj underlying
1986									
July	189.9	6.8	8	190.5	6.8	7½	186.0	9.3	7¼
August	192.1	8.0	7½	191.9	7.7	7½	187.3	8.3	7¼
September	193.9	6.7	7½	194.0	6.9	7½	186.0	5.7	7¼
October	195.2	8.0	7½	195.2	7.9	7½	187.4	8.7	7¼
November	196.6	7.8	8	197.1	7.8	7½	190.5	8.5	7½
December	199.6	8.4	8	200.0	8.3	8	189.2	6.7	7½
1987									
January	199.9	7.8	7½	200.0	7.8	7½	190.3	7.7	7½
February	200.6	7.9	8	201.0	8.1	8	189.7	7.2	7¼
March	199.8	7.4	8	201.1	7.6	8	193.8	5.9	7¼
April	203.6	7.2	8	204.4	7.0	8	196.4	5.8	7½
May	201.6	8.0	8	202.4	8.2	8	199.2	9.3	7½
June	203.9	8.0	8½	204.8	7.9	8½	198.7	7.5	7½
July	206.4	8.7	8½	207.6	9.0	8½	200.4	7.7	7¼
August	207.8	8.2	8½	207.2	8.0	8½	200.9	7.3	7¼
September (prov)	210.1	8.4	8½	210.5	8.5	8½	200.2	7.6	7¼

* DIVISIONS 1-4 of SIC 1980 covering Energy and water-supply and manufacturing.

** DIVISIONS 2-4 of SIC 1980. Included in production industries.

*** DIVISIONS 6-9 of SIC 1980 covering Distribution, hotels and catering, repairs; Transport and communication; Banking, finance, insurance, business services and leasing; Other Services (including public administration, education, medical and other health services, etc).

R = Revised

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UNTIL 11.30 a.m. ON 12.11.87

UNIT WAGE AND SALARY COSTS

LATER AND REVISED FIGURES FOR WAGES AND SALARIES PER UNIT OF OUTPUT IN MANUFACTURING WILL BE AVAILABLE ON REQUEST FROM THE DEPARTMENT OF EMPLOYMENT FROM 11.30 AM ON FRIDAY 13 NOVEMBER (SEE NOTES TO EDITORS).

In the three months ending August 1987, wages and salaries per unit of output in manufacturing industries were 1.5 per cent above the corresponding period a year earlier. This increase was below the rise in average earnings in manufacturing (see Table 10) as there was a rise of nearly 7 per cent in productivity over this period (see Table 13).

In the second quarter of 1987, wages and salaries per unit of output in the whole economy were 4.6 per cent above the corresponding period of 1986. The increase was below the rise in average earnings in the whole economy (see Table 9) as there was a rise of over 2½ per cent in productivity over this period (see Table 13).

Recent figures are:-

TABLE 11: WAGES AND SALARIES PER UNIT OF OUTPUT

		Manufacturing		Whole Economy	
		Index 1980 = 100	Percentage increase on a year earlier	Index 1980 = 100	Percentage increase on a year earlier
1985	Q2	122.4	5.3	129.9	4.8
	Q3	125.5	6.3	132.9	6.0
	Q4	128.4	6.0	134.2	4.4
1986	Q1	130.6	7.5	136.4	6.0
	Q2	130.0	6.2	137.9	6.2
	Q3	129.4	3.1	138.8	4.4
	Q4	129.8	1.1	140.9	5.0
1987	Q1	131.4	0.6	141.9	4.0
	Q2	131.5	1.2	144.2	4.6
1987	May	130.3	1.1	..	..
	June	131.9	1.5	..	..
	July	131.4	2.1	..	..
	Aug	130.7	0.8	..	..
<u>3 months ending</u>					
1987	May	131.0	0.5	..	..
	June	131.5	1.2	..	..
	July	131.2	1.5	..	..
	Aug	131.3	1.5	..	..

Overtime working by operatives in manufacturing industries was estimated at 12.97 million hours a week in September 1987 giving an average for the third quarter of 12.66 million hours a week. After fluctuating around 11.5 to 12 million hours a week through 1986, overtime working has for several months been above the peak level of some 12 million hours a week which was reached in much of 1985. Current levels are still well below the level of 15 million hours a week and more observed in the late 1970s.

Hours lost through short-time working in manufacturing industries remain very low, 0.21 million hours per week in September.

The index of average weekly hours worked by operatives in manufacturing industries (which takes account of hours of overtime and short-time as well as normal basic hours) was estimated at 103.6 in September 1987 giving an average of 103.4 for the third quarter

Recent figures are set out in Table 12.

TABLE 12: WORKING HOURS OF OPERATIVES IN MANUFACTURING INDUSTRIES

Great Britain, seasonally adjusted

	Hours of overtime worked	Hours lost through short-time working (stood off for whole or part of week)	Index of average weekly hours (average 1980 = 100)
	Millions per week	Millions per week	
1986 Jun	11.40	0.42	102.7
Jul	11.61	0.40	102.8
Aug	11.71	0.41	102.8
Sep	11.68	0.39	102.8
Oct	11.73	0.81	102.8
Nov	12.08	0.52	103.0
Dec	11.74	0.49	102.9
1987 Jan	11.18	0.61	102.2
Feb	12.11	0.41	103.2
Mar	12.43	0.35	103.3R
Apr	12.51	0.46	103.4
May	12.34	0.38	103.2R
June	12.80	0.28	103.5R
Jul	12.41R	0.36R	103.2R
Aug	12.61R	0.27R	103.4R
Sep	12.97	0.21	103.6

PRODUCTIVITY

LATER AND REVISED FIGURES FOR MANUFACTURING OUTPUT PER HEAD WILL BE AVAILABLE ON REQUEST FROM THE DEPARTMENT OF EMPLOYMENT FROM 11.30 AM ON FRIDAY 13 NOVEMBER (SEE NOTES TO EDITORS).

Manufacturing output per head in the three months to August was 1.7 per cent higher than in the three months ending May and 6.8 per cent higher than in the same period a year earlier.

Output per head in the whole economy in the second quarter of 1986 was 0.5 per cent above the previous quarter and 2.7 per cent higher than in the second quarter of 1986.

Recent figures are:

TABLE 13: OUTPUT PER HEAD

seasonally adjusted, U.K.

	Manufacturing		Whole Economy	
	Index 1980 = 100	Percentage Increase on a year earlier	Index 1980 = 100	Percentage increase on a year earlier
1985 Q2	131.6	4.4	114.5	2.8
Q3	130.7	2.7	114.1	2.1
Q4	130.3	2.3	114.8	2.3
1986 Q1	130.4	0.4	115.2	1.6
Q2	133.3	1.3	116.6	1.8
Q3	135.8	3.9	117.8	3.2
Q4	139.1	6.8	118.5	3.2
1987 Q1	139.8	7.2	119.2	3.5
Q2	141.9	6.5	119.8	2.7
1987 May	142.1	7.0	..	..
June	142.1	6.4	..	..
July	144.6	6.8	..	..
Aug	145.2	7.2	..	..
<u>3 months ending</u>				
1987 May	141.5	7.0	..	..
June	141.9	6.5	..	..
July	142.9	6.7	..	..
Aug	144.0	6.8	..	..

Industrial stoppages

In September 1987, it is provisionally estimated that 45,000 working days were lost in the United Kingdom through stoppages of work due to industrial disputes. This compares with a provisional estimate of 35,000 in August 1987, 154,000 in September last year and an average of 1,835,000 for September during the ten year period 1977 to 1986.

During the twelve months to September 1987 a total of 978 stoppages have been provisionally recorded as being in progress, involving a total of 926,000 workers and resulting in a loss of 3,597,000 working days. The comparable figures for the twelve month period to September 1986 were 1,001 stoppages, 691,000 workers and 2,267,000 working days lost.

Table 14. Industrial stoppages in progress in the United Kingdom.

	Working days lost (thousand)	Number of Stoppages	Workers involved (thousand)
1986			
Sep	154	102	67
Oct	167	148	48
Nov	117	107	98
Dec	97	91	50
1987			
Jan	886	109	171
Feb	928	123	145
Mar	252	114	219
Apr	327	125	152
May	220	85	125
Jun(p)	338	90	168
Jul(p)	184	70	70
Aug(p)	35	48	16
Sep(p)	45	48	10
<u>Cumulative totals</u>			
12 months to September 1986	2,267	1,001	691
12 months to September 1987(p)	3,597	978	926

GENERAL SYMBOLS

The following symbols are used throughout: .. not available, - nil or negligible, p provisional, r revised. Occasionally, totals may differ from the sum of components because of rounding or separate seasonal adjustments of components.

UNEMPLOYMENT (Tables 1-4)

A1. The unemployment figures are derived from records of claimants of benefit held at Unemployment Benefit Offices. The term "claimants" in the unemployment count is used to include those who claim unemployment benefit, supplementary benefits or national insurance credits. The figures include the severely disabled but exclude students seeking vacation work and the temporarily stopped (see below). A full description of the system of compiling the figures appeared in the September 1982 *Employment Gazette*.

A2. The unemployment figures exclude students who are claiming unemployment benefit during a vacation but who intend to return to full-time education when the new term begins. From November 1986 most students have only been eligible for benefits in the summer vacation. On 8 October 1987 these numbered 20,297 in Great Britain and 22,566 in the United Kingdom.

A3. The figures exclude temporarily stopped workers, that is, those who had a job on the day of the count but were temporarily suspended from work on that day and were claiming benefits. On 8 October 1987 these numbered 3,505 in Great Britain and 4,701 in the United Kingdom.

A4. The school leaver figures relate to people under 18 years of age who have not entered employment since completing full-time education. Part of the change in the count of school leavers between one month and the next reflects some of them reaching the age of 18. The unemployment count excludes school leavers not yet entitled to benefit; for June, July, and August, the months mainly affected, a special count of those registering at Careers Offices is provided.

A5. Regional unemployment rates are calculated by expressing the number of unemployed as a percentage of the estimated total working population (the sum of employees in employment, unemployed, self-employed and HM Forces) at mid-1986. These rates include the self-employed and armed forces in the base to provide a more reliable guide to the incidence of unemployment among the whole workforce. Until July 1986, all rates were expressed as a percentage of employees plus the unemployed only. These narrower based rates, continue to be used for local areas (travel-to-work areas and counties) because estimates for the self-employed and armed forces needed to calculate the new rates are not made below regional level. The UK narrower rates on 8 October 1987 were 13.5 per cent for males and 7.9 per cent for females, 11.1 per cent in total (unadjusted).

There have been some slight revisions to the regional denominators this month incorporating recent revisions to the estimates of employees in employment.

A6. The latest figures for national and regional seasonally adjusted unemployment are provisional and subject to revision, mainly in the following month. The seasonally adjusted series takes account of all past discontinuities to be consistent with the current coverage. (See the article 'Unemployment adjusted for discontinuities and seasonality' in the July 1985 *Employment Gazette*, and also page 422 of the October 1986 edition).

A7. The unemployment flows, in table 3 relate to people claiming and ceasing to claim benefit in the United Kingdom. A seasonally adjusted series cannot yet be estimated. The figures are standardised to a four and one third week month to allow for the varying periods between successive monthly count dates, and may, therefore, appear not to balance the monthly changes in unemployment levels. It may also be noted that while changes in the level of unemployed school leavers are affected by some of them reaching the age of 18 (see note A4), the outflow figures relate only to those aged under 18 leaving the count.

EMPLOYMENT (Table 5)

B1. Information on the number of employees in employment is for most industries collected quarterly and monthly from sample surveys addressed to individual establishments and for other industries from returns provided by major employers in the industry. These figures are used to calculate rates of change in employment since the last Census of Employment was held, and the rates of change are applied to comprehensive census results to provide current estimates.

B2. The surveys cover all large establishments and a proportion of small establishments (but none of the smallest employers). 30,000 establishments are surveyed each quarter month (e.g. in March, June etc.), and of these 12,000 are in manufacturing industries. 6,000 of the manufacturing establishments are also surveyed in non quarter months. Estimates for these months are less reliable than those for quarter months, and the first estimates are subject to revision when the following quarters figures become available (e.g. January and February estimates are revised in the light of figures for March). As the estimates of employees in employment are derived from employers' reports of the numbers of people they employ, individuals holding two jobs with different employers will be counted twice. Participants in government employment and training schemes are included if they have a contract of employment. HM forces, homeworkers and private domestic servants are excluded.

B3. The estimates of employees in employment presented in this press notice also take account of the results of the 1985 and 1986 sample Labour Force Surveys. The series include allowances for undercounting in the estimates of the number of employees in employment derived from the sample survey of employers. Since the second quarter of 1986, 47,400 per quarter has been added to the raw estimates of total employees in employment based on the sample. The reasoning behind such allowances is described in the *Employment Gazette* April 1987 (page 201).

B4. The self employed are those who in their main employment work on their own account, whether or not they have any employees. Second occupations classified as self employed are not included.

B5. Comprehensive estimates of the number of self-employed are taken from the Census of Population, the most recent of which was held in 1981. Estimates for the other years are made by applying rates of change, derived from the sample Labour Force Survey results, to the census benchmark. In this way self employment is estimated to have increased by 12,800 a quarter between mid 1981 and mid 1983, by 68,800 a quarter between mid 1983 and mid 1984, by 28,800 a quarter between mid 1984 and mid 1985, and by 4,100 a quarter between mid 1985 and mid 1986. Pending the results of the 1987 Labour Force Survey it is assumed that the numbers of self employed are continuing to increase at the rate of 25,400 a quarter observed between 1981. The date of the latest Census of Population which provides a benchmark for the self employment series, and 1986, the date of the latest available Labour Force Survey data. The derivation of recent estimates is described in the *Employment Gazette* April 1987 (page 205)

B6. Figures for HM Forces are provided by the Ministry of Defence.

B7. The employed labour force comprises employees in employment, the self employed and HM forces.

VACANCIES (Tables 6-8)

C1. The vacancy statistics include self-employed vacancies and exclude vacancies handled by Professional and Executive Recruitment. Community Programme vacancies at Jobcentres are included in the unadjusted total, but excluded from the seasonally adjusted series. Figures are available back to 1980. For further details see the October 1985 *Employment Gazette*.

C2. Vacancies at Jobcentres are mainly for adults aged 18 or over, but include some vacancies for persons under 18. Vacancies at Careers offices are mainly for young persons under 18 years of age, but include some vacancies suitable for adults. Where the vacancy is notified to both services by an employer, it will be included in both counts; for this reason, the two counts should not be added together to give a figure for total vacancies.

C3. The figures of vacancies published in this press notice do not represent the total number of vacancies in the economy. Latest estimates suggest that nationally about one third of all vacancies are notified to Jobcentres; and about one quarter of all engagements are made through Jobcentres. Inflow, outflow, and placings figures are collected for four or five week periods between count dates; the figures in this press notice are converted to a standard four and one third week month.

C4. The seasonally adjusted series of vacancy stocks, flows and placings have been updated this month. Revisions extend back to January 1983.

EARNINGS (Tables 9 and 10)

D1. The whole economy index of average earnings was introduced from January 1976. It was described in the April 1976 issue of *Employment Gazette*. The present series is based on January 1980 = 100. Separate indices for 26 industry groups of Standard Industrial Classification (1980) are published in the *Employment Gazette*.

D2. All the series are based on information obtained from the Department's monthly survey of a representative sample of firms in Great Britain, combined with information supplied by the Ministry of Agriculture Fisheries and Food about agricultural earnings in England and Wales. The survey obtains details of the gross wages and salaries paid to employees, in respect of the last pay week of the month for the weekly paid, and for the calendar month for the monthly paid. The earnings of the latter are converted into a weekly basis. The average earnings are obtained by dividing the total paid by the total number of employees paid, including those employees on strike. The sample of returns contains information relating to some 10 million employees.

D3. The analysis of underlying changes was described in *Employment Gazette*, April 1981, page 193, and the most recent analysis appeared in *Employment Gazette* in September 1987. The next analysis will appear in the December issue.

D4. The average earnings figures are not intended to measure solely the average increase in rates of pay for a standard week reflected in annual pay settlements. Changes in hours worked are not regarded as a temporary factor and therefore continue to influence the underlying rate. Irregular variations in bonuses, sickness, etc., on which no information is available, can also affect the underlying trend, as can changes in the composition of the labour force.

UNIT WAGE AND SALARY COSTS (Table 11)

E1. Exceptionally, this month the release of this press notice precedes the release of the corresponding monthly index of manufacturing output, and so September figures for unit wage costs and productivity are not yet available. The output figures will be released on Friday 13 November at 11.30 am by the Central Statistical Office and the September figures for both unit wage costs and productivity in manufacturing (together with any further revisions for earlier months) will all be available on request from the Department of Employment from the same time.

E2. Wages and Salaries per unit of output in manufacturing is compiled using monthly series of average earnings, employment and output; it is described in *Employment Gazette*, June 1982, page 261. For wages and salaries per unit of output in the whole economy, the wages and salaries totals in the numerator are adjusted to incorporate the earnings of the self-employed, based on the ratio of the employed labour force to the number of employees in employment and HM Forces. The denominator is the output measure of gross domestic product at factor cost in constant prices. For further information, see *Employment Gazette*, May 1986, page 172.

HOURS OF WORK (Table 12)

F1. The hours of overtime and short-time worked by operatives in manufacturing industries are collected by the surveys of individual establishments which are used to collect numbers of employees. Figures are collected monthly; those for non-quarter months are based on a smaller sample, and are therefore subject to retrospective revisions in the same way as the employee estimates.

F2. The index of average weekly hours relates to average weekly hours worked by operatives in manufacturing industries. It is based on the normal weekly hours of full time operatives as in national agreements plus average net overtime. The calculation of this index is described on page 240 of *Employment Gazette*, June 1983.

PRODUCTIVITY (Table 13)

G1. See note E1.

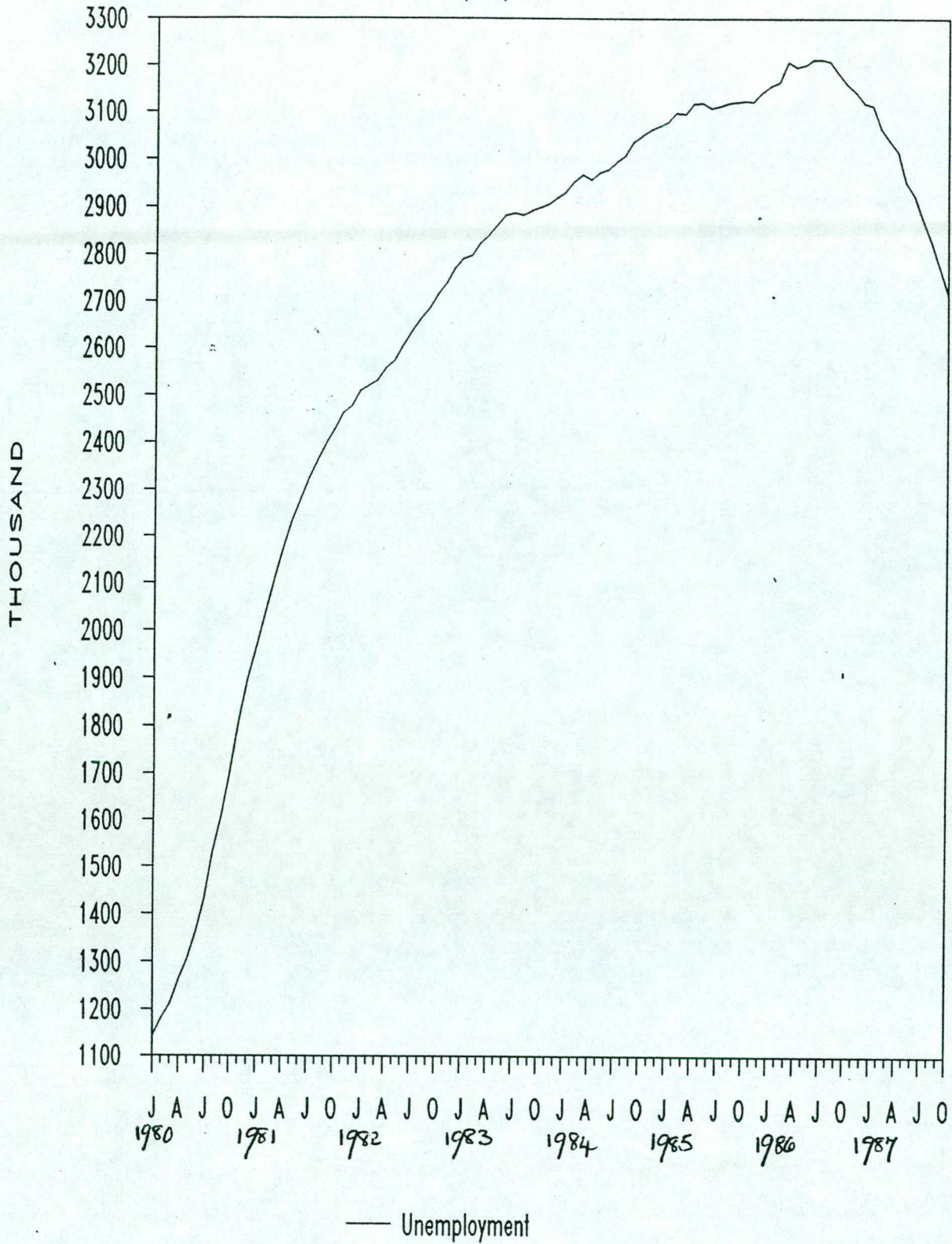
G2. Index numbers of output per person employed are calculated by dividing an index of output by an index of the numbers employed. The indices are all based on 1980 = 100. The output series for the economy as a whole is the output-based measure of gross domestic product and is consistent with the GDP press notice to be published by the CSO on 21 September. This series is used so as to achieve consistency with the industrial analysis for which the indices of output for the production industries are used. The indices for employment are based on the employed labour force in the United Kingdom as defined in para B4 above, after combining mid-month estimates to reflect average levels of employment in the month or quarter as a whole.

INDUSTRIAL STOPPAGES (Table 14)

H1. Statistics of stoppages of work due to industrial disputes in the United Kingdom relate only to disputes connected with terms and conditions of employment. Stoppage involving fewer than 10 workers or lasting less than one day are excluded except where the aggregate of working days lost exceeded 100. However, there are difficulties recording stoppages near the margin of this threshold and consequently greater emphasis should be placed on the figure for working days lost rather than on the number of stoppages. The monthly figures are provisional and subject to revision, normally upwards, to take account of additional or revised information received after going to press.



UNEMPLOYMENT: UK.

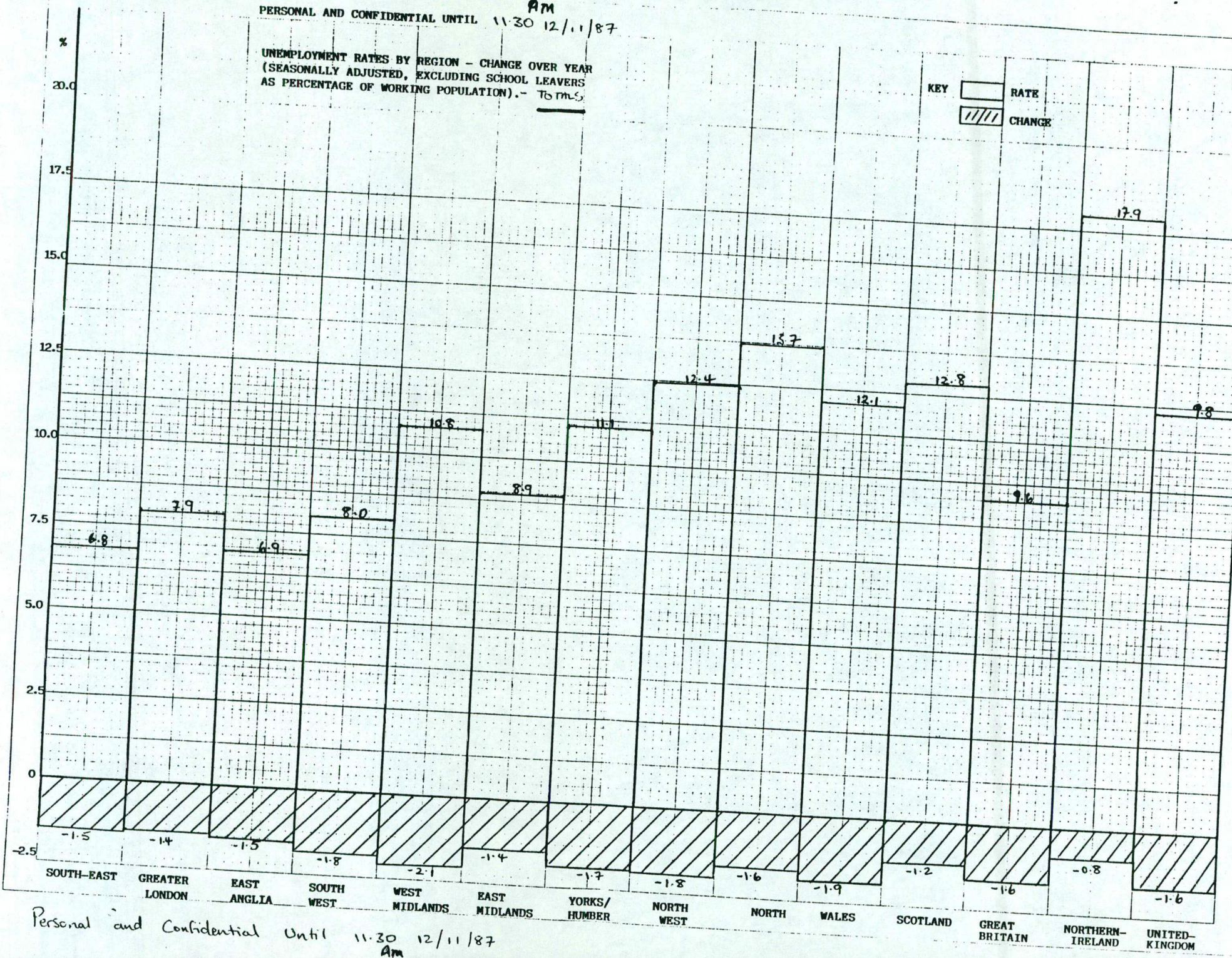
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UNEMPLOYMENT RATES BY REGION - CHANGE OVER YEAR
 (SEASONALLY ADJUSTED, EXCLUDING SCHOOL LEAVERS
 AS PERCENTAGE OF WORKING POPULATION). - To m.s.

KEY  RATE
 CHANGE





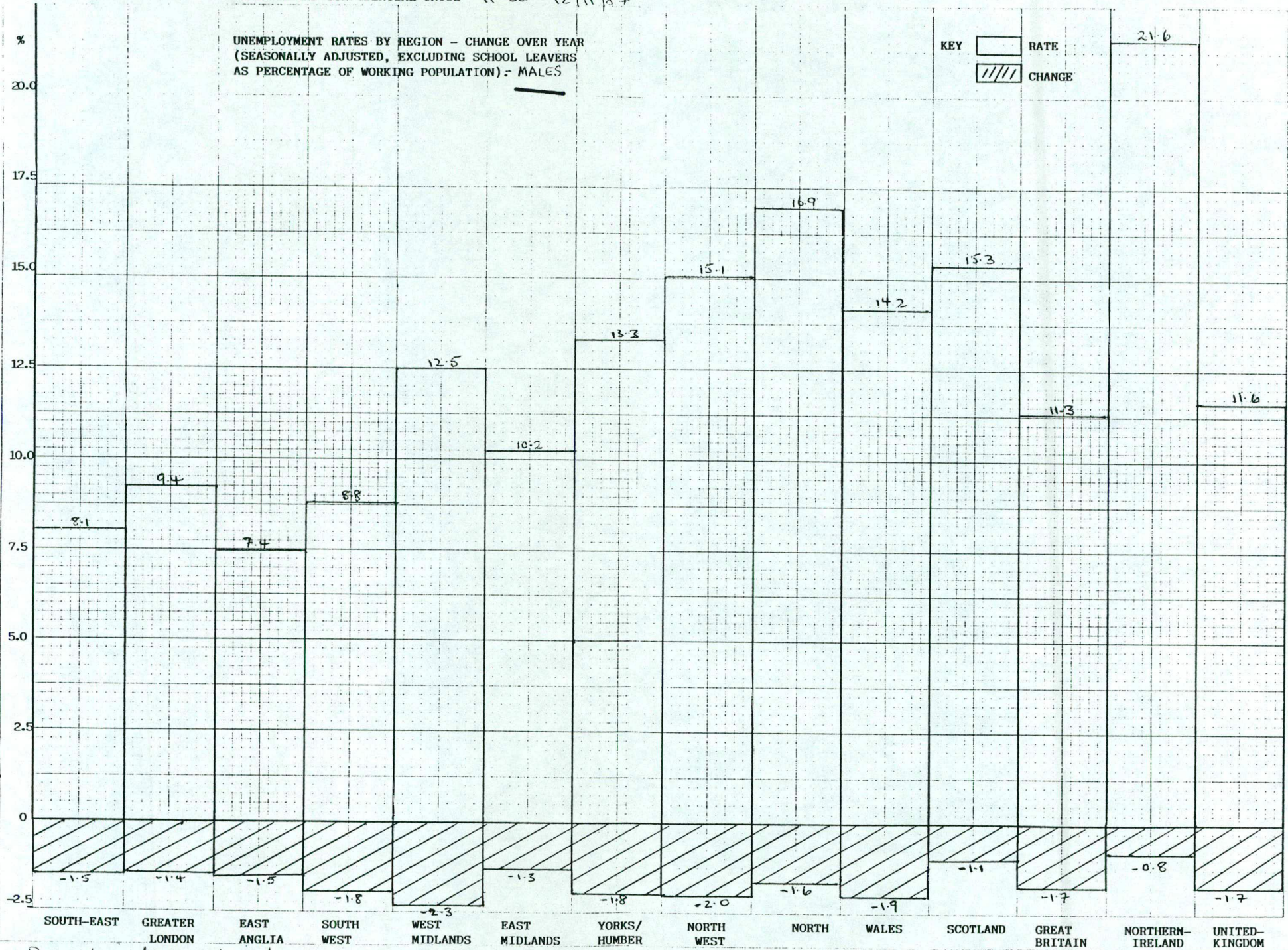
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PERSONAL AND CONFIDENTIAL UNTIL 11.30 12/11/87

UNEMPLOYMENT RATES BY REGION - CHANGE OVER YEAR
 (SEASONALLY ADJUSTED, EXCLUDING SCHOOL LEAVERS
 AS PERCENTAGE OF WORKING POPULATION) - MALES

KEY  RATE
 CHANGE



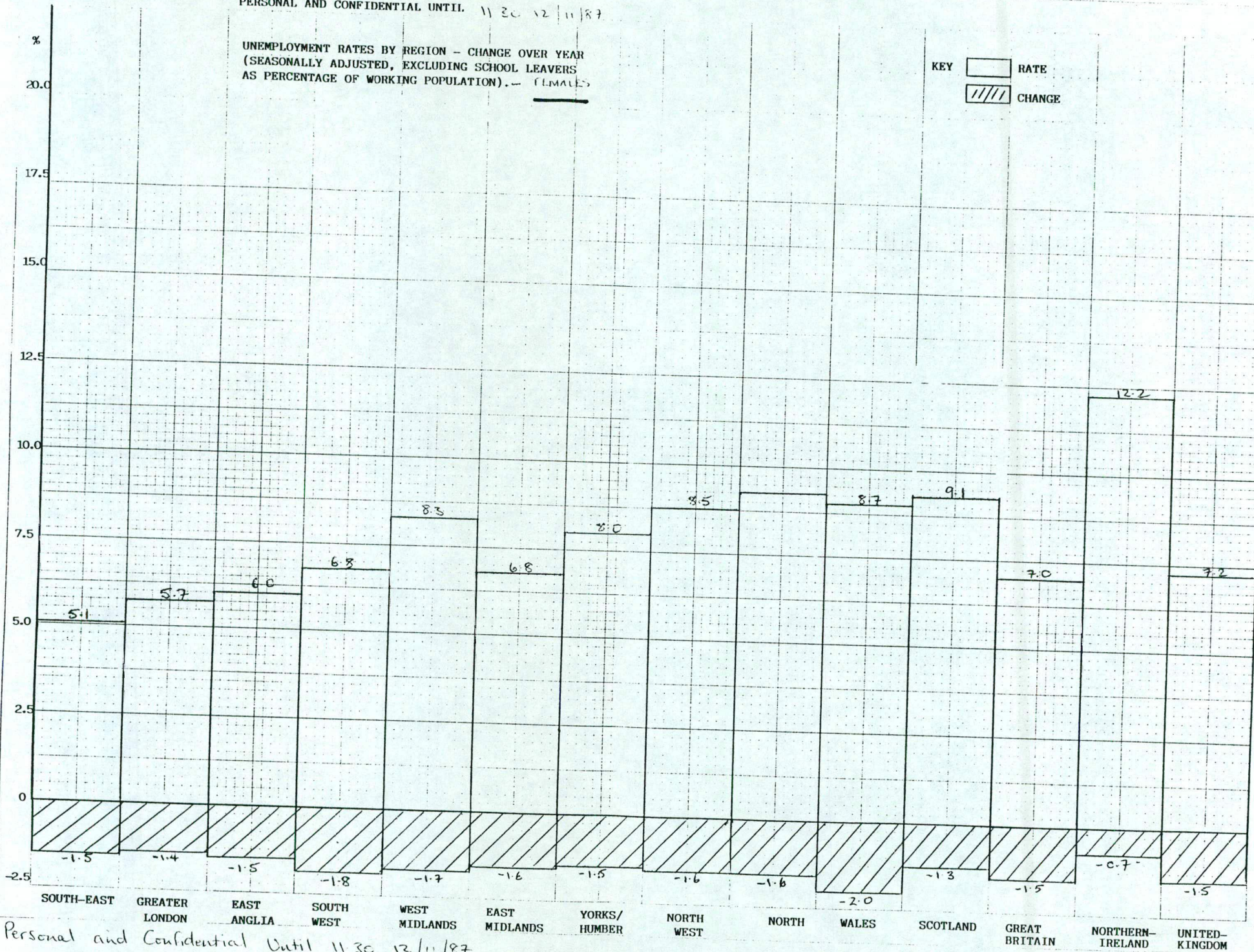
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UNEMPLOYMENT RATES BY REGION - CHANGE OVER YEAR
(SEASONALLY ADJUSTED, EXCLUDING SCHOOL LEAVERS
AS PERCENTAGE OF WORKING POPULATION). - FEMALES

KEY RATE
 CHANGE



Personal and Confidential Until 11 30 12 11 87

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Unemployment
-regions and sex

UNEMPLOYMENT - regions and sex: Oct 1987
SEASONALLY ADJUSTED EXCLUDING SCHOOL LEAVERS

REGIONS	NUMBER (Thousands)		UNEMPLOYMENT RATE (Per Cent)*		
	At Oct 1987	Change in month since Sept 1987	At Oct 1987	Change in month since Sept 1987	Change in year since Oct 1986
(1)					
South East	624.2	-16.1	6.8	-0.2	-1.5
(Greater Lond	(338.5)	-6.3	7.9	-0.1	-1.4
East Anglia	66.0	-2.1	6.9	-0.2	-1.5
South West	163.0	-4.9	8.0	-0.2	-1.8
West Midlands	278.3	-6.1	10.8	-0.2	-2.1
East Midlands	169.1	-4.0	8.9	-0.2	-1.4
Yorks & Humber	261.2	-5.8	11.1	-0.2	-1.7
North West	372.1	-7.2	12.4	-0.2	-1.9
North	197.6	-3.5	13.7	-0.2	-1.6
Wales	145.4	-3.1	12.1	-0.3	-1.9
Scotland	315.4	-4.4	12.8	-0.2	-1.2
GREAT BRITAIN	2592.1	-57.4	9.6	-0.2	-1.6
Northern I.	122.8	-1.0	17.9	-0.1	-0.8
UNITED KINGDOM	2714.9	-58.4	9.8	-0.2	-1.6
<u>MALES AND FEMALES</u>					
UK Males	1900.7	-39.0	11.6	-0.2	-1.7
UK Females	814.2	-19.4	7.2	-0.2	-1.5

* Percentage of whole working population (new basis, taking account of self-employed and armed forces)

Long term unemployment

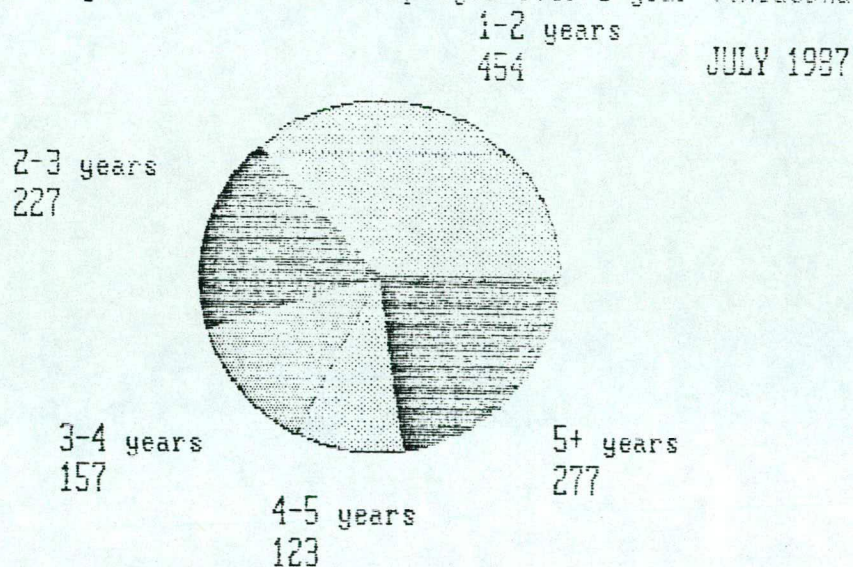
(a) LONG TERM UNEMPLOYMENT, UK

	July <u>1987</u>	<u>Change between</u> <u>April 1987 &</u> <u>July 1987+</u>	<u>Change between July '86 & July 87</u>
Over 1 year	1,238	- 57	- 110
Over 2 years	784	- 27	- 62
Over 3 years	557	- 6	- 18
Over 4 years	400	- 6	+ 15
Over 5 years	277	+ 5	+ 44*

* Change adjusted to allow for the effects of the 1981 Civil Service Dispute which delayed the starting date of unemployment for many claimants.

+ Quarterly changes affected by seasonal influences.

United Kingdom: claimants unemployed over 1 year (thousands)

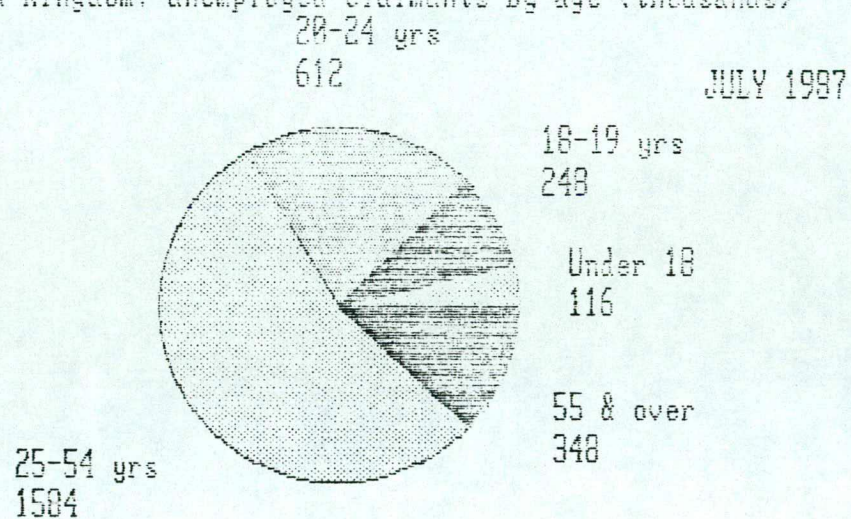


(b) UNEMPLOYMENT BY AGE, UK

Thousands

	<u>July 1987</u>	<u>Change between July '86 and July '87</u>
Under 18	116.3	- 55
18 - 19	247.6	- 56
20 - 24	611.5	- 92
25 - 54	1583.5	- 146
55 and over	347.6	- 25
All ages	2906.5	- 373

United Kingdom: unemployed claimants by age (thousands)



*To nearest thousand

Department of Employment Scheme Participants GB with and without the employed labour force (to nearest thousand)

=====

Scheme Participants in the GB employed Labour Force

Scheme Participants outside employed labour force

	£AS	CP	CI	NWS*	YOP+	YTS++	YTS++	JTS	JRS
March 83	2	39	8	103	234	0	0		79
June 83	2	64	8	93	154	2	19		81
Sept. 83	8	97	8	103	69	17	156		85
Dec 83	20	115	8	105	22	26	231		88
Mar 84	27	113	8	98	22	25	227		95
June 84	37	120	8	70	4	24	220		91
Sept 84	39	123	8	63		29	258		86
Dec 84	39	130	8	57		28	251		78
Mar 85	41	133	8	52		25	227		70
June 85	48	138	8	43		24	212		61
Sept 85	49	151	8	50		30	266		54
Dec 85	52	174	8	57		28	250		48
Mar 86	55	200	8	51		24	219		43
June 86	60	221	8	31		27	243		37
Sept 86	66	235	8	28		33	300		32
Dec 86	74	248	8	33		32	291	1	27
March 87	81	244	8	34		30	269	2	24
Apr 87	85	238	8	32		30	272	3	23
May 87	87	235	8	29		29	263	8	22
June 87	90	232	8	24		35	316	13	22
July 87	93	231	8	18		37	336	17	21
Aug 87	94	229	8	18		40	356	20	21
Sep 87	96	229	8	18		42	380	22	21

* Figures prior to June 1986 relate to similar Young Workers Scheme

+ Excludes trainers

++ Excludes trainers, figures for latest months subject to revisions:

participants in employed labour force have contracts of employment

PERSONAL AND CONFIDENTIAL

International Comparisons of Unemployment Levels

Although unemployment in the UK has been falling more rapidly than in other countries, the unemployment rate remains relatively high. The following table gives the latest figures on national definitions, which are not strictly comparable owing to national differences in coverage and concepts of unemployment, together with the available OECD standardised rates which are recommended for comparing levels of unemployment.

	<u>RECOMMENDED</u>		<u>UNEMPLOYMENT, NATIONAL DEFINITIONS</u>				
	<u>OECD STANDARDISED RATES</u>		<u>Seasonally adjusted</u>		<u>Unadjusted</u>		
	<u>Latest month</u>	<u>% rate</u>	<u>Number (000s)</u>	<u>% rates</u>	<u>Number (000s)</u>	<u>% rate</u>	<u>Latest month</u>
Spain	May	20.1	2,926	20.9	2,812*	20.1	July
Ireland	..	..	249	19.4	249	19.4	Aug
France	Jul	10.9	2,597	10.5 ^a	2,674	10.8 ^a	Sep
Italy ^a	Q3 (1986)	(10.7 ⁺)	2,783	11.7	2,725	11.6	Apr
Belgium	Aug	10.6	429 ^e	15.5 ^e	423	15.4	Sep
<u>United Kingdom</u>	Aug	9.8	2,715	9.8	2,751	9.9	Oct
Netherlands	Aug	9.5	681	14.0	694	14.2	Aug
Canada ^a	Aug	8.7	1,130	8.6	1,030	7.8	Sep
Australia ^a	Aug	8.0	630	8.1	602	7.8	Aug
Germany	Jul	7.0	2,252	8.0	2,093	7.4	Oct
Denmark	..	..	217	7.9	195	7.1	June
Portugal	..	..	291	6.8	284*	6.6	July
United States ^a	Aug	5.9	7,089	5.9	6,857	5.7	Sep
Greece	..	..	..	..	184	4.6	Aug
Austria	1985	3.6	158 ^e	5.4 ^e	119	4.1	Aug
Japan ^a	Jul	2.7	1,700	2.8	1,660	2.7	Aug
Sweden ^a	Aug	2.2	65	1.3	85	1.9	Sep
Norway	May	1.8	31	1.9	29	1.8	Jul
Luxembourg	..	..	..	..	2	1.6	July
Switzerland	Q3(1986)	0.9	..	..	20	0.7	Aug
OECD ^b	Q3 (1986)	7.6 ^e					

e estimated

a Survey Sources

b Includes all countries with Standardised rates

+ This rate to be revised shortly, probably downwards using new information from EC Labour Force Survey. The rates for the UK, the Netherlands, Germany and Belgium have already been revised.

* August figures

Sources:- OECD "Main Economic Indicators" supplemented by Labour Attache reports etc

The following table shows the changes in unemployment, both in terms of percentage increases and, more significantly, changes in percentage rates. The latter are recommended for comparison.

UNEMPLOYMENT, LATEST MONTH COMPARED WITH A YEAR EARLIER

Unadjusted unemployment, national definitions

	<u>RECOMMENDED</u>			
	<u>Change in % rate</u>	<u>Change (000s)</u>	<u>% Change in total</u>	<u>Latest month</u>
Spain	+ 0.9	+ 169	+ 6	Aug
Italy	+ 0.8	+ 198	+ 7	Aug
Ireland	+ 0.8	+ 11	+ 5	Aug
Luxembourg	+ 0.3	N/C	+ 20	July
Austria	+ 0.2	+ 6	+ 5	Aug
Germany	+ 0.2	+ 66	+ 3	Oct
France	+ 0.2	+ 50	+ 2	Sep
Greece	N/C	+ 3	+ 4	Aug
Denmark	N/C	+ 3	+ 2	June
Switzerland	N/C	N/C	- 1	Aug
Australia	- 0.1	+ 6	+ 1	Aug
Japan	- 0.1	- 30	- 2	Aug
Norway	- 0.2	- 5	- 14	July
Belgium	- 0.3	-6	- 1	Sep
Netherlands	- 0.3	- 17	- 2	Aug
Sweden	- 0.7	- 33	- 28	Sep
Canada	- 0.9	- 97	- 9	Sep
USA	- 1.0	-1158	- 14	Sep
<u>United Kingdom</u>	- 1.7	- 486	- 15	Oct
Portugal	- 1.8	- 77	- 21	Aug

NC = No Change

e = estimated

Sources:- OECD "Main Economic Indicators" supplemented by Labour Attache reports etc

When assessing the increase in unemployment in more recent periods than over the past year, seasonally adjusted figures need to be used. The following table compares seasonally adjusted figures for the latest three months with the previous three months. An additional table C4d shows monthly figures for selected countries.

UNEMPLOYMENT, LATEST 3 MONTHS COMPARED WITH PREVIOUS 3 MONTHS

Seasonally adjusted, national definitions

	<u>RECOMMENDED</u>			
	<u>Change in percentage rate</u>	<u>Change Number (000s)</u>	<u>Percentage Changes</u>	<u>Latest month</u>
Italy	+ 0.4	+ 93	+ 3	Aug
Spain	+ 0.2	+ 24	+ 1	July
Ireland	+ 0.1	+ 1	+ 1	Aug
Germany	NC	- 9	NC	Oct
Belgium	- 0.2	- 5	- 1	Sep
Denmark	- 0.1	- 2	- 1	June
Netherlands	- 0.1	- 6	- 1	Aug
France	- 0.1	- 27	- 1	Sep
Norway	- 0.1	- 2	- 6	July
Australia	- 0.2	- 11	- 2	Aug
United States	- 0.2	- 257	- 4	Sep
Japan	- 0.2	- 107	- 6	Aug
Sweden	- 0.2	- 10	- 11	Sep
Canada	- 0.3	- 34	- 3	Sep
Austria	- 0.3	- 10	- 6	Aug
<u>United Kingdom</u>	- 0.5	- 146	- 5	Oct
Portugal	- 1.1	- 48	- 14	July

Note Seasonally adjusted figures not available for Greece, Luxembourg and Switzerland.

NC = No Change
e = estimated

Sources:- OECD "Main Economic Indicators" supplemented by Labour Attache reports etc

c5d

PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON 12 NOVEMBER 1987

Seasonally Adjusted levels and rates of registered unemployment

<u>Month</u>	<u>UK</u>		<u>France</u>		<u>Germany</u>		<u>Italy</u>		<u>Spain</u>	
	<u>Level</u>	<u>Rate</u>	<u>Level</u>	<u>Rate</u>	<u>Level</u>	<u>Rate</u>	<u>Level</u>	<u>Rate</u>	<u>Level</u>	<u>Rate</u>
Aug 1985	3119	11.3	2420	10.4	2301	8.3	2977	13.0	2649	19.5
Sep	3121	11.3	2467	10.6	2298	8.2	2989	13.0	2649	19.5
Oct	3124	11.3	2452	10.5	2297	8.2	3031	13.2	2650	19.4
Nov	3123	11.3	2448	10.5	2307	8.2	3040	13.3	2692	19.7
Dec	3143	11.4	2441	10.5	2299	8.2	3061	13.4	2688	19.7
Jan 1986	3156	11.4	2442	10.5	2282	8.2	3082	13.4	2706	19.8
Feb	3164	11.4	2446	10.5	2289	8.2	3127	13.6	2716	19.8
Mar	3207	11.5	2468	10.6	2269	8.1	3121	13.6	2730	19.9
Apr	3197	11.5	2490	10.7	2241	8.0	3158	13.7	2736	19.9
May	3201	11.5	2517	10.8	2243	8.0	3189	13.9	2730	19.9
June	3213	11.5	2523	10.8	2222	7.9	3207	14.0	2729	19.9
July	3212	11.6	2541	10.9	2208	7.9	3204	13.9	2743	19.9
Aug	3209	11.6	2557	11.0	2201	7.8	3212	14.0	2745	19.9
Sep	3183	11.6	2550	10.9	2191	7.8	3233	14.0	2772	20.1
Oct	3160	11.5	2544	10.9	2180	7.8	3243	14.0	2802	20.1
Nov	3143	11.4	2549	10.9	2166	7.7	3192	13.8	2834	20.4
Dec	3119	11.3	2574	11.0	2177	7.8	3268	14.0	2861	20.6
Jan 1987	3114	11.2	2613	11.2	2194	7.8	3238	13.9	2869	20.5
Feb	3066	11.0	2655	11.4	2190	7.8	3286	14.1	2889	20.6
Mar	3040	11.0	2676	11.5	2228	7.9	3263	14.0	2897	20.7
Apr	3018	10.9	2659	11.4	2227	7.9	3136	13.4	2900	20.7
May	2952	10.6	2661	11.4	2219	7.9	3233	13.8	2912	20.8
June	2925	10.5	2645	11.3	2240	7.9	3239	13.9	2920	20.9
July	2876	10.4	2638	11.3	2251	8.0	3297	14.1	2926	20.9
Aug	2829	10.2	2649	11.4	2248	8.0	3373	14.4		
Sep	2773	10.0	2597	11.1	2254	8.0				
Oct	2715	9.8			2252	8.0				

PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON 12 NOVEMBER 1987

COVERING CONFIDENTIAL

UNEMPLOYMENT - comparison with the 1930s

1. The peak recorded pre-war was in January 1933, at 2,979,000 including temporary stopped.
2. It is not possible to make a fully valid and meaningful comparison with pre-war unemployment, for the following reasons.
 - (1) the labour force is about one-third larger and different in character. A much larger proportion of women work. We do not have a continuous series of figures on employment against which to measure the unemployed.
 - (2) Because of changes in entitlement to benefit, we cannot be sure to what extent unemployed people are now more or less likely to claim and to be included in the count.
 - (3) There have been many administrative changes and changes in the methods used to count the unemployed.
 - (4) Changes in Government employment measures including legislation on employees' rights will also have affected the figures. There may also have been significant changes in practice by employers, for example on temporary lay-offs, since the numbers recorded as 'temporarily stopped' were much higher before the war.
3. In any comparison with the 1930s it is also relevant that greater protection is now given to the unemployed through social security provisions, redundancy pay, and generally improved social conditions. Moreover, it is now more common for there to be more than one breadwinner in the family.

COVERING
CONFIDENTIAL

UNEMPLOYMENT - COVERAGE OF THE COUNT:

COMPARISON WITH LABOUR FORCE SURVEY ESTIMATES

1. Unemployment is not a unique and unambiguous concept. It can be taken by different people to mean different things depending on the context in which the figures are used, and can be measured in different ways.

2. As in most other Western European countries, we use an administrative system to provide monthly unemployment figures, although we also use household surveys to provide less frequent information on a different basis. We use the almost wholly computerised count of claimants* at unemployment benefit offices because the figures are available frequently, quickly and cheaply, in particular providing detailed local figures which would be very costly to obtain from alternative sources.

3. The count necessarily reflects the administrative system on which it is based and cannot be ideal for every purpose eg. to measure labour slack or social hardship.

4. Instead of using the claimant count, alternative measures of unemployment can be obtained from household sample surveys such as the Labour Force Survey. The criteria for defining unemployment in surveys can of course be varied and there is no universally accepted definition of "true" unemployment; but according to the Labour Force Survey there were 2.83 million people without jobs and seeking work (in the reference week of the survey) in GB in the spring of 1966, compared with an average of 3.17 million included in the claimant count over the survey period. The difference between these figures is the net result of the difference between two partly offsetting groups. 1,170,000 claimants (37 per cent of all claimants) were either employed or not actively seeking work in the reference week, while, on the other hand, some 630,000 people were without jobs and seeking work but not claiming benefits. The following table illustrates the comparison.

* those claiming unemployment benefits, supplementary benefits or national insurance credits as an unemployed person.

COMPARISON OF THE CLAIMANT AND LABOUR FORCE SURVEY ESTIMATES OF UNEMPLOYMENT
Millions

Great Britain	Spring 1986		
	<u>Males</u>	<u>Females</u>	<u>All</u>
<u>Survey unemployed</u> (labour force definition) of which	1.73	1.10	2.83
Not in claimant count	0.23	0.59	0.83
Included in claimant count	1.49	0.51	2.00
<u>Claimants not unemployed</u> on labour force definition of which	0.69	0.48	1.17
Inactive (not seeking work)	0.57	0.39	0.96
Employed	0.12	0.09	0.21
<u>Claimant count</u>	2.18	0.99	3.17

One alternative measure of unemployment that can be obtained from the LFS, which is similar to that used in a number of other countries, consists of those who said they were available for work and seeking work during the past 4 weeks (rather than those seeking work in the past week as in the labour force measure used above). This gives a total of 2.98 million for GB, some 150,000 higher than the conventional labour force measure, but still less than the claimant total of 3.17 million.

Changes between 1981 and 1986

Over recent years there has been a divergence between the movements of the claimant count and the survey measures.

The precise position in 1981 on a comparable basis is uncertain. At that time the unemployment count (then based on registrations) was broadly in line with the labour force estimate. But allowing as far as possible for all the changes in coverage since then, it appears that the claimant count on today's basis would have been rather lower in 1981 than unemployment on the usual labour force definition, a position which was reversed by 1985.

Our best estimate is that between 1981 and 1986 the claimant count (consistent with the current coverage) has risen by nearly a million while the survey figures indicated an increase of approaching 400,000.

Very significantly, between 1983, when employment started to grow, and early 1986, there was little change in the survey based level of unemployment whereas the claimant count rose by a further 1/3 million.

Unemployment - changes in
coverage

UNEMPLOYMENT - CHANGES IN THE COVERAGE OF THE UNEMPLOYMENT COUNT

Since 1979, there have been 6 changes which have had a discernible effect on the monthly unemployment count.

(1) Change in basis of count from registration to claimants (Approx - 190,000)

This was the most important change which occurred in October 1982, when registration at jobcentres became voluntary, saving administrative costs and eliminating the need for unemployed people to attend both a jobcentre and an unemployment benefit office in order to get their benefits. The previous count of registrants at jobcentres became incomplete and it was necessary to move to counting claimants at Unemployment Benefit Offices. This removed approximately 190,000* from the count as a result of three factors:

- (i) Computerisation of count and improved accuracy, removing old (ceased) claims more quickly (estimated effect - 76,000)
- (ii) exclusion of registrants not claiming benefits (- 135,000)
- (iii) inclusion of severely disabled (+ 23,000)

(2) Effect of 1983 Budget measures (- 162,000)

The second largest change arose from the 1983 Budget provisions which enabled 162 thousand men, mainly aged 60 and over, to receive National Insurance credits or the higher long term rate of supplementary benefit without attending an Unemployment Benefit Office. The effect accumulated between April and August 1983.

(3) Later compilation of unemployment statistics as from March 1986 (-50,000 average per month).

The change made in March 1986 was to take better account of claimants who did not inform benefit offices that they were no longer unemployed on the 'count date'. From October 1982, there was a waiting period of one week between the count date and the compilation of the figures to allow for these notifications. However, the change in July 1985 to the payment of benefit wholly in arrears revealed that the extent of overcounting (at over 60,000 per month) was larger than previously thought and unacceptably high. It is estimated that delaying the compilation of statistics to 3 weeks after the count date reduces overcounting by an average of about 50 thousand a month.

* A figure of 246,000 is often quoted, but this relates to October 1982 which was exceptional when the old system was running down. Assessment for the year up to October 1982 showed an average difference of 190,000.

(4) Higher long-term rate of supplementary benefit (- 37,000)

There was a previous similar change to (2) above in November 1981 when the higher long-term rate of supplementary benefit was introduced for men over 60 who had been on supplementary benefit for over one year. Over a twelve month period, this removed an estimated 37 thousand men both from the claimant series and from the count of registrations at jobcentres used at the time.

(5) Fortnightly attendance and payment (+ 20,000)

In October 1979, fortnightly attendance at Unemployment Benefit Offices was introduced and the estimated effect was to add about 20 thousand both to the claimant figures and to the count of registrations in use at the time.

(6) Discontinuity in Northern Ireland series (-5,000)

In July 1985, a reconciliation between DHSS records and the Department of Economic Development's computer records of claimants showed discrepancies. The corrective action resulted in the unadjusted figures for July and August, 1985 being 5,700 and 5,150 lower respectively than would otherwise have been the case.

The above six changes are the only ones to have significantly affected the seasonally adjusted unemployment figures, and each has been taken into account in the current series. Other minor effects are as follows.

Introduction of taxation of benefits in July 1982

which had no measurable effect on the unemployment figures.

Introduction of payment of unemployment benefit wholly in arrears from 15 July 1985

There may possibly have been some effect on the unemployment count from August 1985 onwards, but it appears to have been negligible.

Change in school leaving regulations, November 1980

Young people leaving school are now assumed to be in full-time education until the beginning of the following school term and not entitled to benefit. This affected the total claimant series (introduced later) and to a relatively minor extent, the registrant series in use at the time, but not the seasonally adjusted series which excludes school leavers. From 1982 a separate count of non-claimant school leavers registered at Careers Offices has been conducted in June, July and August.

Some commentators add some of the above effects back to the current unemployment count in an attempt to estimate what the unemployment figures would be now on a former basis, sometimes as part of their justification for claiming higher "true" totals of unemployment.

This approach usually involves the crude assumption that the effect of any change in definition remains constant over time.

The Department has used a different approach to provide a consistent series. This seasonally adjusted series of adult unemployment, which is produced to help assess the underlying trend, has been revised back to 1971 to be in line with the current coverage of the claimant count*. We have not adjusted the basic counts taken in the past, and the new series cannot be reasonably regarded as rewriting history, but helping to explain it

* The new series was introduced in an article 'Unemployment adjusted for discontinuities and seasonality' in the July issue of Employment Gazette. This series has been further revised to take account of the changes in the compilation of the figures from March 1986.

Changes to unemployment figures

So called '19 changes' misleading and exaggerated. Only six changes since 1979 have so far had discernible effect (details published in Employment Gazette). Three were minor. Only two were changes in method of compilation.

Four changes inevitably resulted from changes in procedures for paying benefits, while two were to correct inaccuracies. But the seasonally adjusted series is consistent and allows for these changes.

Claims of higher 'true' totals exaggerated for example by including people in jobs helped by Government programmes. They ignore evidence from Labour Force Survey which showed a lower total than claimant count in 1986 (2.98 million seeking work in GB on internationally comparable definition (ILO/OECD), compared with 3.17 million claimants.)

Other recent administrative changes from October 1986 (abolition of half and three quarters rates of unemployment benefit, and extension of disqualification period) could only have a very small effect. Most of those losing unemployment benefit will continue to sign on and be counted, because they will still be entitled to some supplementary benefit or (in the case of those losing the reduced rates of UB) national insurance credits.

Restart and availability tests: Rules for payment of benefits remain unchanged and neither initiative alters the way the figures are compiled.

CONFIDENTIAL**Other changes affecting the figures****New maternity allowance rules (from 6 April)**

There is no change in the way figures are compiled, and any effect on the unemployment count will be negligible and could only arise among a few expectant mothers who would not normally be regarded as available for work.

(There could be a slight net downward effect, but it would tend to be reduced by the new availability test. There could be some downward effect because some women who would previously have chosen to claim Unemployment Benefit rather than Maternity Allowance no longer have a choice and are only allowed to claim Maternity Allowance (if they are entitled to it). There could be some slight offsetting upward effect through extra UB claims among those not entitled to Maternity Allowance under the new rules.

Identification of people aged over 60 signing on when they need not be

There was some extra downward effect on the April and May counts of up to around 5,000 altogether through extra efforts to identify men over 60 who need not sign on for national insurance credits only or for supplementary benefit (which they should get at a higher long term rate more promptly.) There is nothing new about this seasonal effect, but it was stronger than in earlier years.

Civil Service strikes

There was some small upward effect on the unemployment count in April and again in June, as a result of the strikes, with outflows understated by the order of 5,000 in both those months.

CONFIDENTIAL

Reversal of Social Security Commissioners' decision re Easter school leavers (effect from May to August).

In 1985 and 1986 there was some temporary additional upward effect on the school leaver count of up to around 15,000 in summer months (May to August), through some school leavers signing on who were not previously eligible for benefit until September. This followed the 1985 ruling by Social Security Commissioners on the eligibility for supplementary benefit of certain Easter school leavers who were returning to school only to take exams. The regulations have now been changed to restore the principle that young people cannot be treated as entitled to benefit until their education is completed. The seasonal influences on the school leaver count this year (from May) will therefore more closely correspond to the former pattern prior to 1985.

6 SIGNIFICANT CHANGES IN UNEMPLOYMENT COUNT SINCE 1979

		Reason
<u>Changes in Compilation</u>		
October 1982 - Switch from registrations to claimants	- 190,000	To avoid incomplete figures following voluntary registration
March 1986 - Later count	- 50,000	To reduce over-recording
<u>Other Statistical Change</u>		
July 1985 - Correction of discrepancy for Northern Ireland	- 5,000	Correction
<u>Administrative Changes</u>		
October 1979 - Fortnightly attendance	+ 20,000	) Eliminate unnecessary procedures and make life easier for claimants
From November 1981 - Higher long term rate for men over 60	- 37,000	
From April 1983 - Further relaxed requirement for men over 60 to attend benefit offices and eligibility for higher long term rate	- 162,000	

Unemployment - coverage:
summary of possible
additions and exclusions

UNEMPLOYMENT - POSSIBLE ADDITIONS AND EXCLUSIONS

Following is a summary of the main additions or exclusions from the figures that are sometimes suggested.

POSSIBLE ADDITIONS

1. Add back previous changes in coverage of the unemployment count (see previous section 7). [Broadly 400,000]

Comment: The unemployment count inevitably reflects the administrative system on which it is based (as did the old registrant system) and this cannot remain fixed forever for the purposes of statistical continuity. Past changes in coverage of the count have been openly displayed in the published sources. If it is required to make valid comparisons with the past, a consistent series of unemployment figures is published showing how previous figures would have looked on the current basis, back to 1971.

2. People assisted by employment measures. [398,000 people assisted, end of September 1987]

Comment: This group has never been included in the unemployment figures because they are being helped in jobs or training.

3. Non-claimant unemployed (particularly women). [830,000 in 1986]

Comment: If it were reasonable to add this group to the unemployment count, then it would also be reasonable to subtract a greater number of claimants (1,170,000) who either had jobs or were not actively seeking work as shown by the 1986 Labour Force Survey.

4. Students on vacation. [Up to about 200,000 in the summer]

Comment: Those students who intend to return to full-time education after their holidays are not included in the main unemployment totals, but separate figures are always published. Students are generally only unemployed for short periods and seeking temporary jobs.

5. Temporarily stopped. [Variable, around 10,000]

Comment: These people have jobs to go back to although they are out of work on the day of the unemployment count, so they are counted separately.

6. Non-claimant school leavers (not entitled to benefits until the beginning of following school term). [100,000 to 130,000 in June, July and August]

These are excluded temporarily from the main unemployment totals while they are regarded as still being in full-time education. However, separate counts are taken of those registered at careers offices in June, July and August each year when the numbers are significant.

POSSIBLE EXCLUSIONS

7. Frictionally unemployed: people "between jobs"

(Without whom the labour market would not operate.) [No direct estimate available, but as a rough proxy, some 300,000 are unemployed for 4 weeks or less.]

8. Claimants not classed as unemployed in surveys

[1,170,000 claiming benefits, of which 210,000 employed and 960,000 without jobs but not seeking work, using 1986 Labour Force Survey.]

210,000 employed claimants may include some fraudulent claimants, although this figure will include some people legitimately claiming benefits eg. with low paid part-time jobs.

960,000 inactive claimants were not seeking work in a reference week, often because of age, health or because they believed no jobs were available, although some, especially those with families, may be disinclined to take low paid jobs rather than benefits.

9. Overlapping with above) "Unemployables" or people hard to place

Little objective evidence, although judgements might be based on numbers unemployed for exceptionally long periods eg 277,000 unemployed continuously for more than 5 years (July 1987).

Labour market
- job changes
and flows

LABOUR MARKET - job changes and flows

1. TOTAL JOB CHANGES are running very broadly at some 7 to 8 million a year, or $\frac{1}{2}$ million per month, or about 30,000 per working day. These include movements of people with jobs as well as the unemployed taking up jobs.

2. VACANCY FLOWS run at lower levels than the above, eg the inflow in the year to October averaged 222,000 a month (UK seasonally adjusted), primarily because only about a third of all vacancies are notified to Jobcentres. Placings by jobcentres, in the year to October averaged about 158,000 a month (UK seasonally adjusted), are estimated to be broadly a quarter of all engagements or job changes in the economy.

3. OUTFLOW from unemployment averaged about 420 thousand per month (406 thousand excluding school leavers) in the year to October 1987. This represents an annual outflow of 5 million. Many took up jobs, though some would be leaving unemployment for other reasons eg retirement, training, or otherwise leaving the labour force, or exhaustion of entitlement to benefit. A quarter of those becoming unemployed flow off the register within a month of joining it, a half leave within 3 months, two-thirds within 6 months, and five-sixths leave within a year. The remaining sixth (around 65,000 per month) flow into long term unemployment.

Unemployment 11.
- demographic and
labour force
background

UNEMPLOYMENT - demographic and labour force (1) background

Great Britain : thousand

	Reaching	Reaching	Net	Population of		Labour force	
	school	retirement	migration	working age			
	leaving	age and	and	Number	Change	Number	Change
	age	deaths	adjustment		over year		over year
ESTIMATES							
1971	737	-	-	31,686	-	24,895	-
1972	760	739	-9	31,698	+12	24,953	+58
1973	778	750	+9	31,735	+37	25,125	+172
1974	801	751	-45	31,740	+5	25,269	+144
1975	818	740	-33	31,785	+45	25,305	+36
1976	840	707	+2	31,920	+135	25,702	+396
1977	871	683	+2	32,110	+190	25,901	+200
1978	891	655	-12	32,334	+224	25,949	+48
1979	906	662	-8	32,570	+236	26,021	+72
1980	930	773	+1	32,728	+158	26,198	+177
1981	936	729	-30	32,905	+177	26,242	+43
1982	912	697	-69	33,051	+146	26,045	-196
1983	902	650	-3	33,300	+249	25,907	-138
1984	873	677	+67	33,563	+263	26,428	+522
1985	868	750	+60	33,741	+178	26,639	+211
PROJECTIONS (2)							
1986	840	715	+25	33,891	+150	26,741	+102
1987	850	693	+19	34,067	+176	26,936	+194
1988	797	667	-15	34,182	+115	27,082	+147
1989	748	665	-13	34,252	+70	27,180	+98
1990	697	664	-17	34,268	+16	27,219	+38
1991	673	659	-14	34,268	0	27,233	+15

Between mid-1985 and mid-1986 the population of working age is projected to have increased by 150,000, while the labour force is projected to have increased by around 100,000 as male activity rates fell. This labour force growth is much less than in the previous two years, when the population of working age rose rather more, male activity rates changed little overall and female activity rates rose much more sharply. Using a working assumption of a broadly stable level of unemployment after 1986, a further rise of some half a million is expected between 1986 and 1991. Most of this growth is projected to occur before 1989, and over half of it in the female labour force.

Notes :

- (1) The civilian labour force includes those in employment (employees, employers and self-employed, but excluding members of the Armed Forces) and all those identified by censuses and surveys as seeking work whether or not they claim benefits.
- (2) The projected changes beyond 1985 incorporate the latest (1985-based) population projections and projections of activity rates using preliminary information from the 1986 Labour Force Survey.

EMPLOYMENT - CHANGES IN THE METHOD OF ESTIMATION

Employees in Employment

1) Introduction of Supplementary series - June 1983

When provisional results from the 1981 Census of Employment became available they showed that the application to the previous census figure (1978) of changes estimated from sample survey data was producing substantial under-estimates. The methodology was reviewed and a supplementary set of estimates, which included an undercounting allowance was introduced in June 1983.

2) Use of 1981 and 1983 Labour Force Surveys (LFS) - July 1984

Data from the 1983 LFS confirmed that the supplementary figures provided more accurate estimates than the basic series. The estimates for employees in employment were revised, using LFS data for 1981 and 1983 to assess the current extent of underestimation from the sample survey of employers. Estimates could now be produced incorporating the adjustment for underestimation in industrial and regional detail, and so the estimates not incorporating the adjustment and the term "supplementary" were dropped.

3) Use of the 1984 LFS - March 1985

Data from the 1984 LFS was used to improve the assessment of underestimation from the sample survey of employees.

4) Use of the 1985 LFS - April 1986

Revised data from the 1984 LFS and new results from the 1985 LFS were used to revise the allowance for underestimation.

5) Introduction of 1984 Census of Employment - December 1986

The 1984 census results provided a new "benchmark" from which estimates for later dates are calculated, using the proportionate changes in employment derived from the sample surveys, adjusted using LFS data as previously. The series was also slightly adjusted to take account of revised data from the 1985 LFS and a small revision to the proportion of YTS participants with contracts of employment.

The estimates for dates between the censuses were also revised. Differences at the detailed industry and regional level between the previous estimates for September 1984 and the census estimates were interpolated back to the earlier census date. The census figures used for 1981, and the estimates for later dates based on them were first adjusted to improve the consistency of the industry coding in the two censuses. The estimates prior to September 1981 were also revised to improve the consistency of industry coding.

Some minor technical changes were also made to the method used to derive seasonally adjusted estimates.

6) Use of the 1985 and preliminary 1986 LFS results- March 1987

Data from the 1985 LFS and preliminary results from the 1986 LFS were used to improve the assessment of underestimation from the sample survey of employees. The quality of the estimates was improved by using national LFS data separately for full time and part time female employees, rather than a single overall adjustment for all females.

Self Employment

1) New method of estimating Self Employment - January 1982

The LFS data was used in place of the discontinued information from the National Insurance Card count. New estimates were produced for the period 1975 to 1979.

2) Introduction of an assumption of continued growth - June 1983

The conventional assumption that the level of self employment had remained constant since the date of the latest LFS data was reviewed. As there were reasons for expecting some continuation of the upward trend in self employment a supplementary series, was introduced; this assumed that growth at the rate observed between the last two surveys had continued subsequently.

3) Use of the 1981 and 1983 LFS results - July 1984

The self employment figures were updated to take account of the changes between the LFS in 1981 and 1983.

4) Change in the rate of growth assumption - March 1985

When the estimates for the self employed were updated for the 1984 LFS the figures for self employment showed exceptional growth between 1983 and 1984. It was considered inappropriate to make the assumption that this rate had continued. The estimates of self employment for dates after June 1984 incorporated the assumption that the average rate of increase between 1981 and 1984 had continued.

5) Use of the 1985 LFS - April 1986

The estimates were up-dated to take account of new results from the 1985 LFS and revised data from the 1984 LFS.

6) Use of the 1986 LFS - March 1987

The estimates were up-dated to take account of new results from the 1986 LFS; figures for dates after June 1986 are based on the assumption that the average rate of increase between 1981 and 1986 has continued.

EMPLOYMENT: DOUBLE JOBBING AND SPECIAL EMPLOYMENT MEASURES

The treatment of double jobbing in the employees in employment estimates

The estimates for employees in employment include some double counting of persons because some employees with two jobs are included twice. This cannot be avoided with figures collected from employers' reports of the number of people they employ. Since employers will generally not know if an employee is in fact filling a post as his second job, it would not be practical to exclude second jobs from these estimates

Evidence on the number of people with two jobs can be derived from household surveys - principally the Labour Force and General Household Surveys. However, these cannot provide reliable figures for the number of second jobs included in the employees in employment series because some work will be included which would not be covered by the employer based information, such as babysitting or gardening for a householder. Furthermore a particular survey's assessment of the number of second jobs will depend on the design and context of the survey. Adjustment of the employees in employment series to exclude second jobs would therefore be impracticable.

Coverage of Special Employment Measures

Estimates of employees in employment

1. Participants in a number of special measures are employed in precisely the same way as any other employee and are therefore included in the estimates of employees in employment. These measures include:

New Workers Scheme

Job Splitting Scheme - where both part-time jobs created by splitting a full-time job are counted

Job Release Scheme - the older worker who has given up his job is not included in the employees series but the previously unemployed person who has taken up the job is included

Training for Skills: Programme for Action

Community Programme

2. Of young people on the Youth Training Scheme those who have contracts of employment - estimated to be about 9 per cent of participants - are included in the employees in employment series.

3. Those on the Voluntary Projects and Training Opportunities Programmes are not employed and are hence not covered by the employed labour force series.

Estimates of self-employment

4. Those supported by the Enterprise Allowance Scheme are included in the Labour Force Survey based estimates of self-employment.

INTERNATIONAL COMPARISONS OF EMPLOYMENT

1. Latest figures for the major industrial economies show that since March 1983, when employment began to rise in the United Kingdom, it has grown at a much faster rate than in Japan, Italy, Germany or France.

Table 1: Civilian employment seasonally adjusted
Change 1983 Q1 to 1987 Q2

	Thousands	Per cent
Canada	+ 1349	+12.8
USA	+12984	+13.1
UK	+ 1354	+ 5.8
Japan	+ 1757	+ 3.1
Germany	+ 571	+ 2.3
Italy [§]	+ 388	+ 1.9
France*	- 295	- 1.4

Source: OECD 'Quarterly Labour Force Statistics' (except UK)

Note : * - 1982 Q4 to 1986 Q4.

§ - OECD estimate for 1983 Q1 to 1987 Q1.

However the rate of employment growth has been higher in the United States and Canada.

2. Comparisons with other European Community countries show that between 1983 and 1985 employment in the UK increased by more than in the rest of the EC put together. Latest figures indicate that this was also true for the period 1983-86. Over the longer period 1979 to 1985, there was a fall in UK employment which was far greater than that in the rest of the Community; the latest estimates suggest that this was also true for the period 1979-86.

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Table 2: Total employment, annual average or mid-year figures
Changes 1983 to 1985 and 1979 to 1985

	1983 - 1985		1979 - 1985	
	Thousand	Per Cent	Thousand	Per Cent
United Kingdom	+ 832	+ 3.6 %	- 959	- 3.8 %
Germany	+ 218	+ 0.9 %	- 504	- 2.0 %
France	- 279	- 1.3 %	- 416	- 2.0 %
Italy	+ 159	+ 0.8 %	+ 452	+ 2.3 %
Netherlands	+ 156	+ 3.2 %	+ 262	+ 5.4 %
Belgium	+ 30	+ 0.8 %	- 137	- 3.7 %
Luxembourg	+ 3	+ 1.9 %	+ 4	+ 2.6 %
Ireland	- 52	- 4.7 %	- 73	- 6.5 %
Denmark	+ 133	+ 5.6 %	+ 83	+ 3.4 %
Greece	+ 48	+ 1.4 %	+ 229	+ 5.7 %
European Community (10)	+1248	+ 1.2 %	- 1059	- 1.0 %

Source: OECD 'Labour Force Statistics 1965-1985' (except UK)

Note : nc - no change.

3. Comparisons of the proportion of working-age population in work show the UK above our major European competitors but below the USA, Japan and some smaller countries.

Table 3: Total employment as a percentage of the population aged 15-64 : 1985

	Per Cent
Sweden	80
Denmark	75
Japan	71
USA	69
Canada	66
UK	66
Germany	60
France	59
Belgium	56
Netherlands	52
OECD Total	64
OECD Europe	58

Source: OECD 'Historical Statistics 1964-1985'

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EMPLOYMENT:sex and hours of work

Whole economy estimates in Great Britain remain the same as reported last month. The employed labour force is estimated to have increased by 372,000 in the year ending June 1987 and by 1,362,000 between March 1983, when the upward trend first began and June 1987. The latter figure may be divided between 359,000 jobs filled by men and 1,003,000 jobs filled by women, or 584,000 full-time jobs and 778,000 part-time jobs.

An assumed growth in the number self-employed of 25,600 per quarter for the four quarters since June 1986 is included in the above figures which compares with an increase of 4,100 per quarter between June 1985 and June 1986.

THE EMPLOYED LABOUR FORCE - TOTAL
Great Britain Thousands, seasonally adjusted

		Males		Females		Persons	
		All	of which part time	All	of which part time	All	of which part time
1983	March	13,663	868	9,334	3,976	22,997	4,844
	June	13,633	892	9,406	4,028	23,039	4,920
	Dec	13,705	923	9,588	4,129	23,293	5,073
1984	March	13,741	939	9,657	4,161	23,399	5,100
	June	13,786	954	9,706	4,182	23,492	5,136
	Sept	13,817	936	9,757	4,202	23,574	5,138
	Dec	13,883	968	9,831	4,253	23,715	5,221
1985	March	13,915	960	9,887	4,282	23,802	5,242
	June	13,941	991	9,939	4,308	23,879	5,299
	Sept	13,927	976	9,990	4,354	23,917	5,330
	Dec	13,929	998	10,022	4,366	23,951	5,364
1986	March	13,902	984	10,061	4,410	23,964	5,394
	June	13,894	1,016	10,093	4,440	23,987	5,456
	Sept	13,901	1,009	10,140	4,466	24,041	5,475
	Dec	13,908	1,036	10,209	4,492	24,117	5,528
1987	March	13,964	1,041	10,261	4,542	24,225	5,583
	June	14,022	1,062	10,337	4,560	24,359	5,622

Change							
Mar 83-Jun 87		359	194	1,003	584	1,362	778
Jun 86-Jun 87		128	46	244	120	372	166

*Estimates of part-time male employees are not seasonally adjusted, therefore it is not possible to estimate full-time male employees.

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THE EMPLOYED LABOUR FORCE - COMPONENTS

Great Britain

Thousands, seasonally adjusted

		Employees in Employment						Self Employment					HM Forces		
		Males		Females		Persons	Males		Females		Persons	Males	Females	Persons	
		All	of which part time*	All	of which full time	of which part time	All	of which part time	All	of which part time	All	All	All	All	
1983	March	11,706	745	8,823	5,110	3,713	20,529	1,651	123	496	263	2,147	306	15	321
	June	11,674	766	8,882	5,121	3,761	20,556	1,652	126	508	267	2,160	306	16	322
	Sept	11,659	772	8,952	5,151	3,801	20,611	1,702	136	527	277	2,229	309	16	325
	Dec	11,645	798	9,025	5,184	3,841	20,670	1,751	145	547	289	2,298	309	16	325
1984	March	11,631	784	9,075	5,213	3,862	20,706	1,801	155	566	299	2,367	310	16	326
	June	11,627	790	9,104	5,233	3,871	20,731	1,849	164	586	311	2,435	310	16	326
	Sept	11,637	771	9,145	5,258	3,887	20,782	1,868	165	596	315	2,464	312	16	328
	Dec	11,686	801	9,209	5,276	3,933	20,895	1,886	167	606	320	2,493	311	16	327
1985	March	11,700	791	9,254	5,298	3,956	20,954	1,905	169	617	326	2,522	310	16	326
	June	11,709	821	9,295	5,318	3,977	21,003	1,923	170	628	331	2,550	309	16	326
	Sept	11,692	808	9,345	5,319	4,026	21,037	1,926	168	629	328	2,554	309	16	326
	Dec	11,693	832	9,376	5,336	4,040	21,069	1,929	166	630	326	2,558	307	16	323
1986	March	11,664	819	9,414	5,327	4,087	21,079	1,932	165	631	323	2,563	306	16	323
	June	11,653	853	9,446	5,325	4,121	21,099	1,935	163	631	319	2,567	305	16	322
	Sept	11,645	843	9,482	5,339	4,143	21,127	1,950	166	642	323	2,592	306	16	323
	Dec	11,639	867	9,540	5,375	4,165	21,179	1,965	169	653	327	2,618	304	16	320
1987	March	11,681	869	9,581	5,370	4,211	21,262	1,979	172	664	331	2,643	304	16	320
	June	11,725	887	9,646	5,421	4,225	21,371	1,994	175	675	335	2,669	302	16	319
Change															
Mar 83-Jun 87		19	142	823	311	512	842	343	52	179	72	522	-4	1	-2
Jun 86-Jun 87		72	34	200	96	104	272	59	12	44	16	102	-3	0	-3

*Estimates of part-time male employees are not seasonally adjusted, therefore it is not possible to estimate full-time male employees.

CHANGES IN EMPLOYEES IN EMPLOYMENT

Great Britain

Thousands, not seasonally adjusted

Industry	Year ending Jun 1987		Region	Year ending Jun 1987	
	Change			Change	
	Absolute	Percent		Absolute	Percent
Agriculture forestry and fishing	- 9.3	-3.0	South East	113.6	1.5
Energy and water supply	- 39.0	-7.4	(Greater London)	15.0	0.4
Other mineral and ore extraction etc	- 6.8	-0.9	East Anglia	35.2	4.6
Metal goods, engineering and vehicles	- 59.3	-2.6	South West	29.1	1.9
Other manufacturing industries	0.4	0.0	West Midlands	39.9	2.0
Construction	20.0	2.1	East Midlands	15.0	1.0
Distribution, hotels, catering, repairs	65.2	1.5	Yorks & Humberside	19.4	1.1
Transport & Communication	12.8	1.0	North West	5.1	0.2
Banking, finance insurance	131.4	6.0	North	7.3	0.7
Other Services	155.5	2.5	Wales	4.2	0.5
			Scotland	2.4	0.1
All Industries	270.9	1.3	Great Britain	270.9	1.3

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11 AVERAGE EARNINGS

1 Table A gives a breakdown of the average earnings index by broad sectors of industry. The full detail will not be published until the next issue of Employment Gazette (Table 5.3 of Labour Market Data). However, it is available on request from the date of the press release.

2 The monthly figures in Table A are not seasonally adjusted.

3 Table B shows the latest information on annual changes in average earnings in manufacturing industries in the main industrial countries. The periods covered and the definitions vary, although the comparison gives a broad idea of how the rate of change in average earnings in Great Britain is related to that of our principal overseas competitors.

TABLE A

 INDUSTRY BREAKDOWN
 INDEX OF AVERAGE EARNINGS (unadjusted)

Classes SIC 1980	Weights	Index (January 1980 = 100)						Percentage increase over previous 12 months					
		1987						1987					
		Apr	May	June	July	Aug	Sept*	Apr	May	June	July	Aug	Sept*
Metal processing and manufacture	14	220.2	205.8	204.8	234.4	201.4	207.8	8.7	10.7	6.9	14.0	6.1	9.5
Mineral extraction and manufacturing	14	195.8	196.5	205.4	205.0	201.2	206.6	7.3	7.2	7.3	9.9	8.5	8.5
Chemicals and man-made fibres	20	203.7	205.8	208.8	212.9	209.6	205.7	9.5	8.7	8.3	10.7	8.9	6.5
Mechanical engineering	44	192.0	193.6	198.6	200.7	198.8	199.8	4.3	6.2	7.9	7.3	8.6	8.6
Electrical and electronic engineering	37	213.5	210.9	217.5	216.7	214.7	217.2	7.0	8.9	8.9	10.1	9.7	10.5
Motor vehicle and parts	17	194.7	198.3	208.6	201.8	197.4	200.5	9.4	8.8	9.4	9.4	8.1	9.4
Other transport equipment	17	191.6	191.6	197.0	196.3	195.6	197.4	6.6	7.3	6.7	7.8	3.6	7.3
Metal goods and instruments	27	184.9	187.1	191.4	192.1	190.9	193.8	7.4	6.4	8.6	8.6	8.3	9.2
Food, drink and tobacco	33	202.5	205.8	204.7	205.1	203.2	206.9	8.1	9.1	6.1	8.0	8.9	8.3
Textiles	13	188.0	193.7	200.5	201.8	197.6	198.8	6.1	7.6	8.9	10.0	9.2	8.8
Leather, footwear and clothing	17	186.5	192.1	193.6	195.3	191.4	193.5	3.6	8.0	6.5	8.0	6.7	6.1
Timber and wooden furniture	11	175.9	184.2	188.0	184.8	189.7	191.5	5.3	11.2	12.6	7.8	0.3	3.3
Paper products, printing and publishing	26	211.0	213.4	217.3	215.6	215.3	219.9	7.4	7.9	7.3	7.9	9.3	9.1
Rubber, plastic and other manufacturing	14	191.2	198.0	199.7	201.1	196.2	198.3	6.0	9.9	7.1	7.9	8.2	8.1
Manufacturing industries	304	202.5	203.8	208.2	209.8	206.0	208.5	7.0	8.2	7.9	9.0	8.0	8.5
Coal and coke	15	185.1	172.7	178.0	177.0	178.6	177.8	12.4	8.2	11.7	10.1	10.5	5.3
Mineral oil and natural gas	1	209.9	220.2	214.0	223.1	212.5	210.1	11.6	10.3	9.5	14.5	9.4	6.5
Electricity, gas and other energy and water supply	19	201.4	203.0	202.8	211.9	226.4	216.1	6.3	6.2	5.9	3.5	9.3	9.1
Production industries [†]	339	202.2	202.8	206.9	208.9	206.5	208.0	7.2	8.0	8.0	8.7	8.2	8.4
Construction	55	194.4	192.9	199.4	200.2	196.0	199.3	8.1	7.9	7.6	7.3	9.3	7.5
Production [†] and construction industries	394	201.1	201.4	205.8	207.6	205.0	206.7	7.4	8.0	7.9	8.5	8.3	8.3
Agriculture and forestry [‡]	19	199.1	196.7	206.0	210.2	218.0	∅	8.7	5.8	6.6	6.5	2.2	∅
Distribution and repairs	164	192.8	187.8	189.9	189.2	189.9	191.8	7.4	7.7	7.6	7.0	7.7	7.7
Hotel and catering	49	182.8	182.4	179.8	176.8	181.0	180.4	11.7	7.7	5.7	5.4	3.9	5.7
Transport and communication (except sea transport)	71	191.9	190.9	191.2	195.2	189.4	190.0	10.2	7.7	8.8	9.1	5.5	6.4
Banking, finance and insurance	44	217.6	221.5	235.4	221.7	219.0	223.5	12.6	9.4	17.0	6.7	8.4	12.7
Public administration	90	185.5	186.6	188.4	195.7	191.2	193.9	6.1	6.4	3.4	8.7	8.0	8.8
Education and health services	147	197.2	217.7	206.9	222.1	226.9	211.1	-3.1	14.9	6.3	7.8	7.5	5.7
Other services	22	205.8	208.2	206.2	215.1	207.8	214.0	8.7	7.0	5.7	6.6	7.4	7.1
Service industries	587	195.0	198.8	198.4	202.6	201.7	199.8	5.8	9.3	7.5	7.7	7.3	7.6
Whole economy	1,000	196.0	198.1	200.0	203.1	201.6	201.6	6.5	8.7	7.7	8.1	7.6	7.9

* Provisional

† Manufacturing, coal and coke, mineral oil and natural gas, electricity, gas, other energy and water supply

‡ England and Wales only

∅ Not available

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TABLE B

INTERNATIONAL COMPARISONS
HOURLY EARNINGS IN MANUFACTURING
(Percentage changes on a year earlier)

		Latest period available
Norway (d)	18.3	Q2 1987
Portugal (h)	15.2	Q3 1986
Greece	11.0	Q4 1986
Denmark (g)	9.6	APRIL
Great Britain (c)	8 1/2	SEPTEMBER
New Zealand (i)	7.2	Q2 1987
Sweden (g)	7.0	JULY
Italy (b)	6.6	JUNE
Ireland	6.1	Q4 1986
Spain (f)	5.1	Q1 1987
Germany	5.1	Q2 1987
Australia (b)	4.7	MAY
Austria (b) (g)	3.4	AUGUST
France (b)	3.3	Q2 1987
Japan (a) (e)	2.3	AUGUST
United States	1.9	AUGUST
Belgium (j)	1.4	Q2 1987
Netherlands (b)	0.9	AUGUST
Canada	0.4	JULY
Finland	- 4.6	Q2 1987
OECD	3.8	JUNE
EEC	5.9	JUNE

Source: OECD Main Economic Indicators: October 1987

- (a) Monthly Earnings
- (b) Hourly Rates
- (c) Weekly Earnings
- (d) Males
- (e) 3 month ending
- (f) All activities
- (g) Mining and Manufacturing
- (h) Daily Earnings
- (i) Weekly Rates: all activities
- (j) Mining, manufacturing and transport

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ML
10 November 1987

Den David,

LABOUR MARKET STATS PRESS RELEASE

I enclose two revised pages to the brief on the above that was circulated by Angela Wilkins last night. The amendments have been highlighted.

Copies as before.

*PAGES
AMENDED*

*TL
10/11*

yours sincerely

Peter Baldwin

Peter Baldwinson
Private Secretary

20814

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WITH THE COMPLIMENTS OF
STATS B2

NOTES FOR PRIME MINISTER

I enclose 2 revised pages
for pm's note distributed
yesterday.

I have highlighted the
amendments.


10.11.87

UNEMPLOYMENT - regions and sex: Oct 1987
SEASONALLY ADJUSTED EXCLUDING SCHOOL LEAVERS

Unemployment
-regions and sex

REGIONS	NUMBER (Thousands)		UNEMPLOYMENT RATE (Per Cent)*		
	At Oct 1987	Change in month since Sept 1987	At Oct 1987	Change in month since Sept 1987	Change in year since Oct 1986
(1)					
South East	624.2	-16.1	6.8	-0.2	-1.5
(Greater Lond	(338.5)	-6.3	7.9	-0.1	-1.4
East Anglia	66.0	-2.1	6.9	-0.2	-1.5
South West	163.0	-4.9	8.0	-0.2	-1.8
West Midlands	278.3	-6.1	10.8	-0.2	-2.1
East Midlands	169.1	-4.0	8.9	-0.2	-1.4
Yorks & Humber	261.2	-5.8	11.1	-0.2	-1.7
North West	372.1	-7.2	12.4	-0.2	-1.8
North	197.6	-3.5	13.7	-0.2	-1.6
Wales	145.4	-3.1	12.1	-0.3	-1.9
Scotland	315.4	-4.4	12.8	-0.2	-1.2
GREAT BRITAIN	2592.1	-57.4	9.6	-0.2	-1.6
Northern I.	122.8	-1.0	17.9	-0.1	-0.8
UNITED KINGDOM	2714.9	-58.4	9.8	-0.2	-1.6
<u>MALES AND FEMALES</u>					
UK Males	1900.7	-39.0	11.6	-0.2	-1.7
UK Females	814.2	-19.4	7.2	-0.2	-1.5

* Percentage of whole working population (new basis, taking account of self-employed and armed forces)

PERSONAL AND CONFIDENTIAL UNTIL 11.30AM THURSDAY 12 NOVEMBER 1987
 LABOUR MARKET STATISTICS - KEY FACTS

Unemployment

Seasonally adjusted (excluding school leavers)

- fall of 58,400 in October to 2.715 million
- fall of 445,000 over past 12 months, largest since similar records began in 1948
- Unemployment down for 16 months running, by 498,000 since June 1986, the largest sustained fall on record.

Average fall of 51,000 per month over past six months, also a record.

- Unemployment now the lowest for 5 years (since September 1982).
- Unemployment rate 9.8%; below 10% for the first time since July 1982.

Unadjusted including school leavers

- Now 2.751m, 9.9%, fall of 119,000 since September
- fall of 486,000 compared with a year ago, largest 12 month fall recorded since similar records began in 1948.

Unemployed school leavers (under 18) 83,000 in October, 34,000 lower than a year ago and the lowest October total since 1979.

Employment - employed labour force increased by 134,000 in Q2, largest ^{increase} fall since Q4 1984

- also increased by 372,000 in year to June
- manufacturing employment fell 6,000 in September

Earnings - Underlying increase in average earnings in year to September unchanged at 7 $\frac{3}{4}$ %.

FROM: P L PATTERSON
 DATE: 11 November 1987

1. MISS O'MARA
 2. CHANCELLOR

cc Chief Secretary Mr Hibberd
 Financial Secretary Mr Pickford
 Paymaster General Mr Dyer (+1 for No.10)
 Economic Secretary Mr Hudson
 Sir P Middleton Mr Mills
 Sir T Burns Mr MacAuslan
 Mr Cassell Mr Cropper
 Mr Monck Mr Tyrie
 Mr Sedgwick Mr Call
 Mr Scholar HB/001
 Mr R I G Allen

Another good month. Unemployment has now fallen 1/2 million below its peak and the rate has dropped below 10% for the first time since July 1982. The only slight fly in the ointment is the fact that manufacturing employment does not seem to be falling quite as slowly as we would have expected. MOM 11/11

COMBINED RELEASE OF LABOUR MARKET STATISTICS ON 12 NOVEMBER

Summary Statistics (seasonally adjusted GB unless otherwise stated)

	Thousands	Level	Change on previous period	Change on previous year
<u>Unemployment (UK)</u>				
Total (excl. school leavers) October		2,715	-58	-445
Total (not seasonally adjusted) October: 'Headline Total'		2,751	-119	-486
<u>Vacancies (UK) October</u>		261	+15	+55
<u>Employed labour force 1987Q2</u>		24,359*	+134*	+372*
<u>Manufacturing employment September</u>		5,065	-6	-48
			<u>Percentage change on previous year</u>	
<u>Index of average earnings, September</u>				
Whole economy, underlying (actual)			7 $\frac{3}{4}$ (7.9)	
Manufacturing, underlying (actual)			8 $\frac{1}{2}$ (8.5)	
<u>Wage and salary costs per unit of output</u>				
Whole economy 1987Q2			4.6*	
Manufacturing 3 months to August			1.5*	
<u>Output per head</u>				
Whole economy 1987Q2			2.7*	
Manufacturing 3 months to August			6.8*	

* No change since last month's note. New figures for manufacturing output per head and unit wage and salary costs will be available on Friday when September's manufacturing output figures are published.

Unemployment

2. Seasonally-adjusted adult unemployment (excluding school leavers) fell between September and October, by 58,000 to 2.715 million (9.8 per cent). The average monthly fall in the seasonally adjusted total is over 50,000 over the last six months.
3. The 'headline' total fell by 119,000 to 2.751 million, 9.9 per cent of the working population. There was a fall of 110,000 among adult claimants but a smaller than usual October fall of only 9,000 among school leavers.
4. The stock of vacancies at Jobcentres (seasonally adjusted) increased in October by 15,000 to 261,000.
5. Points of interest:
 - (a) Seasonally adjusted adult unemployment rate below 10 per cent for first time since July 1982. The Secretary of State for Employment is likely to make much of this in his press statement tomorrow.
 - (b) Seasonally adjusted total now below 2 $\frac{3}{4}$ million, and at lowest level for over 5 years (since September 1982).
 - (c) Seasonally adjusted total has fallen for sixteen months in succession since June 1986, by $\frac{1}{2}$ million (precisely 498,000) in total.
 - (d) Fallen by 445,000 over past year, largest twelve-month fall since similar records began; fall over last six months also a record.
 - (e) Fall in 'headline' total of 486,000 compared with year ago, also largest on record.
 - (f) Male unemployment (seasonally adjusted, adult) rate now falling faster than female rate. Male unemployment below 2 million.
 - (g) School leaver unemployment (under 18s), at 83,000 in October, was 34,000 (or 29 per cent) lower than a year ago and lowest October total since 1979. Much of this improvement is due to last year's school leavers now starting their second year of training on YTS. [NOT FOR USE: The smaller than usual rise and subsequent fall in school leaver unemployment over the past two months probably reflect decisions not to sign on for a short period from the beginning of September by school leavers who

already had a job or YTS place lined up. Some also may have wrongly believed that they were not eligible for benefit following publicity about the forthcoming changes to the rules for under 18 year olds. In addition, the relatively late start date for the autumn school term may have artificially depressed the September count.]

(h) Unemployment continues to fall among both men and women in all regions. Over past twelve months unemployment rate has fallen throughout the UK, with largest falls in West Midlands and Wales. Northern Ireland stands out with smallest fall.

(i) UK unemployment rate fallen more in past year than in any other major industrialised country.

(j) October figures for long-term unemployment are not yet available. [NOT FOR USE: Early provisional estimates suggest fall of over 60,000 in three month period between July and October in number of claimants unemployed for more than a year. In the year since October 1986, there is thus likely to have been a fall of the order of 170,000; this would be the largest on record. Full analysis of the October figures should be available for release next week.]

(k) The stock of vacancies increased sharply by 15,000 in October to 261,000, 26 per cent higher than a year ago, and again the highest level since the current series began in 1980. As noted in previous months, these stock figures probably exaggerate the improvement in the labour market, but inflows of notified vacancies were also at a record level in October, some 8 per cent higher than a year earlier.

(l) There is normally little seasonal effect on the headline total in November. Given the current trend, a further fall in the headline total is therefore likely.

Assessment

6. [NOT FOR USE: DE's judgement is that the strength of economic activity now explains "the majority of the fall" in unemployment in recent months, but this may be rather conservative.]

Employment

7. New employment figures are available this month for the number of employees in manufacturing industries in September, which is estimated to have fallen by 6,000 since August. The downward trend in manufacturing employment can still be said to be slowing.

However the third quarter decrease of 20,000 compares with the fall of 21,000 in the whole of the first half of 1987, and is slightly at odds with the CBI's latest Industrial Trends Survey which claimed "the fall in manufacturing employment has been halted".

Other features

8. The underlying increase in average earnings in the year to September was unchanged at $7\frac{3}{4}$ per cent. Relatively few settlements are conducted at this time of year, and so new settlements have had little effect on recent earnings figures. [NOT FOR USE: DE statisticians are currently projecting a rise in the annual rate of increase of underlying earnings to 8 per cent in both October and November. In October the figure is raised by the second stage of the teachers' settlement, and in November it will include the high local authority manuals' settlement. A figure of $8\frac{1}{4}$ per cent cannot be ruled out for November (or December).]

9. The level of overtime working in manufacturing rose further in September to 12.97 million hours a week and remains extremely high (still above the peak level of some 12 million hours a week sustained through much of 1985).

Peter Patterson

P L PATTERSON

*

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(Adapt from
Programme,
or some such),
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PRIME MINISTER

STATEMENT ON NEW TRAINING PROGRAMME

At your meeting yesterday with the Chancellor of the Exchequer we agreed that we should bring together our present provision for unemployed adults (the Community Programme, the new Job Training Scheme and a range of smaller programmes) into a single unified training programme for long term unemployed adults.

At present our approach to helping the long term unemployed back to work is too short term and piecemeal. Our programmes are dominated by the Community Programme - a temporary employment programme with little training content and an indifferent record in helping people back into permanent employment. We are expanding the Job Training Scheme to provide training for some of those who have been unemployed for 6 - 12 months. But these separate approaches are unlikely to meet the requirements of a future in which there will be an increasing number of jobs and (as the number of young people entering the labour market falls rapidly) an increasing demand for adults with the skills and motivation to fill them.

The new programme would offer up to twelve months' planned training and work experience. Some of the training would need to be very basic such as literacy and numeracy. It would be within the PES provision for existing programmes for unemployed adults agreed with the Chief Secretary.



The aim will be to get as many employers as possible to provide the training and work experience (on the JTS model). But we shall continue to need a substantial element of project - based training (on the CP model but without its worst features) in order to guarantee sufficient places for the long term unemployed and carry forward the initiatives on crime prevention and energy conservation to which we are committed.

When fully established, the programme should be able to cope with about 600,000 entrants a year. This should be enough to meet our Manifesto commitments to the long term unemployed within the lifetime of this Parliament. It would also represent a major investment in training and in upgrading the basic skills of the workforce.

X As agreed at our meeting I intend to make a statement next Wednesday outlining these proposals. I attach a copy of the statement I plan to make. As I said at Cabinet this morning we will need then to consult with the Manpower Services Commission and to receive their comments. The final programme would then be set out early in the New Year in a White Paper dealing with employment and training on which I will consult you and other colleagues.

I am copying this to Willie Whitelaw, Nigel Lawson, Peter Walker, David Young, Kenneth Baker, Malcolm Rifkind, John Moore, John Wakeham, David Waddington and Sir Robert Armstrong.



N F

12 November 1987

PERSONAL AND CONFIDENTIAL

DRAFT STATEMENT

NEW TRAINING PROGRAMME

Unemployment has now fallen for 16 months in succession by a total of nearly ½ million. It is falling rapidly in this country when it is still rising in ^{many} other countries. The latest figures for unemployed young people also show that we are well on the way to eliminating the problem of school leaver unemployment. This September there were fewer unemployed school leavers than for 13 years.

I believe that this is the right time to review the Government's training and other programmes for unemployed people. We need to be sure that we have the right programmes to meet the demands of an improving labour market. We need to be sure that we are giving unemployed people the help they need to take advantage of the increasing number of jobs now becoming available. And we need to be sure that the programmes we operate are helping to provide the skills we require to compete in world markets.

I am clear that the priority now must be to provide training for the long term unemployed. The emphasis should be switched away from providing temporary jobs as an alternative to unemployment and towards providing training to help unemployed people to get back into permanent jobs. But more than that, we must ensure that the training we provide is geared both to the needs of the individual trainee and to those of the economy.

PERSONAL AND CONFIDENTIAL

PERSONAL AND CONFIDENTIAL

We already have a unified programme for young people - the Youth Training Scheme. I have now decided to bring together all the existing programmes for unemployed people over 18, including the Community Programme, in a single new programme, ^{to be known as the} This will offer up to 12 months training for anyone who has been out of work for more than 6 months. Entry to the programme will be through the Restart interviews. Training will be tailored to the needs of each person on the basis of individual assessment.

This new programme will involve employers and a range of other organisations. It will provide a mixture of training on and off the job, work experience with employers and projects. It will cover a wide spectrum, from training in basic working skills, including numeracy and literacy, to higher levels of skill. The emphasis will be on practical learning to help people to get back into employment.

~~One of the major deficiencies of the Community Programme is that it does not attract unemployed people with dependents and consequently with high benefit entitlement. Because ~~the Community Programme pays wages~~ it has become increasingly a programme for single people with low benefit entitlement. It has also become overwhelmingly a part time programme with very little scope for training. We need to tackle these problems at the root. It is essential that unemployed people who join the new programme know they will be better off than they were on benefit. I therefore intend that all trainees in the new programme should be paid a training allowance which will give them a lead over their previous benefit entitlement.~~

PERSONAL AND CONFIDENTIAL

X
(a heavy
Christmas
in here)
refer to
it by
its name
throughout
the memo
(Stalin)

What is
the main point?

~~that on the programme are paid normal~~ wages in its present form

PERSONAL AND CONFIDENTIAL

When trainees are ready to leave the programme every effort will be made to find them jobs - including self employment - by means of individual counselling. Those who cannot find a job immediately will be offered a place in a Jobclub.

The new programme will have the very substantial resources already provided for the wide range of existing programmes it will replace. Once the new programme is fully operational the target will be to provide training for up to 625,000 people a year. It will therefore make a major contribution to fulfilling the Government's guarantees for the long term unemployed. And it will also help to ensure that we have a workforce with the skills we shall need in the last decade of this century.

I am asking the Manpower Services Commission for their comments on the new programme and to let me have proposals for introducing it from September next year. I then propose to publish a White Paper early next year setting out in detail how the new programme will work and putting it in the context of the Government's overall strategy for employment and training.

No other country has attempted a programme on this scale. It will provide new opportunities for long term unemployed people to obtain the skills and qualifications employers need. I am convinced that this programme will benefit employers, the unemployed and the economy as a whole. I hope that it will command the support of the whole House.

PERSONAL AND CONFIDENTIAL



FROM: A D DIGHT
DATE: 12 November 1987

MR P L PATTERSON

COMBINED RELEASE OF LABOUR MARKET STATISTICS ON 12 NOVEMBER

The Chancellor has seen and was grateful for your minute of 11 November.

A handwritten signature in cursive script that reads 'A A Dight'.

A A DIGHT

COVERING PERSONAL AND CONFIDENTIAL

LABOUR MARKET STATISTICS PRESS NOTICE

NOTES FOR THE PRIME MINISTER

UNIT WAGE AND SALARY COSTS AND PRODUCTIVITY

I enclose revised pages for unit wage and salary costs and productivity. The revised figures for manufacturing industry are based on the output figures to be released by the CSO tomorrow.

These figures are personal and confidential until 11.30 a.m. on Friday 13 November, 1987.

W.D. BURNS
STATISTICS A1
Department of Employment

12.11.87

UNIT WAGE AND SALARY COSTS

In the three months ending September 1987, wages and salaries per unit of output in manufacturing industries were 1.5 per cent above the corresponding period a year earlier. This increase was below the rise in average earnings in manufacturing (see Table 10) as there was a rise of nearly 7 per cent in productivity over this period (see Table 13).

In the second quarter of 1987, wages and salaries per unit of output in the whole economy were 4.6 per cent above the corresponding period of 1986. This increase was below the rise in average earnings in the whole economy as there was a rise of over 2½ per cent in productivity over this period.

Recent figures are:

TABLE 11: WAGES AND SALARIES PER UNIT OF OUTPUT

	Manufacturing		Whole Economy	
	Index 1980 = 100	Percentage increase on a year earlier	Index 1980 = 100	Percentage increase on a year earlier
1985 Q3	125.6	6.4	132.9	6.0
Q4	128.4	6.0	134.2	4.4
1986 Q1	130.8	7.7	136.4	6.0
Q2	130.0	6.1	137.9	6.2
Q3	129.5	3.1	138.8	4.4
Q4	129.8	1.1	140.9	5.0
1987 Q1	131.4	0.5	141.9	4.0
Q2	131.0	0.8	144.2	4.6
Q3	131.5	1.5	..	..
1987 June	131.4	1.1	..	..
July	131.3	1.9	..	..
Aug	130.3	0.5	..	..
Sept	132.9	2.2	..	..
<u>3 months ending</u>				
1987 June	131.0	0.8	..	..
July	130.9	1.3	..	..
Aug	131.0	1.2	..	..
Sept	131.5	1.5	..	..

PRODUCTIVITY

Manufacturing output per head in the three months to September was 1.9 per cent higher than in the three months ending June and 6.9 per cent higher than in the same period a year earlier.

Output per head in the whole economy in the second quarter of 1987 was 0.5 per cent above the previous quarter and 2.7 per cent higher than in the second quarter of 1986.

Recent figures are:

TABLE 13: OUTPUT PER HEAD

seasonally adjusted, U.K.

		Manufacturing		Whole Economy	
		Index 1980 = 100	Percentage Increase on a year earlier	Index 1980 = 100	Percentage increase on a year earlier
1985	Q3	130.7	2.7	114.1	2.1
	Q4	130.3	2.3	114.8	2.3
1986	Q1	130.2	0.2	115.2	1.6
	Q2	133.3	1.3	116.6	1.8
	Q3	135.7	3.8	117.8	3.2
	Q4	139.1	6.8	118.5	3.2
1987	Q1	139.8	7.2	119.2	3.5
	Q2	142.4	6.8	119.8	2.7
	Q3	145.1	6.9	..	..
1987	June	142.6	6.7	..	..
	July	144.7	6.9	..	..
	Aug	145.6	7.5	..	..
	Sept	144.9	6.2	..	..
<u>3 months ending</u>					
1987	June	142.4	6.8	..	..
	July	143.3	7.0	..	..
	Aug	144.3	7.0	..	..
	Sept	145.1	6.9	..	..

mpw



FROM: MISS M P WALLACE

DATE: 16 November 1987

PS/CHIEF SECRETARY

cc Sir P Middleton

Mr Anson
Mr Monck
Mr Burgner
Mr Turnbull
Mr Gray
Mr McIntyre
Mr MacAuslan
Mrs Brazier
Mr Tyrie
Mr Call

STATEMENT ON NEW TRAINING PROGRAMME

The Chancellor has seen Mr Fowler's minute of 12 November to the Prime Minister, covering a draft statement on the new training programme. He has commented that it is essential that the new programme should have a name, and that this should be launched in the statement. At the end of the second sentence in the fourth paragraph, he would therefore insert the words "to be known as the [Adult Training Programme, or some such]". Having christened it here, the statement should then refer to it by its name throughout.

2. The Chancellor had two other suggestions:

First paragraph, second sentence to read: "Still rising in many other countries";

Paragraph 6, first two sentences should be recast to read: "The Community Programme in its present form does not attract unemployed people with dependents and consequently with high benefit entitlement. Because those on the programme are paid normal wages it has ..."

mpw.

MOIRA WALLACE



Caxton House Tothill Street London SW1H 9NF

6460

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Switchboard 01-213 3000 GTN Code 213

Facsimile 01-213 5465 Telex 915564

David Norgrove Esq
10 Downing Street
LONDON SW1A 2AA

14 December 1987

Dear David,

LABOUR MARKET STATISTICS

... I am enclosing our standard brief on the labour market statistics which are to be issued on Thursday. The brief is of course personal and confidential until 11.30 on 17 December and confidential thereafter.

I am copying this to Allex Allan (Treasury), Sir Peter Middleton (Treasury), Mr Hibbert (CSO), Mr Footman (Bank of England), Trevor Woolley (Cabinet Office), Timothy Walker (DTI), Sir Brian Hayes (DTI), Robert Gordon (Scottish Office), Sir William Fraser (Scottish Office), Jon Shortridge (Welsh Office), David Watkins (Northern Ireland Office) David Fell (Department of Economic Development, Northern Ireland Office) and Norman Blackwell (No 10 Policy Unit).

Yours sincerely,

Angela

ANGELA WILKINS
Private Secretary

ppp

A1

PERSONAL AND CONFIDENTIAL UNTIL 11.30 ON 17 DECEMBER 1987 THEREAFTER

CONFIDENTIAL

Labour Market Statistics

Summary

Unemployment fell by a further 64,000 in November, and is now over half a million below the peak in June 1986. Over the past six months there has been a fall of 51,000 per month on average. In the last three months the fall has averaged a record 60,000 a month, reflecting the improvement in the labour market throughout the country. There was a continued rise in the number of vacancies reported and overtime in manufacturing was at its highest level since the start of the decade. The provisional estimate of the underlying increase in average earnings for the whole economy in October is 8 per cent, an increase of 1/4 per cent on September.

Unemployment

UK unemployment (seasonally adjusted claimants, excluding school leavers) fell very sharply again, by 63,500 between October and November, bringing the total down to 2.649 million, the lowest for more than 5 years (on a consistent basis). The unemployment rate fell to 9.5 per cent. The series has now fallen for 17 consecutive months since the peak in June 1986. The fall since then has now reached over half a million (564,000), the largest sustained fall on record. Other comparisons and records are given in 'key facts'.

The downward trend appears to have been quickening and continues at the rate of over 50,000 per month. The general strength of the economy appears to have been making an increasing contribution and must now be the main explanation for the fall in the unemployment series.

Employment and training measures such as CP, JTS and EAS have recently been having a broadly neutral impact on the trend in adult unemployment, and their overall effect may now be beginning to decline temporarily. The effects of other administrative measures have become increasingly difficult to quantify as they have become established, but it is likely that Restart and availability testing are now making a diminishing contribution to the downward trend. Claimant advisers, however, probably continue to have a significant impact, though small by comparison with the overall fall in unemployment.

Ch
No signs
of dampening
here.
AA
✓

Regional comparisons

Unemployment continues to fall among both men and women in all regions. Over the past 12 months, the unemployment rate has fallen most in the West Midlands, Wales and the North West, although the falls in most other regions are now not far behind. Northern Ireland has had the smallest fall over the period, but the trend has recently been more in line with Great Britain.

Headline total

The UK 'headline' claimant total (unadjusted including school leavers) fell again, by 66,000 to 2.686 million in November, 9.7 per cent. This was 531,000 lower than a year ago, yet again a record 12 month fall. There was a fall of 52,000 among adult claimants and 14,000 among school leavers. The school leaver total, at 69,000 was 29,000 or 29 per cent lower than a year ago. This improvement at least partly reflects last year's school leavers starting their second year of training on YTS.

December headline total

There is normally a seasonal rise in the unadjusted headline total in December, with an increase in adults only partly offset by a fall among school-leavers. However, assuming continuation of the sharp downward trend, a modest fall in the headline total could be expected.

Employment

Figures for the employed labour force (employees in employment, the self employed and HM Forces) in Great Britain are virtually the same as reported in October. The employed labour force is estimated to have increased by 372,000 in the year ending June 1987 and by 1,363,000 between March 1983, when the upward trend first began, and June 1987.

The number of employees in employment in manufacturing industry in Great Britain is estimated to have increased by 3,000 in October. However, the monthly figures can be erratic and over the last three months (August, September and October) there has been a reduction of 6,000. The underlying picture continues to be of a slow downwards drift in manufacturing jobs.

Overtime working by operatives in manufacturing industries moved to the highest level since the start of the decade with an estimated 13.74 million hours per week worked in October; it remains to be seen whether this is erratically high or whether it marks a shift to a higher level of overtime. Current levels are still well below the 15 million hours per week and more observed in the late 1970s. There are now fewer operatives in manufacturing, but a higher proportion work overtime and the average weekly hours of overtime per operative in October was about 3.7 compared with about 3 in 1979. Over the same period the normal weekly hours (excluding overtime) of operatives has reduced by about 1 hour. Hours lost through short-time working in manufacturing industries remain very low, 0.28 million hours per week in October.

Vacancies

The stock of vacancies at jobcentres (UK, seasonally adjusted and excluding Community Programme) increased again, by 6,800, to reach 268,200 in November. This was 26 per cent higher than a year ago, and once again the highest since the current series began in 1980. These stock figures continue to exaggerate the improvements. Inflows of new notified vacancies remained at a record level in November and were about 5 per cent higher than a year ago. Outflows, however, while^{also} showing an increase of 5% on a year ago, may be understated due to reduced activity in jobcentres in following up placings. Recorded placings in the month to November were 3% down on a year ago. Thus understatement of the outflow will have exaggerated the rise in the stocks.

Earnings

The provisional estimate of the underlying increase for the whole economy in October is 8 per cent, an increase of $\frac{1}{4}$ per cent on September. The provisional estimates for manufacturing and production industries are unchanged from September at $8\frac{1}{2}$ per cent and $8\frac{1}{4}$ per cent respectively but the provisional estimate for the service industries shows an increase of $\frac{1}{2}$ per cent to $7\frac{3}{4}$ per cent.

The $\frac{1}{4}$ per cent rise in the rate of increase for the whole economy is partly due to the second stage of the teachers settlement but there is also reason to believe that the services and construction sectors may have been working increased overtime in October to repair storm damage. Manufacturing overtime figures were again at a high level in October, but the

PERSONAL AND CONFIDENTIAL

UNTIL 11.30 a.m. ON ..17.12.87.. *THENCEFORWARD CONFIDENTIAL*

relationship between overtime and earnings in the same month is not a direct one.

Next Labour Market figures

The next labour market briefing will be issued on Monday 11th January, in advance of the press release on Thursday 14th January. It will contain unemployment figures for 10th December, employed labour force figures for the third quarter 1987, manufacturing employment and average earnings for November and vacancies for 4th December.

4

PERSONAL AND CONFIDENTIAL

UNTIL 11.30 a.m. ON ..17.12.87..

Unemployment

Seasonally adjusted (excluding school leavers)

- fall of 63,500 in November to 2.649 million, 9.5 per cent
- fall of 495,000 over past 12 months, largest since similar records began in 1948
- Unemployment down for 17 months running. Fall since June 1986 now over half a million (564,000), the largest sustained fall on record.

Average fall of 51,000 per month over past six months.

Record average fall of 60,000 per month over past three months.

- Unemployment now the lowest for over 5 years (since July 1982)

Unadjusted including school leavers

- Now 2.686m, 9.7%, fall of 66,000 since October
- fall of 531,000 compared with a year ago, largest 12 month fall since similar records began in 1948.

Unemployed school leavers (under 18) 69,000 in November, 29,000 (29 per cent) lower than a year ago and the lowest November total since 1979.

Employment - employed labour force increased by 134,000 in Q2, largest rise since Q4 1984

- also increased by 372,000 in year to June
- manufacturing employment increased by 3,000 in October but down 6,000 over past three months.

Earnings - Underlying increase in average earnings in year to October up $\frac{1}{4}$ % to 8%..

PERSONAL AND CONFIDENTIAL UNTIL 11.30am THURSDAY 17 DECEMBER 1987

<u>ADDITIONAL POINTS</u>		<u>Reference</u>
<u>Vacancies</u>	(seasonally adjusted, excluding CP) Unfilled vacancies at jobcentres 268,200 in November, 26% higher than a year ago. Inflow of new notified vacancies highest since current series began in 1980.	Press Notice table 6, 7 & 8
<u>Regional unemployment figures</u>	Unemployment fell in all regions in November. Unemployment rate fell in all regions over last 12 months with largest falls in West Midlands Wales and North West. In the 17 months since June 1986, falls have also been largest in these regions.	Press notice table 3 C2
<u>Long term unemployment quarterly figures)</u>	Fell by 169,000 in year to October Biggest annual fall on record Largest fall in Wales.	C3
<u>Youth unemployment</u>	Unemployment among under 18 year olds now nearly halved compared with 5 years ago. Under 25's also lowest for more than 5 years, down nearly a quarter compared with October 1982. Under 25's unemployment rate in October 15% Latest EC comparisons for 1986 showed UK 18% compared with EC average 23% (Italy 34%, France 23%, Belgium 20%, Ireland 27%, Greece 24%, Portugal 29%, Spain 48%)	
<u>Flows into and out of unemployment</u>	Unemployed not a static pool - some 400,000 a month enter and leave. A quarter leave within a month, half leave within 3 months.	D5
<u>International comparisons</u>	In recent months, UK rate fallen faster than any other major industrialised country. Latest OECD standardised rate for UK now 9.5% (September). Unemployment higher in France (10.6%) Belgium (10.3%), Spain (20.1%) and Ireland (19.4%).	C5a,b,c
<u>Employment</u>	Increased every quarter for 4 years. Over 1.3 million jobs created since 1983.	Press Notice table 5 D10a

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Reference

<u>Effect of government measures on count</u>	Traditional measures (YTS, Community Programme etc) have not grown over recent months. Cannot estimate effects of Restart because gateway to other schemes which help into jobs eg Community Programme, Enterprise Allowance Scheme, Job Clubs. Successful because 'Pushing an open door' when economy growing. Availability testing will discourage some people who were not interested in getting work - cannot assess how many.	C4
<u>Fiddling the figures</u>	Only acknowledge 6 discernible changes since 1979; three administrative and three statistical including only two changes to method of compilation. Publish consistent back series to assess the trend in unemployment. Nothing to hide.	D3
<u>International definition of unemployment</u>	Based on those without work who are available and have actively looked for work in last month. Latest (1986) figures for GB 2.97 million when comparable claimant count was 3.17 million. Figures of 5 million sometime quoted include all those who say they would like work, even if they have done nothing to look for a job (include the early retired, those looking after home, and sick).	D2
<u>Employment growth</u> 'not real jobs'	- Two thirds of growth in employment in last year was in jobs for women (244,000). Half those jobs were part-time (120,000), a much smaller proportion than in recent years. - Participants in a special measures eg Community Programme EAS are employed in precisely the same way as any other employee.	

LABOUR MARKET STATISTICS

DECEMBER 17 1987

SUMMARY STATISTICS

				<u>Thousands</u>		
				Level	Change on previous period	Change on previous year
<u>Unemployment (UK)</u>						
Total (not seasonally adjusted)	November	12		2,686	- 66	- 531
Total (excluding school leavers)	November	12		2,649	- 64	- 495
<u>Employed Labour Force</u>	June; Q2		1987	24,360	+134	+ 372
<u>Employees in employment</u>						
Services	June	Q2	1987	14,493	+ 99	+ 367
Manufacturing	September	Q3	1987	5,063	- 22	- 50
Manufacturing employment	October		1987	5,066	+ 3	- 44
<u>Vacancies (UK at jobcentres)</u>	November		6	268	+ 7	+ 56

Percentage change on previous year
(underlying increase)

Index of Average Earnings

Whole Economy	October	8
Services	October	7 $\frac{3}{4}$
Manufacturing	October	8 $\frac{1}{2}$

Notes

1. All figures seasonally adjusted GB except where otherwise stated.
2. The employed labour force comprise employees in employment; the self-employed and HM Forces.

The latest figures available on developments in the labour market are summarised below.

Summary

Unemployment (UK seasonally adjusted excluding school leavers) fell by 63,500 in the month to November. Male unemployment decreased by 44,300 and female unemployment decreased, by 19,200. Over the past six months there has been a fall of 50,600 on average compared with a fall of 31,900 per month over the previous six months to May 1987.

The unadjusted unemployment total, decreased in November by 65,801 to 2,685,583. This includes 69,408 school leavers aged under 18. In November, total unemployment was 531,184 lower than a year ago.

The number of employees employed in manufacturing industry increased by an estimated 3,000 in October, a slow downward drift over the last twelve months continues to be the picture shown by the rather unstable series.

The latest estimates of the employed labour force in the whole economy relate to June 1987 and have been only marginally revised from those published in October. They show an increase of 134,000 in the second quarter and 1,363,000 between March 1983 and June 1987. Estimates for the third quarter will be available next month.

The stock of vacancies (UK seasonally adjusted excluding Community Programme) increased by 6,800 in November to 268,200. Over the past six months there has been an increase of 6,400 per month on average.

The underlying increase in average earnings in the year to October was 8 per cent, similar to the increase in the year to September.

Additional and more detailed information on unemployment, employment, vacancies, average earnings, unit wage costs, hours of work, productivity and industrial disputes is to be found in subsequent sections of the press notice.

LABOUR MARKET STATISTICS

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UNEMPLOYMENT

The seasonally adjusted level of unemployment in the UK (excluding school leavers) decreased by 63,500 to 2.649 million in November, 9.5 per cent of the working population*.

Over the past six months on average unemployment has fallen by 50,600 per month.

The recorded total of unemployed claimants, including school leavers, decreased by 65,801 between October and November to 2,685,583 giving an unemployment rate of 9.7 per cent of the working population. Unemployment is 531,184 less than a year ago. The total included 69,408 school leavers, 28,761 lower than a year ago.

Recent figures are shown in tables 1, 2 and 3.

TABLE 1: UNEMPLOYMENT - UNITED KINGDOM

THOUSAND

TABLE 1: UNEMPLOYMENT - SEASONALLY ADJUSTED excl. school leavers - UNITED KINGDOM

	Male	Female	Number	Change since previous month	Unemployment rate: Percentage of working population*	Average change over 6 months ended	Average change over 3 months ended
1986 Nov	2166.3	977.1	3143.4	-16.2	11.3	-9.5	-21.9
Dec	2152.8	966.6	3119.4	-24.0	11.2	-15.5	-21.3
1987 Jan	2146.9	967.4	3114.3	-5.1	11.2	-16.4	-15.1
Feb	2122.8	943.0	3065.8	-48.5	11.0	-23.9	-25.9
Mar	2107.9	931.8	3039.7	-26.1	10.9	-23.9	-26.6
Apr	2092.7	925.4	3018.1	-21.6	10.9	-23.6	-32.1
May	2053.6	898.7	2952.3	-65.8	10.6	-31.9	-37.8
Jun	2036.2	889.0	2925.2	-27.1	10.5	-32.4	-38.2
Jul	2004.6	871.6	2876.2	-49.0	10.4	-39.7	-47.3
Aug	1971.9	857.2	2829.1	-47.1	10.2	-39.5	-41.1
Sep	1939.7	833.6	2773.3	-55.8	10.0	-44.4	-50.6
Oct(r)	1898.6	813.7	2712.3	-61.0	9.8	-51.0	-54.6
Nov(p)	1854.3	794.5	2648.8	-63.5	9.5 **	-50.6	-60.1

** The separate rate for males was 11.3 per cent, and for females 7.0 per cent.

* See note A5

(p) Provisional and subject to revision (see note A6)

(r) Revised

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TABLE 2: UNEMPLOYMENT - UNADJUSTED incl. school leavers - UNITED KINGDOM

		Male	Female	Number	Unemployment rate:percentage of working population*	School leavers	
						Claimants	Non Claimants**
1986	Nov	2,200,167	1,016,600	3,216,767	11.6	98,169	. .
	Dec	2,221,545	1,007,622	3,229,167	11.6	88,980	. .
1987	Jan	2,272,426	1,024,810	3,297,236	11.9	89,190	. .
	Feb	2,233,932	991,877	3,225,809	11.6	79,936	. .
	Mar	2,181,037	962,333	3,143,370	11.3	72,281	. .
	Apr	2,158,222	948,906	3,107,128	11.2	66,572	. .
	May	2,080,369	906,084	2,986,453	10.8	74,930	. .
	Jun	2,022,964	882,361	2,905,325	10.5	69,397	103,552
	Jul	2,008,482	897,971	2,906,453	10.5	63,922	128,903
	Aug	1,970,318	895,484	2,865,802	10.3	56,135	115,669
	Sep	1,973,776	896,419	2,870,195	10.3	92,406	. .
	Oct	1,903,620	847,764	2,751,384	9.9	83,226	. .
	Nov	1,865,842	819,741	2,685,583	9.7+	69,408	. .

+ The separate rate for males was 11.4 per cent, and for females 7.2 per cent.

** Not included in totals, see note A4

*See note A5.

TABLE 3: UNEMPLOYMENT - REGIONS November 12 1987

THOUSAND

	SEASONALLY ADJUSTED (P) (EXCLUDING SCHOOL LEAVERS)				UNADJUSTED (INCLUDING SCHOOL LEAVERS)			
	Total	Change since previous month	Unemployment rate percent- age of working population*	Change since previous month	Total	Change since previous month	Unemployment rate percent- age of working population*	School leavers population*
South East (Greater London)	603.8 (330.8)	-19.5 (-7.5)	6.6 (7.7)	-0.2 (-0.2)	603.1 (330.7)	-21.4 (-10.6)	6.6 (7.7)	9.1 (5.1)
East Anglia	62.7	-3.0	6.5	-0.3	62.3	-1.9	6.5	1.1
South West	158.7	-4.2	7.8	-0.2	162.8	-0.5	8.0	2.5
West Midlands	271.5	-6.6	10.5	-0.3	275.5	-10.1	10.7	8.1
East Midlands	165.0	-3.9	8.7	-0.2	165.0	-4.2	8.7	3.8
Yorks and Humberside	255.9	-5.2	10.9	-0.2	261.7	-5.2	11.2	9.2
North West	363.8	-8.0	12.1	-0.3	369.3	-8.5	12.3	10.4
North	193.5	-3.9	13.4	-0.3	198.1	-3.7	13.8	6.1
Wales	142.4	-2.8	11.8	-0.2	145.5	-2.6	12.1	4.0
Scotland	311.1	-4.2	12.6	-0.2	321.5	-4.0	13.0	13.1
GREAT BRITAIN	2,528.1	-61.6	9.3	-0.2	2,564.6	-62.1	9.5	67.2
Northern Ireland	120.7	-1.9	17.6	-0.3	121.0	-3.7	17.6	2.2
UNITED KINGDOM	2,648.8	-63.5	9.5	-0.2	2,685.6	-65.8	9.7	69.4

* See note A5

(P) Provisional see note A6

TABLE 4: UNEMPLOYMENT FLOWS - STANDARDISED, UNADJUSTED - UNITED KINGDOM THOUSANDS

		INFLOW				OUTFLOW			
Month	ending	Total including school leavers	School leavers	Total excluding school leavers	Change since previous year	Total including school leavers	School leavers	Total excluding school leavers	Change since previous year
1986	Nov	415.2	12.3	402.9	+ 14.2	432.9	22.8	410.1	+ 16.2
	Dec	356.6	8.7	347.9	- 9.1	343.2	13.3	329.9	- 6.8
1987	Jan	368.7	13.3	355.4	- 8.3	294.9	8.1	286.9	+ 61.4
	Feb	398.8	11.6	387.2	+ 11.8	460.8	14.5	446.3	+ 44.1
	Mar	342.1	8.5	333.7	- 23.7	431.4	11.5	419.9	+ 50.3
	Apr	357.1	7.0	350.1	- 3.8	396.4	8.4	388.0	+ 6.6
	May	320.8	21.9	298.9	- 38.2	425.4	10.7	414.7	+ 14.2
	Jun	315.5	10.2	305.3	- 38.3	403.4	11.7	391.8	+ 9.3
	Jul	429.1	10.7	418.4	- 35.2	427.9	12.1	415.7	+ 16.7
	Aug	384.4	8.0	376.4	- 14.8	419.6	10.1	409.6	+ 20.9
	Sep	456.6	55.5	401.1	- 41.9	451.8	12.9	438.9	- 3.9
	Oct	420.2	25.6	394.6	- 40.2	549.0	30.5	518.5	- 2.9
	Nov	375.3	10.8	364.5	- 38.5	432.3	18.4	413.9	+ 3.8

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EMPLOYMENT

The number of employees in employment in manufacturing industry in Great Britain is estimated to have increased by 3,000 in October. However the monthly figures can be erratic and over the last three months (August, September and October) there has been a reduction of 6,000.

Figures for employees in the rest of the economy and the employed labour force (employees in employment, the self employed and HM Forces) in Great Britain remain the same as reported last month, except for a slight positive revision - reflecting some late data now to hand - to service employment. The employed labour force is estimated to have increased by 372,000 in the year ending June 1987 and by 1,363,000 between March 1983, when the upward trend first began, and June 1987.

Recent figures are set out in Table 5.

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TABLE 5
THE EMPLOYED LABOUR FORCE IN GREAT BRITAIN

Thousand: seasonally adjusted

		Employees in employment										Employed labour force including self-employed and HM Forces)				
		Manufacturing Industries			Energy & Water Supply Industries			Service Industries		Other Industries		All Industries and Services				
		Levels	Changes			Levels	Changes		Levels	Changes	Levels	Changes	Levels	Changes	Levels	Changes
			Mon-thly	Three* monthly	Quar-terly		Mon-thly	Quar-terly								
1986	January	5,238	- 6	- 8		546R	-11R									
	February	5,212	-26	-12		544R	- 2									
	March	Q1 5,205	- 7	-13	- 39	540	- 4R	-17	14,043	+ 75	1,291	- 9	21,079	+ 10	23,964	+ 13
	April	5,197	- 8	-14		537	- 3									
	May	5,167	-30	-15		534	- 3									
	June	Q2 5,151	-16	-18	- 54	530	- 4	-10	14,127R	+ 84R	1,292	+ 1	21,100R	+ 21R	23,988R	+ 24R
	July	5,132	-19	-22		526	- 4									
	August	5,120	-12	-16		522	- 4									
	September	Q3 5,113	- 7	-13	- 38	520	- 2	-10	14,214R	+ 87	1,281	-11	21,128R	+ 28	24,042R	+ 54R
	October	5,110	- 3	- 7		517	- 3									
	November	5,111	+ 1	- 3		512	- 5									
	December	Q4 5,106	- 5	- 2	- 7	510	- 2	-10	14,280R	+ 66	1,284	+ 3	21,180R	+ 52	24,118R	+ 76
1987	January	5,083	-23	- 9		503	- 7									
	February	5,082	- 1	-10		502	- 1									
	March	Q1 5,075	- 7	-10	- 31	496	- 6	-14	14,394R	+114	1,298	+14	21,263R	+ 83	24,226R	+108
	April	5,070	- 5	- 4		490	- 6									
	May	5,077	+ 7	- 2		490	0									
	June	Q2 5,085	+ 8	+ 3	+ 10	491	+ 1	- 5	14,493R	+ 99	1,303	+ 5	21,372R	+109	24,360R	+134
	July	5,072	-13	+ 1		488	- 3									
	August	5,071	- 1	- 2		487	- 1									
	September	Q3 5,063R	- 8R	- 7	- 22R	488	+ 1	- 3								
	October	5,066	+ 3	- 2		484	- 4									

* = Average monthly change over last three months
R = Revised to incorporate late data now available.

VACANCIES

The stock of unfilled vacancies at jobcentres (seasonally adjusted and excluding Community Programme vacancies) increased by 6,800 in the month to November to reach 268,200. Over the past three months to November, seasonally adjusted vacancies have increased on average by 10,400 per month.

Unadjusted, there was a decrease of 8,558 unfilled vacancies in the month to 303,598. There was a decrease of 316 Community Programme vacancies.

The inflow of notified vacancies increased on average by 4,900 per month in the three months ending November 1987, the outflow increased by 4,100 per month, and placings increased by 1,600 per month.

Recent figures are shown in tables 6, 7 and 8.

TABLE 6: UNFILLED VACANCIES - UNITED KINGDOM

THOUSAND

		VACANCIES AT JOBCENTRES+*					VACANCIES AT CAREERS OFFICES	
		UNADJUSTED			SEASONALLY ADJUSTED EXCLUDING COMMUNITY PROGRAMME			UNADJUSTED
		Total	Community Programme Vacancies	Total excluding Community Programme	Number	Change since previous month	Average change over 3 months ended	
1986	Nov	248.2	32.2	216.0	212.5	3.0	4.0	13.5
	Dec	223.3	29.0	194.3	210.6	-1.9	2.9	12.5
1987	Jan	218.1	30.1	188.1	212.0	1.4	0.8	11.9
	Feb	216.0	27.9	188.1	207.0	-5.0	-1.8	13.8
	Mar	226.1	25.4	200.7	214.2	7.2	1.2	13.9
	Apr	240.0	24.5	215.5	217.7	3.5	1.9	15.9
	May	265.4	26.0	239.5	230.5	12.8	7.8	19.0
	Jun	275.8	28.0	247.9	233.7	3.2	6.5	23.5
	Jul	272.3	28.6	243.7	235.2	1.5	5.8	23.9
	Aug	269.9	30.2	239.6	236.9	1.7	2.1	22.6
	Sep	295.2	31.9	263.3	246.6	9.7	4.3	23.7
	Oct	312.2	32.0	280.2	261.4	14.8	8.7	23.1
Nov	303.6	31.6	272.0	268.2	6.8	10.4	22.0	

* See note C1.

+ Vacancies at jobcentres are only about a third of all vacancies in the economy. See note C3.

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TABLE 7: VACANCY FLOWS AT JOBCENTRES-SEASONALLY ADJUSTED (EXCLUDING COMMUNITY PROGRAMME)

		UNITED KINGDOM				THOUSAND	
		INFLOW		OUTFLOW		of which: PLACINGS	
		Level	Average change 3 Months ended	Level	Average change 3 months ended	Level	Average change 3 months ended
1986	Nov	225.4	2.1	220.8	3.3	164.5	2.2
	Dec	222.4	0.0	224.0	2.8	165.6	1.7
1987	Jan	218.9	-0.7	217.0	-0.3	161.2	-0.4
	Feb	209.2	-5.4	213.9	-2.3	159.0	-1.8
	Mar	232.0	3.2	227.9	1.3	168.0	0.8
	Apr	230.2	3.8	225.0	2.7	162.4	0.4
	May	213.3	1.4	202.3	-3.9	147.6	-3.8
	Jun	229.9	-0.7	223.5	-1.5	162.5	-1.8
	Jul	220.0	-3.4	217.9	-2.4	154.3	-2.7
	Aug	222.7	3.1	218.5	5.4	154.8	2.4
	Sep	228.8	-0.4	215.9	-2.5	154.5	-2.7
	Oct	235.9	5.3	224.2	2.1	158.0	1.2
	Nov	237.5	4.9	230.9	4.1	159.7	1.6

TABLE 8: *UNFILLED VACANCIES - REGIONS - 6 November 1987

		VACANCIES AT JOBCENTRES UNADJUSTED*			SEASONALLY ADJUSTED (EXCLUDING COMMUNITY PROG VACANCIES)		VACANCIES AT CAREERS OFFICES
		TOTAL	Community Programme Vacancies	Total excluding Community Programme	Number	Change since previous month	UNADJUSTED
South East	116.0	5.1	110.9	108.3	6.7	13.8	
(Greater London)	(48.3)	(2.6)	(45.7)	(44.0)	(2.1)	(8.1)	
East Anglia	9.8	0.6	9.1	9.1	0.2	0.6	
South West	22.7	2.6	20.1	20.4	-0.7	1.0	
West Midlands	30.7	4.6	26.2	25.2	0.6	1.9	
East Midlands	15.0	1.5	13.5	12.9	-0.4	1.0	
Yorks and Humberside	20.4	2.9	17.6	17.1	0.0	0.8	
North West	30.1	3.5	26.7	26.3	-0.4	1.0	
North	17.4	4.1	13.2	12.9	0.0	0.3	
Wales	14.5	2.9	11.6	12.1	-0.3	0.3	
Scotland	24.6	3.2	21.4	21.4	0.7	0.4	
GREAT BRITAIN	301.3	31.1	270.2	265.7	6.5	21.1	
Northern Ireland	2.3	0.5	1.8	2.5	0.3	0.9	
UNITED KINGDOM	303.6	31.6	272.0	268.2	6.8	22.0	

* The proportion of total vacancies at Jobcentres varies by region. See note C3.

The underlying increase in average weekly earnings in the year to October was about 8 per cent, an increase of $\frac{1}{4}$ per cent on the year to September.

The actual increase in the year to October was, 8.0 per cent, the same as the estimated underlying increase.

TABLE 9: INDEX OF AVERAGE EARNINGS OF EMPLOYEES IN GREAT BRITAIN: WHOLE ECONOMY

	Index January 1980 = 100	Seasonally adjusted		
		Index	Percentage increase over previous 12 months	Underlying percentage increase over previous 12 months
1986				
August	187.2	187.0	8.0	7½
September	186.8	187.1	6.1	7½
October	188.3	188.7	8.3	7½
November	191.2	190.2	8.1	7½
December	193.4	191.3	7.4	7½
1987				
January	190.4	192.8	7.6	7½
February	191.2	193.4	7.4	7½
March	194.5	194.8	6.7	7½
April	196.0	197.4	6.5	7½
May	198.1	198.5	8.7	7½
June	200.0	198.1	7.7	7½
July	203.1	201.3	8.1	7½
August	201.6	201.3	7.6	7½
September	201.4	201.8	7.9	7½
October*	203.4	203.8	8.0	8

* Provisional

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In production industries, the underlying increase in average weekly earnings in the year to October was about $8\frac{1}{4}$ per cent, similar to the increase in the year to September. Within this sector, in manufacturing industries, the underlying increase in average weekly earnings in the year to October was about $8\frac{1}{2}$ per cent, similar to the increase in the year to September. These increases include the effect of higher overtime working this year than a year ago.

The actual increases for production industries and manufacturing industries in the year to October were 8.7 per cent and 8.9 per cent respectively.

In service industries, the underlying increase in average weekly earnings in the year to October was about $7\frac{3}{4}$ per cent, an increase of $\frac{1}{2}$ per cent on the year to September. The actual increase in the year to October was 7.6 per cent.

TABLE 10: INDEX OF AVERAGE EARNINGS OF EMPLOYEES IN GREAT BRITAIN
MAIN SECTORS

Seasonally adjusted

	Production industries*			Manufacturing Industries**			Service Industries***		
	Index January 1980=100	Percentage increases over 12 months		Index January 1980=100	Percentage increases over 12 months		Index January 1980=100	Percentage increases over 12 months	
		seas adj	underlying		seas adj	underlying		seas adj	underlying
1986									
August	192.1	8.0	$7\frac{3}{4}$	191.9	7.7	$7\frac{3}{4}$	187.3	8.3	$7\frac{1}{4}$
September	193.9	6.7	$7\frac{3}{4}$	194.0	6.9	$7\frac{3}{4}$	186.0	5.7	$7\frac{1}{4}$
October	195.2	8.0	$7\frac{3}{4}$	195.2	7.9	$7\frac{3}{4}$	187.4	8.7	$7\frac{1}{4}$
November	196.6	7.8	8	197.1	7.8	$7\frac{3}{4}$	190.5	8.5	$7\frac{1}{2}$
December	199.6	8.4	8	200.0	8.3	8	189.2	6.7	$7\frac{1}{2}$
1987									
January	199.9	7.8	$7\frac{3}{4}$	200.0	7.8	$7\frac{3}{4}$	190.3	7.7	$7\frac{1}{2}$
February	200.6	7.9	8	201.0	8.1	8	189.7	7.2	$7\frac{1}{4}$
March	199.8	7.4	8	201.1	7.6	8	193.8	5.9	$7\frac{1}{4}$
April	203.6	7.2	8	204.4	7.0	8	196.4	5.8	$7\frac{3}{4}$
May	201.6	8.0	8	202.4	8.2	8	199.2	9.3	$7\frac{3}{4}$
June	203.9	8.0	$8\frac{1}{4}$	204.8	7.9	$8\frac{1}{4}$	198.7	7.5	$7\frac{1}{2}$
July	206.4	8.7	$8\frac{1}{4}$	207.6	9.0	$8\frac{1}{4}$	200.4	7.7	$7\frac{1}{4}$
August	207.8	8.2	$8\frac{1}{4}$	207.2	8.0	$8\frac{1}{2}$	200.9	7.3	$7\frac{1}{4}$
September	209.9	8.3	$8\frac{1}{4}$	210.3	8.4	$8\frac{1}{2}$	200.1	7.6	$7\frac{1}{4}$
October (prov)	212.2	8.7	$8\frac{1}{4}$	212.6	8.9	$8\frac{1}{2}$	201.6	7.6	$7\frac{3}{4}$

* DIVISIONS 1-4 of SIC 1980 covering Energy and water-supply and manufacturing.

** DIVISIONS 2-4 of SIC 1980. Included in production industries.

*** DIVISIONS 6-9 of SIC 1980 covering Distribution, hotels and catering, repairs; Transport and communication; Banking, finance, insurance, business services and leasing; Other Services (including public administration, education, medical and other health services, etc).

PERSONAL AND CONFIDENTIAL

UNTIL 11.30 a.m. ON 17.12.87

UNIT WAGE AND SALARY COSTS

THIS PAGE WILL BE REVISED PRIOR TO PUBLICATION TO TAKE ACCOUNT OF UPDATED AND REVISED UNIT WAGE COST ESTIMATES WHICH WILL THEN BE AVAILABLE.

In the three months ending September 1987, wages and salaries per unit of output in manufacturing industries were 1.5 per cent above the corresponding period a year earlier. This increase was below the rise in average earnings in manufacturing (see Table 10) as there was a rise of nearly 7 per cent in productivity over this period (see Table 13).

In the second quarter of 1987, wages and salaries per unit of output in the whole economy were 4.6 per cent above the corresponding period of 1986. The increase was below the rise in average earnings in the whole economy (see Table 9) as there was a rise of over 2½ per cent in productivity over this period (see Table 13).

Recent figures are:-

TABLE 11: WAGES AND SALARIES PER UNIT OF OUTPUT

		Manufacturing		Whole Economy	
		Index		Index	
		1980 =	Percentage increase	1980 =	Percentage increase
		100	on a year earlier	100	on a year earlier
1985	Q3	125.6	6.4	132.9	6.0
	Q4	128.4	6.0	134.2	4.4
1986	Q1	130.8	7.7	136.4	6.0
	Q2	130.0	6.1	137.9	6.2
	Q3	129.5	3.1	138.8	4.4
	Q4	129.8	1.1	140.9	5.0
1987	Q1	131.4	0.5	141.9	4.0
	Q2	131.0	0.8	144.2	4.6
	Q3	131.5	1.5	..	..
1987	June	131.4	1.1	..	..
	July	131.3	1.9	..	..
	Aug	130.3	0.5	..	..
	Sept	132.9	2.2	..	..
<u>3 months ending</u>					
1987	June	131.0	0.8	..	..
	July	130.9	1.3	..	..
	Aug	131.0	1.2	..	..
	Sept	131.5	1.5	..	..

CONFIDENTIAL UNTIL 11.30am ON 17 DECEMBER 1987

HOURS WORKED IN MANUFACTURING INDUSTRIES

Overtime working by operatives in manufacturing industries moved to the highest level since the start of the decade with an estimated 13.74 million hours per week in October 1987. However current levels are still well below the level of 15 million hours a week and more observed in the late 1970s. There are now fewer operatives in manufacturing, but a higher proportion work overtime and the average weekly hours of overtime per operative in October were about 3.7 compared with about 3 in 1979. Over the same period the normal weekly hours (excluding overtime) of operatives have reduced by about 1 hour.

Hours lost through short-time working in manufacturing industries remain very low, 0.28 million hours per week in October.

The index of average weekly hours worked by operatives in manufacturing industries (which takes account of hours of overtime and short-time as well as normal basic hours) was estimated at 104.2 in October 1987 giving an average of 103.7 over the last three months (August, September and October).

Recent figures are set out in Table 12.

TABLE 12: WORKING HOURS OF OPERATIVES IN MANUFACTURING INDUSTRIES

Great Britain, seasonally adjusted

	Hours of overtime worked	Hours lost through short-time working (stood off for whole or part of week)	Index of average weekly hours (average 1980 = 100)
	Millions per week	Millions per week	
1986 Jun	11.40	0.42	102.7
Jul	11.61	0.40	102.8
Aug	11.71	0.41	102.8
Sep	11.68	0.39	102.8
Oct	11.73	0.81	102.8
Nov	12.08	0.52	103.0
Dec	11.74	0.49	102.9
1987 Jan	11.18	0.61	102.2
Feb	12.11	0.41	103.2
Mar	12.43	0.35	103.3
Apr	12.51	0.46	103.4
May	12.34	0.38	103.2
June	12.80	0.28	103.5
Jul	12.41	0.36	103.2
Aug	12.61	0.27	103.4
Sep	12.95R	0.21	103.6
Oct	13.74	0.28	104.2

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PRODUCTIVITY

THIS PAGE WILL BE REVISED PRIOR TO PUBLICATION TO TAKE ACCOUNT OF UPDATED AND REVISED PRODUCTIVITY ESTIMATES WHICH WILL THEN BE AVAILABLE.

Manufacturing output per head in the three months to September was 1.9 per cent higher than in the three months ending June and 6.9 per cent higher than in the same period a year earlier.

Output per head in the whole economy in the second quarter of 1987 was 0.5 per cent above the previous quarter and 2.7 per cent higher than in the second quarter of 1986.

Recent figures are:

TABLE 13: OUTPUT PER HEAD

seasonally adjusted, U.K.

		Manufacturing		Whole Economy	
		Index 1980 = 100	Percentage Increase on a year earlier	Index 1980 = 100	Percentage increase on a year earlier
1985	Q3	130.7	2.7	114.1	2.1
	Q4	130.3	2.3	114.8	2.3
1986	Q1	130.2	0.2	115.2	1.6
	Q2	133.3	1.3	116.6	1.8
	Q3	135.7	3.8	117.8	3.2
	Q4	139.1	6.8	118.5	3.2
1987	Q1	139.8	7.4	119.2	3.5
	Q2	142.4	6.8	119.8	2.7
	Q3	145.1	6.9	..	..
1987	June	142.6	6.7	..	..
	July	144.7	6.9	..	..
	Aug	145.6	7.5	..	..
	Sept	144.9	6.2	..	..
<u>3 months ending</u>					
1987	June	142.4	6.8	..	..
	July	143.3	7.0	..	..
	Aug	144.3	7.0	..	..
	Sept	145.1	6.9	..	..

Industrial stoppages

UNTIL 11.30 a.m. ON 17.12.87

In October 1987, it is provisionally estimated that 62,000 working days were lost in the United Kingdom through stoppages of work due to industrial disputes. This compares with a provisional estimate of 47,000 in September 1987, 167,000 in October last year and an average of 1,116,000 for October during the ten year period 1977 to 1986.

During the twelve months to October 1987 a total of 930 stoppages have been provisionally recorded as being in progress, involving a total of 900,000 workers and resulting in a loss of 3,499,000 working days. The comparable figures for the twelve month period to October 1986 were 1,032 stoppages, 637,000 workers and 2,155,000 working days lost.

Table 14. Industrial stoppages in progress in the United Kingdom.

	Working days lost (thousand)	Number of Stoppages	Workers involved (thousand)
1986			
Oct	167	148	48
Nov	117	107	98
Dec	97	91	50
1987			
Jan	886	109	171
Feb	928	123	145
Mar	251	115	215
Apr	326	126	151
May	220	86	125
Jun	342	91	172
Jul	187	81	72
Aug(p)	37	58	18
Sep(p)	47	63	14
Oct(p)	62	59	19
<u>Cumulative totals</u>			
12 months to October 1986	2,155	1,032	637
12 months to October 1987(p)	3,499	930	900

GENERAL SYMBOLS

UNTIL 11.30 a.m. ON 17.12.87

The following symbols are used throughout: .. not available, - nil or negligible, p provisional, r revised. Occasionally, totals may differ from the sum of components because of rounding or separate seasonal adjustments of components.

UNEMPLOYMENT (Tables 1-4)

A1. The unemployment figures are derived from records of claimants of benefit held at Unemployment Benefit Offices. The term "claimants" in the unemployment count is used to include those who claim unemployment benefit, supplementary benefits or national insurance credits. The figures include the severely disabled but exclude students seeking vacation work and the temporarily stopped (see below). A full description of the system of compiling the figures appeared in the September 1982 *Employment Gazette*.

A2. The unemployment figures exclude students who are claiming unemployment benefit during a vacation but who intend to return to full-time education when the new term begins. From November 1986 most students have only been eligible for benefits in the summer vacation. On 12 November 1987 these numbered 2,046 in Great Britain and in the United Kingdom.

A3. The figures exclude temporarily stopped workers, that is, those who had a job on the day of the count but were temporarily suspended from work on that day and were claiming benefits. On 12 November 1987 these numbered 3,832 in Great Britain and 4,701 in the United Kingdom.

A4. The school leaver figures relate to people under 18 years of age who have not entered employment since completing full-time education. Part of the change in the count of school leavers between one month and the next reflects some of them reaching the age of 18. The unemployment count excludes school leavers not yet entitled to benefit; for June, July, and August, the months mainly affected, a special count of those registering at Careers Offices is provided.

A5. Regional unemployment rates are calculated by expressing the number of unemployed as a percentage of the estimated total working population (the sum of employees in employment, unemployed, self-employed and HM Forces) at mid-1986. These rates include the self-employed and armed forces in the base to provide a more reliable guide to the incidence of unemployment among the whole workforce. Until July 1986, all rates were expressed as a percentage of employees plus the unemployed only. These narrower based rates, continue to be used for local areas (travel-to-work areas and counties) because estimates for the self-employed and armed forces needed to calculate the new rates are not made below regional level. The UK narrower rates on 12 November 1987 were 13.2 per cent for males and 7.7 per cent for females, 10.8 per cent in total (unadjusted).

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A6. The latest figures for national and regional seasonally adjusted unemployment are provisional and subject to revision, mainly in the following month. The seasonally adjusted series takes account of all past discontinuities to be consistent with the current coverage. (See the article 'Unemployment adjusted for discontinuities and seasonality' in the July 1985 *Employment Gazette*, and also page 422 of the October 1986 edition).

A7. The unemployment flows, in table 3 relate to people claiming and ceasing to claim benefit in the United Kingdom. A seasonally adjusted series cannot yet be estimated. The figures are standardised to a four and one third week month to allow for the varying periods between successive monthly count dates, and may, therefore, appear not to balance the monthly changes in unemployment levels. It may also be noted that while changes in the level of unemployed school leavers are affected by some of them reaching the age of 18 (see note A4), the outflow figures relate only to those aged under 18 leaving the count.

EMPLOYMENT (Table 5)

B1. Information on the number of employees in employment is for most industries collected quarterly and monthly from sample surveys addressed to individual establishments and for other industries from returns provided by major employers in the industry. These figures are used to calculate rates of change in employment since the last Census of Employment was held, and the rates of change are applied to comprehensive census results to provide current estimates.

B2. The surveys cover all large establishments and a proportion of small establishments (but none of the smallest employers). 30,000 establishments are surveyed each quarter month (e.g. in March, June etc.), and of these 12,000 are in manufacturing industries. 6,000 of the manufacturing establishments are also surveyed in non quarter months. Estimates for these months are less reliable than those for quarter months, and the first estimates are subject to revision when the following quarters figures become available (e.g. January and February estimates are revised in the light of figures for March). As the estimates of employees in employment are derived from employers' reports of the numbers of people they employ, individuals holding two jobs with different employers will be counted twice. Participants in government employment and training schemes are included if they have a contract of employment. HM forces, homeworkers and private domestic servants are excluded.

B3. The estimates of employees in employment presented in this press notice also take account of the results of the 1985 and 1986 sample Labour Force Surveys. The series include allowances for undercounting in the estimates of the number of employees in employment derived from the sample survey of employers. Since the second quarter of 1986, 47,400 per quarter has been added to the raw estimates of total employees in employment based on the sample. The reasoning behind such allowances is described in the *Employment Gazette* April 1987 (page 201).

B4. The self employed are those who in their main employment work on their own account, whether or not they have any employees. Second occupations classified as self employed are not included.

B5. Comprehensive estimates of the number of self-employed are taken from the Census of Population, the most recent of which was held in 1981. Estimates for the other years are made by applying rates of change, derived from the sample Labour Force Survey results, to the census benchmark. In this way self employment is estimated to have increased by 12,800 a quarter between mid 1981 and mid 1983, by 68,800 a quarter between mid 1983 and mid 1984, by 28,800 a quarter between mid 1984 and mid 1985, and by 4,100 a quarter between mid 1985 and mid 1986. Pending the results of the 1987 Labour Force Survey it is assumed that the numbers of self employed are continuing to increase at the rate of 25,400 a quarter observed between 1981. The date of the latest Census of Population which provides a benchmark for the self employment series, and 1986, the date of the latest available Labour Force Survey data. The derivation of recent estimates is described in the *Employment Gazette* April 1987 (page 205)

B6. Figures for HM Forces are provided by the Ministry of Defence.

B7. The employed labour force comprises employees in employment, the self employed and HM forces.

VACANCIES (Tables 6-8)

C1. The vacancy statistics include self-employed vacancies and exclude vacancies handled by Professional and Executive Recruitment. Community Programme vacancies at Jobcentres are included in the unadjusted total, but excluded from the seasonally adjusted series. Figures are available back to 1980. For further details see the October 1985 *Employment Gazette*.

C2. Vacancies at Jobcentres are mainly for adults aged 18 or over, but include some vacancies for persons under 18. Vacancies at Careers offices are mainly for young persons under 18 years of age, but include some vacancies suitable for adults. Where the vacancy is notified to both services by an employer, it will be included in both counts; for this reason, the two counts should not be added together to give a figure for total vacancies.

C3. The figures of vacancies published in this press notice do not represent the total number of vacancies in the economy. Latest estimates suggest that nationally about one third of all vacancies are notified to Jobcentres; and about one quarter of all engagements are made through Jobcentres. Inflow, outflow, and placings figures are collected for four or five week periods between count dates; the figures in this press notice are converted to a standard four and one third week month.

EARNINGS (Tables 9 and 10)

D1. The whole economy index of average earnings was introduced from January 1976. It was described in the April 1976 issue of *Employment Gazette*. The present series is based on January 1980 = 100. Separate indices for 26 industry groups of Standard Industrial Classification (1980) are published in the *Employment Gazette*.

D2. All the series are based on information obtained from the Department's monthly survey of a representative sample of firms in Great Britain, combined with information supplied by the Ministry of Agriculture Fisheries and Food about agricultural earnings in England and Wales. The survey obtains details of the gross wages and salaries paid to employees, in respect of the last pay week of the month for the weekly paid, and for the calendar month for the monthly paid. The earnings of the latter are converted into a weekly basis. The average earnings are obtained by dividing the total paid by the total number of employees paid, including those employees on strike. The sample of returns contains information relating to some 10 million employees.

D3. The analysis of underlying changes was described in Employment Gazette, April 1981, page 193, and the most recent analysis appeared in *Employment Gazette* in December 1987. The next analysis will appear in the March 1988 issue.

D4. The average earnings figures are not intended to measure solely the average increase in rates of pay for a standard week reflected in annual pay settlements. Changes in hours worked are not regarded as a temporary factor and therefore continue to influence the underlying rate. Irregular variations in bonuses, sickness, etc., on which no information is available, can also affect the underlying trend, as can changes in the composition of the labour force.

UNIT WAGE AND SALARY COSTS (Table 11)

E1. Wages and Salaries per unit of output in manufacturing is compiled using monthly series of average earnings, employment and output; it is described in *Employment Gazette*, June 1982, page 261. For wages and salaries per unit of output in the whole economy, the wages and salaries totals in the numerator are adjusted to incorporate the earnings of the self-employed, based on the ratio of the employed labour force to the number of employees in employment and HM Forces. The denominator is the output measure of gross domestic product at factor cost in constant prices. For further information, see *Employment Gazette*, May 1986, page 172.

HOURS OF WORK (Table 12)

F1. The hours of overtime and short-time worked by operatives in manufacturing industries are collected by the surveys of individual establishments which are used to collect numbers of employees. Figures are collected monthly; those for non-quarter months are based on a smaller sample, and are therefore subject to retrospective revisions in the same way as the employee estimates.

F2. The index of average weekly hours relates to average weekly hours worked by operatives in manufacturing industries. It is based on the normal weekly hours of full time operatives as in national agreements plus average net overtime. The calculation of this index is described on page 240 of *Employment Gazette*, June 1983.

PRODUCTIVITY (Table 13)

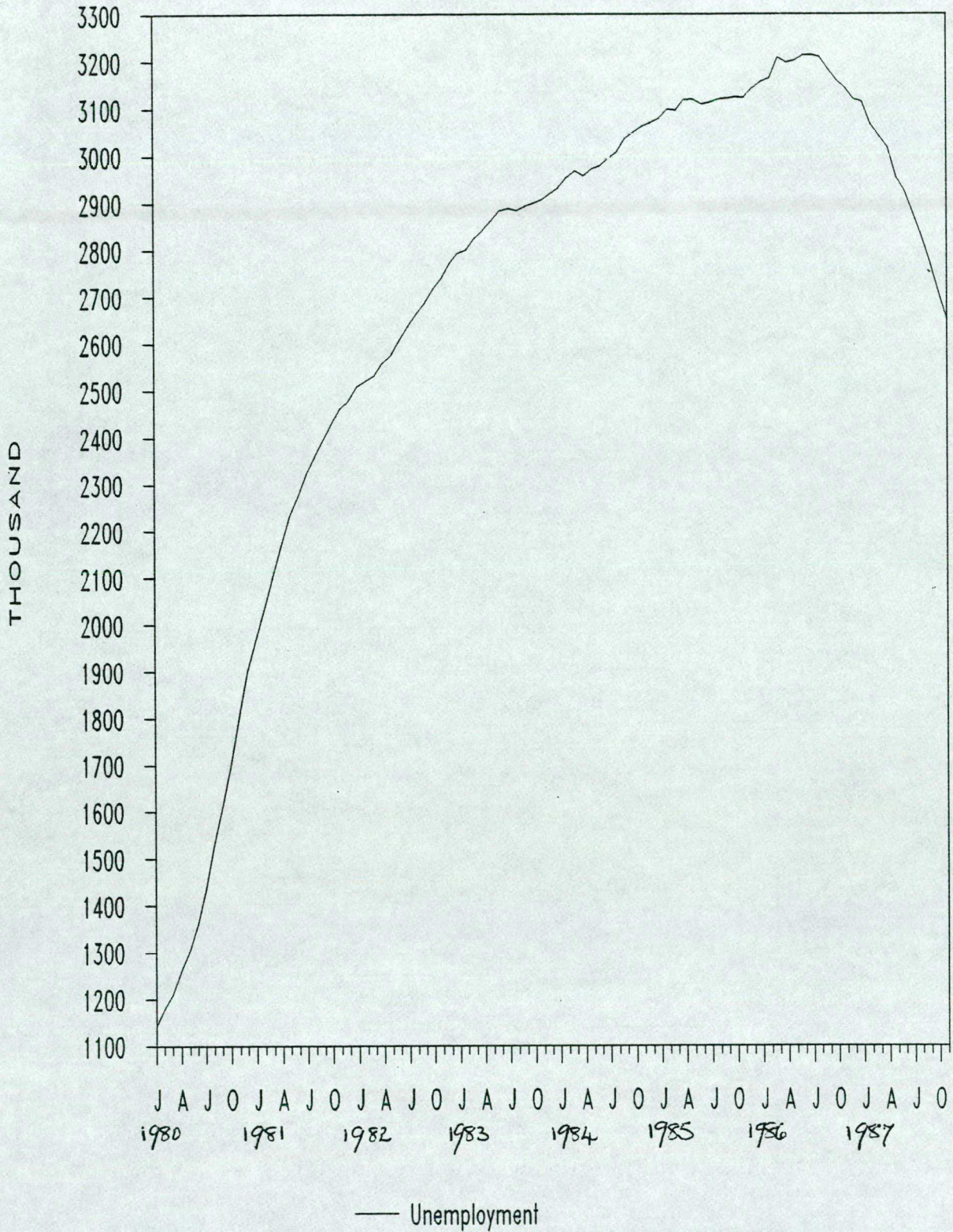
G1. Index numbers of output per person employed are calculated by dividing an index of output by an index of the numbers employed. The indices are all based on 1980 = 100. The output series for the economy as a whole is the output-based measure of gross domestic product and is consistent with the GDP press notice to be published by the CSO on 21 September. This series is used so as to achieve consistency with the industrial analysis for which the indices of output for the production industries are used. The indices for employment are based on the employed labour force in the United Kingdom as defined in para B4 above, after combining mid-month estimates to reflect average levels of employment in the month or quarter as a whole.

INDUSTRIAL STOPPAGES (Table 14)

H1. Statistics of stoppages of work due to industrial disputes in the United Kingdom relate only to disputes connected with terms and conditions of employment. Stoppage involving fewer than 10 workers or lasting less than one day are excluded except where the aggregate of working days lost exceeded 100. However, there are difficulties recording stoppages near the margin of this threshold and consequently greater emphasis should be placed on the figure for working days lost rather than on the number of stoppages. The monthly figures are provisional and subject to revision, normally upwards, to take account of additional or revised information received after going to press.

UNEMPLOYMENT: UK

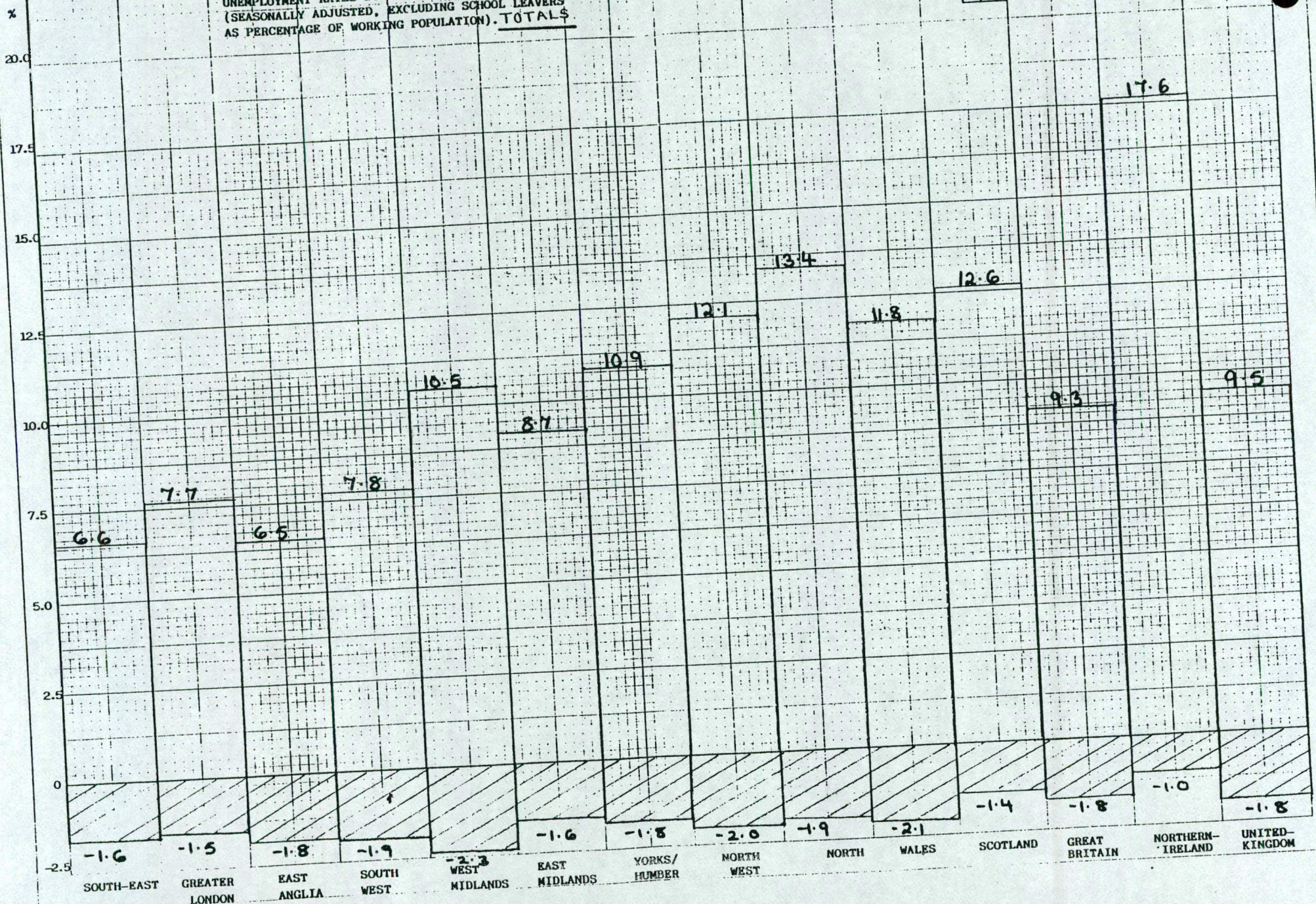
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PERSONAL AND CONFIDENTIAL UNTIL 11.30 A.M. 17/12/87.

UNEMPLOYMENT RATES BY REGION - CHANGE OVER YEAR
 (SEASONALLY ADJUSTED, EXCLUDING SCHOOL LEAVERS
 AS PERCENTAGE OF WORKING POPULATION). TOTALS

KEY  RATE
 CHANGE



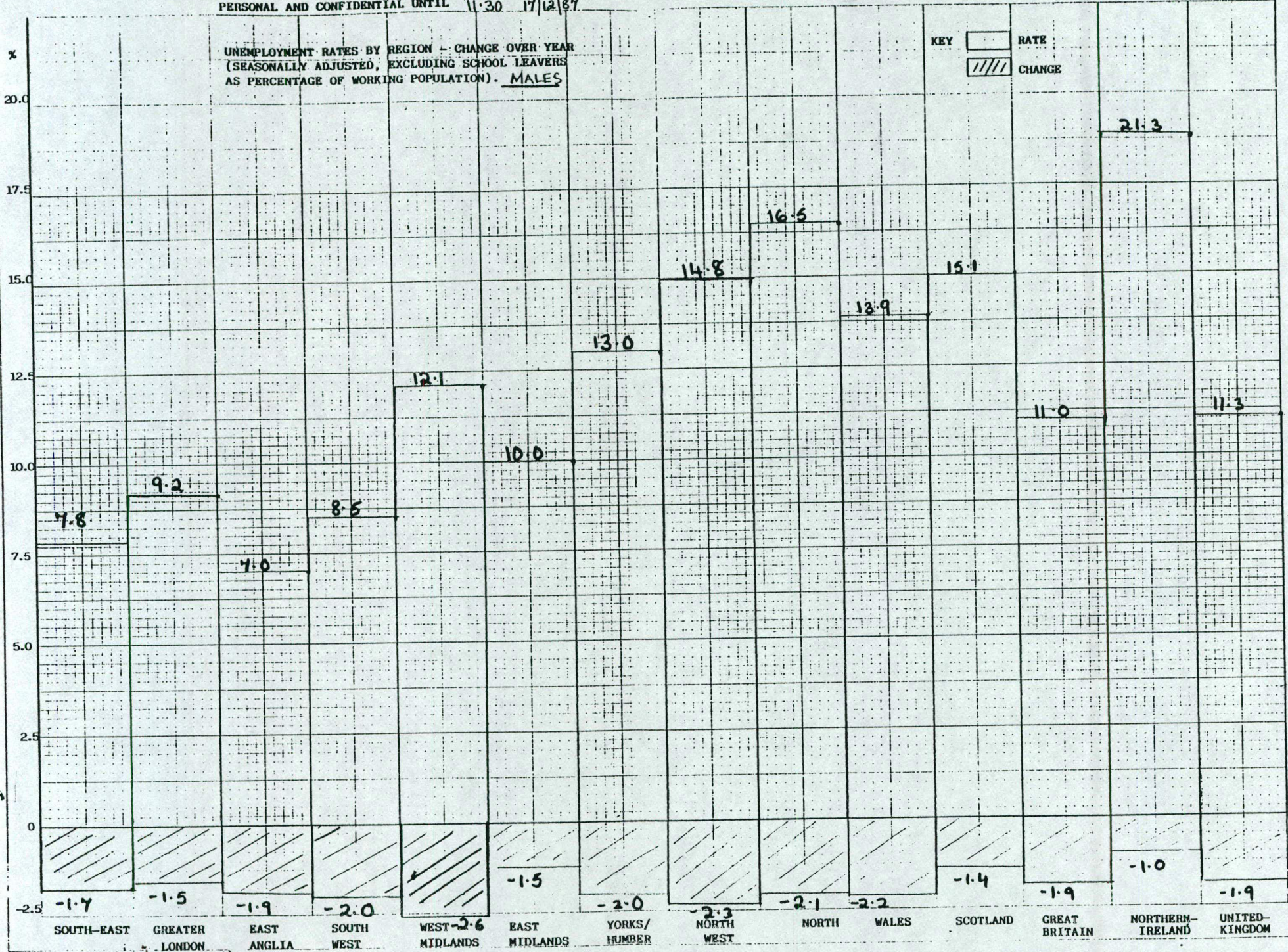
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PERSONAL AND CONFIDENTIAL UNTIL 11.30 17/12/87 A.M.

UNEMPLOYMENT RATES BY REGION - CHANGE OVER YEAR
(SEASONALLY ADJUSTED, EXCLUDING SCHOOL LEAVERS
AS PERCENTAGE OF WORKING POPULATION). MALES

KEY  RATE
 CHANGE





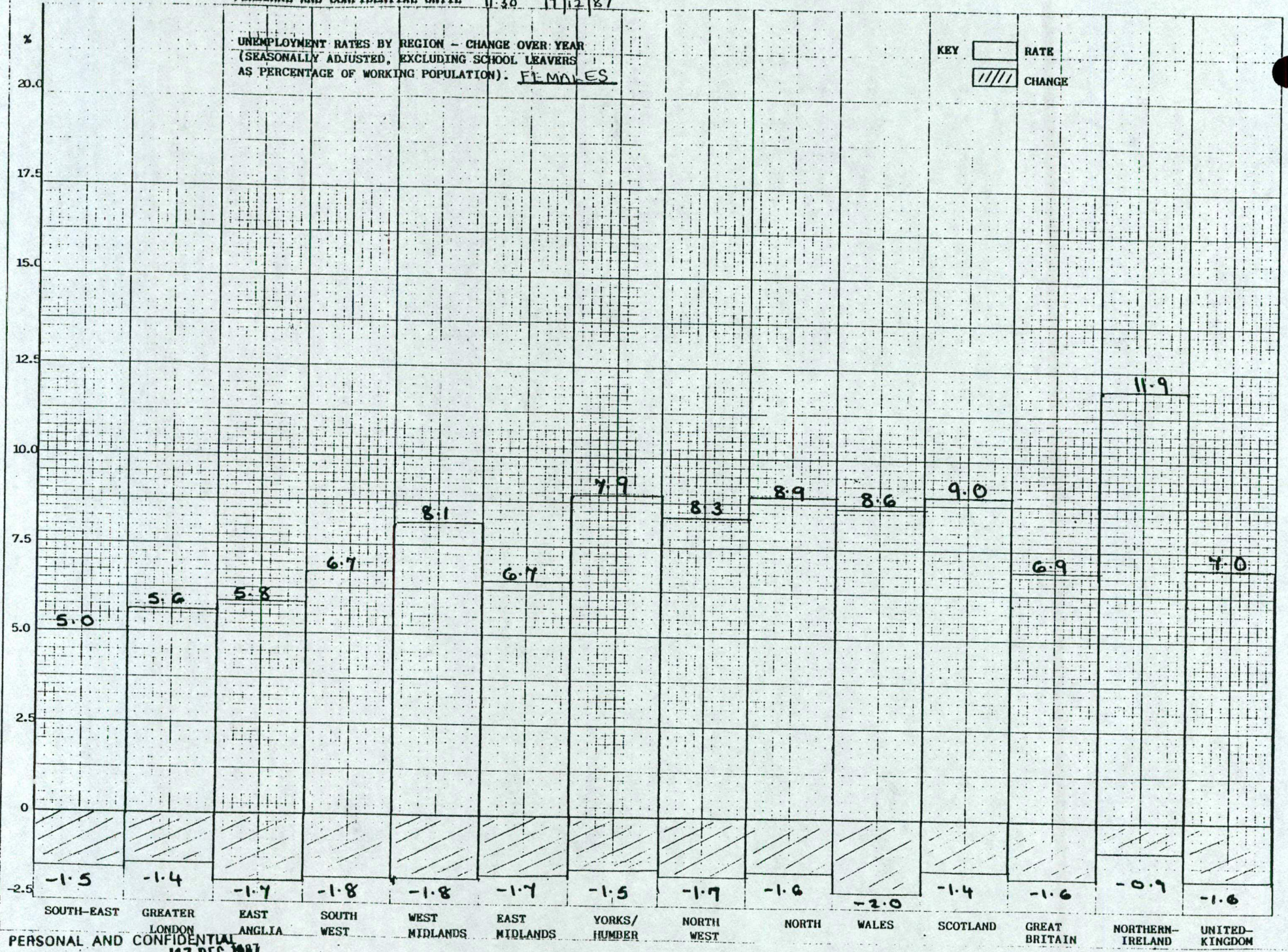
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UNEMPLOYMENT RATES BY REGION - CHANGE OVER YEAR
 (SEASONALLY ADJUSTED, EXCLUDING SCHOOL LEAVERS
 AS PERCENTAGE OF WORKING POPULATION): FEMALES

KEY  RATE
 CHANGE



PERSONAL AND CONFIDENTIAL UNTIL 11.30 a.m. ON 17 DEC 1987

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Unemployment
-regions and sex

UNEMPLOYMENT - regions and sex: Nov 1987
SEASONALLY ADJUSTED EXCLUDING SCHOOL LEAVERS

REGIONS	NUMBER (Thousands)		UNEMPLOYMENT RATE (Per Cent)*		
	At Nov 1987	Change in month since Oct 1987	At Nov 1987	Change in month since Oct 1987	Change in year since Nov 1986
(1)					
South East	603.8	-19.5	6.6	-0.2	-1.6
(Greater Lond	(330.8)	-7.5	7.7	-0.2	-1.5
East Anglia	62.7	-3.0	6.5	-0.3	-1.8
South West	158.7	-4.2	7.8	-0.2	-1.9
West Midlands	271.5	-6.6	10.5	-0.3	-2.3
East Midlands	165.0	-3.9	8.7	-0.2	-1.6
Yorks & Humber	255.9	-5.2	10.9	-0.2	-1.8
North West	363.8	-8.0	12.1	-0.3	-2.0
North	193.5	-3.9	13.4	-0.3	-1.9
Wales	142.4	-2.8	11.8	-0.2	-2.1
Scotland	311.1	-4.2	12.6	-0.2	-1.4
GREAT BRITAIN	2528.1	-61.6	9.3	-0.2	-1.8
Northern I.	120.7	-1.9	17.6	-0.3	-1.0
UNITED KINGDOM	2648.8	-63.5	9.5	-0.2	-1.8
<u>MALES AND FEMALES</u>					
UK Males	1854.3	-44.3	11.3	-0.3	-1.9
UK Females	794.5	-19.2	7.0	-0.2	-1.6

* Percentage of whole working population (new basis, taking account of self-employed and armed forces)

Unemployment by Duration

THOUSANDS

Duration	Number at OCTOBER 1987	Change since OCTOBER 1986 (a)
All duration	2751	-486
Over 1 year	1172	-169
Over 2 years	756	-88
Over 3 years	538	-44
Over 4 years	391	-6
Over 5 years	276	+27 (+20)

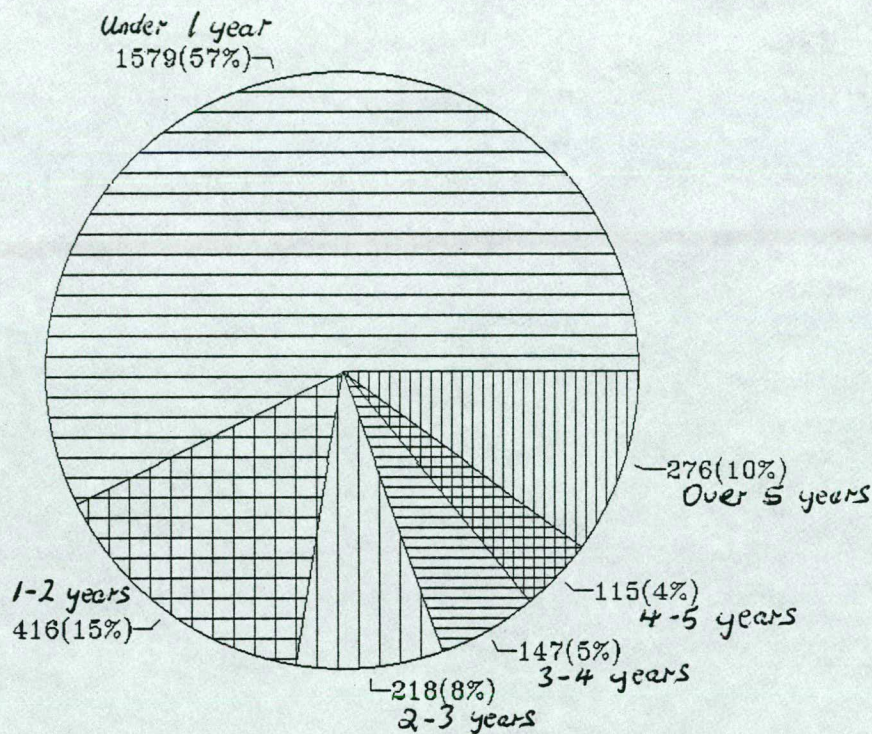
Up to 1 year	1579	-317
1 to 2 years	416	-80
2 to 3 years	218	-44
3 to 4 years	147	-38
4 to 5 years	115	-33 (-26)
Over 5 years	276	+27 (+20)

(a) Estimates in brackets allow for the civil service dispute in 1981 which delayed the recording of the starting date of unemployment for many claimants.

Unemployment by Age

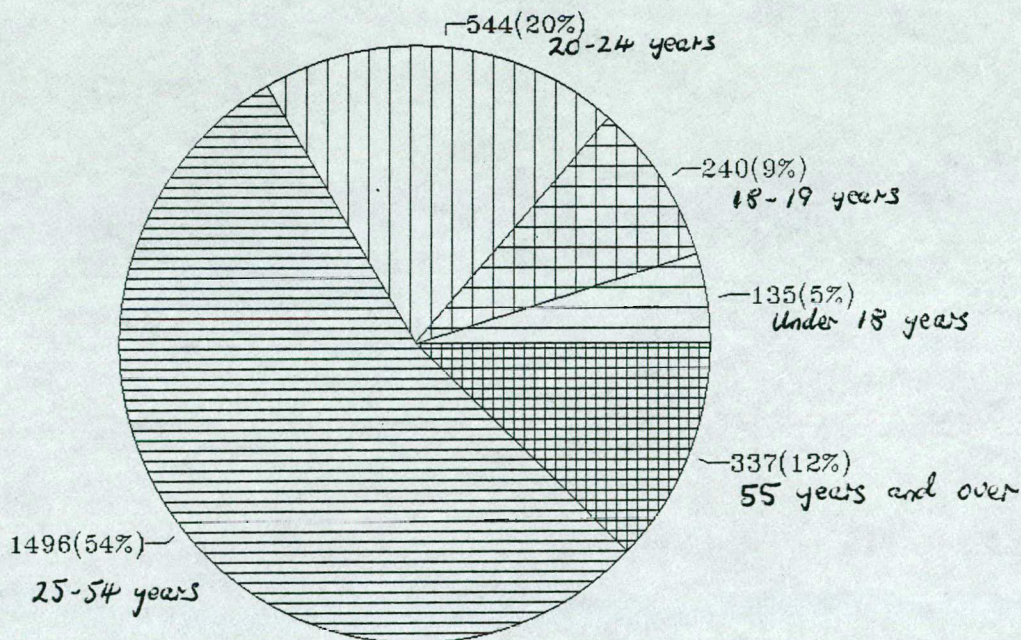
	Number at OCTOBER 1987	Change since OCTOBER 1986
Under 18	135	-52
18-19	240	-62
20-24	544	-113
25-54	1496	-220
55 and over	337	-39
All ages	2751	-486

U.K. UNEMPLOYMENT BY DURATION THOUSANDS



OCTOBER 1987

U.K. UNEMPLOYMENT BY AGE THOUSANDS



OCTOBER 1987

*To nearest thousand

Department of Employment Scheme Participants GB with and without the employed labour force (to nearest thousand)

	<u>Scheme Participants in the GB employed Labour Force</u>						<u>Scheme Participants outside employed labour force</u>		
	EAS	CP	CI	NWS*	YOP+	YTS++	YTS++	JTS	JRS
March 83	2	39	8	103	234	0	0		79
June 83	2	64	8	93	154	2	19		81
Sept. 83	8	97	8	103	69	17	156		85
Dec 83	20	115	8	105	22	26	231		88
Mar 84	27	113	8	98	22	25	227		95
June 84	37	120	8	70	4	24	220		91
Sept 84	39	123	8	63		29	258		86
Dec 84	39	130	8	57		28	251		78
Mar 85	41	133	8	52		25	227		70
June 85	48	138	8	43		24	212		61
Sept 85	49	151	8	50		30	266		54
Dec 85	52	174	8	57		28	250		48
Mar 86	55	200	8	51		24	219		43
June 86	60	221	8	31		27	243		37
Sept 86	66	235	8	28		33	300		32
Dec 86	74	248	8	33		32	291	1	27
March 87	81	244	8	34		30	269	2	24
Apr 87	85	238	8	32		30	272	3	23
May 87	87	235	8	29		29	263	8	22
June 87	90	232	8	24		35	316	13	22
July 87	93	231	8	18		38	340	17	21
Aug 87	94	229	8	18		40	356	20	21
Sep 87	96	229	8	18		43	385	22	21
Oct 87	97	224	8	19		41	369	25	20

- * Figures prior to June 1986 relate to similar Young Workers Scheme
- + Excludes trainers
- ++ Excludes trainers, figures for latest months subject to revisions: participants in employed labour force have contracts of employment.

International Comparisons of Unemployment Levels

Although unemployment in the UK has been falling more rapidly than in other countries, the unemployment rate remains relatively high. The following table gives the latest figures on national definitions, which are not strictly comparable owing to national differences in coverage and concepts of unemployment, together with the available OECD standardised rates which are recommended for comparing levels of unemployment.

	RECOMMENDED		UNEMPLOYMENT, NATIONAL DEFINITIONS				
	OECD STANDARDISED RATES		Seasonally adjusted		Unadjusted		
	Latest month	% rate	Number (000s)	% rates	Number (000s)	% rate	Latest month
Spain	May	20.1	2,924	20.9*	2,879	20.6	Sep
Ireland	..	..	245	19.1	241	18.8	Nov
France	Sep	10.6	2,572	10.4 ^a	2,697	10.9 ^a	Oct
Belgium	Sep	10.3	428 ^e	15.6 ^e	423	15.4	Oct
United Kingdom	Sep	9.5	2,649	9.5	2,686	9.7	Nov
Italy ^a	1985	(10.5 ⁺)	2,945	12.4	2,871	12.0	July
Netherlands	Sep	9.2	682	14.0	680	13.9	Sep
Canada ^a	Sep	8.5	1,111	8.4	1,000	7.6	Oct
Australia ^a	Sep	7.7	635	8.2	585	7.6	Oct
Germany	Aug	7.0	2,243	7.9	2,133	7.6	Nov
Denmark	..	..	216	7.9	202	7.4	Sep
Portugal	..	..	290	6.7	283	6.6	Sep
United States ^a	Sep	5.8	7,116	5.9	6,802	5.6	Nov
Greece	..	..	..	..	184	4.6	Aug
Austria	1985	3.6	166 ^e	5.6	147	4.9	Oct
Japan ^a	Sep	2.8	1,670	2.7	1,660	2.7	Oct
Norway	Aug	1.9	32	2.0	30	2.2	Sep
Sweden ^a	Sep	1.6	77	1.8	76	1.7	Oct
Luxembourg	..	..	..	..	3	1.7	Sep
Switzerland	1985	0.9	..	..	20	0.7	Aug
OECD ^b	1985	7.8 ^e					

e estimated

a Survey Sources

b Includes all countries with Standardised rates

+ This rate to be revised shortly, probably downwards using new information from EC Labour Force Survey.

* August figures

Sources:- OECD "Main Economic Indicators" supplemented by Labour Attache reports etc

The following table shows the changes in unemployment, both in terms of percentage increases and, more significantly, changes in percentage rates. The latter are recommended for comparison.

UNEMPLOYMENT, LATEST MONTH COMPARED WITH A YEAR EARLIER

Unadjusted unemployment, national definitions

	<u>RECOMMENDED</u>			
	<u>Change in % rate</u>	<u>Change (000s)</u>	<u>% Change in total</u>	<u>Latest month</u>
Spain	+ 0.9	+ 169	+ 6	Sep
Italy	+ 0.7	+ 171	+ 5	Sep
Ireland	+ 0.4	+ 4	+ 2	Nov
Luxembourg	+ 0.3	+ 1	+ 24	Sep
Germany	+ 0.2	+ 65	+ 3	Nov
Austria	+ 0.1	+ 6	+ 4	Oct
Denmark	+0.1	+ 5	+ 3	Sep
France	+ 0.1	+ 29	+ 1	Oct
Greece	NC	+ 3	+ 4	Aug
Switzerland	NC	NC	- 1	Aug
Japan	NC	- 10	- 1	Oct
Norway	- 0.1	- 4	- 13	Sep
Australia	- 0.2	- 5	- 1	Oct
Netherlands	- 0.2	- 12	- 2	Nov
Sweden	- 0.3	- 13	- 15	Oct
Belgium	- 0.6	-16	- 4	Oct
USA	- 1.0	- 1070	- 14	Nov
Canada	- 1.1	- 116	- 10	Oct
<u>United Kingdom</u>	- 1.7	- 531	- 17	Nov
Portugal	- 1.8	- 78	- 22	Sep

NC = No Change

e = estimated

Sources:- OECD "Main Economic Indicators" supplemented by Labour Attache reports etc

When assessing the change in unemployment in more recent periods than over the past year, seasonally adjusted figures need to be used. The following table compares seasonally adjusted figures for the latest three months with the previous three months. An additional table C4d shows monthly figures for selected countries.

UNEMPLOYMENT, LATEST 3 MONTHS COMPARED WITH PREVIOUS 3 MONTHS

Seasonally adjusted, national definitions

	<u>RECOMMENDED</u>			
	<u>Change in percentage rate</u>	<u>Change Number (000s)</u>	<u>Percentage Changes</u>	<u>Latest month</u>
Italy	+ 0.7	+ 146	+ 5	Sep
Spain	+ 0.1	+ 20	+ 1	Aug
Germany	NC	+ 2	NC	Nov
Netherlands	NC	- 1	NC	Nov
Austria	NC	- 3	- 2	Oct
Denmark	- 0.1	- 2	- 1	Sep
United States	- 0.1	- 109	- 2	Nov
Norway	- 0.1	- 1	- 4	Sep
Australia	- 0.2	- 12	- 2	Oct
France	- 0.2	- 42	- 2	Oct
Belgium	- 0.3	- 10	- 2	Oct
Japan	- 0.3	- 170	- 9	Oct
Sweden	- 0.3	- 8	- 10	Oct
Ireland	- 0.4	- 5	- 2	Nov
Canada	- 0.4	- 54	- 5	Oct
<u>United Kingdom</u>	- 0.6	- 165	- 6	Nov
Portugal	- 0.8	- 34	- 11	Sep

Note Seasonally adjusted figures not available for Greece, Luxembourg and Switzerland.

NC = No Change

e = estimated

Sources:- OECD "Main Economic Indicators" supplemented by Labour Attache reports etc

Seasonally Adjusted levels and rates of registered unemployment

<u>Month</u>	<u>UK</u>		<u>France</u>		<u>Germany</u>		<u>Italy</u>		<u>Spain</u>	
	<u>Level</u>	<u>Rate</u>	<u>Level</u>	<u>Rate</u>	<u>Level</u>	<u>Rate</u>	<u>Level</u>	<u>Rate</u>	<u>Level</u>	<u>Rate</u>
Aug 1985	3119	11.3	2420	10.4	2301	8.3	2977	13.0	2649	19.5
Sep	3121	11.3	2467	10.6	2298	8.2	2989	13.0	2649	19.5
Oct	3124	11.3	2452	10.5	2297	8.2	3031	13.2	2650	19.4
Nov	3123	11.3	2448	10.5	2307	8.2	3040	13.3	2692	19.7
Dec	3143	11.4	2441	10.5	2299	8.2	3061	13.4	2688	19.7
Jan 1986	3156	11.4	2442	10.5	2282	8.2	3082	13.4	2706	19.8
Feb	3164	11.4	2446	10.5	2289	8.2	3127	13.6	2716	19.8
Mar	3207	11.5	2468	10.6	2269	8.1	3121	13.6	2730	19.9
Apr	3197	11.5	2490	10.7	2241	8.0	3158	13.7	2736	19.9
May	3201	11.5	2517	10.8	2243	8.0	3189	13.9	2730	19.9
June	3213	11.5	2523	10.8	2222	7.9	3207	14.0	2729	19.9
July	3212	11.6	2541	10.9	2208	7.9	3204	13.9	2743	19.9
Aug	3209	11.6	2557	11.0	2201	7.8	3212	14.0	2745	19.9
Sep	3183	11.6	2550	10.9	2191	7.8	3233	14.0	2772	20.1
Oct	3160	11.5	2544	10.9	2180	7.8	3243	14.0	2802	20.1
Nov	3143	11.4	2549	10.9	2166	7.7	3192	13.8	2834	20.4
Dec	3119	11.3	2574	11.0	2177	7.8	3268	14.0	2861	20.6
Jan 1987	3114	11.2	2613	11.2	2194	7.8	3238	13.9	2869	20.5
Feb	3066	11.0	2655	11.4	2190	7.8	3286	14.1	2889	20.6
Mar	3040	11.0	2676	11.5	2228	7.9	3263	14.0	2897	20.7
Apr	3018	10.9	2659	11.4	2227	7.9	3136	13.4	2900	20.7
May	2952	10.6	2661	11.4	2219	7.9	3233	13.8	2912	20.8
June	2925	10.5	2645	11.3	2240	7.9	3239	13.9	2920	20.9
July	2876	10.4	2638	11.3	2251	8.0	3297	14.1	2926	20.9
Aug	2829	10.2	2649	11.4	2247	8.0	3373	14.4	2924	20.9
Sep	2773	10.0	2597	11.1	2252	8.0	3376	14.5		
Oct	2712	9.8	2572	11.0	2249	8.0				
Nov	2649	9.5			2243	7.9				

UNEMPLOYMENT - comparison with the 1930s

1. The peak recorded pre-war was in January 1933, at 2,979,000 including temporary stopped.

2. It is not possible to make a fully valid and meaningful comparison with pre-war unemployment, for the following reasons.

- (1) the labour force is about one-third larger and different in character. A much larger proportion of women work. We do not have a continuous series of figures on employment against which to measure the unemployed.
- (2) Because of changes in entitlement to benefit, we cannot be sure to what extent unemployed people are now more or less likely to claim and to be included in the count.
- (3) There have been many administrative changes and changes in the methods used to count the unemployed.
- (4) Changes in Government employment measures including legislation on employees' rights will also have affected the figures. There may also have been significant changes in practice by employers, for example on temporary lay-offs, since the numbers recorded as 'temporarily stopped' were much higher before the war.

3. In any comparison with the 1930s it is also relevant that greater protection is now given to the unemployed through social security provisions, redundancy pay, and generally improved social conditions. Moreover, it is now more common for there to be more than one breadwinner in the family.

Unemployment - Coverage
of the countUNEMPLOYMENT - COVERAGE OF THE COUNT:COMPARISON WITH ESTIMATES FROM THE LABOUR FORCE SURVEY

1. Unemployment can be taken by different people to mean different things depending on the context in which the figures are used, and can be measured in different ways.
2. As in most other Western European countries, we use an administrative system to provide monthly unemployment figures, although we also use household surveys to provide less frequent information on a different basis. We use the count of claimants* at unemployment benefit offices because the figures are available frequently, quickly and cheaply, in particular providing detailed local figures which would be very costly to obtain from alternative sources.
3. The count necessarily reflects the administrative system on which it is based and cannot be ideal for every purpose eg. to measure labour slack or social hardship.
4. Instead of using the claimant count, alternative measures of unemployment can be obtained from household sample surveys such as the annual Labour Force Survey (LFS). The criteria for defining unemployment in surveys can of course be varied and there is no universally accepted definition of "true" unemployment; but according to the LFS in GB in spring 1986 there were 2.97 million unemployed according to internationally accepted definitions (ILO/OECD) (ie available and seeking work in the previous 4 weeks). ^{This compares with} 3.17 million included in the claimant count over the survey period. The difference of 200,000 between these figures is the net result of the difference between two partly offsetting groups. 1,070,000 claimants were either employed or not unemployed on the ILO/OECD measure, while, on the other hand, some 870,000 people were without jobs and unemployed on the ILO/OECD definition but not claiming benefits. The attached chart illustrates the comparison.

* those claiming unemployment benefits, supplementary benefits or national insurance credits as an unemployed person.

An alternative longer established measure of unemployment from the LFS has conventionally been used for the purposes of national estimates of the labour force, but is not so closely in line with international definitions. It essentially consists of those seeking work during the week of the survey. In Spring 1986 there were 2.82 million unemployed on this labour force definition, again significantly less than the claimant count.

Changes between 1981 and 1986

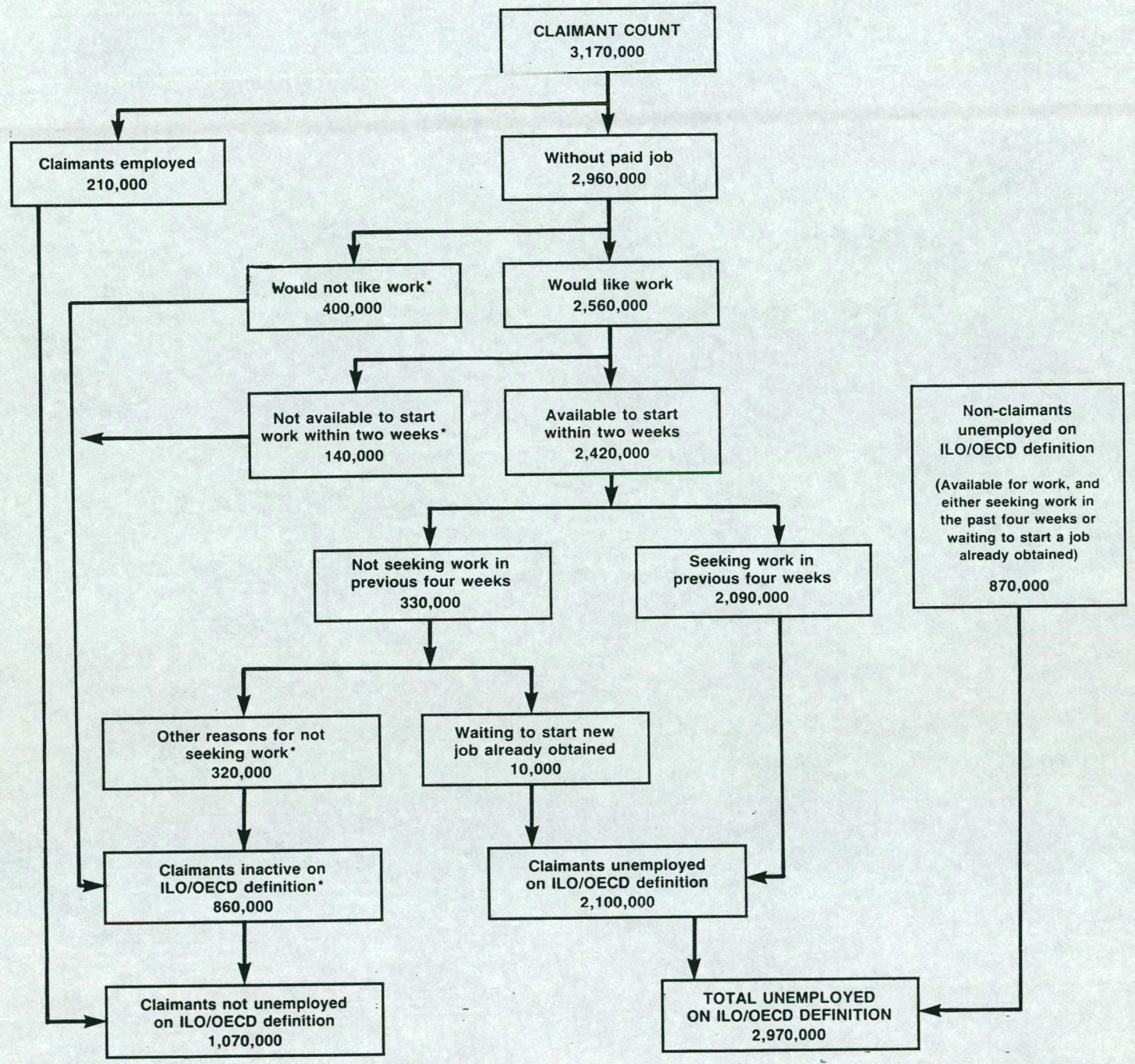
Between 1981 and 1986 the trend in unemployment, as measured through the LFS, has been very different from the trend in the claimant count.

The precise position in 1981 on a comparable basis is uncertain. At that time the unemployment count (then based on registration) was broadly in line with the labour force estimate. But allowing as far as possible for all the changes in coverage since then, it appears that the claimant count on today's basis would have been rather lower in 1981 than unemployment on the usual labour force definition, a position which was reversed by 1985.

Our best estimate is that between 1981 and 1986 the claimant count (consistent with the current coverage) has risen by over 900,000 while the survey figures indicated an increase of around a third of a million. The divergence of some 600,000 has occurred both among men and women.

Very significantly, between 1983, when employment started to grow, and 1986, there was little change in the survey based level of unemployment whereas the claimant count rose by a further $\frac{1}{3}$ million. Detailed analysis of the figures suggests that part of the recent divergence between the claimant count and the survey estimates reflects some increasing propensity to claim benefits, rather than a tendency for claimants to give up seeking work because they believed no jobs were available.

The monthly claimant count compared with the ILO/OECD measure of unemployment:
GB spring 1986



Unemployment - changes in
coverage

UNEMPLOYMENT - CHANGES IN THE COVERAGE OF THE UNEMPLOYMENT COUNT

Since 1979, there have been 6 changes which have had a discernible effect on the monthly unemployment count.

(1) Change in basis of count from registration to claimants (Approx - 190,000)

This was the most important change which occurred in October 1982, when registration at jobcentres became voluntary, saving administrative costs and eliminating the need for unemployed people to attend both a jobcentre and an unemployment benefit office in order to get their benefits. The previous count of registrants at jobcentres became incomplete and it was necessary to move to counting claimants at Unemployment Benefit Offices. This removed approximately 190,000* from the count as a result of three factors:

- (i) Computerisation of count and improved accuracy, removing old (ceased) claims more quickly (estimated effect - 76,000)
- (ii) exclusion of registrants not claiming benefits (- 135,000)
- (iii) inclusion of severely disabled (+ 23,000)

(2) Effect of 1983 Budget measures (- 162,000)

The second largest change arose from the 1983 Budget provisions which enabled 162 thousand men, mainly aged 60 and over, to receive National Insurance credits or the higher long term rate of supplementary benefit without attending an Unemployment Benefit Office. The effect accumulated between April and August 1983.

(3) Later compilation of unemployment statistics as from March 1986 (-50,000 average per month).

The change made in March 1986 was to take better account of claimants who did not inform benefit offices that they were no longer unemployed on the 'count date'. From October 1982, there was a waiting period of one week between the count date and the compilation of the figures to allow for these notifications. However, the change in July 1985 to the payment of benefit wholly in arrears revealed that the extent of overcounting (at over 60,000 per month) was larger than previously thought and unacceptably high. It is estimated that delaying the compilation of statistics to 3 weeks after the count date reduces overcounting by an average of about 50 thousand a month.

* A figure of 246,000 is often quoted, but this relates to October 1982 which was exceptional when the old system was running down. Assessment for the year up to October 1982 showed an average difference of 190,000.

(4) Higher long-term rate of supplementary benefit (- 37,000)

There was a previous similar change to (2) above in November 1981 when the higher long-term rate of supplementary benefit was introduced for men over 60 who had been on supplementary benefit for over one year. Over a twelve month period, this removed an estimated 37 thousand men both from the claimant series and from the count of registrations at jobcentres used at the time.

(5) Fortnightly attendance and payment (+ 20,000)

In October 1979, fortnightly attendance at Unemployment Benefit Offices was introduced and the estimated effect was to add about 20 thousand both to the claimant figures and to the count of registrations in use at the time.

(6) Discontinuity in Northern Ireland series (-5,000)

In July 1985, a reconciliation between DHSS records and the Department of Economic Development's computer records of claimants showed discrepancies. The corrective action resulted in the unadjusted figures for July and August, 1985 being 5,700 and 5,150 lower respectively than would otherwise have been the case.

The above six changes are the only ones to have significantly affected the seasonally adjusted unemployment figures, and each has been taken into account in the current series. Other minor effects are as follows.

Introduction of taxation of benefits in July 1982

which had no measurable effect on the unemployment figures.

Introduction of payment of unemployment benefit wholly in arrears from 15 July 1985

There may possibly have been some effect on the unemployment count from August 1985 onwards, but it appears to have been negligible.

Change in school leaving regulations, November 1980

Young people leaving school are now assumed to be in full-time education until the beginning of the following school term and not entitled to benefit. This affected the total claimant series (introduced later) and to a relatively minor extent, the registrant series in use at the time, but not the seasonally adjusted series which excludes school leavers. From 1982 a separate count of non-claimant school leavers registered at Careers Offices has been conducted in June, July and August.

Some commentators add some of the above effects back to the current unemployment count in an attempt to estimate what the unemployment figures would be now on a former basis, sometimes as part of their justification for claiming higher "true" totals of unemployment.

This approach usually involves the crude assumption that the effect of any change in definition remains constant over time.

The Department has used a different approach to provide a consistent series. This seasonally adjusted series of adult unemployment, which is produced to help assess the underlying trend, has been revised back to 1971 to be in line with the current coverage of the claimant count*. We have not adjusted the basic counts taken in the past, and the new series cannot be reasonably regarded as rewriting history, but helping to explain it

* The new series was introduced in an article 'Unemployment adjusted for discontinuities and seasonality' in the July issue of Employment Gazette. This series has been further revised to take account of the changes in the compilation of the figures from March 1986.

Changes to unemployment figures

So called '19 changes' misleading and exaggerated. Only six changes since 1979 have so far had discernible effect (details published in Employment Gazette). Three were minor. Only two were changes in method of compilation.

Four changes inevitably resulted from changes in procedures for paying benefits, while two were to correct inaccuracies. But the seasonally adjusted series is consistent and allows for these changes.

Claims of higher 'true' totals exaggerated for example by including people in jobs helped by Government programmes. They ignore evidence from Labour Force Survey which showed a lower total than claimant count in 1986 (2.98 million seeking work in GB on internationally comparable definition (ILO/OECD), compared with 3.17 million claimants.)

Other recent administrative changes from October 1986 (abolition of half and three quarters rates of unemployment benefit, and extension of disqualification period) could only have a very small effect. Most of those losing unemployment benefit will continue to sign on and be counted, because they will still be entitled to some supplementary benefit or (in the case of those losing the reduced rates of UB) national insurance credits.

Restart and availability tests: Rules for payment of benefits remain unchanged and neither initiative alters the way the figures are compiled.

CONFIDENTIAL

Other changes affecting the figuresNew maternity allowance rules (from 6 April)

There is no change in the way figures are compiled, and any effect on the unemployment count will be negligible and could only arise among a few expectant mothers who would not normally be regarded as available for work.

(There could be a slight net downward effect, but it would tend to be reduced by the new availability test. There could be some downward effect because some women who would previously have chosen to claim Unemployment Benefit rather than Maternity Allowance no longer have a choice and are only allowed to claim Maternity Allowance (if they are entitled to it). There could be some slight offsetting upward effect through extra UB claims among those not entitled to Maternity Allowance under the new rules.

Identification of people aged over 60 signing on when they need not be

There was some extra downward effect on the April and May counts of up to around 5,000 altogether through extra efforts to identify men over 60 who need not sign on for national insurance credits only or for supplementary benefit (which they should get at a higher long term rate more promptly.) There is nothing new about this seasonal effect, but it was stronger than in earlier years.

Civil Service strikes

There was some small upward effect on the unemployment count in April and again in June, as a result of the strikes, with outflows understated by the order of 5,000 in both those months.

CONFIDENTIAL

Reversal of Social Security Commissioners' decision re Easter school leavers (effect from May to August).

In 1985 and 1986 there was some temporary additional upward effect on the school leaver count of up to around 15,000 in summer months (May to August), through some school leavers signing on who were not previously eligible for benefit until September. This followed the 1985 ruling by Social Security Commissioners on the eligibility for supplementary benefit of certain Easter school leavers who were returning to school only to take exams. The regulations have now been changed to restore the principle that young people cannot be treated as entitled to benefit until their education is completed. The seasonal influences on the school leaver count this year (from May) will therefore more closely correspond to the former pattern prior to 1985.

6 SIGNIFICANT CHANGES IN UNEMPLOYMENT COUNT SINCE 1979

	Reason
<u>Changes in Compilation</u>	
October 1982 - Switch from registrations - 190,000 to claimants	To avoid incomplete figures following voluntary registration
March 1986 - Later count - 50,000	To reduce over-recording
<u>Other Statistical Change</u>	
July 1985 - Correction of discrepancy for Northern Ireland - 5,000	Correction
<u>Administrative Changes</u>	
October 1979 - Fortnightly attendance + 20,000	) Eliminate unnecessary procedures and make life easier for claimants
From November 1981 - Higher long term rate for men over 60 - 37,000	
From April 1983 - Further relaxed requirement for men over 60 to attend benefit offices and eligibility for higher long term rate - 162,000	

Unemployment - coverage:
summary of possible
additions and exclusions

UNEMPLOYMENT - POSSIBLE ADDITIONS AND EXCLUSIONS

Following is a summary of the main additions or exclusions from the figures that are sometimes suggested.

POSSIBLE ADDITIONS

1. Add back previous changes in coverage of the unemployment count (see previous section 7). [Broadly 400,000]

Comment: The unemployment count inevitably reflects the administrative system on which it is based (as did the old registrant system) and this cannot remain fixed forever for the purposes of statistical continuity. Past changes in coverage of the count have been openly displayed in the published sources. If it is required to make valid comparisons with the past, a consistent series of unemployment figures is published showing how previous figures would have looked on the current basis, back to 1971.

2. People assisted by employment measures. [395,000 people assisted, end of October 1987]

Comment: This group has never been included in the unemployment figures because they are being helped in jobs or training.

3. Non-claimant unemployed (particularly women). [870,000 in 1986]

Comment: If it were reasonable to add this group to the unemployment count, then it would also be reasonable to subtract a greater number of claimants (1,070,000) who either had jobs or were not actively seeking work as shown by the 1986 Labour Force Survey.

4. Students on vacation. [Up to about 200,000 in the summer]

Comment: Those students who intend to return to full-time education after their holidays are not included in the main unemployment totals, but separate figures are always published. Students are generally only unemployed for short periods and seeking temporary jobs.

5. Temporarily stopped. [Variable, around 10,000]

Comment: These people have jobs to go back to although they are out of work on the day of the unemployment count, so they are counted separately.

6. Non-claimant school leavers (not entitled to benefits until the beginning of following school term). [100,000 to 130,000 in June, July and August]

These are excluded temporarily from the main unemployment totals while they are regarded as still being in full-time education. However, separate counts are taken of those registered at careers offices in June, July and August each year when the numbers are significant.

POSSIBLE EXCLUSIONS

7. Frictionally unemployed: people "between jobs"

(Without whom the labour market would not operate.) [No direct estimate available, but as a rough proxy, some 300,000 are unemployed for 4 weeks or less.]

8. Claimants not classed as unemployed in surveys

[1,070,000 claiming benefits, of which 210,000 employed and 860,000 without jobs but not seeking work, using 1986 Labour Force Survey.]

210,000 employed claimants may include some fraudulent claimants, although this figure will include some people legitimately claiming benefits eg. with low paid part-time jobs.

860,000 inactive claimants were not seeking work, often because of age, health or because they believed no jobs were available, although some, especially those with families, may be disinclined to take low paid jobs rather than benefits.

9. Overlapping with above) "Unemployables" or people hard to place

Little objective evidence, although judgements might be based on numbers unemployed for exceptionally long periods eg 276,000 unemployed continuously for more than 5 years (October 1987).

Labour market
- job changes
and flows

LABOUR MARKET - job changes and flows

1. TOTAL JOB CHANGES are running very broadly at some 7 to 8 million a year, or $\frac{1}{2}$ million per month, or about 30,000 per working day. These include movements of people with jobs as well as the unemployed taking up jobs.

2. VACANCY FLOWS run at lower levels than the above, eg the inflow in the year to November averaged 225,000 a month (UK seasonally adjusted), primarily because only about a third of all vacancies are notified to Jobcentres. Placings by jobcentres, in the year to November averaged about 159,000 a month (UK seasonally adjusted), are estimated to be broadly a quarter of all engagements or job changes in the economy.

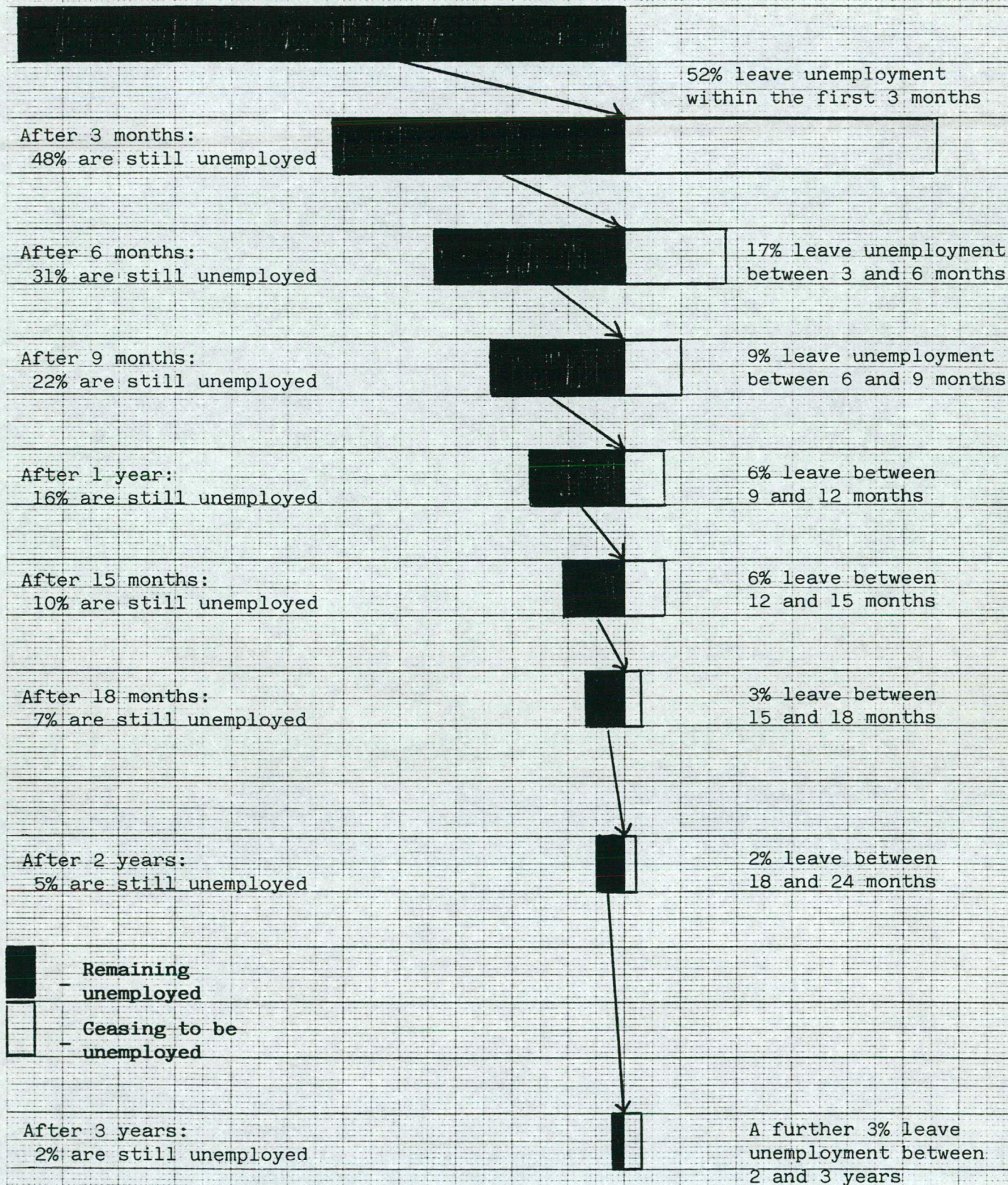
3. OUTFLOW from unemployment averaged about 420 thousand per month (406 thousand excluding school leavers) in the year to November 1987. This represents an annual outflow of 5 million. Many took up jobs, though some would be leaving unemployment for other reasons eg retirement, training, or otherwise leaving the labour force, or exhaustion of entitlement to benefit.

A quarter of those becoming unemployed flow off the register within a month of joining it, a half leave within 3 months, two-thirds within 6 months, and five-sixths leave within a year. The remaining sixth (around 65,000 per month) flow into long term unemployment. The attached chart illustrates these chances of remaining in the count or leaving it within certain durations of unemployment.

CHANCES OF REMAINING IN OR LEAVING UNEMPLOYMENT*

Great Britain Based on claimant data for period July 1986
- July 1987

On average, nearly 380,000 become unemployed*
each month



* Percentages are based on outflows between July 1986 and July 1987 and therefore do not relate to the experience of a single group of individuals who all become unemployed over the same period.

Unemployment 11.
- demographic and
labour force
background

UNEMPLOYMENT - demographic and labour force (1) background

Great Britain : thousand

	Reaching school leaving age	Reaching retirement age and deaths	Net migration and adjustment	Population of working age		Labour force	
				Number	Change over year	Number	Change over year
ESTIMATES							
1971	737	-	-	31,686	-	24,895	-
1972	760	739	-9	31,698	+12	24,953	+58
1973	778	750	+9	31,735	+37	25,125	+172
1974	801	751	-45	31,740	+5	25,269	+144
1975	818	740	-33	31,785	+45	25,305	+36
1976	840	707	+2	31,920	+135	25,702	+396
1977	871	683	+2	32,110	+190	25,901	+200
1978	891	655	-12	32,334	+224	25,949	+48
1979	906	662	-8	32,570	+236	26,021	+72
1980	930	773	+1	32,728	+158	26,198	+177
1981	936	729	-30	32,905	+177	26,242	+43
1982	912	697	-69	33,051	+146	26,045	-196
1983	902	650	-3	33,300	+249	25,907	-138
1984	873	677	+67	33,563	+263	26,428	+522
1985	868	750	+60	33,741	+178	26,639	+211
PROJECTIONS (2)							
1986	840	715	+25	33,891	+150	26,741	+102
1987	850	693	+19	34,067	+176	26,936	+194
1988	797	667	-15	34,182	+115	27,082	+147
1989	748	665	-13	34,252	+70	27,180	+98
1990	697	664	-17	34,268	+16	27,219	+38
1991	673	659	-14	34,268	0	27,233	+15

Between mid-1985 and mid-1986 the population of working age is projected to have increased by 150,000, while the labour force is projected to have increased by around 100,000 as male activity rates fell. This labour force growth is much less than in the previous two years, when the population of working age rose rather more, male activity rates changed little overall and female activity rates rose much more sharply. Using a working assumption of a broadly stable level of unemployment after 1986, a further rise of some half a million is expected between 1986 and 1991. Most of this growth is projected to occur before 1989, and over half of it in the female labour force.

Notes :

(1) The civilian labour force includes those in employment (employees, employers and self-employed, but excluding members of the Armed Forces) and all those identified by censuses and surveys as seeking work whether or not they claim benefits.

(2) The projected changes beyond 1985 incorporate the latest (1985-based) population projections and projections of activity rates using preliminary information from the 1986 Labour Force Survey.

EMPLOYMENT - CHANGES IN THE METHOD OF ESTIMATION

Employees in Employment

1) Introduction of Supplementary series - June 1983

When provisional results from the 1981 Census of Employment became available they showed that the application to the previous census figure (1978) of changes estimated from sample survey data was producing substantial under-estimates. The methodology was reviewed and a supplementary set of estimates, which included an undercounting allowance was introduced in June 1983.

2) Use of 1981 and 1983 Labour Force Surveys (LFS) - July 1984

Data from the 1983 LFS confirmed that the supplementary figures provided more accurate estimates than the basic series. The estimates for employees in employment were revised, using LFS data for 1981 and 1983 to assess the current extent of underestimation from the sample survey of employers. Estimates could now be produced incorporating the adjustment for underestimation in industrial and regional detail, and so the estimates not incorporating the adjustment and the term "supplementary" were dropped.

3) Use of the 1984 LFS - March 1985

Data from the 1984 LFS was used to improve the assessment of underestimation from the sample survey of employees.

4) Use of the 1985 LFS - April 1986

Revised data from the 1984 LFS and new results from the 1985 LFS were used to revise the allowance for underestimation.

5) Introduction of 1984 Census of Employment - December 1986

The 1984 census results provided a new "benchmark" from which estimates for later dates are calculated, using the proportionate changes in employment derived from the sample surveys, adjusted using LFS data as previously. The series was also slightly adjusted to take account of revised data from the 1985 LFS and a small revision to the proportion of YTS participants with contracts of employment.

The estimates for dates between the censuses were also revised. Differences at the detailed industry and regional level between the previous estimates for September 1984 and the census estimates were interpolated back to the earlier census date. The census figures used for 1981, and the estimates for later dates based on them were first adjusted to improve the consistency of the industry coding in the two censuses. The estimates prior to September 1981 were also revised to improve the consistency of industry coding.

Some minor technical changes were also made to the method used to derive seasonally adjusted estimates.

6) Use of the 1985 and preliminary 1986 LFS results- March 1987

Data from the 1985 LFS and preliminary results from the 1986 LFS were used to improve the assessment of underestimation from the sample survey of employees. The quality of the estimates was improved by using national LFS data separately for full time and part time female employees, rather than a single overall adjustment for all females.

Self Employment

1) New method of estimating Self Employment - January 1982

The LFS data was used in place of the discontinued information from the National Insurance Card count. New estimates were produced for the period 1975 to 1979.

2) Introduction of an assumption of continued growth - June 1983

The conventional assumption that the level of self employment had remained constant since the date of the latest LFS data was reviewed. As there were reasons for expecting some continuation of the upward trend in self employment a supplementary series, was introduced; this assumed that growth at the rate observed between the last two surveys had continued subsequently.

3) Use of the 1981 and 1983 LFS results - July 1984

The self employment figures were updated to take account of the changes between the LFS in 1981 and 1983.

4) Change in the rate of growth assumption - March 1985

When the estimates for the self employed were updated for the 1984 LFS the figures for self employment showed exceptional growth between 1983 and 1984. It was considered inappropriate to make the assumption that this rate had continued. The estimates of self employment for dates after June 1984 incorporated the assumption that the average rate of increase between 1981 and 1984 had continued.

5) Use of the 1985 LFS - April 1986

The estimates were up-dated to take account of new results from the 1985 LFS and revised data from the 1984 LFS.

6) Use of the 1986 LFS - March 1987

The estimates were up-dated to take account of new results from the 1986 LFS; figures for dates after June 1986 are based on the assumption that the average rate of increase between 1981 and 1986 has continued.

EMPLOYMENT: DOUBLE JOBBING AND SPECIAL EMPLOYMENT MEASURES

The treatment of double jobbing in the employees in employment estimates

The estimates for employees in employment include some double counting of persons because some employees with two jobs are included twice. This cannot be avoided with figures collected from employers' reports of the number of people they employ. Since employers will generally not know if an employee is in fact filling a post as his second job, it would not be practical to exclude second jobs from these estimates

Evidence on the number of people with two jobs can be derived from household surveys - principally the Labour Force and General Household Surveys. However, these cannot provide reliable figures for the number of second jobs included in the employees in employment series because some work will be included which would not be covered by the employer based information, such as babysitting or gardening for a householder. Furthermore a particular survey's assessment of the number of second jobs will depend on the design and context of the survey. Adjustment of the employees in employment series to exclude second jobs would therefore be impracticable.

Coverage of Special Employment Measures

Estimates of employees in employment

1. Participants in a number of special measures are employed in precisely the same way as any other employee and are therefore included in the estimates of employees in employment. These measures include:

New Workers Scheme

Job Splitting Scheme - where both part-time jobs created by splitting a full-time job are counted

Job Release Scheme - the older worker who has given up his job is not included in the employees series but the previously unemployed person who has taken up the job is included

Training for Skills: Programme for Action

Community Programme

2. Of young people on the Youth Training Scheme those who have contracts of employment - currently estimated to be about 11 per cent of participants - are included in the employees in employment series.

3. Those on the Voluntary Projects and Training Opportunities Programmes are not employed and are hence not covered by the employed labour force series.

Estimates of self-employment

4. Those supported by the Enterprise Allowance Scheme are included in the Labour Force Survey based estimates of self-employment.

C-O-N-F-I-D-E-N-T-I-A-L until 11.30 am on 17 December 1987

INTERNATIONAL COMPARISONS OF EMPLOYMENT

1. Latest figures for the major industrial economies show that since March 1983, when employment began to rise in the United Kingdom, it has grown at a much faster rate than in Japan, Italy, Germany or France.

Table 1: Civilian employment seasonally adjusted
Change 1983 Q1 to 1987 Q2

	Thousands	Per cent
Canada	+ 1349	+12.8
USA	+12984	+13.1
UK	+ 1355	+ 5.8
Japan	+ 1757	+ 3.1
Germany	+ 571	+ 2.3
Italy§	+ 388	+ 1.9
France*	- 295	- 1.4

Source: OECD 'Quarterly Labour Force Statistics' (except UK)

Note : * - 1982 Q4 to 1986 Q4.

§ - OECD estimate for 1983 Q1 to 1987 Q1.

However the rate of employment growth has been higher in the United States and Canada.

2. Comparisons with other European Community countries show that between 1983 and 1985 employment in the UK increased by more than in the rest of the EC put together. Latest figures indicate that this was also true for the period 1983-86. Over the longer period 1979 to 1985, there was a fall in UK employment which was far greater than that in the rest of the Community; the latest estimates suggest that this was also true for the period 1979-86.

Table 2: Total employment, annual average or mid-year figures
Changes 1983 to 1985 and 1979 to 1985

	1983 - 1985		1979 - 1985	
	Thousand	Per Cent	Thousand	Per Cent
United Kingdom	+ 832	+ 3.6 %	- 959	- 3.8 %
Germany	+ 218	+ 0.9 %	504	- 2.0 %
France	- 279	- 1.3 %	- 416	- 2.0 %
Italy	+ 159	+ 0.8 %	+ 452	+ 2.3 %
Netherlands	+ 156	+ 3.2 %	+ 262	+ 5.4 %
Belgium	+ 30	+ 0.8 %	- 137	- 3.7 %
Luxembourg	+ 3	+ 1.9 %	+ 4	+ 2.6 %
Ireland	- 52	- 4.7 %	- 73	- 6.5 %
Denmark	+ 133	+ 5.6 %	+ 83	+ 3.4 %
Greece	+ 48	+ 1.4 %	+ 229	+ 5.7 %
European Community (10)	+1248	+ 1.2 %	- 1059	- 1.0 %

Source: OECD 'Labour Force Statistics 1965-1985' (except UK)

Note : nc - no change.

3. Comparisons of the proportion of working-age population in work show the UK above our major European competitors but below the USA, Japan and some smaller countries.

Table 3: Total employment as a percentage of the population aged 15-64 : 1985

	Per Cent
Sweden	80
Denmark	75
Japan	71
USA	69
Canada	66
UK	66
Germany	60
France	59
Belgium	56
Netherlands	52
OECD Total	64
OECD Europe	58

Source: OECD 'Historical Statistics 1964-1985'

CONFIDENTIAL UNTIL 11.30 AM ON 17 DECEMBER 1987

EMPLOYMENT:sex and hours of work

The latest estimates of the employed labour force in the whole economy relate to June and have been only marginally revised from those published in October. They show an increase of 134,000 in the second quarter and 1,363,000 between March 1983 and June 1987. Estimates for the third quarter will be available next month.

An assumed growth in the number self-employed of 25,600 per quarter for the four quarters since June 1986 is included in the above figures which compares with an increase of 4,100 per quarter between June 1985 and June 1986.

THE EMPLOYED LABOUR FORCE - TOTAL

Great Britain Thousands, seasonally adjusted

		Males		Females		Persons	
		All	of which part time	All	of which part time	All	of which part time
1983	March	13,563	868	9,334	3,978	22,997	4,844
	June	13,533	892	9,406	4,028	23,039	4,920
	Sept	13,670	908	9,496	4,078	23,165	4,986
	Dec	13,705	923	9,588	4,129	23,293	5,073
1984	March	13,741	939	9,657	4,161	23,399	5,100
	June	13,786	954	9,706	4,182	23,492	5,136
	Sept	13,817	936	9,757	4,202	23,574	5,138
	Dec	13,883	968	9,831	4,253	23,715	5,221
1985	March	13,915	960	9,887	4,282	23,802	5,242
	June	13,941	991	9,939	4,308	23,879	5,299
	Sept	13,927	976	9,990	4,354	23,917	5,330
	Dec	13,929	998	10,022	4,366	23,951	5,364
1986	March	13,902	984	10,061	4,410	23,964	5,394
	June	13,894	1,016	10,094	4,440	23,988	5,456
	Sept	13,902	1,009	10,140	4,467	24,042	5,476
	Dec	13,908	1,036	10,209	4,493	24,118	5,529
1987	March	13,965	1,041	10,261	4,544	24,226	5,585
	June	14,022	1,062	10,337	4,561	24,360	5,623

Change							
Mar 83-Jun 87		359	194	1,003	585	1,363	779
Jun 86-Jun 87		128	46	243	121	372	167

*Estimates of part-time male employees are not seasonally adjusted, therefore it is not possible to estimate full-time male employees.

THE EMPLOYED LABOUR FORCE - COMPONENTS

Thousands, seasonally adjusted

Employees in Employment		Self Employment		HM Forces	
Males	Females	Males	Females	Males	Females
of which		of which		of which	
part time	full part	part time	part time	part time	part time
Persons	Persons	Persons	Persons	Persons	Persons

Year	Month	Males	Females	Males	Females	Males	Females
1983	March	11,706	8,823	5,110	3,713	20,829	1,851
	June	11,674	8,882	5,121	3,761	20,856	1,852
	Sept	11,659	8,952	5,151	3,801	20,811	1,792
1984	March	11,631	9,075	5,213	3,862	20,706	1,801
	June	11,627	9,104	5,233	3,871	20,731	1,849
	Sept	11,637	9,145	5,258	3,887	20,782	1,868
1985	March	11,700	9,254	5,298	3,956	20,954	1,905
	June	11,709	9,295	5,318	3,977	21,003	1,923
	Sept	11,692	9,345	5,319	4,026	21,037	1,926
1986	March	11,664	9,414	5,327	4,087	21,079	1,932
	June	11,654	9,446	5,325	4,121	21,100	1,935
	Sept	11,645	9,482	5,338	4,144	21,128	1,930
1987	March	11,682	9,581	5,368	4,213	21,263	1,979
	June	11,726	9,646	5,420	4,226	21,372	1,994
	Dec	11,640	9,540	5,374	4,166	21,180	1,965

*Estimates of part-time male employees are not seasonally adjusted, therefore it is not possible to estimate full-time male employees.

CHANGES IN EMPLOYMENT

Great Britain

Industry	Year ending Jun 1987	Year ending Jun 1987	Region	Year ending Jun 1987
	Change	Absolute	Change	Absolute
Agriculture forestry and fishing	- 9.3	- 3.0	South East	113.6
Energy and water supply	- 39.0	- 7.4	(Greater London)	15.0
Other mineral and ore extraction etc	- 5.8	- 0.9	East Anglia	35.2
Metal goods, engineering and vehicles	- 59.3	- 2.6	South West	29.1
Other manufacturing industries	0.4	0.0	West Midlands	39.9
Construction	20.0	2.1	East Midlands	15.0
Distribution, hotels, catering, repairs	65.2	1.5	York & Humberside	19.3
Transport & Communication	12.8	1.0	North West	5.1
Banking, finance insurance	131.4	6.0	North	7.2
Other Services	158.1	2.5	Wales	4.2
All Industries	271.5	1.3	Scotland	3.0
			Great Britain	271.5

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Other Services	158.1	2.5	Wales	4.2
All Industries	271.5	1.3	Scotland	3.0
			Great Britain	271.5

11 AVERAGE EARNINGS

1 Table A gives a breakdown of the average earnings index by broad sectors of industry. The full detail will not be published until the next issue of Employment Gazette (Table 5.3 of Labour Market Data). However, it is available on request from the date of the press release.

2 The monthly figures in Table A are not seasonally adjusted.

3 Table B shows the latest information on annual changes in average earnings in manufacturing industries in the main industrial countries. The periods covered and the definitions vary, although the comparison gives a broad idea of how the rate of change in average earnings in Great Britain is related to that of our principal overseas competitors.

INDUSTRY BREAKDOWN
 INDEX OF AVERAGE EARNINGS (unadjusted)

TABLE A

Classes SIC 1980	Weights	Index (January 1980 = 100)						Percentage increase over previous 12 months					
		1987						1987					
		May	June	July	Aug	Sept	Oct*	May	June	July	Aug	Sept	Oct*
Metal processing and manufacture	14	205.8	204.8	234.4	201.4	208.2	236.2	10.7	6.9	14.0	6.1	9.8	13.6
Mineral extraction and manufacturing	14	196.5	205.4	205.0	201.2	206.2	203.7	7.2	7.3	9.9	8.5	8.2	7.9
Chemical and man-made fibres	20	205.8	208.8	212.9	209.6	205.2	210.6	8.7	8.3	10.7	8.9	6.3	7.1
Mechanical engineering	44	193.6	198.6	200.7	198.8	199.4	200.9	6.2	7.9	7.3	8.6	8.4	8.2
Electrical and electronic engineering	37	210.9	217.5	216.7	214.7	216.6	218.0	8.9	8.9	10.1	9.7	10.2	9.1
Motor vehicle and parts	17	198.3	208.6	201.8	197.4	199.8	202.4	8.8	9.4	9.4	8.1	9.1	10.5
Other transport and equipment	17	191.6	197.0	196.3	195.6	197.9	198.1	7.3	6.7	7.8	3.6	7.6	6.4
Metal goods and instruments	27	187.1	191.4	192.1	190.9	193.7	194.9	6.4	8.6	8.6	8.3	9.2	9.4
Food, drink and tobacco	33	205.8	204.7	205.1	203.2	207.0	205.9	9.1	6.1	8.0	8.9	8.3	7.8
Textiles	13	193.7	200.5	201.8	197.6	199.0	199.9	7.6	8.9	10.0	9.2	8.9	8.8
Leather, footwear and clothing	17	192.1	193.6	195.3	191.4	193.2	194.1	8.0	6.5	8.0	6.7	6.0	6.4
Timber and wooden furniture	11	184.2	188.0	184.8	189.7	190.9	206.5	11.2	12.6	7.8	0.3	3.0	19.8
Paper products, printing and publishing	26	213.4	217.3	215.6	215.3	219.8	218.6	7.9	7.3	7.9	9.3	9.1	7.8
Rubber, plastic and other manufacturing	14	198.0	199.7	201.1	196.2	198.1	199.2	9.9	7.1	7.9	8.2	8.0	8.1
Manufacturing industries	304	203.8	208.2	209.8	206.0	208.2	211.2	8.2	7.9	9.0	8.0	8.4	8.9
Coal and coke	15	172.7	178.0	177.0	178.6	177.9	181.8	8.2	11.7	10.1	10.5	5.4	6.3
Mineral oil and natural gas	1	220.2	214.0	223.1	212.5	209.3	210.9	10.3	9.5	14.5	9.4	6.1	8.4
Electricity, gas and other energy and water supply	19	203.0	202.8	211.9	226.4	216.1	215.4	6.2	5.9	3.5	9.3	9.1	8.1
Production industries [‡]	339	202.8	206.9	208.9	206.5	207.8	210.5	8.0	8.0	8.7	8.2	8.3	8.7
Construction	55	192.9	199.4	200.2	196.0	199.4	200.8	7.9	7.6	7.3	9.3	7.6	8.1
Production [‡] and construction industries	394	201.4	205.8	207.6	205.0	206.5	209.1	8.0	7.9	8.5	8.3	8.2	8.6
Agriculture and forestry [‡]	19	196.7	206.0	210.2	218.0	229.0	∅	5.8	6.6	6.5	2.2	5.0	∅
Distribution and repairs	164	187.8	189.9	189.2	189.9	192.0	189.3	7.7	7.6	7.0	7.7	7.8	6.6
Hotel and catering	49	182.4	179.8	176.8	181.0	180.8	183.8	7.7	5.7	5.4	3.9	5.9	7.4
Transport and communication (except sea transport)	71	190.9	191.2	195.2	189.4	189.9	194.9	7.7	8.8	9.1	5.5	6.4	9.2
Banking, finance and insurance	44	221.5	235.4	221.7	219.0	222.8	228.2	9.4	17.0	6.7	8.4	12.4	12.4
Public administration	90	186.6	188.4	195.7	191.2	193.9	195.4	6.4	3.4	8.7	8.0	8.8	5.5
Education and health services	147	217.7	206.9	222.1	226.9	211.1	214.2	14.9	6.3	7.8	7.5	5.7	7.4
Other services	22	208.2	206.2	215.1	207.8	213.8	213.0	7.0	5.7	6.6	7.4	7.0	4.8
Service industries	587	198.8	198.4	202.6	201.7	199.8	201.6	9.3	7.5	7.7	7.3	7.6	7.6
Whole economy	1,000	198.1	200.0	203.1	201.6	201.4	203.4	8.7	7.7	8.1	7.6	7.9	8.0

* Provisional

[‡] Manufacturing, coal and coke, mineral oil and natural gas, electricity, gas, other energy and water supply[‡] England and Wales only

∅ Not available

Stats A1

December 1987

TABLE B

INTERNATIONAL COMPARISONS

HOURLY EARNINGS IN MANUFACTURING (Percentage changes on a year earlier)

		Latest period available
Norway(d)	17.6	Q2 1987
Portugal(h)	16.6	Q2 1987
Greece	10.5	Q1 1987
Denmark(g)	9.2	JULY
Great Britain(c)	8½	OCTOBER
New Zealand (i)	7.2	Q2 1987
Italy (b)	6.7	AUGUST
Ireland	6.3	Q4 1986
Sweden (g)	6.0	AUGUST
Australia (b)	5.7	JUNE
Germany	5.4	JULY
Spain (e)	5.1	Q1 1987
Japan (a)(f)	3.5	SEPTEMBER
Austria(b)(g)	3.3	SEPTEMBER
France(b)	3.0	Q3 1987
United States	3.0	SEPTEMBER
Canada	2.7	AUGUST
Netherlands (b)	0.9	AUGUST
Belgium (j)	0.8	Q2 1987
Finland	-5.2	Q2 1987
OECD	3.8	JUNE
EEC	5.9	JUNE

- (a) Monthly Earnings
- (b) Hourly Rates
- (c) Weekly Earnings (Underlying)
- (d) Males
- (e) Not Seasonally Adjusted
- (f) 3 month ending
- (g) Mining and Manufacturing
- (h) Daily earnings
- (i) Weekly rates: all activities
- (j) Mining, manufacturing and transport

Source: OECD Main Economic Indicators: NOVEMBER 1987

- A. 1. SUMMARY
- 2. KEY FACTS BRIEF

B. DRAFT PRESS NOTICE

C. DETAILED ANALYSIS AND BACKGROUND INFORMATION

- 1. GRAPHS: 1a UNEMPLOYMENT
- 1b UNEMPLOYMENT RATES BY REGION
- 2. UNEMPLOYMENT: ADDITIONAL DATA BY REGION
- 3. LONG TERM UNEMPLOYMENT AND UNEMPLOYMENT BY AGE
- 4. EMPLOYMENT MEASURES
- 5. UNEMPLOYMENT: INTERNATIONAL COMPARISONS

D. ADDITIONAL INFORMATION

- 1. Unemployment: comparisons with 1930s
- 2. Unemployment: coverage of the count: comparison with Labour Force Survey estimates.
- 3. Unemployment: changes in coverage of the count.
- 4. Unemployment: coverage of the count: summary of possible additions and exclusions.
- 5. Labour Market: job changes and flows.
- 6. Demographic and labour force background.
- 7. Employment: methodology.
- 8. Employment: double jobbing and special measures.
- 9. Employment: international comparisons.
- 10. Employment: additional data.
- 11. Earnings.

MANAGEMENT IN CONFIDENCE

FROM: C C ALLAN

DATE: 16 December 1987

APS/CHANCELLOR

cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Sir Peter Middleton
 Miss Mueller
 Mr C D Butler
 Mr Kelly
 Mr G Jordan
 Mr Gray
 Mr Gilhooly
 Mr Rogers
 Mr C E I Jones

*1 note X.
 If might show to work
 present to change of
 Customs & Excise: Mr*

YOUTH TRAINING SCHEMES

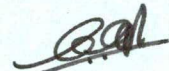
Your minute of 30 November to Mr C D Butler referred to the Chancellor's request for a note on the use of YTS in his Departments.

2. Only 3 departments are running schemes:

- i INLAND REVENUE have an 18 place scheme at Telford for trainees in clerical/computer work. 16 trainees from earlier schemes are now employed permanently.
- ii ROYAL MINT have a 6 place scheme at Llantrisant which runs side by side with their 4 year scheme for apprenticeships in electrical/mechanical engineering. The apprenticeship scheme is designed to provide permanent jobs for all of those who successfully complete it.
- iii TREASURY offer YTS places at some CISCO establishments, and 10 young people are currently under training in the catering trade. About 5 people from earlier schemes are now employed permanently.

5. A new head of steam was put behind the introduction of YTS in the Civil Service in a letter to colleagues written by the Minister of State, Privy Council Office in August. There are two main problems in trying to effect the extension sought: considerable resources are needed to mount YTS schemes properly; and, although the Inland Revenue Staff Federation is taking a more flexible line, trade union opposition generally continues. But all Establishment Officers have been looking carefully at the possibilities within their respective departments.

4. In the Treasury, apart from in CISCO, it has not so far been possible to offer YTS places. The nature of our work and the generally small size of our units does not match the normal scheme requirements very well. But we have been re-examining the position and are giving further thought to whether the sort of work undertaken in areas like the Chessington Computer Centre might offer possibilities. I will let you know if anything comes of this.



C C ALLAN



A large, stylized handwritten signature in the top right corner of the page.

FROM: MISS M P WALLACE

DATE: 21 December 1987

MR C C ALLAN

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Miss Mueller
Mr C D Butler
Mr Kelly
Mr G Jordan
Mr Gray
Mr Gilhooly
Mr Rogers
Mr C E I Jones

YOUTH TRAINING SCHEMES

The Chancellor has seen your minute of 16 December. He has noted that you are considering whether the work undertaken in, for example, the Chessington Computer Centre offers possibilities for YTS places. The Chancellor has commented that it might also be worth pressing the Chairman of Customs and Excise.

A handwritten signature, likely 'mpw', in the bottom right area of the page.

MOIRA WALLACE

From: J ODLING-SMEE

6th January 1988

CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- PCC
- MEG
- Mr Burgner
- Mrs Lomax
- Miss Peirson
- Mr Spackman
- Mr S Davies
- Mr Hibberd
- Mr MacAuslan
- Mr Melliss
- Mr Parsonage
- Mr Riley
- Mr Bredenkamp
- Mr Corry
- Mr Price
- Mr Stern
- Mr Young
- Mr Mills
- Mr Cropper
- Mr Call
- Mr Tyrie

*Thanks.
 Read with Atkinson.
 I ~~will~~ ~~write~~ ~~an~~ ~~assessment~~,
 haven't, then this is
 work for publication.*

UNEMPLOYMENT: ECONOMIC ANALYSIS AND POLICY IMPLICATIONS

You may be interested in the attached paper prepared by a group of macro and micro economists under my chairmanship. It is introduced and summarised in the first five paragraphs.

2. The paper is a product of discussions we have had among ourselves over the last two or three years about how to interpret various studies by economists outside the Treasury of unemployment, wages and the labour market. Although these studies and our discussions were mostly fairly technical, I thought that it would be useful to set out in non-technical language a coherent explanation of the nature of the current unemployment and to indicate the policy implications within the context of the government's overall approach to economic policy.

3. I am afraid that you will not find any new policy ideas here. We were not specifically searching for these as our main aim was to explain how the government's policies relate to our explanation of unemployment.

Jo-s

J ODLING-SMEE

UNEMPLOYMENT: ECONOMIC ANALYSIS AND POLICY IMPLICATIONS

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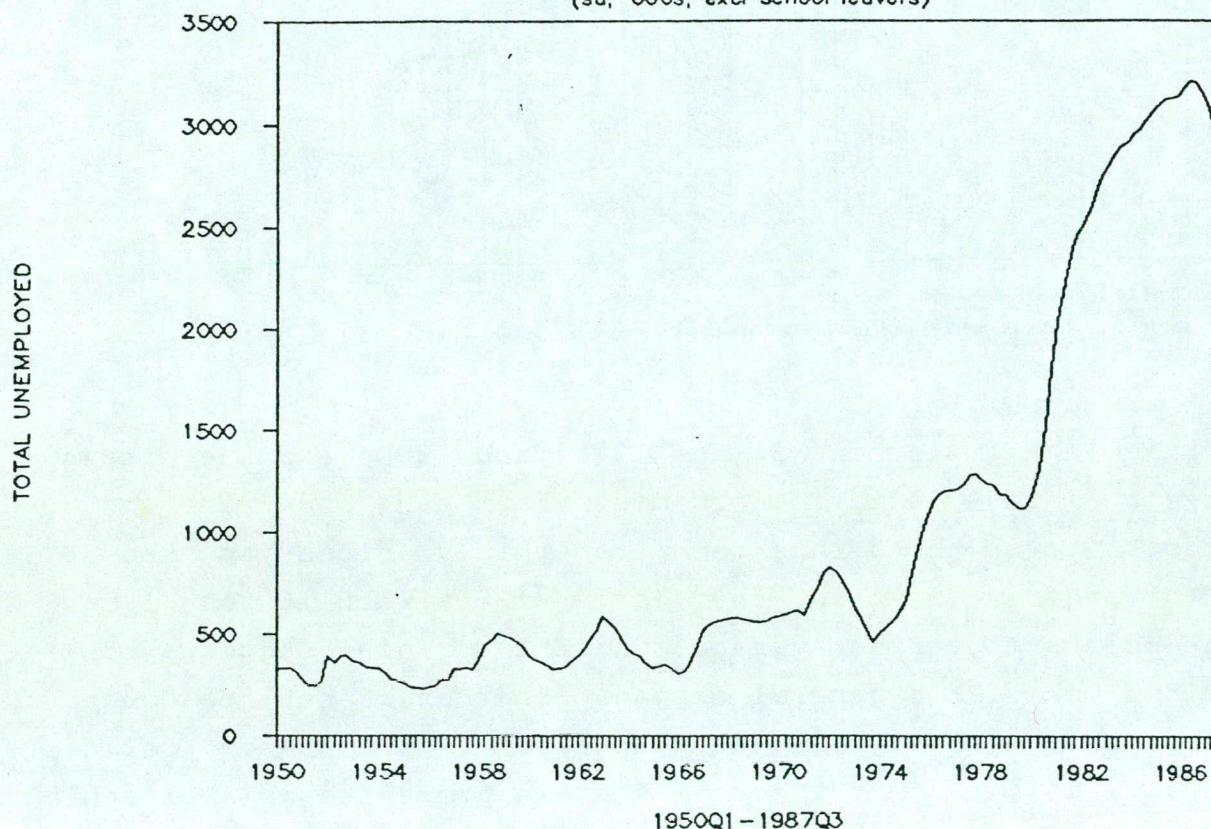
Annex Wages, unemployment and the NAIRU

UNEMPLOYMENT: ECONOMIC ANALYSIS AND POLICY IMPLICATIONSI. INTRODUCTION AND SUMMARY

This paper attempts to set out a Treasury view of why unemployment in the UK is high and to indicate the policy implications within the context of the Government's overall approach to economic policy. The aim is to provide a coherent explanation of the nature of unemployment to serve as background to the various Treasury activities (eg briefing, policy analysis) which rest on a view of unemployment.

CHART 1 UK UNEMPLOYMENT 1950-1987

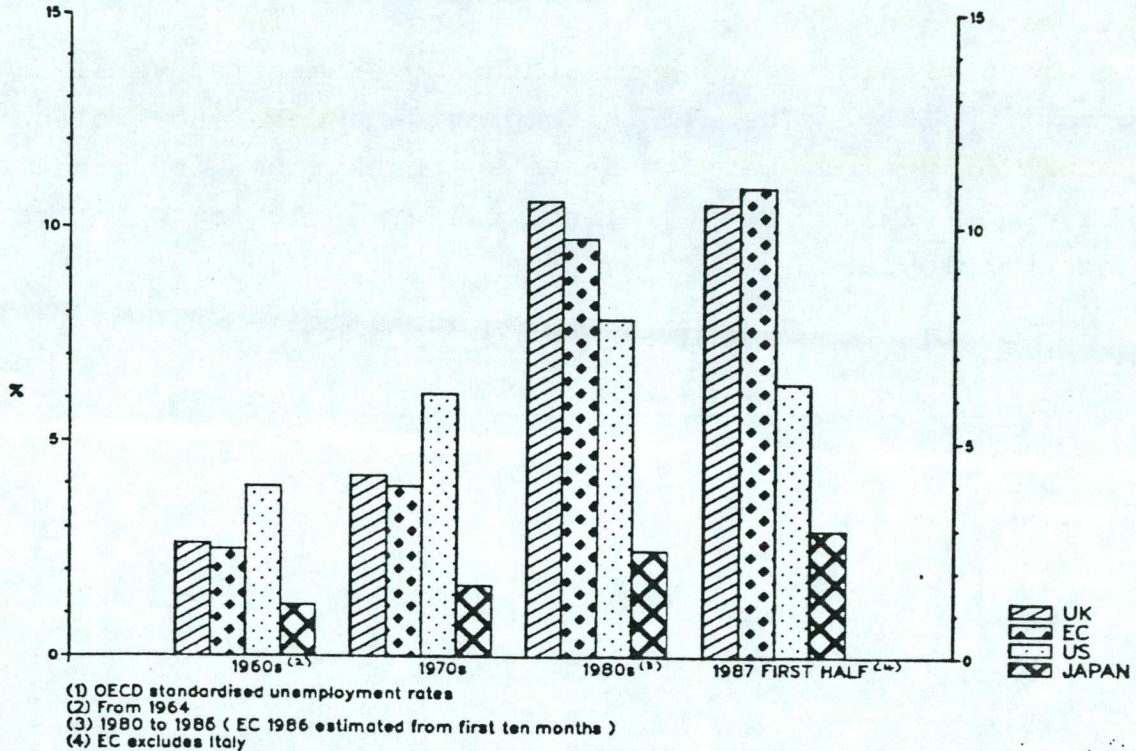
(sa, '000s, excl school leavers)



2. Unemployment has been falling for over a year now (Chart 1), and the fall seems likely to continue for a time. Although part of the reduction in unemployment is attributable to government employment and training measures, including Restart, there has also been a reduction in underlying unemployment. This is obviously associated with the growth in activity, together with the composition of the growth which is weighted towards manufacturing and construction. But output growth and falls in unemployment do

not necessarily go together: unemployment continued to rise slowly over the five years to 1986 although output was growing at an average of nearly 3% a year.

CHART 2 : UNEMPLOYMENT IN THE INDUSTRIALISED COUNTRIES⁽¹⁾
(AS % OF LABOUR FORCE)



3. The rise in unemployment in the 1970s and 1980s and the present high levels are features of most European countries. The unemployment rate in the UK has been remarkably close to the EC average, diverging only in the early 1980s when it rose 1 or 2 percentage points above the average (Chart 2). This suggests that one should look for a general explanation that is not too country specific. Although nearly all the discussion in the paper relates to the UK, we believe that the view that is presented is applicable to most European countries with appropriate local variations.

4. The rest of the paper is in three sections. The first presents our analysis of unemployment. The second discusses the interaction between unemployment and inflation, and the third, outlines some policy implications. There is an Annex which discusses wages, unemployment and the NAIRU (non-accelerating inflation rate of unemployment) in a little more detail.

5. The main conclusions are:

On the nature of unemployment:

a. unemployment is high largely because market mechanisms, especially labour market mechanisms, do not work sufficiently well to remove increases in unemployment soon after they occur, and most of the events affecting the economy in the 1970s and early 1980s tended to create additional unemployment rather than the opposite;

b. the main factors which had an adverse impact on unemployment in the UK in the 1970s and early 1980s were:

i. external events:

- increases in oil prices and the associated world recessions of 1974-75 and 1980-81
- the rise of the newly-industrialising countries

ii. North Sea oil:

- the need for the structure of the economy to adjust to North Sea oil

iii. policy:

- the move to non-accommodating policies in the late 1970s
- the wage and price shocks of 1979-80 (the breakdown of incomes policy, the Clegg

awards, the direct-indirect tax switch, the decontrol of nationalised industry and other prices)

- the increase in taxation

iv. labour market factors:

- the rise in the ratio of unemployment benefits to earnings
- the increase in the power of trades unions
- the shake-out of labour in 1979-81
- the reduction in job search intensity by the unemployed.

Some but not all of these have been reversed in recent years;

c. most OECD countries were exposed to similar factors and unemployment rose in most places in the 1970s and early 1980s. Unemployment in the UK was close to the EC average in the 1960s and 1970s, but rose above it in the early 1980s because of worse inflation, North Sea oil, and the wage and price shocks of 1979-80. Faster growth has recently brought it back to the EC average again. But UK unemployment has been higher than in the US and Japan mainly because of a less flexible labour market;

d. among the factors contributing to the slow adjustment of the labour market and the weak influence of the unemployed on wages are:

i. constraints on and attitudes of employers:

- the bargaining power of "insiders" (broadly, those with secure jobs) which reduces the incentive to hire presently unemployed workers by introducing, potentially at least, additional hiring and turnover costs
- the payment by employers of higher wages to encourage and reward productivity improvements
- employers' sometimes erroneous perceptions that the unemployed will not make good workers
- institutional constraints on local wage variability
- the floor to wages set by the social security system

ii. characteristics of the unemployed:

- the lack of relevant skills among the unemployed in both low and high unemployment areas;
- the lack of effort put into job search by some unemployed people;

iii. locational problems:

- barriers to geographical mobility and the impact on house prices and wages of movement into the South East

- the scale of the adjustment required in some high unemployment areas.

On unemployment and inflation:

e. unemployment has a relatively weak impact on wages. The big rise and fall of inflation since the 1960s owes little directly to movements in unemployment;

f. the level of unemployment above which inflation tends to fall and below which to rise (the NAIRU) is not easy to define or measure, but is likely to be well below current levels of unemployment in the long term;

g. faster growth of demand will nonetheless create inflationary pressures. Apart from those coming from the labour market and associated mainly with the higher growth of output and the rate of fall in unemployment, inflationary pressures will be generated in the goods and foreign exchange markets by any increase in demand relative to supply;

On the policy implications:

h. micro-economic policies have the major role to play in increasing labour and product market flexibility;

i. among the relevant micro-economic policies are trades union legislation, policies which increase competition in product markets, more or better directed training, retraining and school education, changes in the structure and level of taxation, selective employment measures, housing policy, civil service pay decentralisation, social security policy, and incomes policy;

j. unemployment will fall faster over the medium term if macroeconomic policies are set to deliver a less ambitious objective for inflation but there is not much room for varying the inflation path around that in the MTFS;

k. for a given inflation path, improvements in supply performance will tend to lead to both higher output and lower unemployment;

l. macroeconomic policies can contribute to a better supply performance and lower unemployment by maintaining a stable and predictable economic and policy environment which encourages investment in fixed assets, training, R and D and new markets;

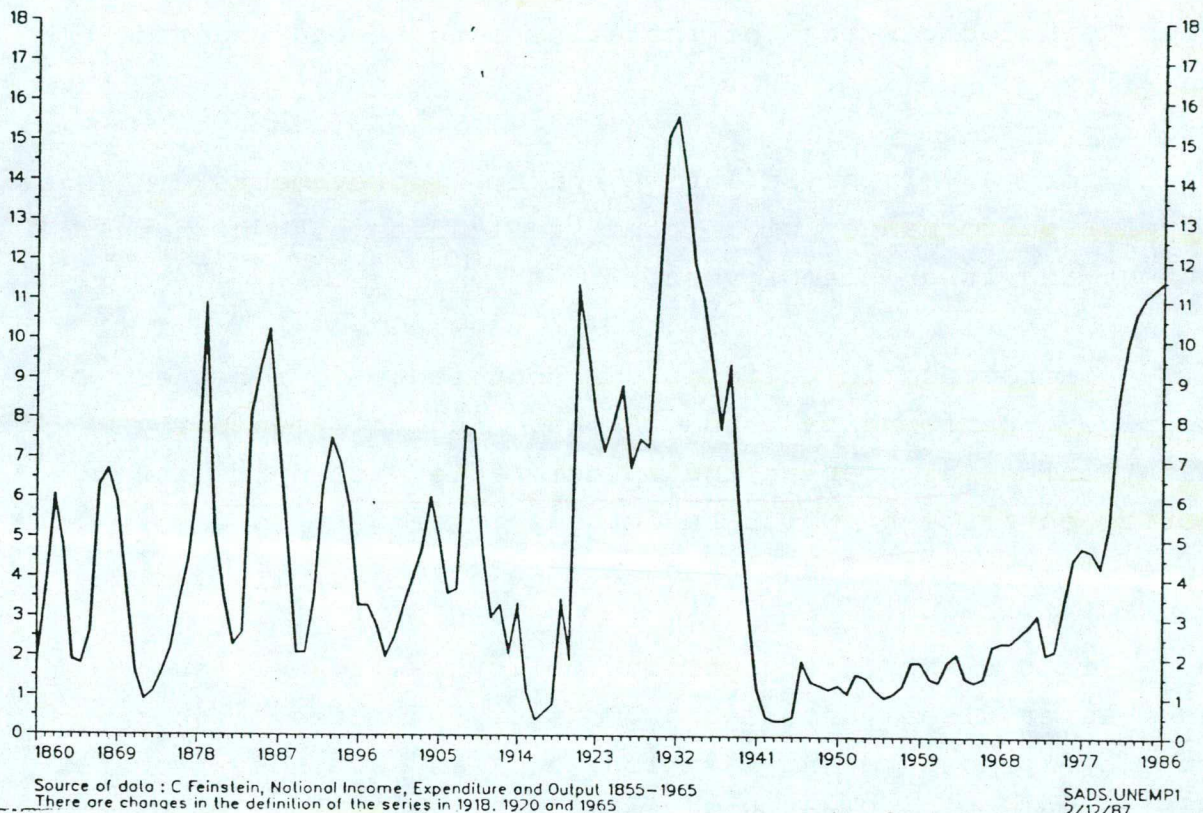
m. in the short term various policy switches (such as easier fiscal and tighter monetary policies, higher public expenditure and taxation, and tax switches from employers' NICs and VAT to income tax) will tend to reduce unemployment but they have adverse, or at best neutral, effects on unemployment in the long term.

II. THE NATURE OF UNEMPLOYMENT

Macro-economic Aspects

6. The distinctive feature of unemployment in Europe over the last twenty years has been that the increases that occurred in cyclical downswings in activity were not fully matched by decreases in upswings (Chart 2). By contrast there was no significant trend in unemployment in the 1950s and most of the 1960s, or before 1914 when the cyclical fluctuations were much larger (Chart 3). Recent experience is more like that of the inter-war period: unemployment took a very long time to fall after the initial increases in the recessions of 1921 and 1930-33.

CHART 3 - UK UNEMPLOYMENT



7. It is much easier to explain in macro-economic terms the increases in unemployment during recessions than the failure of unemployment to fall in the subsequent upswings in activity. The rise in recessions can mainly be explained in terms of the factors which caused the recessions themselves. For the UK these included: developments in the world economy including oil and other commodity prices and the rise of the newly-industrialising countries; the move to non-accommodating macro-economic policies in the UK in the late 1970s; the need for the structure of the economy to adjust to North Sea oil; and wage and price shocks in 1979-80 (the breakdown of incomes policy, the Clegg awards, the direct-indirect tax switch, the decontrol of nationalised industry and other prices).

8. There have been additional factors tending to push unemployment up in the UK in both recessions and upswings. The increase in the burden of taxation has tended to put upward pressure on labour costs and prices and hence, for a given stance of macro-economic policies, contribute to unemployment. The rise in the ratio of unemployment

benefits to earnings, especially in the late 1960s and early 1970s, and the increase in the power of trades unions up to 1979 also contributed. Another factor operating since 1979, especially in 1979-81, was the shake-out of labour as companies came under financial pressure and decided that they could not continue to hoard labour in anticipation of the upturn. As the stock of unemployment rose attitudes towards being unemployed altered. It became more socially acceptable and support systems for the unemployed developed. This tended to undermine the intensity of job search by the unemployed. The weakening for this and other reasons of mechanisms that would help to reverse the initial rise in unemployment suggests that there may be an element of hysteresis, the tendency of unemployment to settle at whatever level it has been pushed to.

9. These additional factors do not go far enough towards explaining the failure of unemployment to fall in cyclical upswings more than, until recently, it has done. They are least convincing in the 1980s upswing because some of them were beginning to operate in the reverse direction: the rise in the tax burden came to an end; on many measures the ratio of unemployment benefits to earnings for the average person has been falling; and the power of the trades unions has been reduced.

10. One explanation put forward by some commentators for the failure of unemployment to fall more in cyclical upswings is that there has been a shortage of aggregate demand. As there has clearly not been a shortage of nominal demand, the question to be asked is why nominal demand is not translated into higher real demand for labour. This shifts the debate onto wage-setting behaviour in the face of high unemployment and the nature of inflationary pressures in markets other than the labour market, both of which are discussed later.

11. More generally the problem seems to have been one of the weak capacity of the labour market to adjust to disequilibria. The relatively weak response of wages to unemployment, the evidence on which is discussed further in the Annex, is an important part of this. The labour market behaviour that lies behind this and other micro-economic aspects are discussed in the next section.

12. Slow adjustment in the labour market does not in itself explain why unemployment has persisted so long in the 1970s and 1980s whereas it fell back when output recovered in business cycles before 1914 and in the 1950s and 1960s. One important reason for higher unemployment in the 1970s and 1980s than earlier is that the factors affecting the economy tended to be larger and more often adverse. The recessions of the mid-1970s and early 1980s were worse than those in the 1950s and 1960s. The tax burden tended to increase whereas in the 1950s it declined. The consequent need for adjustment in the labour market bore greater similarities to the situation in the 1920s, when major structural changes in the economy were required, and the early 1930s, when the world economy went through a severe recession, than to the 1950s or 1960s.

13. Moreover, non-accommodating macro-economic policies have ensured that disequilibria in the labour market have to be removed by adjustment within the labour market itself, rather than coming out in the form of rising inflation as occurred from the late 1960s onwards. Macro-economic policies are now directed at controlling inflation, so that reductions in labour market disequilibria cannot come about at the expense of higher inflation as occurred in the 1950s and 1960s.

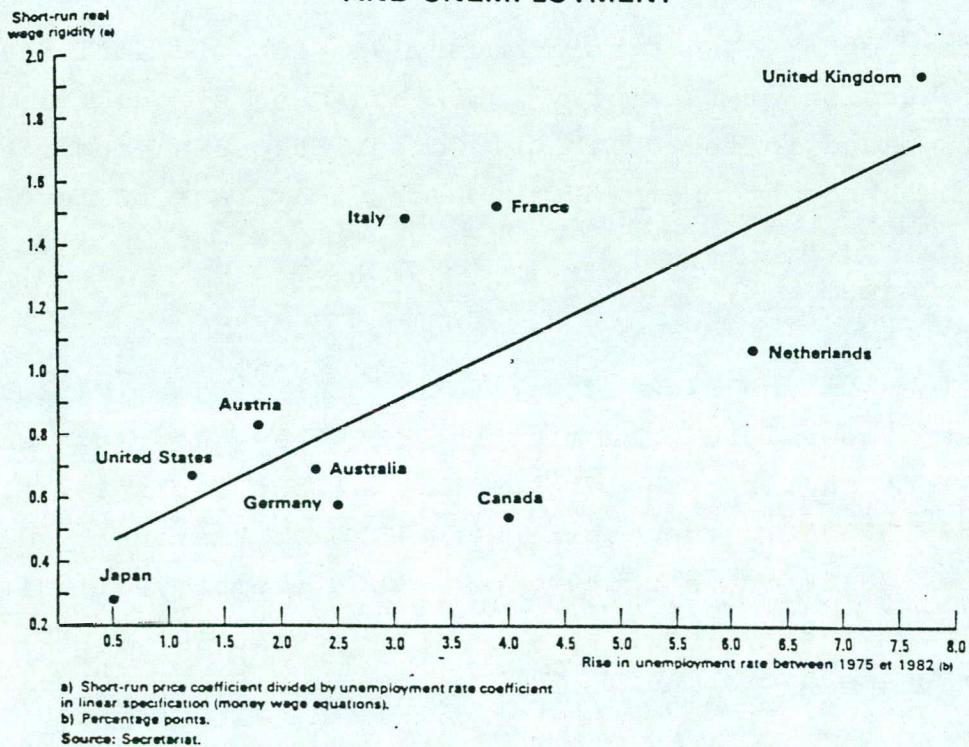
14. The labour market may also have become less effective than in the 1950s and 1960s at responding to events which called for adjustment. The reduction in money illusion and the associated institutional changes such as the movement towards annual wage negotiations have reduced the extent to which real wages change in practice. The period of sustained growth in the 1950s and 1960s, following the high unemployment of the 1930s and war-time austerity, may have raised expectations and led to more real wage pressure than could be satisfied in the 1970s and 1980s without rising inflation or rising unemployment. The increase in union strength up to the 1980s may have had similar effects. Incomes policies may have temporarily obscured these underlying developments, leaving their consequences fully exposed after the incomes policy broke down in 1978.

15. All countries were exposed to similar world developments in the 1970s and 1980s, and many of them experienced similar adverse domestic trends such as rising tax rates and benefit replacement ratios. However, unemployment did not rise as much or stay high as long in the US and Japan as in the UK and most European countries. This is mainly attributable to more flexible labour markets there. Although unemployment in the UK rose above the average for EC countries in the early 1980s, it has now come down to (or even below) the average (Chart 2). The major differences between the UK and other European countries have been:

- the timing of the major rise in unemployment in the UK after 1979 partly reflects the delayed response to adverse factors that were present much earlier. The delay was reflected in labour hoarding in the late 1970s because of accommodating economic policies and the expectation that output would recover. Without this delay unemployment in the UK might have risen above the EC average during the 1970s;

CHART 4

SHORT-RUN REAL WAGE RIGIDITY AND UNEMPLOYMENT



- real wages adjust more slowly in the UK in response to unemployment than elsewhere (Chart 4, where real wage

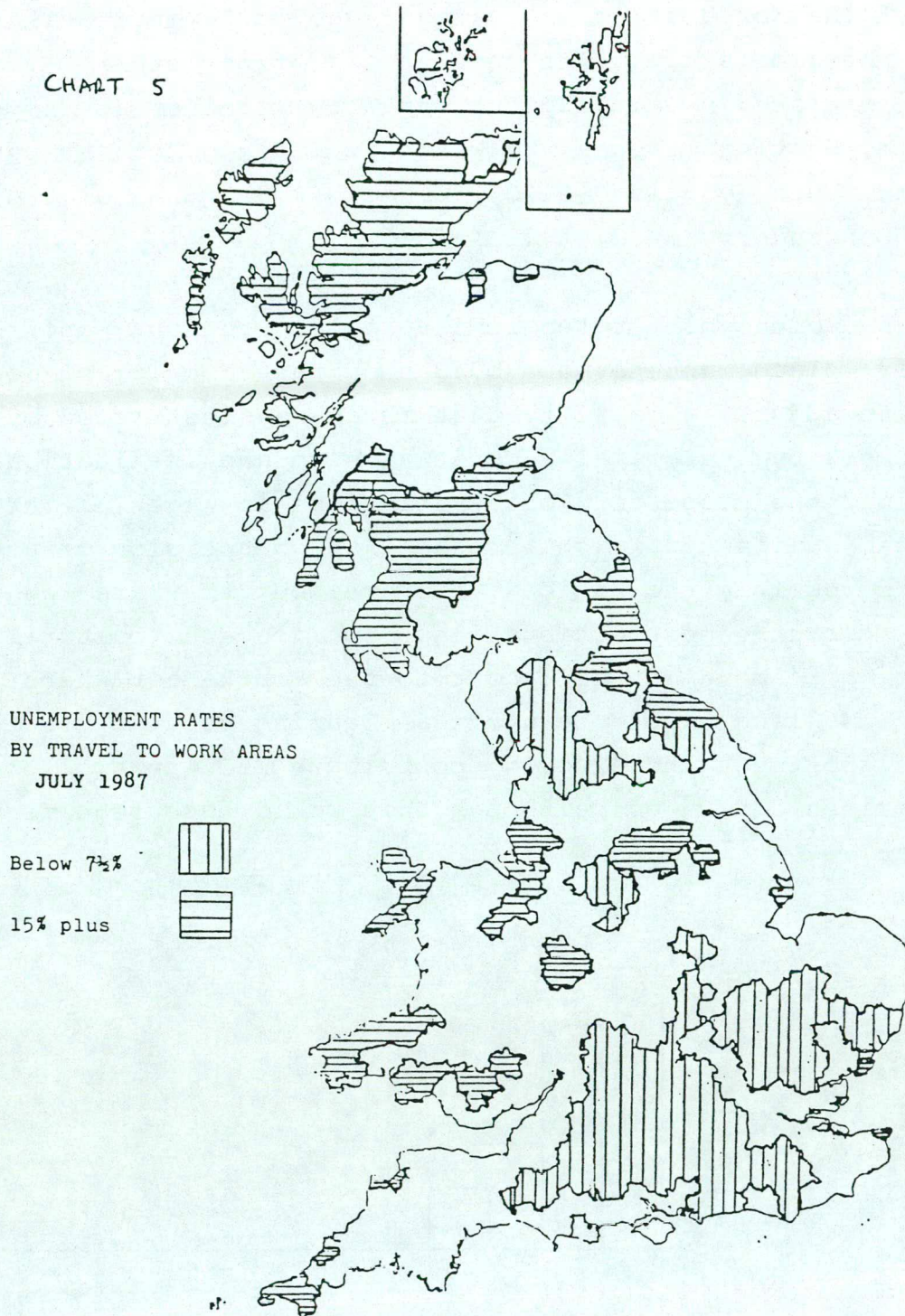
rigidity is defined as the ratio of the elasticity of nominal wages with respect to prices to the elasticity of nominal wages with respect to unemployment). In general the UK labour market is probably less flexible than many others in Europe;

- the greater amplitude of the rise and fall in inflation in the UK in the 1970s and 1980s damaged employment through greater uncertainty during the upswing and the need for more restrictive macroeconomic policies during the downswing;
- North Sea oil imposed a need for structural adjustment in the UK, the initial phase of which produced a fall in manufacturing employment;
- some European economies have been able to respond to unemployment by reducing the number of temporary immigrant workers;
- other countries did not have wage and price shocks in 1979-80 on the scale of those in the UK;
- on the other hand, the recovery in economic activity since the recession of the early 1980s has been stronger and more firmly based in the UK than in other European countries, and this has brought unemployment back to average EC levels.

Micro-economic Aspects

16. Explanations of the slow adjustment of the labour market must be sought at the micro-economic rather than the macro-economic level. This section first summarises the salient facts relating to regional unemployment, the skill structure of the employed labour force and the duration structure of the unemployed. It then discusses some recent theories of the wage bargaining process and its impact on unemployment.

CHART 5

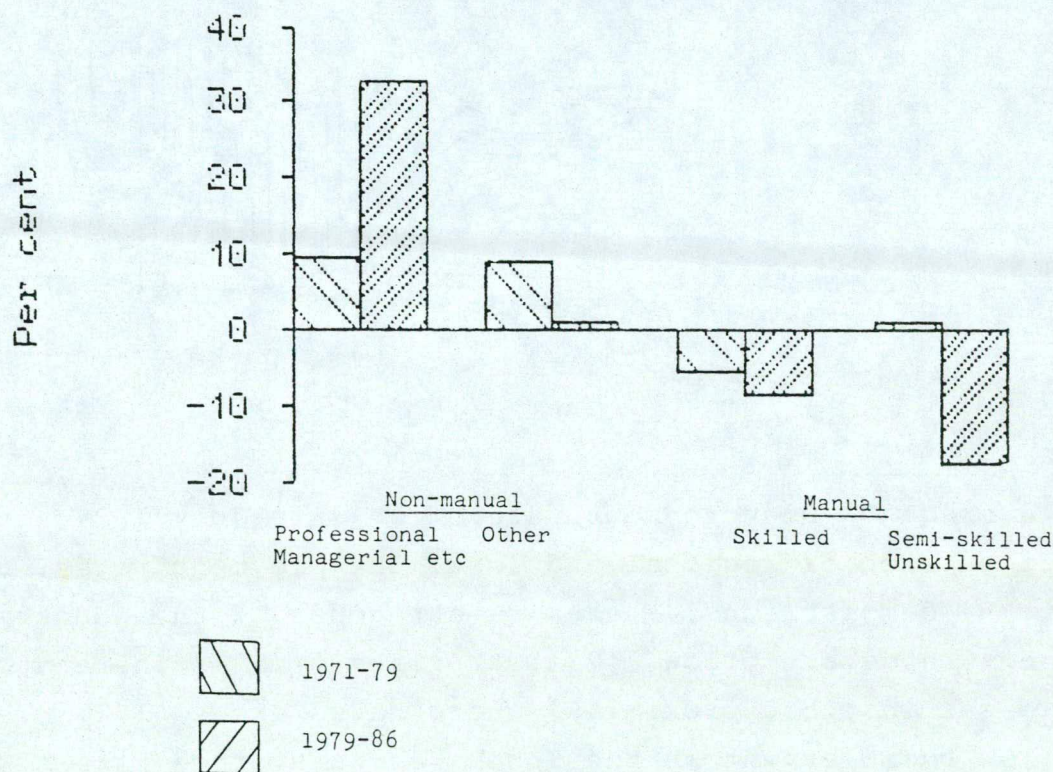


17. The average UK unemployment rate of 10½% in July 1987 conceals a wide dispersion of regional and local unemployment rates. As the map (Chart 5) demonstrates, there are stretches of the country where unemployment rates are below 7½% at the same time as there are areas (in some cases in close proximity) where rates exceed 15%. The main band of low unemployment in the South has an average rate of 6% for a working population of about 3.75 million; in the high unemployment

areas of the North the rate averages about 18% in a working population of the same size. (The populations of the other areas marked are much smaller.) Unemployment rates in local areas, especially in the North, Scotland, Wales and Northern Ireland, can be particularly high (eg South Tyneside at 23%, Cumnock & Sonquhar at 29%, Holyhead at 22%, Londonderry at 27½%).

18. High unemployment rates in particular regions and localities obviously place an enormous burden on the capacity of local labour markets to adjust, a capacity that is anyway restricted by the floor to wages set by the social security system and institutional factors which limit the scope for local variations in wages. Interregional movements of labour might reduce the dispersion of unemployment rates and possibly the national average, but they are inhibited by housing market imperfections and social and cultural factors. Moreover, more movement of labour to the South-East where jobs are easiest to find would be a mixed blessing because greater housing and land shortages there would contribute to upward pressure on house prices and wages, although this would encourage firms to move elsewhere.

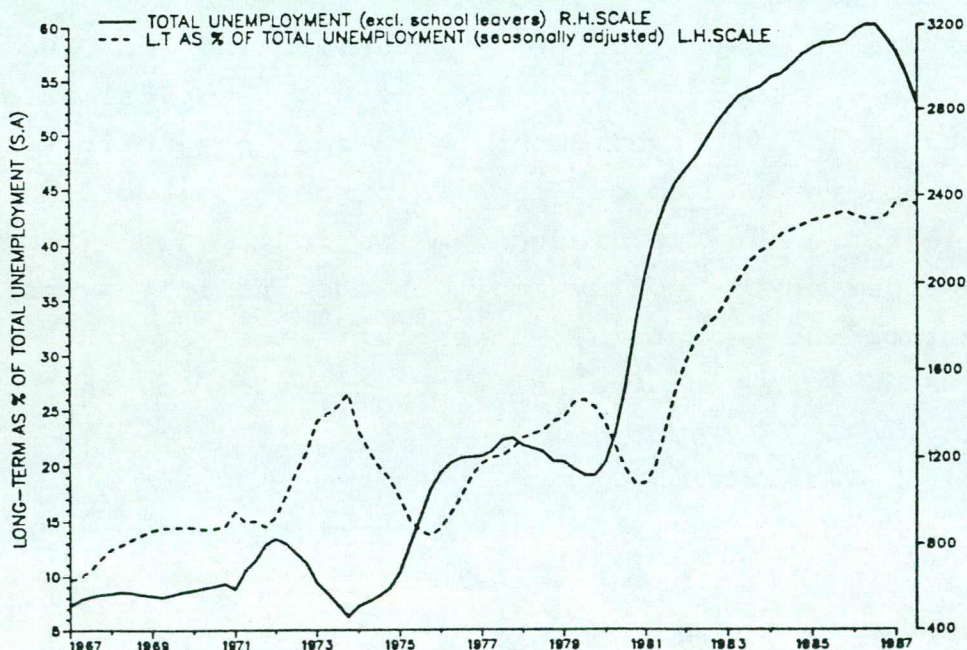
CHART 6 % EMPLOYMENT CHANGE BY SKILL
1971-79 & 1979-86



SOURCE: DE from 1971 Census of Population and 1979 and 1986 Labour Force Survey.

19. There have also been significant differential changes in employment between skill categories (Chart 6). The employed labour force fell by 0.4 million between 1979 and 1986, but was associated with a decline of 1.1 million in semi-skilled and unskilled manual jobs and an increase of the same order amongst professional and managerial non-manual occupations. The unemployed are more likely to have lower skills and educational qualifications than the employed (about one third of the employed have no qualifications compared with one half of the unemployed and two-thirds of those unemployed for four years or more). This handicaps the unemployed in competing with those in employment and in coping with the shifting skill structure. It requires a system of education, training and re-training for the unemployed and new entrants to the labour force that is less inadequate per se, and more relevant to the changing structure of employment.

CHART 7 : UNEMPLOYMENT AND LONG-TERM UNEMPLOYMENT



20. The main facts about the duration structure of the unemployed are that the proportion who are long-term unemployed rose as unemployment rose (Chart 7), and the probability of finding a job

declines as the duration of unemployment increases*. In addition, as mentioned earlier, there is some evidence that the long-term unemployed have a weaker impact on wage determination than the short-term unemployed. There are two broad interpretations of the declining re-employment probabilities and the differing impact on wages. One is that the essential characteristics of the people who become long-term unemployed are less attractive to employers than those of the short-term unemployed: this would occur because the most useful unemployed workers found jobs first leaving the less employable on the count. The other is that the state of being unemployed itself reduces employability.

21. The evidence does not allow us to distinguish between these two hypotheses. The regional and skill level facts do, however, suggest that many people have become long-term unemployed because they are in the wrong place or have the wrong skills to appeal to employers rather than because they have become unemployable through being unemployed. On the other hand, there is ample evidence that the longer the duration of unemployment the greater is the adverse effect on morale and the effort put into looking for work. But there is not obviously a decline of human capital as some have suggested: there is little evidence that the productivity of the long-term unemployed who do get back into jobs is lower than that of their peers after an initial induction period. Our judgement is that, in considering the policy implications, relatively more weight should be put on the essential characteristics of the long-term unemployed and less on the effects of unemployment on their employability.

22. Even when account is taken of the barriers to geographical and skill mobility mentioned above, there remains a need to explain why the labour market has not adjusted more in the face of high

*This is a statistical observation, but it is supported by the reluctance of employers to hire the long-term unemployed, particularly in areas where unemployment is lower. Surveys suggest that they are worried that the long-term unemployed may be of poor quality and motivation, and therefore represent a risk which it is unnecessary to take when there are short-term unemployed available.

unemployment. It has already been noted that some general factors such as the overall tax burden, the ratio of unemployment benefits to earnings and the power of the trades unions cannot on their own explain why so little adjustment has occurred in recent years. This does not, of course, mean that more progress in these directions would not speed up adjustment. It almost certainly would because at the margin some wages, for particular groups of workers in particular areas, probably are held up by the level of social security payments or trades union pressure. Nevertheless, there has been some adjustment in the required direction in relative wages of different skill groups. For example, the wages of manual workers have grown more slowly than wages in general. The size of the resulting differential has, however, been insufficient in the face of the fall in demand for manual workers.

23. The remainder of this section discusses recent work by economists which attempts to explain why profit-maximising firms should pay wages above market-clearing levels. Two broad models of wage behaviour have received particular attention, efficiency wages and insider-outsider theories.

24. Efficiency wage theories see the problem as one of imperfect or asymmetric information about the characteristics and performance of employees. For example, firms are assumed to be unable to monitor workplace performance fully. They therefore pay efficiency wages in order to increase the penalty to a worker of being dismissed and thereby increase workplace discipline and productivity. In other words firms pay efficiency wages in order to raise productivity. An important corollary is that if there is an increase in aggregate demand and a rise in wages generally then the penalty for being dismissed from a firm paying efficiency wages will be reduced and workplace performance will suffer. Efficiency wage firms may respond by raising wages, rather than hiring more workers. It is also important to note that efficiency wage levels are unlikely to be affected by reductions in trades union power.

25. Wages above market-clearing levels may also be explained by the theory of 'insiders-outsiders'. This attempts to explain how employers and existing workers in firms together exploit the quasi-

rents that arise from market power in labour and product markets. The bargaining power of the current employees, relative to unemployed potential workers, arises because of the existence of turnover costs which reduce the incentive for employers to hire unemployed or new entrant workers. Such turnover costs include job-specific training costs, hiring and firing costs and the costs that may be incurred by withdrawal of co-operation by existing workers from new entrants who might be seen as diluting bargaining power and pay. Trades unions may play an important role in augmenting and enforcing these turnover costs. But the latter exist and can be exploited even in the absence of unions. The theory is particularly applicable in industries and firms where co-operative behaviour between workers is important, especially where there is a high level of firm specific human capital. These characteristics are a feature of non-unionised firms such as those in high technology sectors, as well as firms requiring co-operative behaviour amongst workers (eg. assembly operations) which also happen to be unionised.

26. The insider-outsider theory provides a plausible explanation of why unemployment does not fall more during an upswing in activity. The upswing increases the bargaining power of insiders. This is because in the medium term the firm may wish to hire new workers, and if it did decide to do so, it would incur turnover costs over which insiders have some control. Insiders will seek to exploit their increased bargaining strength by raising wages and discouraging the employer from hiring new workers.

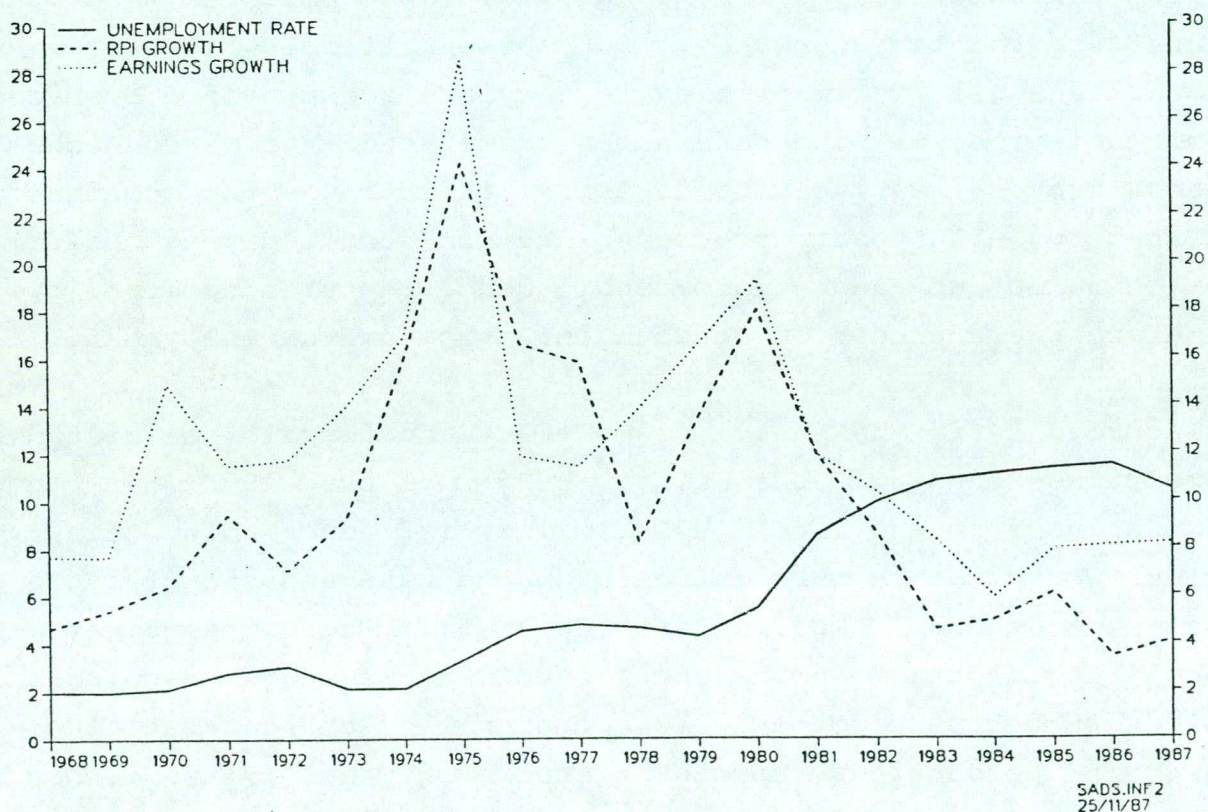
27. Empirical evidence on the strength of these two theories in the UK context is not conclusive. However it is likely that in some firms and industries these types of behaviour do take place.

III. UNEMPLOYMENT AND INFLATION

28. A presumed trade-off between unemployment and inflation in the short term has been at the heart of much macro-economic analysis since the war. The Phillips curve which relates wage growth to unemployment is the mechanism in many macro-economic models for restoring equilibrium: an increase in unemployment reduces wage growth which tends to increase employment again. Similarly in

policy discussions it has usually been assumed that there is an optimal level of unemployment in relation to inflation. In the 1950s it was thought that a particular level of unemployment would produce a particular level of inflation: at lower levels of unemployment inflation would be higher but stable. In the 1970s and 1980s with the "expectations-augmented" Phillips curve, it was thought that there was a unique level of unemployment, the NAIRU (non-accelerating-inflation rate of unemployment), at which inflation would be stable. At lower levels of unemployment inflation would rise continuously. The rise in inflation in the 1970s has been attributed to unemployment being below the NAIRU and its fall in the 1980s to unemployment being held above the NAIRU - the Government has been accused of deliberately creating unemployment to reduce inflation.

CHART 8 - INFLATION AND UNEMPLOYMENT



29. One difficulty with this argument is that it does not explain why inflation has not come down significantly since 1983 although unemployment has until this year been higher than it was in 1980-83 when inflation fell sharply (Chart 8). The more general difficulty,

of course, is that the level of unemployment does not seem to have a strong or well-determined impact on wages. Thus while there might in some analytical sense be a long-run NAIRU in the economy, we do not think that the concept is very helpful in practice. The Annex discusses the relationship between wages and unemployment and the relevance of the NAIRU in more detail.

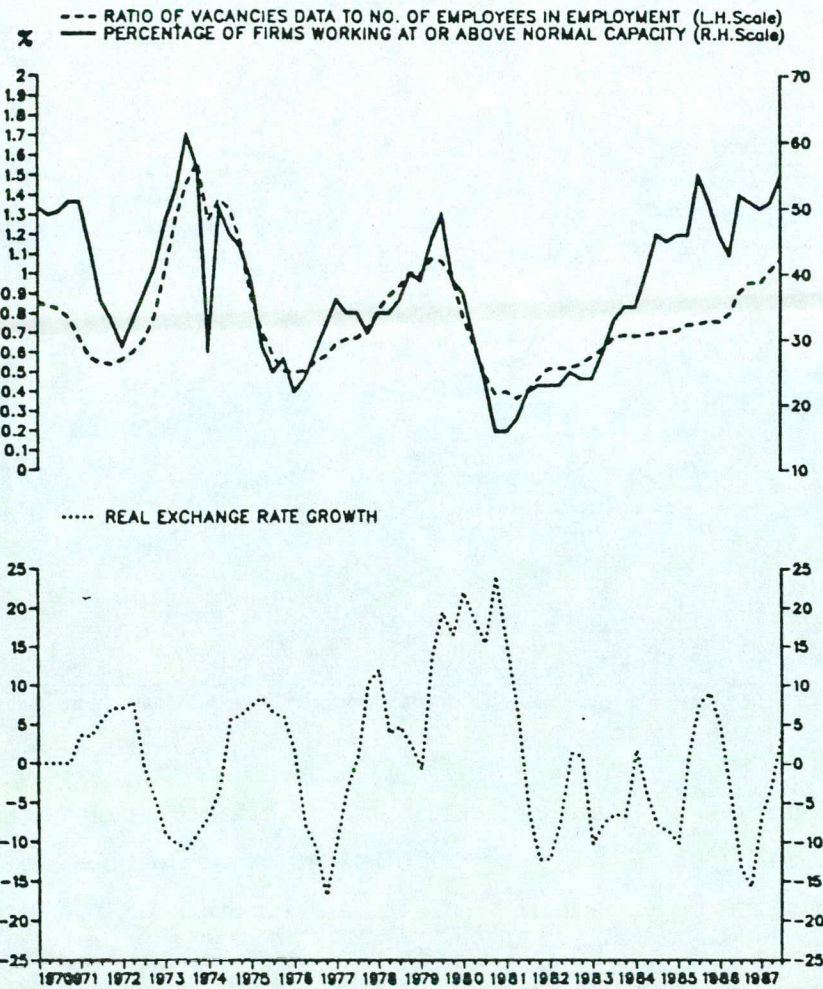
30. Against the background of a weak impact of unemployment on inflation the remainder of this section considers the factors lying behind the rise and fall of inflation in the 1970s and 1980s, and the relationship between the pressure of demand more generally and inflation.

31. In the medium term movements in inflation can be attributed to macro-economic policy. In the short term, of course, very many factors affect inflation, including oil price changes, other world price developments, tax changes (both the overall level and direct/indirect tax switches), price measures, incomes policies, and other pressure from the labour market. But these will only give rise to permanent changes in inflation if they are accommodated by macro-economic policies. If they are not accommodated - if macro-economic policies are used actively to determine inflation - the combination of short-term inflationary pressures and non-accommodating policies will alter output and employment. Hence the stance of policy is relevant to the explanation of both inflation and unemployment.

32. In broad terms the stance of monetary and fiscal policies was accommodating during the first half of the 1970s and non-accommodating from the late 1970s. The influence of policy on inflation works mainly through the exchange rate and the pressure of demand in goods and labour markets (Chart 9). The exchange rate is particularly important in the short term because large changes in it can occur in response not only to actual policy changes but also to changes in perceptions about the credibility and future course of policy.

33. The fall in the real exchange rate up to 1976 contributed to the rise in inflation in the first part of the 1970s. It therefore

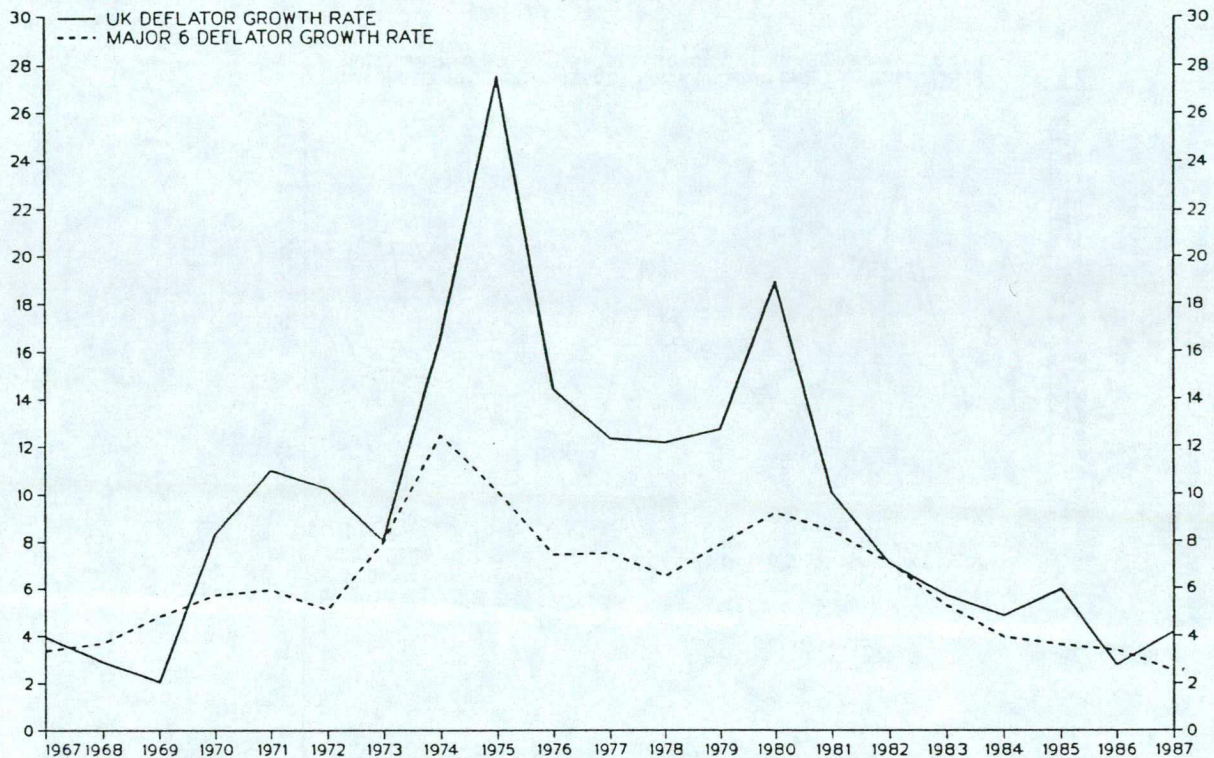
CHART 9 : PRESSURE OF DEMAND AND EXCHANGE RATE



added to the upward pressure on inflation that was already coming from abroad and the UK's rate of inflation rose faster than that in the major 6 (Chart 10).

34. Despite favourable effects from incomes policies and the appreciating exchange rate, inflation in the second half of the 1970s remained above the level abroad. When macro-economic policy moved to reduce inflation after 1979 it therefore had to bring inflation down to world levels as well as offsetting the effects of some new unfavourable pressures coming from the breakdown of incomes policies, price liberalisation, the rise in the tax burden and the direct/indirect tax switch. This combination of events contributed to the fall in output and sharp rise in unemployment in 1980-81.

CHART 10 - UK AND WORLD INFLATION



35. The main factors determining the broad rise and fall of inflation since the late 1960s have therefore been world developments and macro-economic policies in the UK. Policies have worked on inflation mainly through the exchange rate and the pressure in goods markets and hardly at all through unemployment. Thus in the 1980s tight policies, combined with the effects of oil, pushed the exchange rate up sharply and hence inflation downwards. They also gave rise to severe pressure in goods markets and a decline in profit margins. Together with help from falling world inflation, these factors were sufficient to bring UK inflation down without a significant contribution from the high level of unemployment.

36. The absence of a strong link between the level of unemployment and wage inflation does not mean that aggregate demand can grow at a different rate without altering inflation very much. Clearly the growth of demand is constrained by the available supply. As the pressure of demand rises relative to supply, domestic prices and imports will tend to rise even if wages are unchanged. Rising imports will in turn put pressure on the exchange rate, falls in

which will feed through into higher prices. Foreign exchange markets might well bring forward and amplify the depreciation in the exchange rate in anticipation of a significant rise in imports. Thus there are various ways in which changes in the pressure of demand will tend to alter inflation even if there is no response of wages.

37. In practice, wages are also likely to respond. In particular there is likely to be a limit to the speed at which unemployment can fall without generating rising wage inflation. But there is no reason to believe that, given time and steady but not excessive growth, unemployment cannot revert to much lower levels than those of the 1980s or even 1970s without rising inflation.

IV. POLICY IMPLICATIONS

38. The diagnosis of the nature of the unemployment problem points to the conditions under which sustained reductions in unemployment consistent with maintaining low inflation might be achieved. In particular the emphasis on the slow adjustment of the labour market in the face of high unemployment indicates the importance of improvements in labour market flexibility and responsiveness. Microeconomic policies which could help in this way are discussed first, and then the role of macroeconomic policies is considered.

Micro-economic Policies

39. The discussion of microeconomic aspects of unemployment drew attention to a number of separate factors contributing to the sluggishness of labour market adjustment. These include:

- the relative insensitivity of wage bargainers to wider market conditions because of the strength of insiders and the need to reward efficiency
- the lack of relevant skills among the unemployed
- employers' perceptions, sometimes wrong, that the unemployed (especially those who have been unemployed for a long time) will not make good workers

- barriers to geographical mobility
- the scale of the adjustment required in some high unemployment areas
- institutional constraints on local wage variability
- the floor to wages set by the social security system
- the lack of effort put into job search by the unemployed.

40. This is not the place to discuss in detail microeconomic policies that might tackle each of these problems. Instead the main policy options are briefly reviewed in order to draw out their relevance to the diagnosis. But their wider aspects, for example the implications of lower social security payments for living standards, are not considered.

41. Further trades union legislation aimed at reducing the power of trades unions would work in the direction of lowering the bargaining strength of insiders. But insiders are not necessarily trades unionists. And there may be limits to the extent to which a further reduction in trades union power at national level will alter the strength of insiders at plant level.

42. Increased competition in product markets achieved through the usual range of microeconomic policies (competition, monopolies and mergers policies, privatisation and contracting out, deregulation, public purchasing policies, reduction in barriers to trade) would tend to improve the adaptability and flexibility of the economy and dampen inflationary pressures. This would raise the level of output and employment that was consistent with given inflation. Increased competition in product markets may also increase the bargaining power of outsiders by raising the cost consciousness of employers.

43. Training and retraining will increase the skills of the unemployed, raise the bargaining power of outsiders, and improve the re-employability of workers who may lose their jobs in future. Since youth employment is an important part of the total, the type and quality of education at school level is also highly relevant.

44. Reductions in the overall tax burden matched by reductions in public expenditure relative to GDP will tend in time to increase employment for given money GDP. However the opposite may occur in the first couple of years, because changes in public expenditure feed through more quickly into output and employment than do tax changes.

45. Changes in the tax structure might raise employment although there are clearly competing objectives for the tax structure. Reductions in employers' NICs rather than income tax favour employment in the short term because of their more direct impact on labour costs, although in the long term there is no reason to expect a significant difference. And changes in the structure of the employers' NIC schedule itself, reductions at the lower end and increases higher up as in 1985, might help employment as the demand for low-paid labour is probably more elastic than that for high-paid labour. More generally, changes which reduce the distortions in the tax structure will contribute to the efficiency and flexibility of the economy.

46. Selective measures are, of course, already playing a major role in coping with poor labour market adjustment. The analysis here points to the potential value of measures which have the general effect of:

- helping outsiders to compete with insiders or set up in self-employment
- improving employers' perceptions of the employability of the unemployed and reducing restrictions on recruitment;
- encouraging geographical mobility (eg housing, pensions);
- encouraging job search by the unemployed;
- increasing the employability and job prospects of the residents in high unemployment localities (eg inner cities).

47. Housing policy can clearly reduce the costs and increase the feasibility of unemployed workers moving elsewhere to find jobs. Given regional house price differentials, there may be limits to the extent to which policies towards rented housing alone can increase geographical mobility. Policies affecting the cost of owner-occupied housing, for example through the tax system or the supply of land, may be a necessary part of any attempt to have a major impact on barriers to mobility. They may also have a restraining effect on the growth of wages.

48. National pay structures used by national multi-branch employers are a major constraint on local wage variability. Employers find them convenient because they permit geographical mobility of staff (provided that cost of living allowances are realistic) and trades unions also support them. The Government's only influence is likely to be through the indirect route of breaking down its own national pay structures and hence creating an alternative model and setting up different going rates of pay in areas where it is a major employer.

49. There are clearly reforms to the social security system that would reduce the disincentive to find work and put downward pressure on wages at the lower end of the distribution. They can be grouped into those that reduce incomes in unemployment generally (eg. by uprating by less than inflation), those that reduce unemployment incomes selectively (eg. for young people, for those who refuse job or training offers, or for those in low unemployment areas), those that restrict the period during which some or all benefits are paid (eg. to a year), and those that reduce the penalty on part-time employment (eg. benefit-disregard policy for the long-term unemployed).

50. For completeness incomes policies should be mentioned. But although experience in some countries suggests that they can help labour market adjustment by restraining wages without harmful side effects, this has not been the British experience.

51. No single one of the policies listed here is likely to have a major impact on adjustments in the labour market. But jointly they would probably make a significant contribution. Some of them could be expected to raise output as well as employment in the long run.

52. The effects of these micro-economic policies could be expected to build up over time from rather small beginnings. Some policies, for example changes in school education and private rented housing, operate at the margin so that their effects take many years to spread through the system. Other policies, such as trades union legislation and civil service pay decentralisation, may require a change in perceptions and attitudes before the labour market benefits. Another reason why the effects build up over time is that falling unemployment itself has beneficial effects. It alters employers' perceptions about the employability of the unemployed and it increases job search intensity by the unemployed, both because of the higher probability of finding work and because the "culture of the dole" becomes a less all-pervading part of their environment.

Macro-economic Policies

53. The potential contribution of macro-economic policies to the reduction of unemployment is usually thought to be through the expansion of nominal demand. However, as discussed earlier, higher nominal demand on its own implies higher inflation. The issue then becomes one of objectives for inflation over the medium term. Faster growth of nominal demand will not be dissipated in higher inflation to the extent that it is matched by an increase in aggregate supply. Hence an increase in the potential output that the economy can produce at a given price level would permit an increase in money GDP and a permanent increase in output and, in most cases, employment.

54. This section discusses first aggregate demand and inflation objectives and secondly aggregate supply. Finally it considers the impact on unemployment of changes in the mix of policies for given money GDP.

55. In the short term an expansion of aggregate nominal demand will lead to higher output and lower unemployment. But the inflationary pressure that results will in turn crowd out the additional output. In time prices will tend to rise to the full extent of the increase in nominal demand, leaving no room for additional output and employment. Simulations on the Treasury model suggest that the period during which unemployment is temporarily lower when policies are eased to allow money GDP to grow faster is fairly long: well over five years.

56. Although a less ambitious objective for inflation would allow a faster fall in unemployment, the credibility of the Government's policies rests on there being at least some perceptible downward tendency in inflation over the medium term. No deceleration or a rise in inflation would undermine credibility with adverse consequences across a wide range of policy areas. A faster deceleration than this minimum would probably not have major economic benefits, although inflation in the 1%-3% range might lead to a marginally more efficient economy than at 3%-5%, and lower inflation has political and social advantages. In practice therefore, there is not much room for varying the inflation objective around that implied by the MTFIS.

57. Improvements in aggregate supply imply that the sustainable level of output rises assuming that the path for money GDP is adjusted to accommodate changes in supply as in the MTFIS. However, unemployment will not necessarily be lower, even for a temporary period. If, for example, the higher output came entirely from higher productivity or an increase in labour supply, unemployment could be higher rather than lower. But such cases would be unusual, although something like this occurred between 1983 and 1986. More generally one would expect to find that improvements in aggregate supply were associated with lower unemployment so long as unemployment had not fallen to an unsustainably low level.

58. Although micro-economic policies are most directly relevant to bringing about supply improvements, macro-economic policies can also contribute, in the following main ways:

- through ensuring an environment of predictably low inflation
- through stabilising money GDP and output growth as far as possible without compromising the inflation objective
- through minimising fluctuations in the real exchange rate and real interest rates to the extent that this can be done consistently with objectives for inflation and money GDP
- through holding the nominal exchange rate close to a level at which companies are conscious of the financial discipline but can still remain broadly competitive

- through reducing interest rates so as to stimulate investment while tightening fiscal policy so as to avoid any change in the overall stance of policy.

*V. D. B. J. -
advise
MTFS - effect*

59. The first three of these would all have the effect of increasing private sector confidence in the future and hence investment in the broadest sense, including expenditure on training, R and D and the development of new markets as well as expenditure on fixed assets. Although profitability has returned to levels near those of the 1960s, business investment is still significantly lower in relation to output. As output is now growing at a rate comparable to that of the 1950s and 1960s, expectations about the future must be one of the factors holding back investment. Another is the high cost of capital, which would be reduced if interest rates fell as suggested by the last point above. Of course, higher investment does not necessarily increase employment if, for example, it raises productivity to the full extent of any extra output. But capital-widening investment tends to occur alongside productivity-increasing investment, and the former could be expected to lead to both increases in output and reductions in unemployment.

60. In recent years there have been a number of proposals for policies to tackle unemployment which combine action on both the demand and supply sides. At first sight these seem sensible and consistent with the MTFS, which allows for an increase in the money GDP path if supply improves. However, the increase in demand should

not precede the increase in supply if inflationary pressures are to be avoided. Claims that falling unemployment resulting from demand expansion is necessary to induce employees to accept change (eg more flexible working practices, slower growth of pay) may not be correct; there is, for example, evidence in the opposite direction, suggesting that supply side improvements are most likely to occur when unemployment is high or rising. But macro-economic policy should clearly be operated flexibly enough to ensure that supply side improvements are accommodated. In some cases the nominal framework ensures that this will occur: slower growth of wages will tend to allow a reduction in interest rates and, possibly, tax rates which will contribute to higher output and employment.

61. The final issue of this section, the mix of policies, has already been mentioned in connection with the balance between real interest rates and fiscal policy. Rather than easier monetary policy and tighter fiscal policy to stimulate supply in the long term, some people would like to see the reverse because of the assumed beneficial demand-side impact on output and employment in the short term. Simulations on the Treasury model suggest that output could be higher for 2-3 years if public expenditure and interest rates were increased to the extent necessary to keep money GDP unchanged, and for longer if taxes were reduced rather than expenditure increased. There would, however, be a deterioration in the current account and private investment. The choice of policy mix therefore depends partly on time horizons and partly on objectives for the balance of expenditure in the economy.

62. Other changes in policy mix, already discussed in the context of microeconomic policies, also raise questions about time horizons and broader objectives. Equal reductions in public expenditure and taxation will encourage employment in the medium term although the short term impact may be perverse. Switches from employers' NICs and indirect taxation to income tax may help employment in the short term but not in the long term.

63. Given the supply side nature of the unemployment problem, changes which increase employment in the short term through demand side mechanisms are unlikely to be beneficial over a longer time horizon and may be harmful. In general decisions about changes in policy mix should take account of a wider range of considerations, such as objectives for the level of public expenditure and taxation and for the structure of taxation, than those relevant to employment alone.

ANNEX

WAGES, UNEMPLOYMENT AND THE NAIRU

This annex discusses some aspects of the view of the NAIRU which underlies the argument in the main text. The first section presents a simple algebraic model, the second section discusses some of the empirical evidence relating to wage equations, and the final section discusses some implications for the NAIRU. It is not necessary to read the first section to understand the other two.

A formal model

2. Assume that wages are set essentially in real terms according to an equation of the form:

$$\Delta w = \Delta p - \alpha U - \beta \Delta U + Z \quad (1)$$

where w = nominal wages (in logs)
 p = prices (in logs)
 U = unemployment rate
 Z = all other factors affecting wages.

This ignores lags, divergences between expected and actual inflation, and real wage targets, among other things, except to the extent that they influence Z . Z includes factors affecting the wage bargain on both the employers' side (eg employers' NICs, profits) and the employees' side (eg unemployment benefit, wage pressure).

3. The NAIRU is that value of U at which inflation is constant, so that $\Delta w = \Delta p = 0$. Substituting this into (1) gives:

$$0 = -\alpha U - \beta \Delta U + Z \quad (2)$$

hence
$$U^N = \frac{1}{\alpha + \beta} Z + \frac{\beta}{\alpha + \beta} U_{-1} \quad (3)$$

where $U^N = \text{NAIRU}$

Thus the NAIRU depends on the unemployment rate in the last period as well as on almost everything which influences wages (except inflation itself). If the pressure of demand affects any prices elsewhere, for example through profit margins, the NAIRU will also depend on conditions in those markets.

4. Although inflation may be constant at the value of the NAIRU given by (3), unemployment need not be. As unemployment changes, (3) shows that the NAIRU itself will change in proportion. Only in the long run when unemployment is also constant and the whole system is stationary will the NAIRU be constant for given Z. The long-run NAIRU (U^{NL}) in this sense is, from (2):

$$U^{NL} = \frac{1}{\alpha} Z \quad (4)$$

It therefore depends on the whole range of factors affecting the wage bargain.

5. In the short run the NAIRU is a weighted average of the long-run NAIRU and the unemployment rate in the last period:

$$U^N = \frac{\alpha U^{NL} + \beta U_{-1}}{\alpha + \beta} \quad (5)$$

(This is obtained by substituting $Z = \alpha U^{NL}$ from (4) in (3).) The short-run NAIRU therefore lies between actual unemployment and the NAIRU, and will change with actual unemployment. But if the system as a whole is stable so that unemployment tends to move to an equilibrium position, then that equilibrium is the long-run NAIRU to which the short-run NAIRU therefore tends.

6. The sizes of the parameters α and β are crucial to the behaviour of the model. The bigger α is in relation to β the less variable the NAIRU will be in the short term, and the faster

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unemployment will move towards the long-run NAIRU⁽¹⁾. In the extreme case in which $\beta = 0$, the NAIRU will never differ from the long-run value of U^{NL} .

7. On the other hand, large values of β relative to α imply that the NAIRU will move around in response to shocks which alter actual unemployment, and unemployment can drift away from the long-run NAIRU for long periods of time. In the extreme case in which $\alpha = 0$, there is no long-run NAIRU towards which the NAIRU will tend. It will follow whatever path actual unemployment takes. Actual unemployment itself will follow a random walk since there are no forces tending to push it towards equilibrium. If, however, prices in the goods market depend on the pressure of demand and this is correlated with unemployment, a long-run NAIRU will be defined in terms of factors affecting price determination.

8. The dependence of unemployment on its own past history and random shocks is the basic idea of hysteresis in the labour market. In its extreme form it is characterised by the assumption that $\alpha = 0$ in (1) and $\beta > 0$. This might be called full hysteresis. The more general case in which $\alpha > 0$ in (1) might be called partial hysteresis, with the term in ΔU representing the hysteretical element. There is no hysteresis at all when $\beta = 0$.

9. There are a number of possible economic explanations for hysteresis (eg declining job search intensity as the general level of unemployment and individuals' duration of unemployment rises, changes in employers' perceptions of the employability of the unemployed, erosion of human skills). Essentially they amount to saying that the experience of unemployment in the past, for individuals and in aggregate, reduces the likelihood that the unemployed will be re-employed: bygones are not bygones. Some but not all of them imply that the long-term unemployed have a weaker

⁽¹⁾ A slightly more general model which specifies how unemployment is determined is required to demonstrate such propositions about the speed of adjustment. Nickell, "Wages and Economic Activity" (paper for the Keynes Conference), provides some simple illustrations.

impact on wages than the short-term unemployed. It can be shown that this situation could well give rise to a wage equation containing a term in ΔU .

10. Assume that wages are influenced only by the level of unemployment, and that the long-term unemployed have a weaker impact than the short-term unemployed:

$$\Delta w = \Delta p - \alpha_s U_s - \alpha_L U_L + Z \quad (6)$$

where U_s = unemployment rate of short-term unemployed
 U_L = unemployment rate of long-term unemployed
 and $\alpha_s > \alpha_L$

Assume further that the short-term unemployment rate depends partly on the overall rate of unemployment, but also positively on recent changes in overall unemployed:

$$U_s = \theta U + \phi \Delta U \quad (7)$$

The second term can be explained by the fact that increases in unemployment are usually associated with increases in the inflow into short-term unemployment, although there may also be a reduction in the outflow from either short-term or long-term unemployment (or both). Long-term unemployment can readily be derived from (7):

$$U_L = U - U_s = (1 - \theta)U - \phi \Delta U \quad (8)$$

11. Substituting (7) and (8) into (6) gives:

$$\Delta w = \Delta p - (\theta \alpha_s + (1 - \theta) \alpha_L) U - \phi (\alpha_s - \alpha_L) \Delta U + Z \quad (9)$$

This has the same specification as (1), showing that a differentiation between the short-term and long-term unemployed can produce partial hysteresis. However it need not do so: if short-term unemployment did not depend on the change in total unemployment at all, for example if it were some fixed proportion of total unemployment, there would be no term in ΔU in (9) if none was present in (6). Conversely, the existence of partial hysteresis

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does not necessarily imply that the short-term and long-term unemployed have different effects, because there are alternative explanations for a ΔU term in (1) such as the effects of changes in unemployment on bargaining strength and of high levels of unemployment on job search intensity.

Empirical evidence

12. Most of the evidence about the impact of unemployment on wages comes from aggregate time-series analysis. It has never been easy with post-war data to find an effect of unemployment on the growth of wages that was neither weak nor unstable. We had an unemployment term in the wage equation in the Treasury model in the 1970s, but it did not have strong empirical support. A number of other modellers, including the National Institute, did not include unemployment in the wage equation because they could not find convincing econometric evidence for it.

13. The picture still looks the same with the addition of information from recent years. Wage growth has gone through a huge cycle since the 1960s while unemployment has been on an almost continuously rising trend. The work reported by Penelope Rowlett in her working paper last year suggests that there is only a weak effect from the level of unemployment on the growth of wages. It is slightly stronger if unemployment is defined in terms of the short-term unemployed only. This tends to suggest that the long-term unemployed have a still weaker effect.

14. It also appears that a given absolute increase in unemployment has a lower effect on wages at higher levels of unemployment than at low levels. In other words the effect seems to be proportionate, with a rise in unemployment from say 2% to 4% having about the same effect as a rise from 10% to 20%. However, the margins of error around the empirical estimates on which these conclusions are based are quite large.

15. Work by other people seems to come to much the same conclusion. It also shows that the estimated impact of unemployment on wages tends to be weaker in the UK than in other countries.

16. Although the influence of the level of unemployment seems to be weak in the UK, there is some evidence, including Penelope Rowlatt's work, that changes in unemployment have a more important impact on the growth of wages.

17. Our current view in the Treasury is that there is an effect from the level of unemployment on wages but that it is weak. The members of the Academic Panel agreed with this view when we discussed it with them last year. It was noted then that there were few economists who would go so far as to say that the level of unemployment had no effect on wages. Most economists seemed to think that changes in unemployment had a relatively stronger effect.

Implications for the NAIRU

18. Our view that the level of unemployment has an influence on wage inflation implies that we believe that there is a long-run NAIRU towards which the system will gradually tend. However, the relatively strong influence from changes in unemployment implies that in the meantime there is a short-run NAIRU which moves around with the actual level of unemployment.

19. Reductions in unemployment that are faster than a critical rate (Nickell has suggested 1 percentage point a year) will therefore tend to raise inflation, even if unemployment remains well above the long-run NAIRU and without allowing for additional inflationary pressures from outside the labour market⁽²⁾. However, if unemployment stabilises at a new lower level the short-run NAIRU will also fall and inflation will tend to move back to its original level, provided that unemployment remains above the long-run NAIRU.

(2) The critical rate will depend on the relative size of the α and β co-efficients and on the gap between actual unemployment and the long-run NAIRU.

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20. The combination of a weak influence from the level of unemployment and a stronger one from changes in unemployment implies that unemployment will move towards the long-run NAIRU rather slowly. The path towards equilibrium will be continually disturbed by new shocks to unemployment.

21. Reductions in unemployment would be fastest if: shocks affecting unemployment were in a favourable direction and large; the influence of the level of unemployment on wages were strong; other factors were tending to reduce the growth of wages. Setting aside the first case as being outside the scope of this annex (although perhaps quantitatively the most important in reality), the other two can be characterised as speeding up the adjustment towards the long-run NAIRU and reducing the long-run NAIRU itself⁽³⁾.

22. This distinction may be analytically useful - for example, it implies that reductions in the long-run NAIRU may have little influence on actual unemployment as long as the speed of adjustment is slow. But it may be less useful in practice, partly because it is not always clear whether policy measures and other changes will operate on the speed of adjustment or on the long-run NAIRU itself. Measures which contribute to the flexibility and effectiveness of the unemployed, such as training, may, for example, work on both: they may cause them to compete harder for jobs and hence increase their impact on wages; and they may also increase effective labour supply in the long-term and hence reduce the long-run NAIRU.

23. The distinction could be important in practice if actual unemployment were very close to the long-run NAIRU. In this case sustainable reductions in unemployment could only be achieved by reducing the NAIRU itself. Speeding up the adjustment process would not necessarily reduce unemployment very much, assuming that rising inflation is to be prevented. It is therefore important to have some rough idea of the value of the long-run NAIRU.

⁽³⁾ In terms of the simple model above, they correspond to raising α and reducing Z in equation (1).

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24. Econometric studies of wages are not precise enough to produce reliable estimates of the long-run NAIRU. But there are two reasons for thinking that it is well below current levels of unemployment. First, this is the conclusion to be drawn from all the empirical studies of the UK: the work of both Nickell and Minford, despite their different views on many things, points in this direction. Secondly, many of the factors which may have been working in the 1960s and 1970s to raise the long-run NAIRU (rising real benefits, increasing trades union power, unchanged real wage aspirations combined with slower productivity growth and an adverse terms of trade shift, rising tax burden) have been reversed in recent years. Thus, unless the long-term NAIRU at its peak was well above actual unemployment, which seems unlikely, it will be below it now.

25. Thus we conclude that there is no need in practice to distinguish between speeding up the movement towards the long-run NAIRU and reducing the NAIRU itself.