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PART D

CHANCELLOR'S PAPERS ON
EMPLOYMENT POLICY AND
LABOUR MARKET STATISTICS

NL/0220

-CH

PO

PART D

Begin: 31/3/88

DD: 25 years

Ends: ~~25/4/88~~ (CONTINUED)
6/5/88

13/9/95

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

Miss Deborah Lamb
Private Secretary to the
Secretary of State for the
Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

CH/EXCHEQUER	
REC.	05 APR 1988
ACTION	CST
COPIES TO	MR ANSON
	MR H PHILLIPS
	MR HANTIN
	MISS PEIRSON
	MR TURNBULL
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Our ref DW3DPO
Your ref
Date 31 March 1988

*So P Middleton
Mr Bigatt
Mr Culpin*

Dear Deborah

POVERTY TRAP: LETTER FROM SIR HENRY PHILLIPS

I attach a copy of a letter my Secretary of State received recently from Sir Henry Phillips about the cumulative effects of fiscal and social security policies.

Given the current correspondence about the issue, the Secretary of State thought Mr Ridley and other colleagues might be interested to see the letter. A copy of the Secretary of State's reply is also attached.

I am copying this letter and the attachments to Paul Gray, Alex Allen (HMT), Geoffrey Podger (DHSS), Margaret Jones (Scottish Office), Jon Shortridge (Welsh Office), Nick Wilson (Employment) and Trevor Woolley (Cabinet Office).

Yours

Jeremy Godfrey

JEREMY GODFREY
Private Secretary

Is there anyone capable of doing a quick, relatively brief paper demonstrating the point in PS note of 28/3, which I saw in Lynam & Mr. Roth's Commission paper such a paper with an index?

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

Sir Henry Phillips
34 Ross Court
Putney Hill
LONDON
SW15 3NZ

CH/EXCHEQUER	
REC.	05 APR 1988
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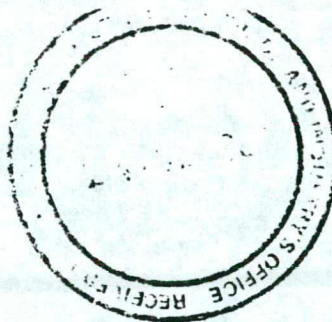
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Date 31 March 1988

Thank you for your letter of 23 March setting out your concerns about the cumulative effects of fiscal and social security policies. This is a subject in which I take a close personal interest, not least because of the extent to which the combination of tax, national insurance and benefit rules can act as a disincentive to employment and growth - to the detriment of the individual and the economy generally.

We all want to get rid of the poverty trap but, as you say, it is an especially difficult problem to get to grips with. That said, the approach you suggest seems worth consideration and I will certainly pass copies of your letter on to those of my colleagues directly concerned.

Setting up a
special task force
(see behind)

SIR HENRY PHILLIPS



34 ROSS COURT
PUTNEY HILL
LONDON SW15 3NZ
01-788 1404

23 March 1988

The Rt Hon Lord Young of Graffham

Dear David,

It gave us great pleasure to listen to you last night, so relaxed, so confident and so optimistic; and you fielded the questions with a fine combination of skill and wit. The part you have played in the turn round of the economy is a matter for warm congratulation.

I do have a concern which I might have voiced, but it would have been difficult to compress it into a short question; so I am writing to you instead.

While countless people are set to benefit in one way or another from the recent Budget and from the impending reforms in local taxation and social benefit, there still remains a sizeable number who do not benefit, and some will lose. There is moreover a tendency for the same people to be affected in different ways.

The impact of the proposed community charge and of the interim obligation to pay 20% of the general rate, the changes in housing benefit (which are of particular concern to the Housing Association movement), the new fiscal treatment proposed for one-parent families, the alleged lack of Government support for child care which inhibits the mother in her search for remunerative employment - all these examples, and there are others, tend to affect the same disadvantaged section of the population who, not surprisingly, become vocal and claim the attention of the media.

The problem is compounded by the reliance of the Government, in endeavouring to measure the effect of its reforms, on national averages. Regrettably there are regional and neighborhood averages which are substantially lower; and this distorts the picture.

A further difficulty is that several Government departments are involved in dealing with matters of hardship in

their respective spheres of responsibility with the result that the Government may be deprived of essential advice on the collective effect of the measures it is introducing.

Is there perhaps a need to assign to a small task force of civil servants the job of collating information about these changes, measuring their combined effect on various classes of people and, where necessary, proposing ways of alleviating hardship in cases where the new income support regulations do not go far enough? So that such a body was not overwhelmed by a flood of individual complaints it would deal only with representative bodies such as Age Concern, the National Federation of Housing Associations, the Maternity Alliance and the Child Poverty Action Group through which individuals would be advised, by printed circular, to channel their complaints.

All these organisations are of course awash with details of potential hardship within their respective spheres of influence and will have made representations to the concerned Government departments. It is the cumulative effect which worries me and which has inspired this letter.

The Tory Party wants to be known as a caring party; but I do feel that it is running a risk of not earning this description as far as low income families are concerned. Maybe what I am suggesting could help. Because the suggestion implies an overview there is no one Minister to whom I can address it. If therefore you think that it merits examination may I leave it to you to put it into the right channels?

With all good wishes

Yours ever
Henry



Php

FROM: J M G TAYLOR
DATE: 7 April 1988

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Culpin
Miss Peirson
Mr Cropper
Mr Tyrie
Mr Call

Mr Isaac - IR
Mr Lewis - IR
Miss Rhodes - IR
Mr Carr - IR
PS/IR

EMPLOYMENT AND SELF-EMPLOYMENT

The Chancellor has seen Mr Cropper's minute of 21 March.

2. He has commented that Mr Cropper's proposal amounts to saying that part-time employees should be taxed as if they were self-employed. This may well be worth investigating, but he suspects we would need to be very keen to promote part-time employment to wish to embrace it.

JMGT

J M G TAYLOR

RESTRICTED



FROM: MISS M P WALLACE

DATE: 11 April 1988

MR SPACKMAN

cc PS/Chief Secretary
PS/Economic Secretary
Mr Anson
Sir T Burns
Mr Byatt
Mr Monck
Mr Odling-Smee
Mr Davies
Mr Meyrick
Mr Riley
Mr Bredenkamp
Mr Corry
Mr Stern

**TREASURY WORKING PAPER ON "METHODS OF ANALYSIS OF PUBLIC
EXPENDITURE PROGRAMMES WITH EMPLOYMENT OBJECTIVES"**

The Chancellor was most grateful for your minute of 7 April. He would like to see one small amendment to the penultimate sentence on page 27 (to read: "... part of the economic landscape for the foreseeable future."). He is also slightly concerned that the thesis of the paper may have the unintended affect of weakening the Treasury's opposition to schemes with a high "cost-per-job" but for which miraculous long-term supply side benefits will be claimed. Nonetheless, the Chancellor would not wish to stand in the way of publication.

A handwritten signature in cursive script, appearing to read 'M.P. Wallace'.

MOIRA WALLACE

FROM: M J SPACKMAN

DATE: 7 April 1988

CHANCELLOR

cc: Chief Secretary
 Economic Secretary
 Sir Peter Middleton
 Mr Anson
 Sir Terence Burns
 Mr Byatt
 Mr Monck
 Mr Odling-Smee
 Mr Turnbull
 Mr S Davies
 Mr Meyrick
 Mr Riley
 Mr Bredenkamp
 Mr Corry
 Mr Stern

*Thanks. I have signed a
 Shole qualifications
 P. Melliss structure on p 27.
 I am also concerned that
 the thesis is a bit
 weak - I have the
 Working Party of
 opposites
 to look*

*'cost-per-job' scheme for
 which incentives for
 long term supply-side
 benefits will
 be claimed*

TREASURY WORKING PAPER ON "METHODS OF ANALYSIS OF PUBLIC EXPENDITURE PROGRAMMES WITH EMPLOYMENT OBJECTIVES"

This is to ask for your approval for the publication of this paper as a Treasury Working Paper. A copy is attached. It has been written by Mr Stern, with an annex by Mr Melliss.

2. The paper derives from the work of an interdepartmental group which reported in 1986. Its conclusions were endorsed by the then Chief Secretary. The paper is not about policy, but about the technical aspects of policy evaluation, with an emphasis on supply performance. The text has been cleared with IAE group and with Department of Employment officials.

3. We recommend putting this work on public record to strengthen its authority within departments and against outside critics. It will help in particular to discredit the naive "cost per job" figures which continue sometimes to be used to support expenditure for "job creation".

[Handwritten signature]

[Handwritten signature]

Publications of

M J SPACKMAN

METHODS OF ANALYSIS OF PUBLIC EXPENDITURE PROGRAMMES
WITH EMPLOYMENT OBJECTIVES

By Jon Stern
(with Annex by C L Melliss)

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METHODS OF ANALYSIS OF PUBLIC EXPENDITURE PROGRAMMES WITH EMPLOYMENT OBJECTIVES¹

I Introduction

In the mid-1970s, a series of measures were introduced aimed at alleviating the expected temporary high level of unemployment. They were designated 'Special Employment Measures' (SEMs) and their objective was clearly signalled in the names adopted for the schemes - the Job Creation Programme (JCP), the Special Temporary Employment Programme (STEP), the Temporary Employment Scheme (TES). The schemes have evolved considerably since then eg the Job Creation Programme was succeeded by the Youth Opportunities Programme (YOP) and then by the Youth Training Scheme (YTS). STEP was succeeded by the Community Enterprise Programme which was in turn succeeded by the Community Programme.² Increasingly, the objectives of the scheme have been as much (if not more) to improve the workings of the labour market, including the provision of training elements, as to transfer people out of unemployment. As a result, these programmes are now described by the Department of Employment as Employment, Training and Enterprise Measures rather than Special Employment Measures.

Both inside and outside government, there has been a desire and a need to estimate the relative impact of traditional employment measures comparing them with each other and with other programmes eg on the levels of employment and unemployment. This is sometimes at the national level (viz discussions on the effect on employment of traditional employment measures compared to infrastructure and housing maintenance programmes) and sometimes at the regional or local level (eg for regional or urban policy.) The ex post evaluation of these programmes started almost as soon as the programmes were in place. Over the last decade DE and MSC and others have made considerable efforts to estimate their effect on labour market outcomes and evaluation concerns have evolved in line with the changing objectives of the programmes.

Originally, the analytic emphasis was placed on the number of people removed from unemployment over a 1-2 year period and the associated 'cost per job' of alternative schemes. Other factors were mentioned but somewhat in passing. This related closely to the objective of alleviating a temporarily high level of unemployment. However, in the mid-late 1980s, many external commentators still tend to concentrate on the short run Exchequer 'cost per job' indicator as the main indicator of the effectiveness of employment related programmes (see Davics and Metcalf (1985), Lindley (1986), and Jackman 1986 for examples.) Other commentators (eg Sinclair (1987) Chapter 16) discuss 'supply performance' effects

and their impact on the labour market alongside the PSBR effects but without showing how the analysis can be used in practice.

This paper sets out an approach to the comparison and evaluation of employment related programmes which combines Exchequer cost and supply performance considerations. In this approach a much greater role is assigned to the human capital and other aspects of programmes which improve the functioning of the labour market and other markets. These longer run effects constitute the 'supply performance' effects of employment related programmes discussed in this paper.

The framework compares the effects of different employment related expenditure programmes within a setting of long-run public expenditure neutrality. Some limited discussion is given to the related but different question of the role of such programmes relative to other policies (such as tax cuts or general public expenditure increases) as a way of reducing unemployment, which is the primary focus of several of the studies cited above and, in particular, of Turner, Wallis and Whitley (1987).

The structure of the paper is as follows. In Section II, the underlying economic approach is set out. Section III discusses some of the issues that arise for programmes whose employment objectives are regional or local. Section IV discusses the role of 'cost per job' statistics and the differences between them. Section V takes the material from earlier sections to set out how the framework might be used to analyse the effects of a particular scheme. The paper ends with a short conclusion.

II The Underlying Economic Approach

The section sets out a framework for the analysis of the economic effects of an increase in expenditure on a specific programme for which employment consequences are the main or a subsidiary objective. The main case considered is a sustained increase in expenditure rather than a one-off injection. The discussion in this section is primarily in terms of a programme which is expected to have employment consequences at the national level.

The programmes at issue cover a wide range. They include not only the various DE and MSC employment, training and enterprise measures but also programmes where employment is or may be a subsidiary objective eg some infrastructure, construction or maintenance projects (in particular those supported under the Urban Programme). Support for tourism and regional policy, come under the same heading. Any framework for comparison of this wide range of programmes must take into account the fact that they have differing effects which work through at very different rates. Since many of these effects are relatively long-run effects on the productivity and supply of factors or the functioning of markets, it is useful to divide the analysis into two parts:

- a. comparative statics
- and b. the transition towards the long-run equilibrium.

a. Comparative Statics

i. Exposition

The analysis proposed here is analogous to that conventionally adopted for the consideration of structural changes to taxes and social security benefits. It has become standard to analyse changes in particular taxes and benefits on a revenue neutral basis. This concentrates attention on the changes in relative prices and incentives and the effect of these changes on long-run factor supplies and demands, on distributional effects, attitudes to risk etc.

The comparative statics of a sustained increase in expenditure on each employment related expenditure programme on a public expenditure neutral basis provides a similar framework for analysing the long-run comparative static effects of each programme eg on output, employment, unemployment and on the aggregate real wage. In this paper, we consider the long-run effects of a sustained increase in expenditure on any programme assuming it is financed by an equivalent reduction in the volume of public expenditure that is "supply performance average". The

diagram below is drawn on this basis. In comparing the effects of equivalent amounts of expenditure on different measures it can be assumed that the long-run effects of financing them are equivalent.

The long-run in question can be defined as that period by which, firstly, all the effects of the programme have materialised; and, secondly, by which the macro-economic effects have worked through the system, given the overall stance of policy. Two points are worth making immediately. The first is that the length of time it takes to reach this position will vary considerably between employment related programmes. It will typically be rather longer for programmes in which there are increases in human or physical capital that take time to build-up (eg training and many project-based or infrastructure programmes) and in programmes where the labour intensity of production is increased (eg programmes like the Community Programme or by employment subsidies) than for programmes where the main effect is to raise output.

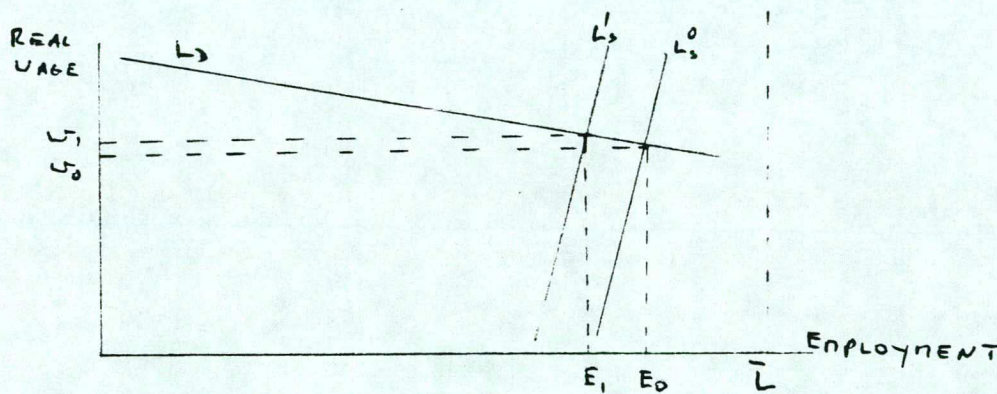
The second point is that the long-run is defined here as an equilibrium but not necessarily a fully competitive market clearing one in which all market imperfections have been removed. It does not therefore necessarily correspond to the fully competitive, and hence optimal equilibrium. Labour, product and capital markets are not always fully competitive. Employment, training and other measures have an important role in eliminating or alleviating such imperfections. To the extent that they are successful, employment related programmes can help employment, output, and productivity to be higher (and unemployment to be lower) in the long-run than they would otherwise have been.

The comparative statics can be explained in the context of the following simple model. The demand and supply of labour in the long-run are taken to be functions of the real wage and other factors. There are also assumed to be institutional factors which give rise to imperfections in labour, output or capital markets. These factors prevent the economy reaching the long-run competitive equilibrium.

The diagram below shows the long-run position where the effective labour supply schedule, L'_s is to the left of the underlying labour supply schedule L_s^0 . The 'effective' labour supply is discussed below. The intersection of L'_s with L_D represents a standard competitive labour market equilibrium with frictional unemployment only. However, we are assuming that there are labour and output market imperfections or other considerations that lead to the equilibrium real wage rate being at some point like w_1 above the fully

competitive market clearing equilibrium level. These market imperfections include the various factors that give rise to insider power among existing employees both internal and external to the firm.³

Assume for the purposes of exposition that \bar{L} the potentially available labour force (ie the population of working age who are economically active) is fixed and ignoring complications such as the difference between the real product wage and the real consumption wage, one can define the long-run NAIRU (the rate of unemployment at which the inflation rate is stable) for a given degree of insider power. In the diagram below, this NAIRU is at $\frac{\bar{L} - E_1}{\bar{L}}$. But, lower longer-run NAIRU levels are potentially available with the minimum at $\frac{\bar{L} - E_0}{\bar{L}}$.



In the context of this model, employment, training and other measures can affect the long-run levels of employment and real wages in several ways. Firstly, an employment related measure may increase the underlying supply of labour relative to the economically active population of working age eg by increasing the effectiveness and amount of job search and expected future participation rates of the economically active. This is the effect of programmes like the Community Programme or the Restart Programme which are targetted on the long-term unemployed. Such programmes are intended to increase job search and to reduce the probability that the long-term unemployed will leave the labour force in the future. In terms of the diagram, this pushes the effective labour supply schedule L'_1 rightwards towards L'_0 while leaving \bar{L} unchanged. Alternatively, programmes may indirectly raise participation rates eg by increasing the participation rate among otherwise economically inactive married women through increasing employment opportunities for them on supported activities. This arises in support for tourism and with the Enterprise Allowance Scheme. In terms of the diagram, this represents an equal rightwards shift in L'_1 and \bar{L} with a fall in the NAIRU.

A second type of effect is to reduce the gap between the underlying and the actual supply of labour at the initial wage and price levels for example by increasing the flexibility of the labour force and/or reducing labour market imperfections including insider power. This again shifts L'_S towards L^0_S leaving L unchanged. To the extent that there are members of the population of working age who would take jobs at a lower real wage than employers can profitably offer in the initial state, there will be an increase in the 'effective' supply of labour at the original real wage and a reduction in the long-run rate of non-frictional unemployment.⁴

In both the cases above, one would expect an increase in employment and output (and a reduction in the unemployment rate) in the long-run. One would expect this to be accompanied by some reduction in the long-run aggregate level of output per head and in the aggregate real wage. This should hold irrespective of the slope of the labour supply schedule (provided it is not horizontal).

The opposite polar case is where the demand curve for labour is shifted upwards. Employment related measures can do this by increasing the marginal product of labour. This would unambiguously yield an increase in the levels of aggregate real output, in productivity and real incomes, and a higher real wage. The long-run effect on employment and unemployment is uncertain and depends on the relative elasticities of labour demand and labour supply with respect to the real wage. The diagram has been drawn on the conventional basis with a much larger elasticity of labour demand with respect to the real wage than of labour supply so that the long-run effects of an expansion of an employment programme which increased output per head (and shifted the labour demand schedule upwards and to the right) would be primarily to raise the aggregate real wage with only a small increase in employment.

The examples of the range of effects of employment related measure above have been in terms of polar cases. But, of course, some programmes can both increase the effective or underlying supply of factors and raise productivity levels. Training programmes are the obvious example of programmes that can do this, particularly training programmes for the long-term unemployed.

It is the determinants of these long-run changes in employment, unemployment, output and productivity that constitute the 'supply performance' effects mentioned earlier and would be predicted by almost all models of the labour market. They can, as shown here, be discussed in terms of the factors giving rise to shifts in the long-run labour demand and labour supply schedules evaluation of the long-run effects of employment measures. It should be emphasised that 'supply performance' effects are quite distinct from the short and medium term impact on output and labour markets that occur solely through changes in nominal demand.

The discussion so far has been conducted mainly in terms of a homogenous labour market in which there is no segmentation by occupation, region, or skill. It is one in which all employees exert the same pressure on money wage growth - and similarly for the unemployed. However, in practice, consideration has to be given to the type of people most affected by these expenditure measures and whether changes in demand for and supply of their labour would have an effect on money wage growth significantly different from the average. For instance, programmes will have substantially different effects on aggregate participation rates and wage growth depending on whether the most affected by them are prime age men, married women, long-term or short-term unemployed, skilled or unskilled etc.

The analytical framework for the comparative static analysis of the long-run effects has been set up on the basis of public expenditure neutrality as defined above. This means that, by assumption, long-run demand effects on employment and output of increasing any particular employment related programme can be ignored. (There may be differential demand effects between programmes in the long-run but these are likely to be negligible.) Consequently, the analysis can focus on the differential supply performance effects of programmes. Given the varying nature and targetting of such programmes, the differential supply effects are likely to be, and in the long-run certainly, many times larger than the differential demand effects.

Relaxing these financing assumptions would give further scope for long-run nominal demand effects. But, a recent simulation exercise using the Treasury model reported in Bredenkamp (1987) suggests that in the longer term, the nominal demand effects may be small relative to the supply performance effects. In the long-run, changes in nominal demand mainly affect nominal rather than real variables in the Treasury model. This is for two reasons. Firstly, in the Treasury model the economy tends to a long-run equilibrium like that in the diagram above. Secondly (and more importantly in this context), aggregate supply in the long-run is largely independent of changes in the level or the rate of growth of aggregate

demand. Thus, in a more general setting, there may be some long-run demand effects of increasing expenditure on employment related programmes. These will, however, depend on the financing assumptions adopted and should always be analysed separately from the supply performance effects discussed here - as is conventionally done when analysing the effects of changes in tax and benefit policy.

ii. Application

Since employment, training and enterprise programmes induce shifts in labour demand and supply curves for very different reasons, it is useful to summarise the main comparative static results that one might expect from a revenue neutral increase in such programmes. This is done in the following table which attempts to separate the main factors, to sign their impact and give some idea on relative orders of magnitude. The signs reported in the table are consistent with those obtained in a formal comparative static analysis based on the well-known Layard-Nickell model. This is demonstrated in the annex.

Table 1

Comparative Static Effects of Employment Related Measures: Long-run Impact of Supply Performance Effects					
	Real Output	Employment	NAIRU	Aggregate Real Wage	Nominal Wage Pressure
(i)	<u>Changes in quantity of labour supplied</u>				
	+	+	+/-	-	-
	Permanent increase from increased participation rates (ie effect continues after end of programme)				
	Small +	Small +	Small -	Small -	Small -
	Temporary increase in participation rates (ie if effect ceases on leaving programme)				
(ii)	<u>Changes in quality of labour supplied</u>				
	+	Possible Small +	Possible Small -	+	Possible Small -
	Sustained increase in level or rate of growth of labour productivity and/or stock of trained workers				
	+	+	-	-	-
	Sustained improvement in flexibility of labour and competitiveness of labour market (level or rate of growth)				
(iii)	<u>Net asset creation</u>				
	+	Possible Small +	Possible Small -	+	Possible Small -
	Increase in the capital labour ratio				
(iv)	<u>Supply of entrepreneurs and small businesses</u>				
	+	+	-/?	-	-
	Permanent increase in net long-run stock of small businesses/ entrepreneurship				
	Small +	Small +	Small -/?	Small -	Small -
	Temporary increase in number of small businesses/ entrepreneurs (ie assuming none survive beyond period of support)				
(v)	<u>Impact of reduction in insider power</u>				
	+	+	-	-	-
	Sustained reduction (ie wage expectations/ pressure remain lower after leaving programme)				
	Small +	Small +	Small -	Small +	Small -
	Temporary reduction (ie wage expectations/ pressure only lower while on programme)				

Several points need to be made on this table:

- i. the entries for the long-run effects of temporary changes refer to the period during which the programmes continue in existence. If the programmes are terminated, the long-run effects should eventually revert to zero.
- ii. the 'possible small' positive entries for employment from an increase in labour productivity, an increase in the capital-labour ratio, and the long-run stock of small business all derive from the assumption that the labour supply curve has a positive (but small) elasticity with respect to the real wage. If the labour supply curve were vertical, the long-run effect on employment would be zero.
- iii. it is apparent from the table how difficult it is to sign the effects on the long-run NAIRU. (The relevant unemployment rate is defined to be the claimant unemployment rate in contrast to the assumption made in the exposition on page 5). The sign indeterminacy is explained in the formal model. (See Annex page 6.) The problem arises because the effect is different depending on whether the change in employment refers to (a) those already economically active eg or (b) the originally economically inactive eg those currently in full-time education or in unpaid domestic work and the unregistered unemployed. A proportion of the induced increase in employment on schemes like the Youth Training Scheme, the Enterprise Allowance Scheme, and support for tourism is estimated to come from the latter sources.

The table sets out the main supply performance effects to be expected. As such, it provides guidelines for the long-run effects that need to be considered in ex ante appraisals and to be estimated in ex-post evaluations of employment related programmes. Of course, while the effects of some programmes fall very largely or entirely under a single heading (eg increases in long-run participation rates from the Community Programme or Restart or increases in the capital stock from infrastructure programmes), others have effects under several headings. The most obvious example of the latter are training programmes. These not only increase labour productivity in the narrow sense (ie widgets per hour) but also increase the flexibility of the workforce and thus the flow of labour services and, when integrated into employment programmes for the long-term unemployed or teenagers, increase participation rates. This is one reason for the difficulty of evaluating the effects of training programme on employment, unemployment and real output. There are, of course, others eg the difficulty of obtaining a control group or equivalent to provide an estimate of the counter-factual.

(b) The Transition towards the long-run

While it is relatively straightforward to make general statements about the long-run effects of employment related measures, it is much harder to do so for the transition. It is useful to divide this into two parts:

- i. the short-run
- and
- ii. the medium-term.

i. The Short-run

We define this as the period over which (a) macro-economic feedback effects can be ignored and (b) over which changes in expenditure on any programme can be treated as a net change to public expenditure at unchanged tax rates. Thus, the short-run can be thought of as the period over which it is possible to ignore both multiplier and accelerator effects and changes in wages and prices. The latter will arise both from the initial change in the level of output and its effect on the demand for labour and from the effects on interest and exchange rates arising from the financing of the expenditure change. Since these macro-economic feedback effects become important by the second year of any increase in programme expenditure but can, in practice, be ignored for the first year, the short-run is defined in this context as the first year of any relevant expenditure increase.⁵ These assumptions mean that it is possible to estimate national first year net exchequer costs per person out of unemployment for programmes, which need make no allowance for macro-economic effects. These provide a useful indicator of the short-term cost effectiveness of different employment related schemes at reducing the national level of unemployment. However, first year net exchequer costs cannot be estimated for all programmes and are less important as an indicator the more that programmes have as their main objective improvements in supply performance rather than short-term reductions in unemployment.

In the same way as it is possible to produce estimates of first year exchequer 'cost per job' in this framework, it is also possible to produce estimates of the total effect of programmes on employment and unemployment in the first year. The total effect comprises three parts:

- a. the direct effects of programmes on the number of people, businesses, etc supported or continuing in economic activity as the immediate result of the programme eg the reduction in the first year unemployment from an increase in expenditure of the Community Programme net of deadweight and substitution.

- b. the indirect effects of programmes - the changes in economic activity induced by the programme but not as a direct result. These may be induced changes in the employment of others or changes in output (net of displacement). They also include employment, wage, and price responses in other markets as a result of eg a subsidy to a particular group of the labour force.
- c. macro-economic feedback effects - these are the effects on output, employment, wages and prices that arise from the financing of employment related expenditure programmes via changes in eg the fiscal deficit, interest rates and exchange rates.

The dividing line between (a) and (b), is not always clear-cut but both sets of effect can in principle be estimated by conventional micro-economic evaluation methods. There is, however, a clear dividing line between the micro-economic effects under (a) and (b) and the macro-economic effects at (c). It is only because these last can, in practice, be ignored in the first year that the DE and MSC evaluations can be taken as providing comparative estimates of the total effect of different programmes on employment and unemployment in the short-run as well as reliable estimates of short-run cost-effectiveness. Turner, Wallis and Whitley (1987) confirm that differences in results on short-run effects and net exchequer costs in the first year are dominated by differences in estimates of deadweight, substitution and displacement rather than from differences in the estimates of wider indirect or macro-economic effects.

ii. The Medium-term

We have defined this as the period over which the direct and indirect micro-economic and supply performance effects are building up and also the period over which the macro-economic feedback effects are working through. The length of this period will vary considerably between employment related programmes in terms of eg the length of time over which expenditure is incurred per tranche of workers supported, the degree of capital intensity of the programme, the type of workers supported, etc. Compare, for instance, the Loan Guarantee Scheme (where the net expenditure counterpart to the employment generated is considerably lagged) with Derelict Land Grant (where the employment consequences of the expenditure occur several years after the expenditure is incurred.)

The implications of this are that it is possible to estimate and compare the direct and indirect micro-economic effects of individual employment related programmes but that it is extremely difficult - in practice virtually impossible - to integrate

these with the macro-economic effects to be able to provide comparisons of the total effect of different employment related programmes at the aggregate level, given the range and diversity of the effects of these programmes and their timing.

This has a number of consequences. Firstly, it means that the appropriate point in time for micro-economic evaluation will vary quite considerably between programmes. For programmes where the main effect is during the period of support and long-term supply performance effects are less important (eg the Community Programme), the appropriate point is during or at the end of the period of intervention. For programmes such as the Youth Training Scheme where longer term supply performance effects are more important, much of the evaluation needs to be done several years after trainees have completed the scheme. For other programmes like Derelict Land Grant or the employment consequences of forestry support, where the employment effects take many years to work through, the evaluation has to wait these effects are observable. This means that, although it is important to evaluate the micro-economic results of programmes in their own terms, the degree to which this provides comparative information on the medium-term effectiveness of employment related programmes is limited.

The second consequence is that the nature of the information will vary depending on when the evaluation is done. In general, the earlier the evaluation, the better are the estimates of the direct effects and the more partial are the estimates of the indirect and supply performance effects. The later the evaluation, the wider the range of effects but the harder it is to assign them to the specific programme as opposed to other factors. It is not, in practice, possible to estimate a time-path of the direct, indirect, and supply performance effects. The indirect effects (eg displacement of output and employment elsewhere, induced effects via participation rates and on nominal wage pressure) are difficult to estimate precisely even for a single point of time, let alone their build-up over a long period.

In the light of these difficulties, it is hard to see a role for macro-economic analysis in estimating the relative effectiveness of different employment related programmes.

Analyses of this kind which inputs information from micro-economic evaluations into a macro-economic model require:

- a. a full specification of the macro-economic policy assumptions under which the results are estimated.
- b. precise knowledge of the time path of the aggregate effect of the micro-economic and supply performance effects to input into the macro-economic model being used.

Macro-economic models are neither well designed to capture the differences between employment related programmes nor are they good at estimating the effects of what are (in aggregate terms) small programmes. Further, there is no recourse in applying a standard macro-economic feedback profile given the diversity of programmes.

The difficulties are demonstrated in Turner, Wallis and Whitley (1987). They attempt to estimate by macro-economic simulation the effect on aggregate employment and unemployment over a five year period of a given increase in expenditure on temporary public sector jobs targetted on the long-term unemployed (as proposed by the House of Commons Select Committee on Employment). Their estimates of the effects of the schemes after five years the Treasury and LBS macro models varied by up to 50 per cent depending on the assumptions of the direct and indirect effects of the schemes. Two off-model factors were particularly important in generating this range of outcomes. First there is the problem of whether and how far a targetted increase in public sector jobs increases the labour supply less than higher economic activity generated in other ways; and second, how far employment programmes targetted on the long term unemployed affect money wages differently from what one would normally expect on the basis of standard wage equations.

These are both very difficult questions. The answers to them are hard to obtain even for a relatively simple employment measure such as an increase in temporary public sector jobs. The difficulties in establishing estimates of the required off-model effects for more complex programmes are much greater. Thus, Turner, Wallis and Whitley chose not to produce a macro-economic analysis of the Select Committee's proposed marginal employment subsidy for the long-term unemployed because the 'non-standard' effects were so important relative to the macro-economic effects and were too difficult to model using the relationships of the LBS and Treasury macro-models. As the range of employment related programmes (and their economic effects) widens and becomes more diverse, this increases the information problems faced in a macro-economic approach.

An additional reason why macro-economic simulations are unlikely to be helpful for the comparison of different employment measures is that the results for the latter need to be robust to assumptions on the macro-economic policy stance. But, given the varying structure of programmes and the time-paths of their expenditures and of their employment consequences, this is unlikely to hold. Indeed, aside from the information problems it is likely that the rankings between programmes (particularly on medium-term exchequer cost per job) will be affected by the choice of assumed macro-economic policy stance in ways that are not related solely, or even mainly, to their employment and unemployment effects.

While macro-economic modelling may not be helpful in comparing the effects of different policy measures, it may help in comparing the effects of a change in expenditure on some aggregate basket of employment measures relative to other forms of public expenditure. This is the task Turner, Wallis and Whitley set themselves, clearly arraying the difficulties and uncertainties involved in answering that question.

This set of arguments shows how difficult it is to obtain comparable medium-term estimates of the effects of different employment related expenditure programmes. The best that can be done, in practice, is to evaluate micro-economic effects over the appropriate time period for each programme. This provides data that allows some comparisons and is very useful at providing information on supply performance effects and thus on the long-run comparative statics. A macro-economic approach is, in practice, quite likely to provide potentially misleading as well as highly imprecise estimates of the effects of different employment related expenditure programmes.

III The Analysis of Programmes with Sub-National Employment Objectives

Thus far, the paper has considered programmes where the employment objective is at the aggregate or national level. The analysis is similar for sub-national programmes where the employment objective relates to employment within a particular area or region (such as urban, rural or regional policy.) These programmes may affect output, employment, unemployment and wages at the national level either in the short term or by long-run supply performance effects, but this is a by-product rather than their main objective.

Programmes that fall into this category are usually investment or project based. As a result the employment generated in the area by the project itself (rather than by the construction work required to start it) is likely to emerge in the medium to long-run - as with the provision of urban workshops. Thus, there is little interest in short run measures of the effectiveness (including the cost effectiveness) of providing urban workshops as distinct from the employment generated in the area when the workshops are occupied and in use.

Beyond the short-run, increases in expenditure in a particular area (or region) will also have effects elsewhere. Employment is likely to increase in the area since the local supply - schedule is likely to be more elastic than for the country as a whole, allowing for the effects of shifts of resources between areas. Labour, in particular, is likely to be more mobile between regions than between countries. Thus, even if there is no improvement in national supply performance from the increase in expenditure, some additional local demand for labour generated by the expenditure on the programme may be met by diverting resources from outside the region. These supply performance effects in the locality will be maintained in the long-run along with any increase in national supply performance.

The switch of resources to the locality has a counterpart in the macro-economic feedbacks. Multiplier and accelerator effects are likely to be weaker in small area because of their high 'import' propensities relative to the country as a whole. Thus one can expect a small direct effect. And the impact on wages and prices from the effects of higher activity on output, financial asset and labour markets operates primarily at the national level and will be spread country-wide, their impact within the locality itself being relatively weak compared to the direct effect within this area.

Summarising, we can say that, increasing expenditure on employment related measures targeted on particular localities will, in the long run, tend to increase both the supply and demand for labour in the locality while lowering them in the rest of the country.

Sometimes more can be said on the total effects of sub-national programmes than for national ones. Since the macro economic feedback effects are spread across the country as a whole, it is possible to imagine areas sufficiently small for them to be set aside on de minimis grounds. This is most likely to be reasonable for an individual travel-to-work area, or an individual assisted area. In such cases, macro-economic feedbacks can be ignored and estimates made of the total effects on employment and output in the locality⁶ including medium term cost per job estimates. For larger areas, where the de minimis assumption is unreasonable (eg the totality of assisted areas), these feedback effects cannot be ignored. The medium-term analysis for the latter has the same limits as for national employment related expenditure measures.

Assuming that an area is sufficiently small for the de minimis assumptions to be valid, measures of the total effect of different measures for the area (including gross cost per job in the area) can be used to compare the effectiveness of different programmes within that area beyond the short-term. However, such measures have the limitation that they are area specific. They may help assess the comparative cost effectiveness of different programmes within a given area but do not provide a reliable indicator of the same (or different) programme across different areas.

There are two main reasons for this. The first is that besides the direct employment generated by the relevant expenditure programme there will be indirect employment gains in the area. These indirect gains can be classified as:

- i. backward supply linkages (increases in demand by the supported firm for the output of local suppliers);
- ii. expenditure linkages (increased spending in the area by new consumers attracted to the area by the project); and
- iii. income multipliers (the increase in spending out of the increased disposable income in the area).

There may also be long-run multiplier effects from population migration into the area but they are more difficult to estimate. All of these lead to employment gains in the area but the amount of indirect employment induced is likely to be higher the larger (and more economically diversified) is the area.

The second reason why the total effect of any measure in the area is locality specific arises from intra-area displacement. Account has to be taken of the displacement of other employment in the area caused by the introduction of the aided projects. Estimates of displacement will vary according to the size of area with generally higher displacement the larger the area.

Although medium-term area based measures of effectiveness (including gross cost per job) are useful on their own terms, they need to be supplemented by some consideration of the effects outside the target area, both positive and negative. This can usually be done only in qualitative terms. These extra-area effects include the effect of a higher level of economic activity in adjacent areas, the diversion of investment projects from other areas, effects on relative property prices between areas from construction or property renovation programmes in an area, and migration of skilled workers to the target area which may exacerbate shortages elsewhere.

The discussion of these indicators of area effectiveness is usually discussed in the context of urban, regional or comparable area based policies. There is no reason in principle why it cannot be estimated for DE/MSD employment and training measures although there are practical problems in doing so eg because to compare their cost effectiveness in employment with that of investment or project based programmes one has to make assumptions about the length of life of jobs on the latter. This is an area worth exploring further.

To summarise, area based evaluations of the effect of employment related programmes can provide some indication of the relative effectiveness of locally targetted employment related programmes but only within given, relatively small areas (and not between areas). But, they need both to be used with care and to be supplemented by information on the extra - area effects. They also, of course, need to be supplemented by information on the longer run supply performance effects of the employment related measures - at both the national and local level.

IV The Role of 'Cost per Job' Estimates

Most of the published analyses of employment related expenditure programmes have concentrated on deriving estimates of exchequer (or public expenditure) costs per unit increase in employment (or per unit reduction in unemployment). Davies and Metcalf (1985), Lindley (1986) and Jackman (1986) are recent examples. Such 'cost per job' statistics are useful partial indicators of cost-effectiveness that provide helpful information to set alongside measures of the long-run supply performance effects. It is, however, necessary, to recognise their limitations and to use the correct 'cost per job' measure which differs considerably depending on the objective and nature of the programme being considered.

There are a huge variety of statistics reported as measures of 'cost per job'. Most of them are not comparable - although they are often treated as if they were - and only a minority provide useful information. The following (non-exhaustive) list sets out some of the main variants. Most (but not all) are measures of public expenditure costs. These can be divided into measures of gross public expenditure costs which exclude tax, benefits and National Insurance flowbacks and measures of net costs which include these flowbacks. Some are used mainly as short-term measures, others as a medium-term or a long-term measure of cost effectiveness. Some refer to cost per unit of employment (usually per job) created (net or gross), others to cost per person out of unemployment. The range of options is greater for sub-nationally (ie regionally or locally) targetted employment measures, but the variation is sizeable even for policies with nation-wide employment consequences. The following table gives a list of the main variants that have been used in the 'cost per job' literature.

Table 2

Alternative Measures of 'Cost per Job'

- (1) Gross expenditure per supported job.
- (2) Gross expenditure per net job created either nationally or in a given area.
- (3) Discounted public expenditure per net job created.
- (4) Gross expenditure per net reduction in unemployment either nationally or in a given area.
- (5) Net exchequer cost per unit reduction in unemployment either nationally or in a given area.

There is little relationship between these measures - all that they have in common is that they are presented as £ per person - and, indeed, there are substantial differences within the headings. These differences are frequently overlooked.

Such measures are usually calculated from the information derived from ex post evaluations but they can be (and are) used in the context of ex ante appraisals. Those listed in table 2 are briefly discussed in turn below.

(1) Gross expenditure per supported job

Gross cost per supported job is crude (but sometimes useful) management information indicator. In some cases the jobs are supported from more than one source of public funds so that the measure will differ depending on whether all or only some of the constituent sources of public finance are included.

(2) Gross expenditure per net job created

Gross expenditure cost per net job created is only a useful indicator at the sub-national level, for a defined area. Most of the estimates are medium-run and take account of deadweight, substitution and displacement within the area but not outside it (eg evaluations of urban policy). These are usually based on surveys of a set of projects, the surveys typically being done about 2-4 years into the project. But, some estimates are long-run constructs which take account of inter-area effects and effectively make some allowance for macro-economic feedbacks. The estimated £35,000 figure for regional policy, (quoted in the 1983 White Paper Cmnd 9111 'Regional Industrial Development') which is based on shift-share analysis is an example of this. It does not refer to the average cost per net job of a sample of individual projects, rather it is a measure of the cost effectiveness of the main elements of the regional policy programme as a whole in shifting jobs between regions. Thus, this method cannot provide comparative information on the relative cost-effectiveness of projects within the programme.

(3) Discounted gross expenditure per net job created

Measures of discounted gross cost per net job created raise various issues on the valuation of the jobs including whether or not the number of jobs created should be discounted as well as the expenditure and, if so, at what rate. In practice, it is not used since to construct such the measure requires information on job profiles. This does not exist. As discussed earlier, the information on jobs created as a result of employment related expenditures is collected as a point-of-time estimate from a survey of projects. In any event, estimating job profiles taking account of the time-path of intra-area displacement is very difficult.

Discounted (net present value) costs per job are a more sophisticated and complex measure of effectiveness. They typically involve (a) estimating the present value of a project over its lifetime in an investment appraisal at a given discount rate, and, if the NPV is negative, dividing the negative NPV by the number of jobs created. The measure of costs is also a lot closer to the concept that economists usually prefer to use than are exchequer costs. However, these NPV cost per job estimates do require a lot of information before they can be estimated and can only be used to provide comparisons within a given area since they are also sensitive to the size of area. Whatever their merits, they clearly cannot ever be used in rankings to make comparisons with conventional undiscounted measures of cost per job.

(4) **Gross expenditure cost per unit reduction in unemployment**

Gross expenditure per net reduction in unemployment should potentially be of more use as a sub-national indicator. However, the jobs created in the area are usually filled to some extent by people living outside the area eg from higher commuting into the area. There may also be changes in local activity rates. Both of these can be sizeable and they are difficult to measure (eg in inner city employment related projects) so that the evidence rarely exists to estimate the change in area unemployment for a given increase in employment.

(5) **Net exchequer cost per unit reduction in unemployment**

Net exchequer costs per unit reduction in unemployment (NEC) is the conventional measure of cost effectiveness for national employment related expenditure measures. First year net exchequer costs per person out of employment are usually a useful indicator but simple comparisons between programmes on the basis of first year NEC alone are incomplete without adequate consideration of supply performance effects. Medium-term NEC measures cannot be reliably estimated to provide information on the relative effectiveness of employment measures at the national level for the reasons discussed in Section II(b).

Sometimes it is argued that an NEC measure should be used for a local area (Willis (1985) for example). But, as explained above, it is rarely possible to estimate reliably the area change in unemployment and thus to estimate the tax and benefit flowbacks to the area.

Estimates of first year net exchequer cost per person out of unemployment for an employment, training or enterprise policy with national employment consequences are widely used and reported in the Public Expenditure White Paper for the main

DE and MSC schemes. These estimates calculate the employment gain net of (i) deadweight (employment that would have been created without the expenditure) (ii) substitution (employment of individuals within the firm or scheme at the expense of other employees or additional recruitment of some unemployed people by the firm or scheme at the expense of lower recruitment of others) and (iii) displacement (reduction in employment elsewhere in the economy, primarily from output market effects of increased sales by supported firms leading to some reduction in the sales of unsupported firms.) This increase in employment can then be converted into an effect on the unemployment count by adjusting according to the propensity to be in the unemployment count of those people whose employment is directly affected by the expenditure. Given this information and knowledge of earnings and social security benefits of participants both on and off the measure, one can then calculate conventional first year NEC as reported in the Public Expenditure White Paper and elsewhere (eg Lindley (1986) Table 8.5).

There can be complications. For instance jobs may be partially deadweight because their creation has been brought forward rather than being completely induced. The estimate of the jobs brought forward again has to take account of deadweight, substitution and displacement.

One point to note is that the tax and social security flowbacks only include the most direct effects. In particular, by convention, the tax flowbacks include income tax and indirect tax receipts as a result of the employment measure but not corporation tax or other tax flowbacks. These are unlikely to be received by the exchequer within the first year (which is the main reason for omitting them) but they would in any event be very difficult to estimate given that expenditure by firms on investment, stockbuilding, training, advertising etc may well be affected by the deadweight component of subsidy but to a degree that is very difficult to estimate empirically.

V Example

Previous sections of the paper have set out (i) a framework for analysing the effects of employment related expenditure programmes and (ii) the pieces of information that are both consistent with that framework and useful in comparing their employment effects. In this section, we give a brief description of how this can be applied to a particular programme. We choose the Enterprise Allowance Scheme as an example not least because its objectives specifically include medium and long-term effects on supply performance and because the direct effects of one year's expenditure can last beyond the first year into the medium-term.

This section is not an evaluation of the programme but it shows from the information available on EAS how the framework set up earlier can be applied in practice both in ex ante appraisal and for guiding ex post evaluations. The framework can be applied in the same way to all expenditure programmes where the impact on employment or unemployment is an objective.

a The Enterprise Allowance Scheme

The Enterprise Allowance Scheme (EAS) is one of the DE programmes aimed at promoting enterprise and job creation. Its objective is described as "to encourage unemployed people to start up a business of their own and so to help create new small businesses and new jobs". (Employment Gazette, October 1986.) Under the scheme, individuals are currently paid an allowance of £40 per week for 12 months if (i) they are setting up a new business and have £1,000 or more to invest in it and (ii) they have been unemployed and in receipt of unemployment benefit (or supplementary benefit) for at least 8 weeks - or have been under notice of redundancy for 8 weeks. The intention is to help overcome the financial disincentive for unemployed people in becoming self-employed which arises from their loss of entitlement to unemployment benefits.

EAS was piloted in 5 areas in 1982 and has been running as a national scheme since 1983. Table 7.6 of the 1988 Public Expenditure White Paper shows that the number of entrants was running at just over 100,000 per year by end of financial year 1987-88 with gross expenditure on the scheme in 1987-88 of £199 million (excluding administrative costs).

First year net exchequer cost per person out of unemployment - this is reported in table 7.6 of the 1988 PEWP as £2,300 in 1987-88 (excluding administrative costs). This takes account of deadweight, substitution, and displacement for EAS businesses including the degree to which EAS brings forward the start date of new

businesses and the flowbacks of net additional employees in the first year. Evidence on deadweight comes from regular surveys and the estimate currently used is for deadweight is 48 per cent. DE assume a displacement rate of 50 per cent on the basis of currently available evidence. The estimate of first year NEC reported above is based on these figures. They imply that for every 100 people joining the scheme the unemployment count is reduced in the first year by 33 during the period for which the allowance is paid.

Medium term direct effects - information on these is contained in the first 3 year National Survey of EAS. This was a sample of 1983-84 entrants to EAS who were interviewed early in 1987. The main results of interest in this context are

- i. 65 per cent of those who completed their EAS year were still working in the same business two years after the allowance ended ie the business had survived three years, two of them nonsupported by EAS.
- ii. Adjusting for drop-outs during the year of the allowance, it is estimated that 56 per cent of the original cohort of EAS entrants were still in their business and 95 per cent of the survivors after three years still expected to be in business in 12 months time.
- iii. For every 100 businesses still trading after 18 months, 65 employees had been taken on, and for every 100 businesses still trading after 3 years, 114 employees had been taken on - 84 full-time and 30 part-time.

Supply Performance Effects

- i. EAS increases the stock of small businesses to the extent (a) that neither deadweight nor displacement is 100 per cent and or (b) that displacement is not wholly of the output of other small firms.
- ii. EAS increases the supply of entrepreneurship.
- iii. EAS is likely to increase the supply of labour by raising the activity rates of married woman working part-time to the extent that they were not previously economically active. The Three Year Survey shows that a quarter of the employees after three years worked part-time and, of these, about 40 per cent were family members - in many cases, presumably the spouse of the original EAS recipient.
- iv. The increase in labour supply from (iii) above is likely to reduce wage pressure in the economy

The long-run effects of EAS from these supply performance effects are expected to be primarily higher levels of output and employment (and lower unemployment) rather than higher productivity and real wages.

VI Conclusion

This paper has discussed the objectives of employment related expenditure programmes and how they have evolved. In recent years, the emphasis has been more on improving the workings of the labour market and increasing the effective supply of factors of production and, particularly, of labour. These are intended to provide sustained benefits to employment, unemployment and to output in the medium to long run.

This change in emphasis inevitably affects methods of comparative appraisal and evaluation of different programmes. It means that exchequer 'cost per job' indicators become less important relative to measures of supply performance. The latter can be given a firm analytical foundation in the long-run comparative static analysis of employment related programmes (as set out in this paper) comparable to that used in the conventional analysis of structural changes in taxes and benefits. In the UK, most discussion of the relative effectiveness of employment related programmes has concentrated on the short run impact on employment and unemployment in general and on the published unemployment count in particular, with the main weight given to the net exchequer cost per person out of unemployment of different schemes. This emphasis is quite different from the discussion of the role of equivalent policies in other countries. The US and Sweden are examples of two very different countries in terms of their attitudes to the desired degree of intervention in labour markets. In both these countries, much more attention appears to be given to the long-run consequences of such policies particularly on (a) the supply of labour (including the effective labour supply of certain groups such as long-term unemployed, women, ethnic minority members and the disabled) and (b) the human capital benefits of training and work experience. Conversely, relatively little attention is given in these countries to measuring the impact on aggregate unemployment levels in the short run. Thus, there is little discussion of displacement and, to a lesser extent, of substitution: (A useful survey paper on US thinking and evaluation is by Bassi and Ashenfelter (1985). See Jackman (1986) for a brief description of Sweden).

Given the change in orientation of employment related expenditure programmes in the UK, more attention should be paid by commentators to the role of longer run supply performance effects. This is beginning to happen. The work by Brian Main to evaluate the human capital benefits of firstly the Youth Opportunities Programme and, more recently, the Youth Training Scheme (See Main and Shelly (1987) for a recent example) are good examples of what can - and should - be done. It is only with such an approach that one can (a) identify aspects of market failure

that suggest where extra expenditure on employment related policies might usefully increase long-run production possibilities and (b) test whether government intervention to fill the market failure is cost effective.

The analytical framework of this paper provides a way of comparing the economic effects of such programmes which can be applied in practice and which assigns due importance to the long-run supply performance effects. Employment, training and enterprise programmes are likely to remain a part of the economic landscape. They are also likely to become even more varied in their range of effects. This gives more force to the need properly to evaluate their long-term effects.

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John

Footnotes

1. This paper is intended to discuss the analysis of individual employment related expenditure programme and to set out the framework now used by Government departments. The paper has benefitted greatly from discussions with colleagues in the Treasury, the Department of Employment and elsewhere. I would particularly like to thank Chris Melliss as well as Dan Corry, Zmira Hornstein, John Odling-Smee, Graham Reid, Michael Spackman, Alf Webb and Geoff White for their contributions. Responsibility for the analysis and the views expressed in the paper are mine alone and not necessarily those of HM Treasury.

2. The future of the Community Programme is discussed in the recent Department of Employment White Paper "Training for Employment" Cmnd 316.

3. Insider power is taken in this paper to represent all factors that reduce the ability of workers not in employment at a given time to compete with those in stable jobs. This include institutional factors in the labour market and in other markets, output market imperfections, firm specific human capital, hiring and firing costs, etc.

4. There may be some offsetting labour supply reduction if there is employment substitution which leads to some of the original employees leaving the labour force.

5. Under rational expectations, the increase in expenditure may lead to jumps in financial asset prices but there is unlikely to be any sizeable consequential effect on employment and output in the first year.

6. It is usually not possible to estimate the effect on local unemployment since that will depend on the extent to which jobs are filled by people living outside the area either by commuting or migrating to the area. There may also be labour supply increases in the area.

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ANNEX¹The Model

1. Following Layard and Nickell (1986) we write:

Production Function

$$Y_i = y \frac{(AN_i)}{(K_i)} K_i \quad y' > 0, y'' < 0 \quad (1)$$

where A is labour augmenting technical progress (variable definitions are given in full at the end).

Labour Demand

$$N_i = f \frac{(Y_i) K}{(K_i) A} \quad f = y^{-1}; \quad f', f'' > 0 \quad (2)$$

Product Demand

$$Y_i = D\left(\frac{P_i}{P^e}, \sigma\right) y \frac{(AL) K}{(K) n} \quad (3)$$

2. Equation 3 represents product demand at potential output where L is the exogenous labour force, n is the number of firms and σ is deviations from normal demand.

Price Equation

$$P_i = v \frac{W}{A} f' \left(\frac{Y_i}{K_i}\right) \quad (4)$$

where $v = \text{mark-up} = (1 - \frac{1}{\eta})^{-1} = v(\sigma^e)$, and $\eta = \text{elasticity of demand}$.

3. Amalgamating (3) and (4) and aggregating over n firms we get:

$$\frac{P}{W} = g^1 \left(\sigma^e, A, \frac{L}{K}, \frac{P}{P^e}\right) \quad (5)$$

¹ by C L Melliss.

4. Now using production function (1) and price equation (4), and noting the inverse function $f = y^{-1}$

$$P = v(\sigma^e) \frac{W}{A} f' \left(\frac{NA}{K} \right)$$

Re-arranging

$$\frac{N}{K} = \frac{1}{A} g^2 \left(\frac{W}{PA}, \sigma^e \right) \quad (6)$$

or using (5) to eliminate σ^e from (6)

$$\frac{N}{K} = g^3 \left(\frac{W}{PA}, \frac{L}{K}, \frac{P}{P^e}, A \right)$$

(Note this can only be done where σ^e appears in (6)).

Labour Supply

$$N = h \left(\frac{W}{P}, Z^S \right) L \quad (7)$$

where $h(\cdot)$ determines the participation rate. Z^S includes all those items which influence labour supply for given real wages. This includes outsider wages, unemployment benefit, tax wedges, real import prices and employment measures which affect participation.

5. The equilibrium real wage is obtained by equating (6) and (7)

Real Wage

$$\frac{W}{P} = j^1 \left(\sigma, \frac{K}{L}, A, Z^S \right)$$

6. Now separately identifying in Z^S the term N/L , a general indicator of labour market pressure, denoting the remaining Z^S variables as Z and incorporating price expectations we have:

$$\frac{W}{P} = j^2 \left(\frac{K}{L}, \frac{N}{L}, A, \frac{P}{P^e}, Z \right) \quad (8)$$

7. To make this model tractable for comparative static analysis we write a parameterised log-linear version of the employment, price, wage and output equations. We assume that open economy influences only come through the effect on the demand variable σ . To simplify exposition we shall assume that tax wedges

and real import prices, P_m/P in the Layard and Nickell model, remain fixed so that these can be ignored in the wage equation.

Production Function

8. From equation (1) we have:

$$\log Y = \log A + a_1 \log N + a_2 \log K \quad (9)$$

for constant returns $a_2 = 1 - a_1$; $a_1, a_2 > 0$.

Price Equation

9. From equation (5) we have

$$\log \left(\frac{P}{W} \right) = b_1 \sigma + b_2 \log A + b_3 \log \left(\frac{L}{K} \right) + b_4 \log \left(\frac{P}{P_e} \right) \quad (10)$$

$$b_1^2, b_2^2; b_3 > 0, b_4 < 0$$

Wage Equation

10. From equation (8), and using $\log N - \log L = -U$, we have:

$$\log \left(\frac{W}{P} \right) = c_2 \log \left(\frac{K}{L} \right) + c_3 U + c_4 \log A + c_5 \log \left(\frac{P}{P_e} \right) + c_6 Z \quad (11)$$

$$c_1, c_2, c_4, c_6 > 0; c_3, c_5 < 0$$

Employment Equation

11. From equation (6) we have:

$$\log N = d_1 \log k + d_2 \log \left(\frac{W}{P} \right) + d_3 \sigma + d_4 \log A \quad (12)$$

$d_1 = 1, d_2 < 0, d_3 > 0$. Note that (6) implies that $d_4 = -d_2 - d_1$, which also implies $d_4 = 0$ if $d_1 = 1, d_2 = -1$, ie if long run real wage elasticity of employment is unity. If $-1 < d_2 < 0$ then $d_4 < 0$.

² b_1 depends on the relationship between η and σ as well as the relationship between P/W and σ . From (4), and noting that $f'' > 0$, it seems likely that P/W and σ are positively related, ie the mark-up increases in boom conditions. But the elasticity of demand η may rise with σ , so that σ and P/W are negatively related if the fall in the mark-up outweighs the fall in the marginal product of labour.

Unemployment

12. Using equations (12) and (11) together we have:

$$\log N = \log K + d_2 [c_2 \log \left(\frac{K}{L}\right) + c_3 U + c_4 \log A + c_5 \log \left(\frac{P}{P^e}\right) + c_6 Z]$$

$$+ d_3 \sigma + d_4 \log A$$

$$\log N + d_2 c_2 \log L = (1 + d_2 c_2) \log K + (d_2 c_4 + d_4) \log A + d_3 \sigma$$

$$+ d_2 [c_3 U + c_5 \log \left(\frac{P}{P^e}\right) + c_6 Z]$$

13. Now the unemployment rate $U = \log L - \log N$

$$(1 + d_2 c_3) U = -(1 + d_2 c_2) \log \left(\frac{K}{L}\right) - (d_2 c_4 + d_4) \log A - d_3 \sigma$$

$$- d_2 [c_5 \log (P/P^e) + c_6 Z] \quad (13)$$

NAIRU

14. Solve equation (13) using equation (10) to eliminate σ , and setting $P/P^e = 1$. From (10)

$$\log K = \log L + b_3^{-1} b_1 \sigma - b_3^{-1} \log \left(\frac{P}{W}\right) + b_3^{-1} b_2 \log A \quad (14)$$

15. Using (14) to substitute for $\log K$ in (12), noting that $d_1 = 1$

$$\log N = \log L - b_3^{-1} \log \left(\frac{P}{W}\right) + d_2 \log \left(\frac{W}{P}\right) + (d_3 + b_3^{-1} b_1) \sigma$$

$$+ (d_4 + b_3^{-1} b_2) \log A \quad (15)$$

16 But the coefficient b_3 in the price equation is the inverse of the coefficient d_2 in the employment equation, so from (15)

$$\sigma = - (d_3 + b_3^{-1} b_1)^{-1} U - (d_4 + b_3^{-1} b_2) \log A$$

which when substituted into (13) gives

$$\begin{aligned}
 (1 + d_2 c_3) U &= - (1 + d_2 c_2) \log \left(\frac{K}{L} \right) - (d_2 c_4 + d_4) \log A - d_2 c_6 Z \\
 &\quad - d_3 [- (d_3 + b_3^{-1} b_1)^{-1} U - (d_4 + b_3^{-1} b_2) \log A] \\
 (1 + d_2 c_3 - d_3 \left[\frac{1}{d_3 + b_3^{-1} b_1} \right]) U^* &= - (1 + d_2 c_2) \log \frac{K}{L} \\
 &\quad - (d_2 c_4 + d_4 - d_3 d_4 + d_3 b_3^{-1} b_2) \log A - d_2 c_6 Z
 \end{aligned} \tag{16}$$

In Equation (13)

- (i) $(1 + d_2 c_3) > 1$
- (ii) $(1 + d_2 c_2) > 0$ if $c_2 < 1$, $d_2 > -1$; < 0 if $c_2 > 1$, $d_2 < -1$
- (iii) $(\bar{d}_2^{-1} c_4^0 + \bar{d}_4^0) < 0$ if $d_2 = -1$ (see note to equation (12))
- (iv) $d_3 > 0$
- (v) $d_2 c_5 > 0$; $d_2 c_6 < 0$

In Equation (16)

$$\begin{aligned}
 \text{(i)} \quad 1 + d_2 c_3 - d_3 \left[\frac{1}{d_3 + b_3^{-1} b_1} \right] &= ? \\
 > 0 \quad > 0 \quad > 0 \quad ?
 \end{aligned}$$

17. If it is assumed that b_1 , which is a priori unsigned, is > 0 , that is the mark-up is unchanged or increases in upswings, (i) is > 0 . For some values of $b_1 < 0$, (i) is also > 0 . We assume (i) is > 0 .

$$\begin{aligned}
 \text{(ii)} \quad (1 + d_2 c_2) &> 0 \\
 \text{(iii)} \quad (d_2 c_4 + d_4 - d_3 d_4 + d_3 b_3^{-1} b_2) &= ? \\
 < 0 \quad < 0 \quad > 0 \quad > 0 \quad > 0 \quad > 0 \quad > 0
 \end{aligned}$$

18. If we assume $d_4 < 0$, $b_2 > 0$, then the sign of this is indeterminate since $d_3 b_3^{-1} b_2 > 0$.

$$\text{(iv)} \quad d_2 c_6 < 0$$

Comparative Static Analysis

19. We wish to investigate the effects of changes in L , A (proxy for labour quality), K (including management), and insider power (proxied by Z) on the endogenous variables Y , N , U , U^* , W/P . The model does not include W as an endogenous variable.

Labour Quantity

$$\begin{aligned} \partial \log (W/P) / \partial \log L &< 0 && \text{from (11)} \\ \partial \log (P/W) / \partial \log L &< 0 && \text{from (10)} \\ \partial \log N / \partial \log (W/P) &< 0 \rightarrow \partial \log N / \partial \log L > 0 && \text{from (12)} \\ \partial \log Y / \partial \log N > 0 &\rightarrow \partial \log Y / \partial \log L > 0 && \\ \partial U / \partial \log L &> 0 && \text{from (13)} \\ \partial U^* / \partial \log L &\leq 0 \text{ depending on whether } (1+d_2c_2) \geq 0 && \text{from (16)} \end{aligned}$$

20. If a rise in employment results entirely from a measure which increases participation but leaves claimant unemployment unchanged then the labour force as defined here rises one for one with the rise in employment, while the unemployment rate, U , falls. So $\partial U^* / \partial L$ will be negative in this special case.

Labour Quality

$$\begin{aligned} \partial \log Y / \partial \log A &> 0 && \text{from (9)} \\ \partial \log (W/P) / \partial \log A &> 0 && \text{from (11)} \\ \partial \log N / \partial \log A &= d_2 \partial \log (W/P) / \partial \log A + d_4 && \text{from (12)} \end{aligned}$$

If we assume $\partial \log (W/P) / \partial \log A > d_4$ then $\partial \log N / \partial \log A > 0$

$$\begin{aligned} \partial U / \partial \log A &= > 0 && \text{from (13)} \\ \partial U^* / \partial \log A &= ? && \text{from (16)} \end{aligned}$$

Capital Stock

$$\begin{aligned} \partial \log Y / \partial \log K &> 0 && \text{from (9)} \\ \partial \log (W/P) / \partial \log K &> 0 && \text{from (11)} \\ \partial \log N / \partial \log K &= d_1 + d_2 \partial \log \left(\frac{W}{P} \right) / \partial \log K && \text{from (12)} \\ &= > 1 && \\ \partial U / \partial \log K &< 0 && \text{from (13)} \\ \partial U^* / \partial \log K &= \geq 0 \text{ depending on whether } (1+d_2c_2) \leq 0 && \text{from (16)} \end{aligned}$$

Insider Power

21. We assume here that a reduction in Z represents a reduction in insider power:

$$\begin{array}{ll} \partial \log (W/P) / \partial Z > 0 & \text{from (11)} \\ \partial \log N / \partial Z = d_2 \partial \log (W/P) / \partial \log Z < 0 & \text{from (12)} \\ \partial \log Y / \partial \log N > 0 \rightarrow \partial \log Y / \partial Z < 0 & \text{from (9)} \\ \partial U / \partial Z > 0 & \text{from (13)} \\ \partial U^* / \partial Z = > 0 & \text{from (16)} \end{array}$$

∴ reducing Z lowers W/P, U* and U, and raises N and Y.

Variable Definitions

A	=	labour augmenting technical progress
K	=	capital stock
L	=	labour force
N	=	labour employed
P	=	value added price deflator
p^e	=	expected aggregate price level
U	=	unemployment rate, defined as $\log L - \log N$
U*	=	non-accelerating inflation unemployment rate
W	=	wage cost per employee, including labour taxes
Y	=	net output (value added)
Z^S	=	all variables which influence labour supply at given real wages
Z	=	Z^S excluding N/L
η	=	price elasticity of demand
σ^e	=	expected aggregate demand
v	=	mark-up over marginal cost
i	=	subscript for the ith firm
n	=	number of firms, so $Y = n Y_i$ etc
a, b, c, d	=	coefficients.

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PWP

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Paul Gray Esq
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12 April 1988

Dear Paul,

LABOUR MARKET STATISTICS

... I enclose the draft labour market statistics press release for March which will be issued on Friday. The brief is of course personal and confidential until 11.30 on 15 April and confidential thereafter.

I am copying this to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Mr Hibbert (CSO), Mr Footman (Bank of England), Trevor Woolley (Cabinet Office), Alison Brimelow (DTI), Sir Brian Hayes (DTI), David Crawley (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 Peter Stredder (No 10 Policy Unit).

Yours ever,

Angela

ANGELA WILKINS
Private Secretary

COVERING PERSONAL AND CONFIDENTIAL

COVERING PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON 15.4.88 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.

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Labour Market Statistics

Summary

Adult unemployment fell by 28,000 in March, and is only marginally above 2½ million. However, the rate of decline is now less steep than in the second half of 1987 when the downward trend was over 50,000 a month. Further evidence of the strong labour market last year comes from the latest employment figures, for the fourth quarter of 1987. The employed labour force rose 146,000 in the quarter, to a level over ½ million higher than a year earlier. In February the underlying increase in average earnings remained unchanged from January at 8½ per cent.

Unemployment

UK unemployment (seasonally adjusted claimants, excluding school leavers) fell further, by 27,800 between February and March, to 2.505 million, the lowest since December 1981 (on a consistent basis). The unemployment rate fell to 9.0 per cent. The series has now fallen for 20 consecutive months, bringing the total fall since July 1986 to over 700,000. Key figures and comparisons are attached separately.

Unemployment is now falling less sharply than over the second half of 1987 when there was a record average fall of over 51,000 per month. The fall in the seasonally adjusted series has averaged nearly 45,000 per month over the past six months, but within this period there has been a fall of some 36,000 per month over the latest three months since December, in contrast to nearly 53,000 over the previous three months. The slowing of the rate of fall has been particularly marked among women, although it has also affected men.

It is too early to say whether the deterioration in the downward trend is at all attributable to a lower level of activity in the labour market rather than to a stabilisation of the effect of measures. Our assessment is inevitably uncertain, but the various administrative measures - Restart, availability testing and claimant advisers - are together probably no longer contributing to the monthly reductions in the count. Also the effect on the count of employment and training measures has recently been changing very little. However, there has been some artificial increase in the count over the past two months because some extra disabled claimants have been signing on as unemployed when they were previously obtaining Supplementary Allowance

directly from DHSS without having to be available for work. The effect on the count cannot be quantified, but the limited evidence available suggests that the effect has so far been modest. Also, at least part of the effect may be temporary.

Regional comparisons

Unemployment continues to fall in all regions. Over the past 12 months, the unemployment rate has fallen most in the West Midlands followed by the North West and Yorkshire and Humberside. Most other regions are not very far behind, with the exceptions of Northern Ireland and Greater London which had the smallest falls over the period. Over recent months Northern Ireland has been little different from the rest of the UK, with Greater London experiencing the smallest fall in regional unemployment rates.

Headline total

The UK 'headline' claimant total (unadjusted including school leavers) fell by over 73,000 to 2.592 million in March, 9.3 per cent. This was 551,000 lower than a year ago. There was a fall of 68,000 among adults and 5,000 among school leavers. The school leaver total at some 52,000 was 20,000 (28 per cent) lower than a year ago.

April headline total

Seasonal influences tend to reduce the adult unemployment count between March and April, although less sharply than between February and March. Also, there will probably be little change in school leavers, after allowing for some Easter leavers signing on after the relatively early Easter. Therefore, given the continuing downward trend, a fall in the headline total is likely.

Employment

The employed labour force (employees in employment, the self employed and HM Forces) is estimated to have increased by 146,000 in the fourth quarter of 1987. This continues the upward trend which started in March 1983, since when the employed labour force is estimated to have increased by 1,657,000. In the fourth quarter the rate of increase recovered to the pace set in the early part of the year but which had fallen away in the third quarter. The total increase in 1987 is estimated at 504,000.

The number of employees in employment in manufacturing industries increased by an estimated 4,000 in February. While the monthly figures can be erratic the rate of decline in manufacturing employment has clearly slowed but there is as yet insufficient evidence to indicate that the trend is now upwards.

Following the very high figure in January, overtime working by operatives in manufacturing industries fell to 13.6 million hours per week in February, the same level as in the last quarter of 1987. Hours lost through short-time working in manufacturing industries remain very low, 0.29 million hours per week in February.

Vacancies

There was a further fall of 2,400 in the stock of unfilled vacancies at jobcentres (UK, seasonally adjusted, excluding Community Programme vacancies) to 245,500 in March. This was 15% higher than a year ago, although the increase since then is still likely to be exaggerated, because of a tendency for outflows to be understated as jobcentres have been less active in following up placings. The increase of 2% in the inflows of notified vacancies is likely to be a better guide to the growth in vacancies over the period. Recorded placings were 2% lower than a year ago.

Earnings

The estimate of the underlying increase for the whole economy in February is unchanged from January at $8\frac{1}{2}$ per cent. The estimate for manufacturing industries has fallen by $\frac{1}{4}$ per cent to $8\frac{1}{4}$ per cent but the estimate for service industries has edged up $\frac{1}{4}$ per cent to $8\frac{3}{4}$ per cent. The increase in services reflects the combination of small upwards movements derived from settlements, bonuses, and overtime working.

Next labour market figures

The next labour market brief will be issued on Monday 16th May in advance of press release on Thursday 19th May. It will contain unemployment figures for 14th April, manufacturing employment and average earnings for March and vacancies for 8 April.

Unemployment in March
seasonally adjusted (UK)

Down 27,800 in March

Now 2.505 million, 9.0%
Down 20 months running

Lowest for over 6 years (since
December 1981)

Fall in last 12 months 533,000
Largest sustained fall on record,
down 706,000 since July 1986.
Fall of 417,000 since election
June 1987

Fall of 45,000 per month
over last six months

Total (including school leavers)

Now 2.592 million (9.3%)

Down 73,000 since February
Fall in last 12 months 551,000

Regional unemployment

Fall in all regions of UK in
month and over last year: rates
fallen most in West Midlands,
North West and Yorkshire and
Humberside

Youth unemployment (UK)

School leavers in February 52,000,
20,000 lower than a year ago,
and lowest March figure since 1980.

Halved in last 5 years
(Mar 1983 112,000)

Under 25s also lowest for more
than 5 years and down about
a quarter compared with
January 1983.

International comparisons

UK rate fallen faster in past year
than any other major industrialised
country. UK unemployment now lower
than EC average. International
rates show unemployment now higher
in France (10.6%), Italy (11.1%),
Belgium (10.5%), Netherlands (9.5%)
Spain (19.6%) and Ireland (18.9%)
(comparable UK 9.1%)

Employed labour force

Increase of 146,000 in Q4 in 1987

Increase of 504,000 in year to December of which:

	Men	Women	Total
Full-time	109	146	255
Part-time	84	165	249
Total	193	311	504

Increase every quarter since March 1983 (4 $\frac{3}{4}$ years); by
1.66 million

Manufacturing employment (GB)

Rose by 4,000 in February
Fell 1,000 per month on average in last 6 months
Appears to be levelling out.

Vacancies (UK)

Unfilled vacancies at Jobcentres 245,500 in March
15% higher than a year ago.

Over 700,000 vacancies in the economy overall.
Only about $\frac{1}{3}$ vacancies reported to jobcentres.

Average Earnings (GB)

Underlying increase in average earnings in year to
February 8 $\frac{1}{2}$ %. Unchanged on January.

Labour Force Survey

Again shows claimant count above survey estimate
of unemployment using international definitions
(ILO/OECD)
(2.95m in Spring 1987 compared to 2.88 million GB).

Lesser fall in survey estimate compared with claimant
count between 1986 and 1987 reflects response among
claimants to extra job opportunities, with more
frequent job seeking among those yet to find work
(210 thousand fall in count compared to 80 thousand
(ILO/OECD)

Long term unemployment (UK)

1.101 million in January
Fell by 234,000 in year since January 1987,
largest 12 months fall on record
Longer-term unemployment (over 6 months)
1.547 million in January, record fall of
365,000 over past 12 months.

Recent Labour Market statistics - additional points

Effect of measures

- participants in employment measures hardly changed overall in last year, when unemployment fallen rapidly.
- YTS has increased in size but has little impact on seasonally adjusted adult count.
- Effect of Restart in helping long term unemployed back into work (through other schemes and job opportunities) cannot be estimated separately from effect of rapid improvements in labour market. Programme more successful when more jobs available.
- Availability testing will discourage some people not interested in getting work; cannot estimate how many.
- Those on schemes such as CP are employed just like other workers. Those on EAS are self-employed.

Fiddling the figures

Only 6 changes affecting count since 1979
3 statistical and 3 administrative
including only 2 changes to
compilation.

Seasonally adjusted unemployment series is
consistent and allows comparison of trend
over time: nothing to hide

Flows into and out of unemployment

- Some 400,000 per month enter and leave the count. Over a quarter of those becoming unemployed leave within the first month, over half leave within 3 months.
- job starts: 7½ million per year (includes employed and unemployed) equivalent to about 30,000 every working day.

Part-time employment

- Rise in part-time employment (49% of increase in employment in year to December) sign of increased flexibility in the labour market.
- According to LFS, vast majority of those working part-time do not want full-time jobs.
- A part-time job can be up to 30 hours per week, so cannot describe as half a full-time job.

International comparisons of employment

- increase since 1983 greater than rest of EC combined.
- UK proportion of population of working age in employment (66%) much greater than EC average (57%)

International definition of unemployment

Latest OECD standardised rates, show
UK unemployment at 9.1% (January)

Figures of 5 million from LFS sometimes quoted include all who say they would like work, even if not available for or seeking work (eg early retired, sick, looking after home.)

International comparisons for under 25s

Latest EC comparison for January 1988 showed UK 14.5% compared with EC average 20.6% (Lower than all other EC countries except Denmark, Germany and Luxembourg)

LABOUR MARKET STATISTICS

APRIL 15, 1988

SUMMARY STATISTICS

		Level	Change on previous period	<u>Thousands</u> Change on previous year
<u>Unemployment (UK)</u>				
Total (not seasonally adjusted)	March 10	2,592	- 73	- 551
Total (excluding school leavers)	March 10	2,505	- 28	- 533
<u>Employed Labour Force</u>	December; Q4 1987	24,654	+146	+ 504
<u>Employees in employment</u>				
Services	December Q4 1987	14,671	+132	+ 399
Manufacturing	December Q4 1987	5,028	- 6	- 56
Manufacturing employment	February 1988	5,039	+ 4	- 23
<u>Vacancies (UK at jobcentres)</u>	March 4	246	- 2	+ 31

Percentage change on previous year
(underlying increase)

Index of Average Earnings

Whole Economy	February	8½
Services	February	8¾
Manufacturing	February	8¼

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 27,800 in the month to March. Male unemployment decreased by 20,000 and female unemployment decreased, by 7,800. Over the past six months there has been a fall of 44,600 on average compared with a fall of 44,200 per month over the previous six months to September 1987.

The unadjusted unemployment total, decreased in March by 73,348 to 2,592,121. This includes 52,110 school leavers aged under 18. In March, total unemployment was 551,249 lower than a year ago.

The new figures available this month relate to the whole economy in Great Britain for the fourth quarter of 1987.

The employed labour force is estimated to have increased by 146,000 in the fourth quarter of 1987 contributing to overall increases of 504,000 in the year to December 1987 of 1,657,000 since March 1983.

The latest estimates for the number of employees employed in manufacturing industry in Great Britain increased by an estimated 4,000 in February 1988.

The stock of vacancies (UK seasonally adjusted excluding Community Programme) decreased by 2,400 in March to 245,500. Over the past six months there has been a decrease of 200 per month on average.

The underlying increase in average earnings in the year to February was 8½ per cent, the same level as in the year to January.

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 27,800 to 2.505 million in March, 9.0 per cent of the working population*.

Over the past six months on average unemployment has fallen by 44,600 per month.

The recorded total of unemployed claimants, including school leavers, decreased by 73,348 between February and March to 2,592,121 giving an unemployment rate of 9.3 per cent of the working population. Unemployment is 551,249 less than a year ago. The total included 52,110 school leavers, 20,171 lower than a year ago.

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

TABLE 1: UNEMPLOYMENT - UNITED KINGDOM

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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
1987 Mar	2105.5	931.8	3037.3	-29.2	10.9	-24.7	-27.8
Apr	2095.3	926.1	3021.4	-15.9	10.8	-23.7	-30.3
May	2051.9	899.0	2950.9	-70.5	10.6	-33.3	-38.5
Jun	2033.2	889.0	2922.2	-28.7	10.5	-33.1	-38.4
Jul	2002.3	870.8	2873.1	-49.1	10.3	-39.9	-49.4
Aug	1970.4	855.1	2825.5	-47.6	10.1	-40.2	-41.8
Sep	1939.3	832.9	2772.2	-53.3	9.9	-44.2	-50.0
Oct	1899.5	814.1	2713.6	-58.6	9.7	-51.3	-53.2
Nov	1854.7	796.1	2650.8	-62.8	9.5	-50.0	-58.2
Dec	1825.3	788.6	2613.9	-36.9	9.4	-51.4	-52.8
1988 Jan	1783.5	781.2	2564.7	-49.2	9.2	-51.4	-49.6
Feb(r)	1757.0	775.6	2532.6	-32.1	9.1	-48.8	-39.4
Mar(p)	1737.0	767.8	2504.8	-27.8	9.0 **	-44.6	-36.4

** The separate rate for males was 10.6 per cent, and for females 6.7 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**
1987	Mar	2,181,037	962,333	3,143,370	11.3	72,281	. .
	Apr	2,158,222	948,906	3,107,128	11.1	66,572	. .
	May	2,080,369	906,084	2,986,453	10.7	74,930	. .
	Jun	2,022,964	882,361	2,905,325	10.4	69,397	103,552
	Jul	2,008,482	897,971	2,906,453	10.4	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	9.6	69,408	. .
	Dec	1,878,715	817,095	2,695,810	9.7	63,726	. .
1988	Jan	1,892,698	829,456	2,722,154	9.8	62,797	. .
	Feb	1,852,129	813,340	2,665,469	9.6	57,414	. .
	Mar	1,803,143	788,978	2,592,121	9.3+	52,110	. .

+ The separate rate for males was 11.0 per cent, and for females 6.8 per cent.

** Not included in totals, see note A4

*See note A5.

TABLE 3: UNEMPLOYMENT - REGIONS March 10 1988

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)	557.1 (315.8)	-7.1 (-2.2)	6.0 (7.4)	-0.1 (-0.1)	570.4 (319.9)	-16.5 (-4.4)	6.2 (7.5)	6.1 (3.8)
East Anglia	57.0	-1.3	5.7	-0.1	60.7	-2.8	6.0	.8
South West	149.1	-2.7	7.2	-0.1	156.0	-7.3	7.6	1.8
West Midlands	254.8	-3.3	9.8	-0.1	262.0	-7.4	10.1	5.6
East Midlands	156.1	-2.1	8.1	-0.1	162.0	-4.9	8.4	2.6
Yorks and Humberside	243.4	-2.4	10.4	-0.1	254.8	-5.8	10.9	6.2
North West	347.8	-3.4	11.7	-0.1	358.1	-9.2	12.0	7.5
North	187.0	-0.6	13.1	-0.0	192.9	-3.8	13.5	4.1
Wales	135.9	-0.9	11.5	-0.1	141.4	-4.1	12.0	2.8
Scotland	300.1	-3.3	12.3	-0.1	316.3	-9.7	12.9	13.3
GREAT BRITAIN	2,388.4	-27.0	8.8	-0.1	2,474.6	-71.3	9.1	50.7
Northern Ireland	116.4	-0.8	17.1	-0.1	117.5	-2.0	17.3	1.4
UNITED KINGDOM	2,504.8	-27.8	9.0	-0.1	2,592.1	-73.3	9.3	52.1

* 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
1987	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
	Dec	328.6	7.5	321.1	- 26.8	317.5	10.1	307.4	- 22.5
1988	Jan	344.4	11.0	333.3	- 22.1	321.5	8.4	313.1	+ 26.2
	Feb	345.2	9.4	335.8	- 51.5	406.6	11.3	395.3	- 51.0
	Mar	313.0	7.2	305.9	- 27.8	392.5	9.3	383.2	- 36.7

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CONFIDENTIAL UNTIL 11.30AM ON 15 APRIL 1988

EMPLOYMENT

Whole economy estimates for December 1987 are available for the first time this month. Some of the estimates for earlier months have been revised following the routine recalculation of seasonal adjustment factors.

The employed labour force (employees in employment, the self employed and HM Forces) in Great Britain is estimated to have increased by 146,000 in the fourth quarter of 1987 and by 1,657,000 since March 1983. The rate of increase has recovered to the pace set in the early part of the year which fell away in the third quarter. The total increase in 1987 is estimated at 504,000; of this 255,000 was full time and 249,000 part time jobs.

The increase of 146,000 in the December quarter comprises of a projected increase of 31,000 in the self employed and an estimated increase of 116,000 in employees in employment.

Employees in employment

The number of employees employed in services increased again by 132,000 in the fourth quarter of 1987 while the numbers in manufacturing, the energy and water supply industries and other industries (agriculture and construction) decreased by 6,000, 7,000 and 3,000 respectively.

Taking 1987 as a whole, the number of employees in employment increased by 328,000, the net result of a 399,000 increase in the service industries and 16,000 in other industries, reduced by falls of 56,000 in manufacturing and 31,000 in energy and water supply industries.

The number of employees in employment in manufacturing industries increased by an estimated 4,000 in February 1988. While the monthly figures can be erratic the rate of decline in manufacturing employment has clearly slowed and until later estimates are available, it is too early to say whether the trend has been reversed.

Recent figures are set out in Table 5.

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Personal and Confidential until 11.30 a.m. on 15.4.88

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								
		R	R	R	R			R	R	R	R	R	R	R	R	R	R	
1986	March	01	5,204	- 9	-12	- 36	540	- 4	-17	14,029	+ 71	1,292	- 9	21,065	+ 9	23,950	+ 12	
	April		5,196	- 8	-14		537	- 3										
	May		5,165	-31	-16		534	- 3										
	June	02	5,146	-19	-19	- 58	530	- 4	-10	14,115	+ 86	1,288	- 3	21,079	+ 14	23,967	+ 17	
	July		5,131	-15	-22		525	- 5										
	August		5,116	-15	-16		521	- 4										
	September	03	5,107	- 9	-13	- 39	519	- 2	-11	14,192	+ 77	1,280	- 8	21,098	+ 19	24,046	+ 79	
	October		5,098	- 9	-11		516	- 3										
	November		5,092	- 6	- 8		510	- 6										
	December	04	5,084	- 8	- 5	- 23	508	- 2	-11	14,272	+ 80	1,282	+ 2	21,146	+ 48	24,150	+104	
1987	January		5,065	-19	-11		501	- 7										
	February		5,062	- 3	-10		499	- 2										
	March	01	5,053	- 9	-10	- 31	494R	- 5R	-14R	14,372	+100	1,292	+10	21,211	+ 65	24,273	+123	
	April		5,046	- 7	- 6		487	- 7R										
	May		5,052	+ 6	- 3		486	- 1										
	June	02	5,056	+ 4	+ 1	+ 3	488	+ 2	- 6R	14,467	+ 95	1,296	+ 4	21,307	+ 96	24,426	+153	
	July		5,048	- 8	+ 1		484R	- 4R										
	August		5,043	- 5	- 3		483	- 1R										
	September	03	5,034	- 9	- 7	- 22	484R	+ 1R	- 4R	14,539	+ 72	1,301	+ 5	21,358	+ 51	24,508	+ 82	
	October		5,032	- 2	- 5		479R	- 5										
	November		5,033	+ 1	- 3		477R	- 2										
	December	04	5,028	- 5	- 2	- 6	477R	0	- 7	14,671	+132	1,298	+ 3	21,474	+116	24,654	+146	
1988	January		5,035	+ 7	+ 1		473	- 4										
	February		5,039	+ 4	+ 2		469	- 4										

* = Average monthly change over last three months

R = Revised to incorporate new seasonal factors and late data now available

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VACANCIES

The stock of unfilled vacancies at jobcentres (seasonally adjusted and excluding Community Programme vacancies) decreased by 2,400 in the month to March to reach 245,500. Over the past three months to March, seasonally adjusted vacancies have decreased on average by 3,700 per month.

Unadjusted, there was an increase of 6,089 unfilled vacancies in the month to 262,951. There was a decrease of 1,689 Community Programme vacancies.

The inflow of notified vacancies increased on average by 400 per month in the three months ending March 1988, the outflow decreased by 3,100 per month, and placings decreased by 1,700 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		
1987	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	
	Dec	271.4	31.7	239.7	256.6	-11.6	3.3	20.5	
	1988	Jan	257.9	33.1	224.8	249.5	-7.1	-4.0	19.9
		Feb	256.9	32.6	224.2	247.9	-1.6	-6.8	18.8
Mar		263.0	30.9	232.0	245.5	-2.4	-3.7	20.4	

* See note C1.

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

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	
1987 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	
Dec	236.1	2.4	247.9	10.7	169.5	5.0	
1988 Jan	223.6	-4.1	229.0	1.6	164.1	2.0	
Feb	237.9	0.1	243.9	4.3	168.6	3.0	
Mar	237.3	0.4	238.6	-3.1	164.4	-1.7	

TABLE 8: *UNFILLED VACANCIES - REGIONS - 4 March 1988

	VACANCIES AT JOBCENTRES			SEASONALLY ADJUSTED (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	96.6	4.8	91.7	97.7	-2.4	12.7
(Greater London)	(34.5)	(2.6)	(31.9)	(34.1)	(-2.4)	(6.7)
East Anglia	9.0	0.6	8.4	8.9	0.2	0.7
South West	21.2	2.7	18.5	19.4	-0.1	1.1
West Midlands	26.7	4.3	22.4	23.5	-1.0	1.3
East Midlands	13.8	1.4	12.4	12.8	-0.1	1.0
Yorks and Humberside	17.5	2.8	14.7	15.5	-0.3	0.7
North West	25.2	3.1	22.1	23.3	1.4	1.1
North	14.3	3.6	10.8	11.3	-0.1	0.3
Wales	13.8	3.2	10.6	10.9	-0.1	0.3
Scotland	21.9	3.4	18.5	19.5	0.3	0.5
GREAT BRITAIN	260.1	30.0	230.2	242.7	-2.2	19.6
Northern Ireland	2.8	1.0	1.9	2.9	-0.1	0.8
UNITED KINGDOM	263.0	30.9	232.0	245.5	-2.4	20.4

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

AVERAGE EARNINGS

The underlying increase in average weekly earnings in the year to February was about 8 1/2 per cent, similar to the increase in the year to January.

The actual increase in the year to February, at 8.1 per cent, was below 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				
October	188.3	188.7	8.3	7 1/2
November	191.2	190.2	8.1	7 3/4
December	193.4	191.3	7.4	7 3/4
1987				
January	190.4	192.8	7.6	7 1/2
February	191.2	193.4	7.4	7 1/2
March	194.5	194.8	6.7	7 1/2
April	196.0	197.4	6.5	7 3/4
May	198.1	198.5	8.7	7 3/4
June	200.0	198.1	7.7	7 3/4
July	203.1	201.3	8.1	7 3/4
August	201.6	201.3	7.6	7 3/4
September	201.4	201.8	7.9	7 3/4
October	203.4	203.8	8.0	8
November	207.3	206.3	8.5	8 1/4
December	210.3	208.0	8.7	8 1/2
1988				
January	206.9	209.5	8.7	8 1/2
February*	206.6	209.0	8.1	8 1/2

* Provisional

In production industries, the underlying increase in average weekly earnings in the year to February was about 8 1/4 per cent, a decrease of 1/4 per cent on the year to January. Within this sector, in manufacturing industries, the underlying increase in average weekly earnings in the year to February was about 8 1/4 per cent, a decrease of 1/4 per cent on the year to January. 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 February were 6.5 per cent and 7.2 per cent respectively.

In service industries, the underlying increase in average weekly earnings in the year to February was about 8 3/4 per cent, an increase of 1/4 per cent on the year to January. The actual increase in the year to February was 9.3 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	% increases over previous 12 months		Index January 1980=100	% increases over previous 12 months		Index January 1980=100	% increases over previous 12 months	
		seas adj	underlying		seas adj	underlying		seas adj	underlying
1986									
Dec	199.6	8.4	8	200.0	8.3	8	189.2	6.7	7 1/2
1987									
Jan	199.9	7.8	7 3/4	200.0	7.8	7 3/4	190.3	7.7	7 1/2
Feb	200.6	7.9	8	201.0	8.1	8	189.7	7.2	7 1/4
Mar	199.8	7.4	8	201.1	7.6	8	193.8	5.9	7 1/4
Apr	203.6	7.2	8	204.4	7.0	8	196.4	5.8	7 3/4
May	201.6	8.0	8	202.4	8.2	8	199.2	9.3	7 3/4
Jun	203.9	8.0	8 1/4	204.8	7.9	8 1/4	198.7	7.5	7 1/2
Jul	206.4	8.7	8 1/4	207.6	9.0	8 1/4	200.4	7.7	7 1/4
Aug	207.8	8.2	8 1/4	207.2	8.0	8 1/2	200.9	7.3	7 1/4
Sep	209.9	8.3	8 1/4	210.3	8.4	8 1/2	200.1	7.6	7 1/2
Oct	212.1	8.7	8 1/4	212.4	8.8	8 1/4	201.7	7.6	8
Nov	212.2	7.9	8 1/4	216.8	8.4	8 1/4	206.7	9.2	8 1/2
Dec	215.9	8.2	8 1/4	216.8	8.4	8 1/4	206.7	9.2	8 1/2 R
1988									
Jan	215.8	8.0	8 1/2	216.8	8.4	8 1/2	207.7	9.1	8 1/2
Feb(p)	213.7	6.5	8 1/4	215.5	7.2	8 1/4	207.3	9.3	8 3/4

p provisional

R revised

* 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 communications; Banking, finance, insurance, business services and leasing; Other services (including public administration, education, medical and other medical services, etc).

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 January 1988, wages and salaries per unit of output in manufacturing industries were 1.3 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 third quarter of 1987, wages and salaries per unit of output in the whole economy were 3.8 per cent above the corresponding period of 1987. This increase was below the rise in average earnings in the whole economy as there was a rise of nearly 3 1/4 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	125.8	6.5	132.9	6.0
Q4	128.7	6.2	134.3	4.4
1986 Q1	131.5	8.7	136.8	6.4
Q2	130.9	6.9	138.3	6.8
Q3	130.4	3.7	139.2	4.7
Q4	130.5	1.4	141.2	5.1
1987 Q1	132.5	0.8	142.3	4.0
Q2	132.0	0.8	144.3	4.3
Q3	131.3	0.7	144.5	3.8
Q4	133.2	2.1	..	..
1987 Sept	132.3	1.1	..	..
Oct	132.8	2.3	..	..
Nov	132.4	1.8	..	..
Dec	134.4	2.1	..	..
1988 Jan	134.2	-0.1	..	..
3 months ending				
1987 Sept	131.3	0.7	..	..
Oct	131.5	0.8	..	..
Nov	132.5	1.9	..	..
Dec	133.2	2.1	..	..
1988 Jan	133.7	1.3	..	..

CONFIDENTIAL UNTIL 11.30am ON 15 APRIL 1988
HOURS WORKED IN MANUFACTURING INDUSTRIES

Following the very high January figure, Overtime working by operatives in manufacturing industries fell to 13.56 million hours per week in February, the same level as in the last quarter of 1987.

Hours lost through short-time working in manufacturing industries remain very low, at 0.29 million hours per week in February.

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 104.4 in February 1988 giving an average of 104.6 over the three month period ending February 1988. The revisions reflect the incorporation of new data on average hours from the 1987 October Manual Enquiry.

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	
			R
1986 Jun	11.28	0.45	102.6
Jul	11.66	0.39	102.9
Aug	11.77	0.43	102.9
Sep	11.68	0.43	102.8
Oct	11.77	0.81	102.6
Nov	12.06	0.48	102.9
Dec	11.62	0.51	103.0
1987 Jan	11.47	0.57	102.8
Feb	12.09	0.42	103.2
Mar	12.27	0.36	103.4
Apr	12.44	0.41	103.5
May	12.38	0.37	103.5
June	12.68	0.31	103.8
Jul	12.49	0.35	103.6
Aug	12.70	0.28	103.8
Sep	12.96	0.24	104.0
Oct	13.66	0.29	104.4
Nov	13.58	0.38	104.3
Dec	13.42	0.28	104.4
1988 Jan	14.54	0.25	105.1
Feb	13.56	0.29	104.4

R= Revised

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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 January was 1.0 per cent higher than in the three months ending October and 6.9 per cent higher than in the same period a year earlier.

Output per head in the whole economy in the third quarter of 1987 was 1.5 per cent above the previous quarter and 3.2 per cent higher than in the third quarter of 1986.

Recent figures are:

TABLE 13: OUTPUT PER HEAD

seasonally adjusted

		Manufacturing		Whole Economy	
		Index 1980 = 100	Percentage increase on a year earlier	Index 1980 = 100	Percentage increase on a year earlier
1985	Q3	130.4	2.4	114.2	2.2
	Q4	130.1	2.2	114.7	2.2
1986	Q1	129.5	-0.7	115.2	1.5
	Q2	132.3	0.5	116.6	1.7
	Q3	134.8	3.4	117.7	3.1
	Q4	138.5	6.5	118.3	3.1
1987	Q1	138.6	7.0	118.8	3.1
	Q2	141.3	6.8	119.7	2.7
	Q3	145.2	7.7	121.5	3.2
	Q4	147.0	6.1	..	..
1987	Sep	145.4	7.1	..	..
	Oct	146.4	6.4	..	..
	Nov	147.0	6.0	..	..
	Dec	147.6	6.1	..	..
1988	Jan	147.8	8.6	..	..
3 months ending					
1987	Sep	145.2	7.7	..	..
	Oct	146.1	7.6	..	..
	Nov	146.3	6.5	..	..
	Dec	147.0	6.1	..	..
1988	Jan	147.5	6.9	..	..

Industrial stoppages

In February 1988, it is provisionally estimated that 660 thousand working days were lost in the United Kingdom through stoppages of work due to industrial disputes. This compares with a provisional estimate of 88 thousand in January 1988, 928 thousand in February 1987 and an average of 1,204 thousand for February during the ten year period 1978 to 1987.

During the twelve months to February 1988 it is provisionally estimated that a total of 2,472 thousand working days were lost through stoppages of work due to industrial disputes. During this twelve month period a total of 900 stoppages have been provisionally recorded as being in progress, involving a total of 863 thousand workers. The comparable figures for the twelve months to February 1987 were 3,272 thousand lost working days, 1,118 stoppages in progress and 693 thousand workers.

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

	Working days lost (thousand)	Number of Stoppages	Workers involved (thousand)
1987			
Feb	928	123	148
Mar	250	115	215
Apr	335	128	154
May	218	88	123
Jun	344	101	157
Jul	217	89	60
Aug	42	69	22
Sep(p)	55	82	19
Oct(p)	75	87	24
Nov(p)	130	102	87
Dec(p)	55	66	34
1988			
Jan(p)	88	58	38
Feb(p)	660	84	181
<u>Cumulative totals</u>			
12 months to February 1987(p)	3,272	1,118	693
12 months to February 1988(p)	2,472	900	863

(p) Provisional and subject to revision, normally upwards, see note H1.

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 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 10 March 1988 these numbered 1,391 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 10 March 1988 these numbered 6,450 in Great Britain and 7,855 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-1987. 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 10 March 1988 were 13.0 per cent for males and 7.3 per cent for females, 10.5 per cent in total (unadjusted).

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, 1986 and 1987 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, 33,900 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, by 4,100 a quarter between mid 1985 and mid 1986, by 58,500 a quarter between mid 1986 and mid 1987. Pending the results of the 1988 Labour Force Survey it is assumed that the numbers of self employed are continuing to increase at the rate of 31,000 a quarter observed between 1981, the date of the latest Census of Population which provides a benchmark for the self employment series, and 1987, the date of the latest available Labour Force Survey data. The derivation of recent estimates is described in the *Employment Gazette*, March 1988 page 144.

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 March 1988. The next analysis will appear in the June 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 and is consistent with the GDP press notice published on 18 March. 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 published by the CSO on 18 March. 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.

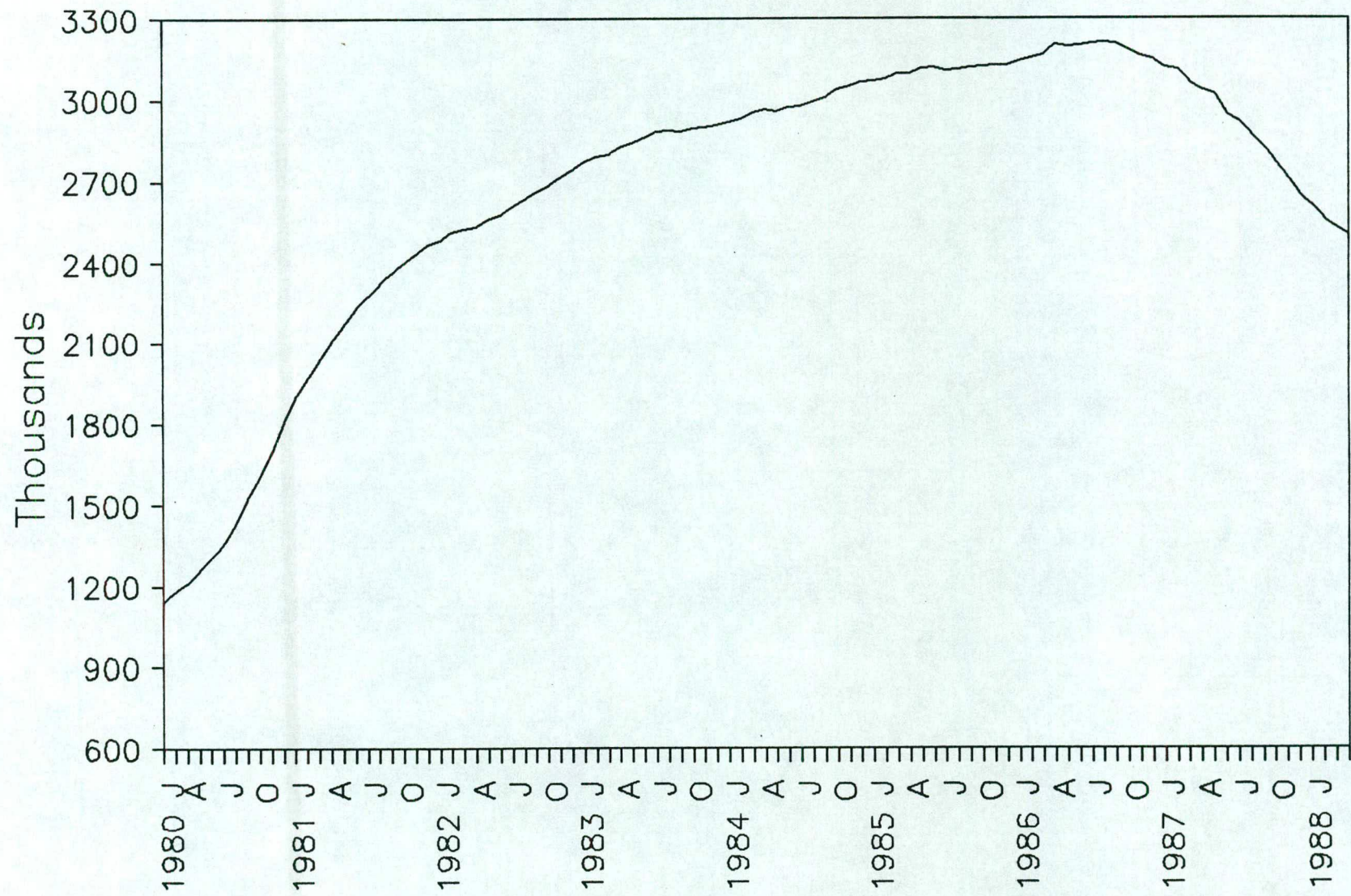
INDUSTRIAL STOPPAGES (Table 14)

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.

Cl

PERSONAL AND CONFIDENTIAL UNTIL 11:30 AM ON 15 APRIL 1988
THEREAFTER UNCLASSIFIED.

SEASONALLY ADJUSTED UNEMPLOYMENT UNITED KINGDOM

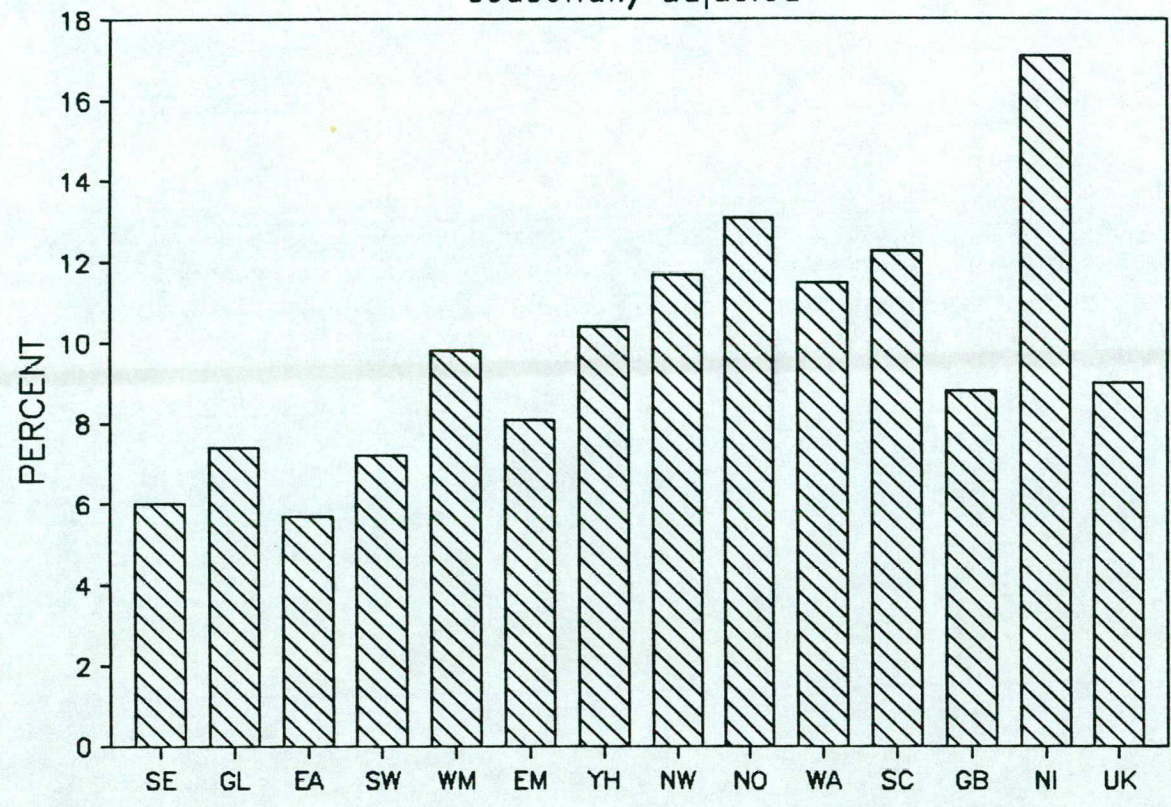


Personal and Confidential until 11:30 AM on 15.4.88
Thereafter unclassified

PERSONAL AND CONFIDENTIAL UNTIL 11:30 am on 15 APRIL 1988
THEREAFTER UNCLASSIFIED.

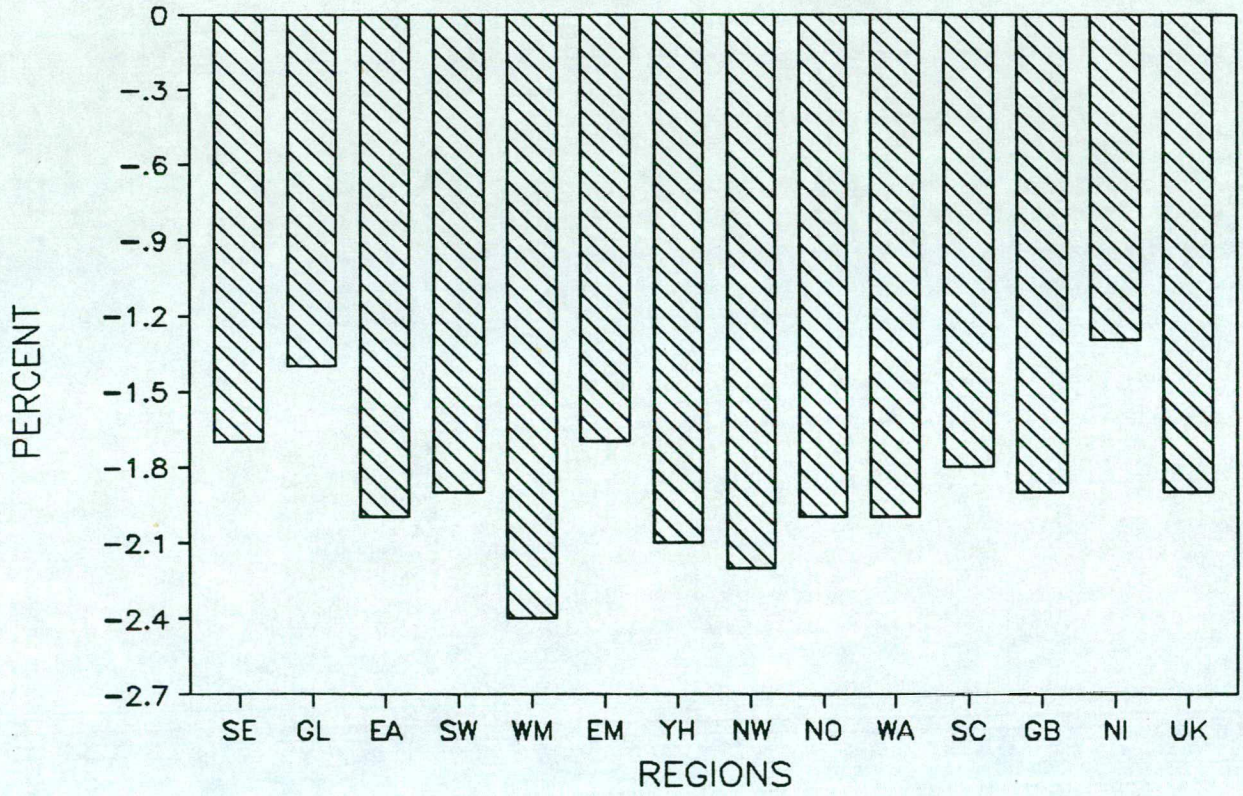
REGIONAL UNEMPLOYMENT RATES: March 1988

seasonally adjusted



ANNUAL CHANGE IN UNEMPLOYMENT RATES

March 1987 - March 1988



PERSONAL AND CONFIDENTIAL UNTIL 11:30 AM ON 15 APRIL 1988
THEREAFTER UNCLASSIFIED.

Unemployment
-regions and sexUNEMPLOYMENT - regions and sex: March 1988
SEASONALLY ADJUSTED EXCLUDING SCHOOL LEAVERS

	NUMBER (Thousands)		UNEMPLOYMENT RATE (Per Cent)*		
	At March 1988	Change in month since Feb 1988	At March 1988	Change in month since Feb 1988	Change in year since March 1987
<u>REGIONS</u>	(1)				
South East (Greater London)	557.1 (315.8)	-7.1 -2.2	6.0 7.4	-0.1 -0.1	-1.7 -1.4
East Anglia	57.0	-1.3	5.7	-0.1	-2.0
South West	149.1	-2.7	7.2	-0.1	-1.9
West Midlands	254.8	-3.3	9.8	-0.1	-2.4
East Midlands	156.1	-2.1	8.1	-0.1	-1.7
Yorks & Humber	243.4	-2.4	10.4	-0.1	-2.1
North West	347.8	-3.4	11.7	-0.1	-2.2
North	187.0	-.6	13.1	-0.0	-2.0
Wales	135.9	-.9	11.5	-0.1	-2.0
Scotland	300.1	-3.3	12.3	-0.1	-1.8
GREAT BRITAIN	2388.4	-27.0	8.8	-0.1	-1.9
Northern I.	116.4	-.8	17.1	-0.1	-1.3
UNITED KINGDOM	2504.8	-27.8	9.0	-0.1	-1.9
<u>MALES AND FEMALES</u>					
UK Males	1737.0	-20.0	10.6	-0.1	-2.3
UK Females	767.8	-7.8	6.7	-0.1	-1.4

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

Unemployment by Duration

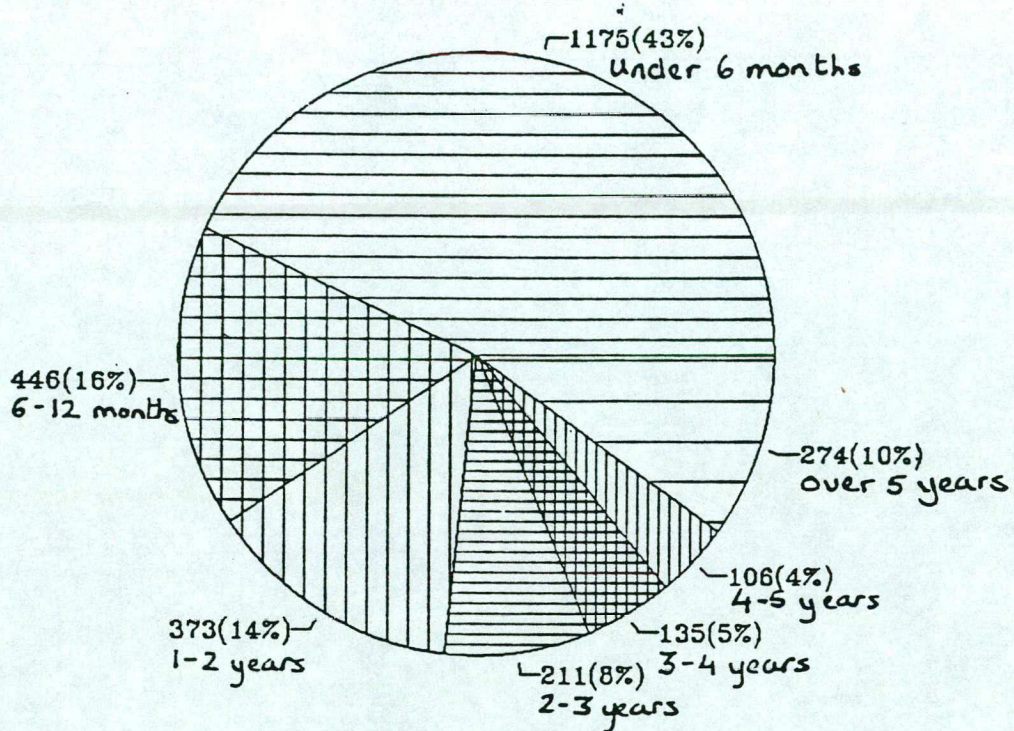
Duration	Number at JANUARY 1988	THOUSANDS Change since JANUARY 1987
All durations	2722	-575
Over 6 months	1547	-365
Over 1 year	1101	-234
Over 2 years	727	-109
Over 3 years	516	-68
Over 4 years	381	-24
Over 5 years	274	+11

Up to 6 months	1175	-210
6 to 12 months	446	-131
1 to 2 years	373	-125
2 to 3 years	211	-41
3 to 4 years	135	-44
4 to 5 years	106	-35
Over 5 years	274	+11

Unemployment by Age

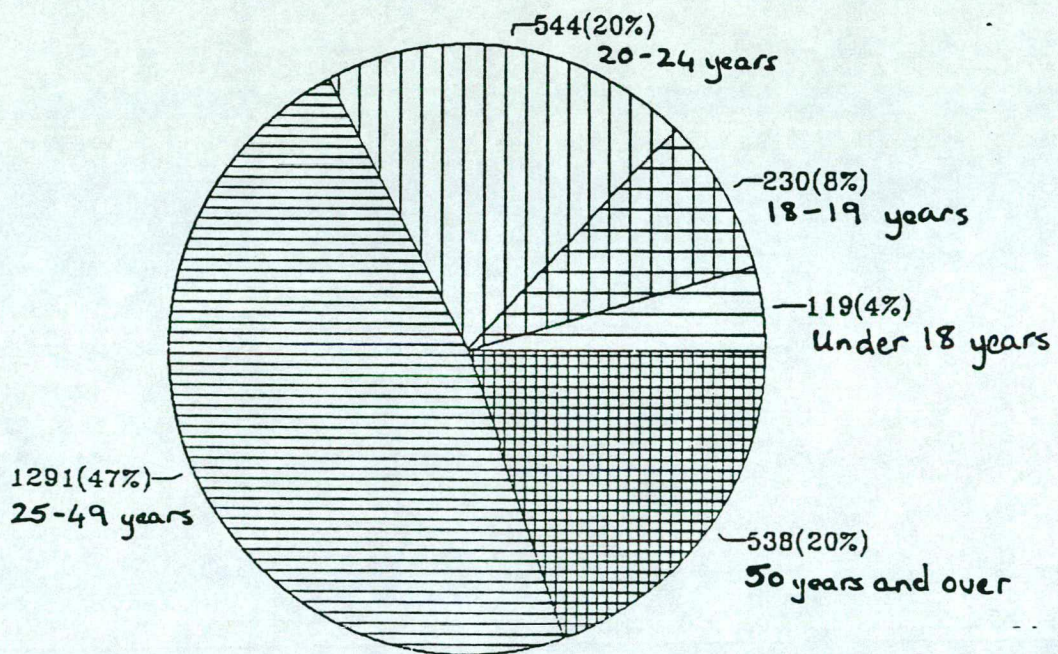
	Number at JANUARY 1988	THOUSANDS Change since JANUARY 1987
Under 18	119	-43
18-19	230	-68
20-24	544	-128
25-50	1291	-249
50 and over	538	-86
All ages	2722	-575

U.K. UNEMPLOYMENT BY DURATION THOUSANDS



JANUARY 1988

U.K. UNEMPLOYMENT BY AGE THOUSANDS



JANUARY 1988

*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	341	17	21
Aug 87	94	229	8	18		39	353	20	21
Sept 87	96	229	8	18		43	385	22	21
Oct 87	97	224	8	19		42	375	24**	20
Nov 87	96	222	8	20		42	373	25	20
Dec 87	96	221	8	19		40	363	24	19
Jan 88	95	221	7	19		40	356	26	19
Feb 88	95	224	7	18		39	352	28	19

* 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.

** Stats B Estimate

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 international standardised rates which are recommended for comparing levels of unemployment.

RECOMMENDED

UNEMPLOYMENT, NATIONAL DEFINITIONS		STANDARDISED RATES*	
Latest	Seasonally Adjusted	Latest	Seasonally Adjusted
%	%	%	%
Number (000s)	Number (000s)	Number (000s)	Number (000s)
rate	rate	rate	rate
month	month	month	month
Spain	29.81	29.81	29.81
NOV 87	20.9**	20.9**	20.9**
Ireland	24.3	24.3	24.3
JAN	18.9	18.9	18.9
MAR	247	247	247
MAR	19.2	19.2	19.2
Italy a	28.81	28.81	28.81
JAN	12.1	12.1	12.1
OCT	2930	2930	2930
FEB	10.5a	10.5a	10.5a
FEB	2635	2635	2635
FEB	10.7a	10.7a	10.7a
France	25.82	25.82	25.82
JAN	10.6	10.6	10.6
JAN	10.5	10.5	10.5
JAN	412e	412e	412e
JAN	15.0e	15.0e	15.0e
FEB	15.6	15.6	15.6
FEB	428	428	428
FEB	15.6	15.6	15.6
Netherlands	6.83	6.83	6.83
JAN	14.0	14.0	14.0
JAN	701	701	701
FEB	14.4	14.4	14.4
FEB	9.3	9.3	9.3
MAR	2592	2592	2592
MAR	9.3	9.3	9.3
Canada a	10.46	10.46	10.46
JAN	7.8	7.8	7.8
JAN	1126	1126	1126
FEB	8.6	8.6	8.6
FEB	620	620	620
DEC	7.8	7.8	7.8
DEC	620	620	620
Australia a	6.10	6.10	6.10
JAN	7.6	7.6	7.6
JAN	610	610	610
GRECE	17.41*	17.41*	17.41*
APR 87	..	..	..
APR 87	143	143	143
FEB	7.5	7.5	7.5
FEB	143	143	143
Portugal	3.01	3.01	3.01
AUG 87	7.0	7.0	7.0
DEC	310	310	310
DEC	7.2	7.2	7.2
Germany	2238	2238	2238
NOV 87	7.9	7.9	7.9
MAR	2401	2401	2401
MAR	8.5	8.5	8.5
Denmark	218	218	218
JAN	8.0	8.0	8.0
JAN	215	215	215
NOV	7.9	7.9	7.9
NOV	215	215	215
United States a	6.800	6.800	6.800
JAN	5.5	5.5	5.5
JAN	7090	7090	7090
MAR	5.8	5.8	5.8
MAR	7090	7090	7090
Austria	168e	168e	168e
..	5.9e	5.9e	5.9e
JAN	227	227	227
JAN	7.7	7.7	7.7
Luxembourg	..	..	..
JAN	3	3	3
DEC	1.8	1.8	1.8
DEC	1500	1500	1500
Japan a	1610	1610	1610
DEC 87	2.7	2.7	2.7
DEC	2.5	2.5	2.5
NOV 87	2.4	2.4	2.4
JAN	43	43	43
JAN	2.8	2.8	2.8
Norway	36	36	36
NOV 87	2.2	2.2	2.2
NOV 87	2.2	2.2	2.2
Sweden a	71	71	71
JAN	1.7	1.7	1.7
DEC	71	71	71
DEC	1.6	1.6	1.6
Switzerland	..	..	..
..
NOV	0.7	0.7	0.7
NOV	21	21	21

* NOTE : FOR THOSE EC COUNTRIES FOR WHICH NO OECD STANDARDISED RATES ARE AVAILABLE, SIMILAR HARMONISED RATES COMPILED BY THE STATISTICAL OFFICE OF EUROPEAN COMMUNITIES (EUROSTAT) ARE SHOWN IN BRACKETS. THESE SHOWN THE UK RATE AT 9.4% IN JANUARY COMPARED WITH THE EC AVERAGE OF 10.4%.

e estimated

a Survey sources

** December figures

Sources:- OECD "Main Economic Indicators", Eurostat monthly bulletin on Unemployment in the Community 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

RECOMMENDED

	Change in % rate	Change	% Change	Latest month
		(000s) in total		
Italy	+ 0.8	+ 201	+ 6	JAN
Norway	+ 0.5	+ 1	+ 3	JAN
Spain	+ 0.2	+ 97	+ 3	JAN
Austria	+ 0.2	+ 1	+ 1	DEC
Luxembourg	+ 0.1	NC	+ 12	DEC
Denmark	NC	+ 1	+ 1	NOV
Germany	-0.1	- 11	NC	MAR
Ireland	- 0.2	- 2	- 1	MAR
Netherlands	- 0.2	- 8	- 1	FEB
Switzerland	- 0.2	- 7	- 3	JAN
Japan	- 0.2	- 110	- 7	DEC
France	- 0.3	- 63	- 2	FEB
Greece	- 0.5	- 5	- 3	FEB
Australia	- 0.6	- 36	- 6	DEC
Sweden	- 0.6	- 26	- 30	DEC
Belgium	- 1.0	- 25	- 6	FEB
USA	- 1.0	-1034	- 13	MAR
Portugal	- 1.3	- 58	- 16	DEC
Canada	- 1.8	- 209	- 16	FEB
United Kingdom	- 2.0	- 551	- 18	MAR

NC No Change

Sources: - DECD "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 rates 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
RECOMMENDED

	Change in Percentage rate	Change Number (000s)	Percentage Changes	Latest month
Norway	+ 0.5	+ 2	+ 6	JAN
Spain	+ 0.3	+ 39	+ 1	DEC
Austria	+ 0.2	+ 7	+ 4	DEC
Italy	+ 0.1	+ 27	+ 1	JAN
Denmark	NC	+ 1	+ 1	NOV
France	NC	+ 6	NC	FEB
Netherlands	NC	NC	NC	FEB
Sweden	NC	- 3	- 3	DEC
Australia	- 0.1	- 2	NC	DEC
Ireland	- 0.1	- 1	- 1	FEB
Germany	- 0.1	- 20	- 1	MAR
Portugal	- 0.1	- 5	- 2	DEC
United States	- 0.2	-154	- 2	MAR
Japan	- 0.3	- 43	- 3	DEC
Belgium	- 0.4	- 12	- 3	FEB
Canada	- 0.4	- 44	- 4	FEB
United Kingdom	- 0.4	-125	- 5	MAR

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

NC = No change

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

Seasonally Adjusted levels and rates of registered unemployment

Month	UK		France		Germany		Italy		Spain	
	Level	Rate	Level	Rate	Level	Rate	Level	Rate	Level	Rate
Jan 86	3154	11.4	2442	10.5	2282	8.2	3082	13.4	2717	19.8
Feb	3165	11.4	2446	10.5	2289	8.2	3127	13.6	2713	19.8
Mar	3205	11.5	2468	10.6	2268	8.1	3121	13.6	2739	20.0
Apr	3195	11.5	2490	10.7	2240	8.0	3158	13.7	2742	20.0
May	3200	11.5	2517	10.8	2242	8.0	3189	13.9	2735	19.9
June	3209	11.6	2523	10.8	2222	7.9	3207	14.0	2724	19.8
July	3210	11.6	2541	10.9	2207	7.9	3204	13.9	2732	19.8
Aug	3206	11.5	2557	11.0	2201	7.8	3212	14.0	2727	19.8
Sep	3186	11.5	2550	10.9	2189	7.8	3233	14.0	2758	20.0
Oct	3164	11.4	2544	10.9	2179	7.8	3243	14.0	2781	20.0
Nov	3151	11.3	2549	10.9	2174	7.7	3192	13.8	2825	20.3
Dec	3121	11.2	2574	10.5*	2175	7.8	3268	14.0	2840	20.4
Jan 87	3112	11.2	2613	10.6	2193	7.8	3238	13.9	2865	20.5
Feb	3067	11.0	2655	10.7	2189	7.8	3268	14.1	2879	20.6
Mar	3037	10.9	2676	10.7	2225	7.9	3263	14.0	2902	20.7
Apr	3021	10.8	2659	10.7	2226	7.9	3136	13.4	2906	20.3
May	2951	10.6	2661	10.7	2219	7.9	3233	13.8	2918	20.4
June	2922	10.5	2645	10.6	2240	7.9	3239	13.9	2922	20.4
July	2873	10.3	2638	10.6	2251	8.0	3297	14.2	2927	20.5
Aug	2826	10.1	2649	10.7	2246	8.0	3373	14.5	2920	20.4
Sep	2772	9.9	2597	10.5	2252	8.0	3376	14.5	2944	20.6
Oct	2714	9.7	2572	10.5	2249	8.0	3340	14.4	2961	20.7
Nov	2651	9.5	2546	10.3	2242	7.9	3335	14.3	2965	20.7
Dec	2614	9.4	2573	10.5	2257	8.0	3414	14.7	2980	20.8
Jan 88	2565	9.2	2578	10.5	2223	7.9	3422	14.7	2981	20.9
Feb	2531	9.1	2582	10.5	2226	7.9				
Mar	2504	9.0			2238	7.9				

* Rates for France revised from this point to take account of the Labour Force Survey. Revisions for earlier dates still awaited.

*BE 15/4. Thanks
papers pre
BF 19/4.*

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

CONFIDENTIAL
The Rt Hon Nicholas Ridley MP
Secretary of State for the
Environment
2 Marsham Street
LONDON SW1P 3EB

**Department of
Trade and Industry**

1-19 Victoria Street
London SW1H 0ET

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EXCHEQUER ✓	
REC.	13 APR 1988 ✓ 13/4
ACTION	MR CULPIN
COPIES TO	PLCST SIR P MIDDLETON MR ANSON MR PHILLIPS MR BYATT MR HAYES MR PARSON MR TUNNICLIFFE MR RILEY MR MCINTYRE MISS SINGH MR WATKINS MR WILL

Direct line 215 5422
Our ref DC1AJI
Your ref
Date 12 April 1988

Nicholas

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

I have seen the various exchanges of minutes between Private Offices on this subject.

I am content to go along with the consensus which has now emerged in favour of a quick study limited to the narrow issue of the relationship between housing and housing benefit policies. I am sure, however, that we need to get to grips with the general problem of the unemployment/poverty trap, and preferably sooner rather than later. We have to face up to the fact that very high marginal tax rates are a real disincentive to employment and growth - to the detriment of the individuals concerned and the economy as a whole.

It is important that the officials carrying out the study should keep the need to increase incentives to work squarely in view. That is certainly one of the factors Ken Clarke and I will take into account in considering their recommendations. Given the narrow focus of the study I do not regard it as necessary for DTI to be represented on the working group but officials here should continue to receive papers.

I am copying this letter to the Prime Minister, Nigel Lawson, John Moore, Malcolm Rifkind, Peter Walker, Norman Fowler and Ken Clarke and to Sir Robin Butler.

Nicholas
Lawson

mmp

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434



P Gray Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

CH/EXCHEQUER	
REC.	18 APR 1988 <i>18/4</i>
ACTION	MR MCINTYRE
COPIES TO	CST M-ANSON
	MR PHILLIPS
	MR HARTIN
	MISS PEARSON
	MR TURNBULL
	MR RAMSDEN
	MR CALL

My ref:

Your ref:

13 April 1988

pl also copy to Culpin PEM Byatt Riley Sinclair Tyrie

mmp 18/4

Dear Paul,

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

Thank you for your letter of 29 March.

My Secretary of State recognises that under the usual PES rules the PES consequences of any Government decision fall on the programmes of the responsible Secretary of State. And as you know the question of Departmental responsibility for housing benefit is being considered in the group of officials chaired by DHSS. Work is now also under way in that group to take on the additional remit which they have been given to look at various policy options. Depending on the group's conclusions on that, due by the end of May, my Secretary of State may well seek collective discussion then of the issues raised.

I am copying this letter to Rod Clark (DHSS), Jill Rutter (Treasury), Margaret Jones (Scottish Office), John Shortridge (Welsh Office), Alison Brimelow (DTI), Nick Wilson (Employment), and Trevor Woolley (Cabinet Office).

*Yours sincerely,
Deborah.*

DEBORAH LAMB
Private Secretary



BF 15/4

*Thanks.
With view
put Pat
working now
(50)
1981*

FROM: P L PATTERSON

DATE: 14 April 1988

1. MR PICKFORD
2. CHANCELLOR (+1 for No. 10)

Chief Secretary Mr Hibberd
Financial Secretary Mr MacAuslan
Paymaster General Mr Bush
Economic Secretary Mr Dyer
Sir P Middleton Mr Hudson
Sir T Burns Mr O'Brien
Mr Monck Mr Cropper
Mr Scholar Mr Tyrrie
Mr Odling-Smee Mr Call
Mr Sedgwick HB/001
Mr R I G Allen

Another good set of figures, with employment growth in the fourth quarter particularly strong. But markets may wish the apparent slowing in the fall in unemployment with the output figures also published tomorrow. Sp. 14/4

COMBINED RELEASE OF LABOUR MARKET STATISTICS ON 15 APRIL

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) March		2,505	-28	-533
Total (not seasonally adjusted) March: 'Headline Total'		2,592	-73	-551
<u>Vacancies (UK) March</u>		246	- 2	+31
<u>Employed labour force 1987Q4</u>		24,654	+146	+504
<u>Manufacturing employment February</u>		5,039	+4	-23
			<u>Percentage change on previous year</u>	
<u>Index of average earnings, February</u>				
Whole economy, underlying (actual)			8½	(8.1)
Manufacturing, underlying (actual)			8½	(7.2)
Service industries, underlying (actual)			8½	(9.3)
<u>Wage and salary costs per unit of output</u>				
Whole economy, 1987Q4			4.3	
Manufacturing, 3 months to February			2.0	
<u>Output per head</u>				
Whole economy, 1987Q4			3.1	
Manufacturing, 3 months to February			5.9	

ASSESSMENT AND COMMENT

2. [NOT FOR USE: DE's public line is that neither the traditional employment and training measures nor the various administrative measures are likely to be having much impact on the recent trend in the unemployment count. However, DE admit privately that they have no idea how these measures are affecting the monthly count, and that in practice they could now be acting against the general downward trend in unemployment. There has also been some artificial increase in the unemployment count in the past two months as some extra disabled claimants have signed on in advance of the change in social security regulations (when they were previously claiming Supplementary Allowance directly from DHSS without having to be available for work). The size of this effect cannot be quantified but is probably only modest (and in part only temporary).

3. DE's view is that the rate of decline in unemployment may be easing. The slowdown in the rate of fall has been especially marked amongst women, although it has also affected men. The average monthly fall of 36,400 over the past three months is certainly below the average of over 50,000 in the second half of 1987. However, on the basis of two months' figures, it may be premature to conclude anything other than that the downward trend in unemployment is continuing. With strong growth in output and demand up to the end of 1987, it would be surprising if there were already signs of a lower level of labour market activity. However the monthly falls of 50-60,000 in late 1987 may have been erratically high. It therefore seems likely that the strength of the economy continues to generate a significant downward trend in the unemployment count, perhaps of the order of some 35-40,000 a month. Nevertheless, this is all clearly very speculative, and we must await further figures before we can say anything more definite. In the meantime, the present figures support the statement in the Chancellor's Budget Speech that, in 1988

"there is every prospect that unemployment will continue to fall, although probably not as rapidly as last year."

4. The employment figures lend support to the notion of continued buoyancy in the labour market. Manufacturing employment rose again in February and, although the monthly figures can be unreliable, this gives further confirmation of the general levelling off in this series. The figures for whole economy employment in the final quarter of 1987 show a large increase, particularly for the services sector. The stock of vacancies again fell slightly in March, the fourth consecutive monthly fall, but remain 15 per cent higher than a year earlier. DE think that the number of new vacancies becoming available (inflows), which remains very high, gives a good indication of the buoyancy of the labour market.

5. There was no change in February in the increase in whole economy underlying earnings, although a combination of small upward movements in settlements, overtime and bonuses have increased the service sector figure. Whole economy settlements in February were few in number, and were running at about $\frac{1}{2}$ percentage point higher than a year earlier. There are further signs that settlements in manufacturing, up $\frac{1}{2}$ percentage point on February 1987, are starting to catch up with earlier growth in service sector settlements. However, the trend for the current pay-round may not become clear until April when settlements covering nearly 40 per cent of all employees (65 per cent of public sector non-manuals) are due; at present few settlements have been announced, and much attention will be focussed on forthcoming Review Body reports.]

THE FIGURES IN DETAIL

Unemployment

6. Seasonally-adjusted adult unemployment (excluding school leavers) fell by a further 28,000 in March to 2.505 million (9.0 per cent of the working population). The fall over the last six months has averaged 45,000 a month.

7. The 'headline' total fell by 73,000 to 2.592 million, 9.3 per cent of the working population. There was a fall of 68,000 among adult claimants and 5,000 among school leavers.

8. The stock of vacancies at Jobcentres (seasonally adjusted) fell in March by over 2,000 to 245,500, about 15 per cent higher than a year earlier.

9. Points of interest:

(a) Seasonally adjusted total at about 2 $\frac{1}{2}$ million, lowest level for over 6 years (since December 1981).

(b) Seasonally adjusted total has fallen for twenty months in succession since July 1986, by 706,000 in total. Fallen by 533,000 over past year.

(c) Fall in 'headline' total of 551,000 compared with year ago.

(d) School leaver unemployment (under 18s), at 52,000 in March, was 20,000 (or 28 per cent) lower than a year ago, lowest March total since 1980, and more than halved in last 5 years (March 1983: 112,000).

(e) Unemployment continues to fall in all regions. Over the past twelve months the unemployment rate has fallen most in the West Midlands, followed by the North West and Yorkshire and Humberside. Over recent months, the fall in the unemployment rate has been similar in all regions, including Scotland and Northern Ireland.

(f) UK unemployment rate fallen more in past year than in any other major industrialised country; also true of any OECD country. Latest figures (national definitions) show fall in UK rate of 2.0 percentage points over past year, compared with falls of 1.0 in US, 0.2 in Japan, 0.1 in Germany, and 0.3 in France.

(g) Seasonal influences on the unadjusted headline total in April are normally downward, although less sharply than in March. There will probably be little change in the number of school leavers with some Easter leavers signing on after the relatively early Easter.

Employment

10. New employment figures are published this month for the whole economy employed labour force in 1987Q4 and for the number of employees in manufacturing industries in February. There are also minor routine revisions to the seasonal factors for manufacturing employment over the past three years.

11. The GB employed labour force (employees in employment, self-employed and HM Forces) is estimated to have increased by 146,000 in the fourth quarter of 1987. This series has now increased for nineteen consecutive quarters since March 1983, by 1,657,000 in total. The total increase in 1987 is estimated at over half a million (504,000), larger than in any (calendar) year for more than thirty years. Employment rose in every (GB) region in 1987. The service sector was particularly strong in 1987Q4; the number of employees rose by 132,000, the largest quarterly increase since 1978Q4.

12. The number of employees in employment in manufacturing industries is estimated to have risen by 4,000 between January and February. Monthly figures are erratic, but in recent months the downward trend in the number of manufacturing jobs has clearly slowed and possibly levelled off. In the six months to February manufacturing employment has on average hardly fallen at all.

Other features

13. The provisional estimate of the underlying increase in whole economy average earnings in the year to February is unchanged at 8½ per cent for the second consecutive month. In service industries the underlying increase in the year to February rose by ½ percentage point to 8½ per cent, reflecting small upward movements in settlements, bonuses and overtime. In manufacturing there was a ½ percentage point fall since January to 8½ per cent; this series continues to be boosted by high levels of overtime working. The actual increase in earnings in manufacturing is lower than the underlying increase because of the dispute at Fords; this has also reduced the actual increase in the production industries, which is affected additionally by the NACODS dispute in the coal industry.

14. The level of overtime working in manufacturing fell back from its exceptionally high January level but, at 13.56 million hours a week, remains at the high level of 1987Q4. This was the highest level since the start of the decade and well above the average level of 12.4 million hours in the first 9 months of 1987.

15. Output per head in manufacturing in the 3 months to February 1988 was nearly 6 per cent higher than a year earlier, reflecting an increase in output of over 5½ per cent and a small fall in employment. Productivity growth has fallen from recent levels because of the fall in manufacturing output in February (on which you have received separate briefing) as well as the levelling off in employment. Unit wage and salary costs rose by 2 per cent over the same period.

MANUFACTURING : Percentage increase on year earlier

	Average earnings	Output per head	Wages and salaries per unit of output
1987Q1	7.8	7.0	0.8
Q2	7.7	6.8	0.8
Q3	8.5	7.7	0.7
Q4	8.4	6.1	2.1
1988 3 months to February	8.0	5.9	2.0

16. There are also new figures this month for whole economy productivity and unit wage costs in 1987Q4. Output per head was 3 per cent higher than a year earlier, reflecting an increase in the output measure of GDP of over 5 per cent and a 2 per cent rise in employment. Unit wage and salary costs rose by 4½ per cent over the same period.

Jonathan: X - wow!



FCS/88/072

SECRETARY OF STATE FOR EMPLOYMENT

[Handwritten signature]

CH/EXCHEQUER	
REC.	14 APR 1988
ACTION	CST
COPIES TO	

[Handwritten initials]

YTS in the Civil Service

1. Thank you for your and Richard Luce's letter of 8 March.

2. In view of the importance we all attach to YTS, I should ideally like to introduce at least a small scheme in the FCO (Diplomatic Wing). It could only be very small because FCO staff have to be positively vetted and the number of openings suitable for YTS trainees would for obvious reasons be tiny. But the management effort needed to establish any scheme in such circumstances would be out of proportion to the numbers involved. Moreover, in order to set up and run a scheme we would have to divert staff from the departments that are currently fully stretched in running extensive recruitment campaigns to fill vacancies for permanent staff. I am therefore reluctant to introduce YTS in the FCO at present. We shall review the possibility once we are recruited up to full provision. Meanwhile we shall follow with close interest the progress of the bigger Departments.

3. One possible means of reducing the administrative burden of YTS schemes would be for the off-the-job training element for Whitehall Department schemes to be

/organised



organised centrally. This could be particularly attractive to smaller Departments. You may like to consider this possibility.

4. I am sending copies of this minute to the Prime Minister, other members of Cabinet, Richard Luce and to Sir Robin Butler.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
14 April 1988



Inland Revenue

CONFIDENTIAL

The Board Room
Somerset House
London WC2R 1LB

*[ack. to this in
to no line @ am]*

Payson

FROM: A J G ISAAC

14 April 1988

*Exp. to be
L. J. G. Isaac
14 April 1988*

FINANCIAL SECRETARY

EMPLOYMENT AND SELF-EMPLOYMENT

1. Mr Carr's note below summarises the main points we touched on in a very helpful discussion with Mr Cropper yesterday.
2. A lot of paper has been written on all this. At this stage, I would only add two or three general points.
3. First, I have as a general rule found that it can be risky to try to base substantial tax liabilities on arbitrary (even if precise) statutory "tax rules", rather than on the underlying substance or reality. It is partly a question of targeting (if the statutory rules do not reflect reality), partly a question of economic distortion (as labour market or other commercial practices change to reflect the tax advantages, rather than straight commercial efficiency) and partly of flexibility (statutory rules do not change organically, as commercial practice in the real world changes and develops).

cc Chancellor of the Exchequer
 Chief Secretary
 Paymaster General
 Economic Secretary
 Mr Monck
 Mr Scholar
 Mr Burgner
 Mr Culpin
 Miss Peirson
 Miss Sinclair
 Mr Cropper
 Mr Tyrie

Mr Battishill
 Mr Isaac
 Mr Painter
 Mr Beighton
 Mr Cherry
 Mr Deacon
 Mr Lewis
 Mr McGivern
 Mr Marshall
 Miss Rhodes
 Mr Eason
 Mr Carr
 PS/IR

4. Risks of this kind are obviously larger, when the rewards or penalties of crossing the arbitrary dividing line are themselves disproportionately large. Hence, the formidable orders of magnitude quoted in the attached note. (I say "orders of magnitude" deliberately. Overall the margin of judgment in the figures quoted in the attached note runs well into nine figures. But the broad order of magnitude is unmistakable.)

5. If I may say so, this picture illustrates the argument which I suggested towards the end of my note to you of 28 March. It looks likely to be an unsatisfactory and expensive business, to impose a disproportionately heavy burden on "employment" (as distinct from self-employment), and then try to meet the inevitable pressures by arbitrarily shifting the definition of employment. Mr Carr's note also brings out very clearly the size of the NIC "penalty" on employment (in this, as in so many other ways, the NIC mechanism is now carrying a load for which it was never designed). It does not, however, deal with the non-tax/NIC problems which are touched on in paragraphs 8 and 9 of that note.

C.L.C.

A J G ISAAC



Inland Revenue
Deregulation Unit

Somerset House
London WC2R 1LB
Telephone 01-438

FROM: W P CARR

DATE: 14 April 1988

1. MR ISAAC *144*
2. FINANCIAL SECRETARY

EMPLOYMENT/SELF EMPLOYMENT

SCHEDULE D TREATMENT FOR PART-TIME EMPLOYERS

1. Mr Heywood's minute of 28 March asked Mr Cropper to discuss with the Revenue his proposals for reducing pressure on the Employment/Self-Employment borderline. We have now met to discuss his proposals and this note briefly records the comments made.

2. Treating part-time workers as taxable under Schedule D would have the advantage of providing "certainty" for people with multiple sources of income, working less than 30 hours a week in any one of them. Some of these people would be genuinely self-employed - and able to be taxed under Sch D under the present rules. But Mr Cropper's rule would have the advantage that they could claim Sch D "unilaterally", with no possibility of question from a tax or DHSS office. Others would in reality be employees - including (for

cc Chancellor of the Exchequer
Chief Secretary
Paymaster General
Economic Secretary
Mr Monck
Mr Scholar
Mr Burgner
Mr Culpin
Miss Peirson
Miss Sinclair
Mr Cropper
Mr Tyrie

Mr Battishill
Mr Isaac
Mr Painter
Mr Beighton
Mr Cherry
Mr Deacon
Mr Lewis
Mr McGivern
Mr Marshall
Miss Rhodes
Mr Eason
Mr Carr
PS/IR

example) some 4,700 people in the Revenue - who could nevertheless move to Sch D. Changing the treatment of this sizeable group (estimated at 5 million people) would have certain Exchequer costs.

3. The first and perhaps least important, because it is a one-off cost, would be the cash-flow cost in the first year of transition. Part-time workers currently pay their tax and NIC in-year. Schedule D treatment would mean the first payment of tax and Class 4 NIC being received approximately 18 months after the changeover. Mr Cropper's proposal involved part-time employees working less than 30 hours a week. Our present estimate is that this would involve 5 million people. In addition there are a further 500,000 people working over 30 hours in their main employment whose auxiliary employment would be treated Schedule D. Although only just over half of the part-timers are liable for tax (but a higher proportion for NIC) we estimate the total tax and NIC deferred would exceed £3 billion in the year of changeover. There would also be a continuing but much smaller cash-flow cost reflecting the delayed payment arrangements for Schedule D.

4. Second, there are tax advantages in utilising the less onerous Schedule D expense rules. It is impossible to place a confident figure on this but it is likely to be several hundred million pounds (but perhaps not above £½ billion). There would also be a smaller cost that reflects the assessment rules for Schedule D which result in the income assessed for a business not corresponding with the profits earned.

5. Third, there is the added scope for evasion if there is no deduction at source. Common sense suggests and previous work has demonstrated a marked distinction between the extent of evasion in areas where tax is not deducted at source and where it is. This distinction was shown to be even stronger in some more detailed American studies. The

under declaration of casual and part-time earning is notorious. A recent example was the introduction of deduction at source from GCE examiners. Last year this netted £27 million, before this change the amount declared was estimated to be negligible. Here even more than in para 4 above, it would be foolish to attempt any precise estimates. In the light of experience, however, few of us would put this proportion of total revenue at risk very much lower than $\frac{1}{4}$, and some would put it nearer $\frac{1}{2}$. If so, we are again talking of nine-figure sums. The absence of deduction at source could also be expected to increase the frequency of "earning and drawing". Anecdotal evidence suggests that people most likely to be earning wages and drawing unemployment benefit work in casual and part-time jobs.

6. Fourth, a further sizeable cost is the reduction in NI contributions. Of the 5 million part-time employees working less than 30 hours a week approximately 2.3 million are taxpayers with an average income of £3,750 per annum.

On an income of £3,750 the cost of reduced NICs is £327.28 per person, calculated as follows:

Income £3,750

Weekly Class 1 NIC (Category A non-contracted out)		
	Employer's contribution	263.64
	Employee's contribution	<u>263.64</u>
	<u>total NICs</u>	527.28
less	Class 2 contribution as self-employed	210.60
less	Class 4 contribution (below lower limit)	<u>Nil</u>
		<u>327.28</u>

Many people (70 per cent) in this category will be married women but the proportion entitled to pay the reduced rate of NIC is unlikely to be high and is decreasing rapidly.

This estimate would suggest a total reduction in NIC to be measured in hundreds of million (the arithmetic above would indicate about £700 million a year, but these calculations are strictly for the Treasury rather than Inland Revenue). In addition there will be a smaller NIC loss in respect of the 2.6 million non-taxpayers some of whom may be above the LEL. It is not easy to include an estimate for the loss of NIC for the 500,000 people whose subsidiary earnings would be charged to Schedule D treatment but this could be substantial as this group includes some high earners.

7. The extra cost of NICs can be illustrated by looking at the case of the person who works say 30 hours a week but is paid at about the average earnings rate.

Income say £8,100

Weekly Class 1 NIC (Category A)

Employer's contribution		845.00
Employees contribution		<u>727.48</u>
Total		1,572.48

If self-employed

Class 2 contribution		210.60
Class 4 contribution	211.05	
less tax relief $\frac{1}{2}$ at 25%	26.38	<u>184.67</u>
Total		<u>395.27</u>

Difference 1,177.21

8. A substantial switch from employment to self-employment has significant staff costs for the Revenue. On the present basis the cost is estimated at 380 staff per 100,000 units. This would mean an additional requirement of over 10,000 Revenue staff to handle the tax affairs under Schedule D of the 2.3 million taxpayers working less than 30 hours a week

and the 500,000 with taxable subsidiary earnings. This figure does not include any staff cost for additional work arising from the 2.6 million part-timers who are not currently liable to tax. It is reasonably straightforward under PAYE to decide someone is below the threshold but if their income is to be within Schedule D accounts will be submitted and need to be agreed before nil liability can be established. In practice a major change in Revenue procedures might be needed which could have its own costs.

9. All the figures discussed are at best tentative, but we hope that they do give at least some broad indication of the size of the costs involved. They indicate the high cost of employment (particularly NICs) compared to self-employment and illustrate why there is pressure to obtain the more favourable treatment.

10. We also discussed with Mr Cropper how a set rule on hours worked might distort labour market flexibility by creating a new "earnings trap". Working 31 hours instead of 30 hours could entail an additional NIC burden of between £10 and £25 a week on earnings between £60 and £100 plus the tax consequences. There would be a disincentive to any flexible hours arrangements.

W.P. Carr

W P CARR

FROM: ROBERT CULPIN
DATE: 15 April 1988

CHANCELLOR

- cc: Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir Peter Middleton
- Mr Anson
- Mr Byatt
- Mr Monck
- Mr Phillips
- Mr Scholar
- Mr Hawtin
- Mr Odling-Smee
- Miss Peirson
- Mr Turnbull
- Mr McIntyre
- Mr Pickford
- Mr Riley
- Miss Sinclair
- Mr Tyrie
- Mr Callaghan

Many Thanks. CUP
Very much about the content to write as RC suggest?
high level - this is a fine suggestion?
changes. But I don't know what to do with it.
As for 2(b), this is a whole purpose of the note is to bring in the fact that is an ineluctable consequence of

THE POVERTY AND UNEMPLOYMENT TRAPS

I attach a draft letter to Lord Young, as requested, covering a draft FP/ST paper.

2. The weak points are:

- (a) the NIC steps;
- (b) the fact that high benefit withdrawal rates clearly are a disincentive to employment.

ROBERT CULPIN

*target of
 benefits in the
 need to be
 less with a
 hope of do
 with tax cuts.*

CONFIDENTIAL

DRAFT LETTER TO:

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
1 Victoria Street
LONDON
SW1

pse type
final for ch
to send.

THE POVERTY AND UNEMPLOYMENT TRAPS

In your letter of 12 April to Nicholas Ridley, you say that "we have to face up to the fact that very high marginal tax rates are a real disincentive to employment and growth". This prompts me to register three simple points.

2. First, there are no "very high marginal tax rates". The marginal rate of income tax is 25 per cent for almost everyone. It is 40 per cent for a few at the top. The marginal rate of employees' national insurance contributions is either 5 per cent or 7 per cent for the low paid, and otherwise 9 per cent (up to the upper earnings limit). The problem you are addressing is a benefit one, not a tax one. The attached paper goes into more detail.

3. Second, while there are indeed high withdrawal rates for benefits, such as family credit and housing benefit, that is an inescapable consequence of providing benefits for those in need. If the benefits are to go to people who need them but not to those who don't - as they clearly

must - we have to withdraw them from people as their income rises. And, of course, to reduce the withdrawal rates would put more people on benefit, at considerable cost ~~and risk of resentment~~ - surely the last thing we want.

4. Third, I think it is a mistake to look at benefit withdrawal rates in quite the same light as the marginal rates of tax. The marginal tax rate is crucial for incentives right across the board. Clearly the social security system should do the least possible damage to incentives. But the plain fact is that, for those in ^{quartz} need, the priority ^{possibly} has to be the alleviation of poverty rather than the provision of incentives. *- as it clearly cannot be sold.*

5. I am sending copies of this letter to [the Prime Minister,] Nicholas Ridley [, John Moore, Malcolm Rifkind, Peter Walker, Norman Fowler and Sir Robin Butler.]

NIGEL LAWSON

1. This note examines the extent to which the combination of tax, national insurance and benefit rules act as a disincentive to employment and growth.

2. The tax and benefits systems can give rise to two kinds of problem: people can find themselves in an unemployment trap because the family's income out-of-work can be close to, or above, its income if a member of the family works; or they can find themselves in a poverty trap, with net income rising by only a small proportion of any increase in gross income.

Poverty trap

3. A common definition of the poverty trap is families who face effective marginal rates of tax, NICs and benefit withdrawal above 70 per cent. At present these amount to some 3 per cent of the workforce.

4. For low paid workers who pay neither tax or NICs, the poverty trap is entirely a function of the rate of withdrawal of income-related benefits.

5. For workers liable to NICs alone, and for those liable to tax and NICs, only a proportion of any high marginal rates which they may face will be due to the tax and NIC systems. The rate of NICs payable by those earning between £41 and £70 is only 5 per cent; and for those earning between £70 and £105, only 7 per cent. Above £105 people pay 9 per cent up to the Upper Earnings Limit.

6. Apart from those near the NIC steps, the highest marginal rate of tax and NICs combined for a basic rate taxpayer is 34 per cent (25 per cent income tax + 9 per cent NICs. The Annex illustrates the combined effect of tax, NICs and benefit withdrawal on a low income family.

Unemployment trap

7. People might be regarded as being in this trap if the ratio of their out of work income to income in-work (the replacement ratio) is 80 per cent or more. The unemployment trap is affected by the level of benefits out of work in relation to earnings; and the combined effect of tax, NICs and benefit withdrawal as people move into work. The scope for working in the black economy also contributes to keeping people in the unemployment trap. For variety of reasons, it is difficult to estimate the numbers in the unemployment trap.

Effect of Social Security Reforms

X | 8. Under the Social Security changes which came into effect in April 1988, entitlement to income-related benefits is based on income net of tax and NICs. This removes the possibility that the combined effect of tax, NICs and benefit withdrawal would leave someone worse off after a pay rise than before. But it means that in future changes to tax and NICs - eg increases in personal allowances or cuts in the rates - will of themselves have a limited direct impact on marginal rates or replacement ratios. If someone pays less tax and NICs, so that his net income rises, income-related benefits will be progressively withdrawn.

9. There is no way of avoiding poverty traps given ~~our~~ ^{the} present policy of concentrating help where it is ~~really~~ ^{most} needed. This policy has the twin advantages of minimising dependence on benefits; and of containing the cost of helping the really needy to something which can be paid for without damaging the economy by requiring higher taxes, or borrowing, or both.

10. There is no way of avoiding unemployment traps given the existence of a benefit system which supports people out of work.

11. Moreover, increasing help to the poor is bound to worsen the traps. We have made Family Credit (FC) more generous than Family Income Supplement in order to improve ~~work incentives~~.

the position of those in work in relation to those out of work.

And it is expected to be paid to around 450,000 people, more than double the number who got Family Income Supplement. But one of the consequences is to increase the numbers facing high marginal rates.

12. Many Family Credit claimants will also be in receipt of Housing Benefit (HB). 5½ million people receive HB in the current year. It is subject to a 65 per cent taper (85 per cent if the claimant is in receipt of rate rebate), and is assessed on income net of other benefits including FC. A claimant receiving both FC and HB will lose 97 per cent of any increase in income after tax and NICs (see Annex).

13. It should be noted that the disincentive effects of the trap are less immediate than is sometimes assumed. An FC/HB claimant does not lose 97p of each extra pound he earns; since FC and HB are only reassessed every 6 months and one year respectively, the MTRs usually quoted are somewhat theoretical. A claimant who works a few hours overtime is in practice unlikely to lose most of his extra earnings.

spell out
14. Making the withdrawal rates for FC and HB less steep would involve considerable cost and add substantially to the numbers on benefit. For example, the recent decision to reduce the community charge rebate taper is estimated to cost around £130 million and will add about 1 million people to the benefit population. Unless the taper rates were cut dramatically, we would still find people at the bottom end of the income scale facing marginal tax rates above the top rate of income tax faced by high earners.

15. The benefit system already costs almost £1,000 million per week - or roughly £50 per family. That has to be paid by those in work. Any changes to the benefit system which cost more money would need to be paid for by ^{higher} taxes, or borrowing, which would be ~~bad for the creation of more jobs.~~

*which wd search
assist re Antiprise culture.*

Case 3: Family claims housing benefit (including rate rebate)
and family credit

GE	T+NI	NE	FC	HB	DY
£150	£31.31	£118.69	£2.45	£3.23	£108.87
£151	£31.65	£119.35	£1.99	£3.10	£108.94

There will also be a loss on rate rebate of 4p

Net gain from extra £1 earned = 3p

Summary

Benefits claimed	Percentage clawback in tax, NICS and benefit withdrawal
FC and HB	97%
HB only	90%
FC only	80%
none	34%

(assuming tax and NICs being paid at standard rate and HB recipients also entitled to rate rebate)

16/4/88

ppp



PRIME MINISTER

CH/EXCHEQUER	
REC.	19 APR 1988 ✓ 19/4
ACTION	CST
COPIES TO	

✓

EMPLOYMENT STRATEGY - IMPLEMENTING A STRICTER BENEFIT REGIME

When we met on 11 November I put forward five measures directed at ensuring that benefit claimants are genuinely unemployed:

- a revised form to test availability for work at the new claim stage;
- using more senior staff (EO grade) to interview all new claimants to benefit;
- a combined Restart/Availability programme involving the completion of a questionnaire before each Restart interview;
- following up Restart interviewees who refuse the opportunities offered or fail to take them up despite having agreed to do so;
- expanding the numbers of Claimant Advisers and fraud investigators.

I set out below the progress which I have made on each.



A Revised Availability Form at the New Claims Stage

...This was introduced nationally on 1 February. I attach a copy. The results to date have been very encouraging. In February 6.5 per cent of all new claims to Unemployment Benefit were referred to Adjudication Officers because of doubt that the claimant was not available for work. This compares with 4.5 per cent in January before the new form was introduced - a figure which had remained reasonably static for some while. In total in February almost 19,000 such referrals were made. We also have evidence that the new form is deterring larger numbers of people from pursuing a claim having made an initial enquiry about doing so.

Using More Senior Staff to Interview New Claimants to Benefit

This is to be phased-in across the country during the 1988/89 financial year. An experiment which ran in selected offices from September to December 1987 achieved a more than 5 per cent drop in the proportion of initial interviews which ended in a claim being made. It also achieved a 30 per cent increase in "early terminations" ie claimants leaving the register within two weeks of signing-on. While inevitably pilots have a tendency to produce results more favourable than national implementation, the measure looks certain nevertheless to more than pay for itself in benefit savings.

A Combined Restart/Availability Programme

The new programme, involving the completion of a questionnaire before each Restart interview, was launched in one office in each of our eleven Employment Service regions on 1 February. The aim of the questionnaire is two-fold; firstly to ensure that those interviewed remain available for work, and secondly to improve the interview itself by giving staff more information about the people being seen. The questionnaire - revised in the light of experience in the launch offices - will be introduced nationally on 25 April.



Once again initial results have been encouraging. Referrals of cases from Restart to Unemployment Benefit offices because of a doubt about a claimant's availability for work have increased substantially in the launch offices - from some 2 per cent in January to 9 per cent in February of all claimants seen. While it is too early to say how many of these referrals will feed through into actual disallowances of benefit early indications suggest that substantial numbers of them will do so.

Equally importantly the new form has also had the desired effect of making the Restart interview itself more effective. In the launch offices in February there was also a significant increase in the numbers of those seen who accepted an offer of help made to them. In this respect the new questionnaire is clearly helping to focus the interview more sharply on particular avenues that are available to help the claimant back into work.

...I attach a copy of the questionnaire that has been in use in the launch offices.

Follow up of Restart

Following up of all those people who currently accept offers of help at a Restart interview but do not then take them up has considerable resource implications. Nevertheless, we have already made a start in this respect and the recent White Paper announced the introduction from this April of 100 additional Claimant Advisers for this and other related purposes. We are now moving ahead to ensure that follow up is extended to the whole of the second guarantee group as set out in our manifesto - namely those between the ages of 18 and 25 who have been unemployed for between six and twelve months. From September I intend that people in this category made an offer at a Restart interview will be followed up to ensure either that they take it up or that, if they do not, appropriate action is taken. Thereafter I intend to move as fast as possible to extend follow up throughout the Restart client population.



Extra Claimant Advisers and Fraud Investigators

Besides the 100 Claimant Advisers, the White Paper also announced the introduction of a further 65 fraud investigators bringing our total to just under 800, almost double that of four years ago. Our fraud investigation force continues to show an increasing rate of return in terms of the amount of benefit saved compared with its costs. Recent highly successful fraud investigations to which I have given publicity include a major drive on the South coast in which over a third of the 4,000 claimants investigated were found to be working and a major drive into the illicit activities of gangmasters in Lincolnshire.

We are continuing to target our fraud resource ever more clearly on particular areas, occupations, industries and locations where fraud is known to be especially prevalent. It is my intention to go on increasing the number of investigators incrementally - to the extent that resources allow - until we reach a point of diminishing returns. There is no sign of that point having been reached yet.

I am copying this minute to Nigel Lawson and to Sir Robin Butler.

1 N F
16 April 1988

CONFIDENTIAL



FROM: MISS M P WALLACE

DATE: 18 April 1988

MR CULPIN

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Byatt
Mr Monck
Mr Phillips
Mr Scholar
Mr Hawtin
Mr Odling-Smee
Miss Peirson
Mr Turbull
Mr McIntyre
Mr Pickford
Mr Riley
Miss Sinclair
Mr Tyrie
Mr Call

THE POVERTY AND UNEMPLOYMENT TRAPS

The Chancellor was most grateful for your minute of 15 April. He has commented that the paper is very much along the right lines, although he has a few changes, which are set out below. (He has also made one or two drafting changes to the covering letter.)

2. However, before the paper issues, the Chancellor would like the answer to one question: how limited an impact will rate cuts/increased personal allowances have on marginal rates or replacement ratios in future (*your paragraph 8*)?

3. The Chancellor also noted your comment (your covering minute) that a weak point of the paper is the fact that high benefit withdrawal rates clearly are a disincentive to employment. The Chancellor does not think that this is a weak point in this context - this note is simply meant to bring out the fact that the problem is an inescapable consequence of targeting benefits on the neediest, and has little or nothing to do with taxation.



4. His comments on the paper are as follows:

Paragraph 9, first sentence - amend to read: "...given the policy of concentrating help where it is most needed."

Paragraph 11, second sentence - amend to read: "...in order to improve the position of those in work in relation to those out of work."

Paragraph 13 - we ought to spell out "MTRs".

Paragraph 15, last sentence - amend to read: "... would need to be paid for by higher taxes, which would scarcely assist the enterprise culture."

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

MOIRA WALLACE



Inland Revenue
Deregulation Unit

Somerset House
London WC2R 1LB

Telephone 01-438 6722

FROM: W P CARR

18 April 1988

WPC

FINANCIAL SECRETARY

EMPLOYMENT AND SELF EMPLOYMENT: PAPER FOR MISC 133 ON 27 APRIL

1. I attach a draft paper for consideration at your meeting on Tuesday, 19 April. The draft paper has been discussed with Treasury colleagues.

2. I have included at paragraph 3 estimates on the different levels of evasion between incomes where tax is not deducted at source and where it is. You may want to consider whether these estimates are best included in the paper or covered in the briefing.

3. The Department of Employment, who are preparing their own paper, have asked to see your paper in draft if this is available

cc Chancellor of the Exchequer

Chief Secretary
Economic Secretary
Mr Monck
Mr Scholar
Mr MacAuslan
Mr McIntyre
Miss Sinclair
Mr Wynn Owen
Mr Cropper
Mr Tyrie
Mr Ramsden
Mr Flanagan

Mr Battishill
Mr Isaac
Mr Painter
Mr Beighton
Mr Corlett
Mr Cherry
Mr Lewis
Mr McGivern
Mr Marshall
Miss Rhodes
Mr Elliott
Mr Eason
Mr O'Brien
Mr Fraser
Mr Carr
PS/IR

before circulation by the Cabinet Office. We would not want to show them anything until you are satisfied with the paper and it is substantially in its final form. Subject to your agreement I would at that stage propose to send DE a copy.

W. P. Carr

W P CARR

EMPLOYMENT AND SELF EMPLOYMENT: TAX ISSUES

INTRODUCTION

1. During the 1970s the numbers of self employed slowly drifted downwards. Since 1979 the number has increased by 50 per cent from about 1.9 million to over 2.7 million and Inland Revenue planning is based on the assumption that this trend will continue. We are also witnessing the development of new patterns of employment, to some extent made possible by new technology and, in general, encouraged by and responding to a general loosening of employer-employee relationships.

2. It is entirely up to the individual to decide to arrange his affairs to become self employed but this choice has important implications for tax, National Insurance contributions and other areas such as employment protection. In this paper I am looking at the taxation implications. Inevitably I stray into the related NIC areas for which I am not responsible. The Government has done much, not only in the tax/NIC field, to encourage self employment: it has also added to the burdens of employers. My purpose in this paper is to consider whether the operation of the tax system puts any brakes on the development of self employment which could reasonably be removed, particularly in relation to the dividing line between employment and self employment. The question also arises whether we should extend the advantages of self employment to some activities currently treated as employment by redefining them as self-employment.

The tax and NIC differences between employment and self employment

3. Whether someone is employed or self employed affects how much tax and NIC they have to pay. The main differences are:

- the self employed are taxed under Schedule D and their liability is calculated by reference to the business profits earned in the preceding year. The employed are taxed under Schedule E and tax is deducted from their remuneration - each week or month under PAYE - hence the self employed have a significant cash flow advantage. When someone first starts as self employed there is a period during which no tax is due, although they catch up in the second year the way the tax is calculated in the first two or three years can provide them with an actual as well as a timing advantage.
- an employee can get relief for only those expenses which are "wholly, exclusively and necessarily incurred in the performance of" his duties; there is no equivalent to the "necessary" test for the self employed and it would be extremely difficult to try to impose one. The Revenue have to rely on the business man himself to judge what he needs to spend on his business. The self employed can therefore get relief for a wide range of expenditure which is not available to the employed.
- because tax is deducted at source there is far less scope for evasion by the employed than by the self employed. Very broad Inland Revenue estimates (which are consistent with

the more authoritative external accounts of the black economy) suggest that around 5 per cent of employment income escapes tax compared with perhaps 25 per cent and possibly rather more of self employed income (in the USA the disparity is rather greater despite the stronger compliance powers of the Internal Revenue Service). The absence of deduction of tax at source can also be expected to increase the frequency of "earning and drawing".

- the self employed pay a flat rate Class 2 contribution of £4.05 per week unless earnings are below £2,250 a year and an application has been made to be excepted under what is known as the Small Earnings Exception. They also pay Class 4 contributions at 6.3 per cent on earnings between £4,750 and £15,680 a year. Tax relief is given on half the Class 4 contributions. The maximum annual payment for Class 2 and 4 is £910.53. Employees pay a maximum rate of 9%, up to a maximum contribution from all employments of £1,427.40. In addition employer's contribution will be due at a maximum rate of 10.45 per cent with no upper limit.

4. The reduction in National Insurance contributions can perhaps best be seen by looking at the example of someone earning £10,000 per annum (close to the national average earnings).

If employed		Earnings £10,000	
Class 1 NIC (if category A not contracted out)			
Employer's contribution			£1,046.24
Employee's contribution			£900.64
		Total	£1,946.88
If self employed		Earnings £10,000	
Class 2 NIC			£210.60
Class 4 NIC		£330.75	
less tax relief at 25% on half		£41.34	£289.41
		Total	£500.01

A difference of £1,446.87 per annum.

To some extent the self employed pay lower NI contributions because they derive fewer benefits. But actuarially their contributions fall short by over £1 billion per annum. This shortfall has arisen as a result of a series of decisions to help encourage self employment. The GAD estimate that on an actuarial basis the self employed should be paying as a minimum a Class 2 contribution of £10.60 and a Class 4 contribution of 11.6% instead of £4.05 and 6.3%.

PRESSURES FOR SCHEDULE D TREATMENT

5. The financial advantages of self employment apply both to the individual worker and to his contractor or employer. In some respects life has been made more difficult for the employer in recent years with the introduction of statutory sick pay and statutory maternity pay. In addition an employer may face

substantial problems outside the fiscal field altogether, above all in employment protection, health and safety and other areas for which the Department of Employment is responsible. It is not surprising to find therefore that this combination of factors results in pressure from both the providers and users of labour trying to obtain the advantages of the less onerous rules for the self employed.

We need to ensure that whatever arrangements we have distinguish between:

- i. people who are genuinely self employed, to ensure that no difficulty is put in their way in being recognised by Government Departments as self employed and
- ii. people who are in fact in an employer/employee relationship but who press to be treated as if they were self employed where they are not in order to get the substantial benefits which self employment provides.

EXISTING DEFINITION

6. The borderline between employment and self employment is not defined in statute and is a matter of general law with a few marginal exceptions in tax and social security legislation eg North Sea divers and agency workers on the tax side, which rarely cause problems. Although the borderline is largely based on employment law, in practice it is Tax Offices and DHSS local offices rather than the Department of Employment that are usually called upon to meet the first approach from individuals or businesses.

7. For most people deciding whether they are employed or self employed is not difficult but for a small number deciding on which side of the borderline they fall may not be easy. With over 30 million people at work with a wide variety of individual circumstances any borderline, wherever drawn, is unlikely to be free from doubt. This Government over the last eight years has on several occasions looked at the question of redrawing the borderline but has concluded on each occasion that the present test derived from case law "are you in business on your own account?" is about right. This test correctly identifies the risk taking entrepreneurs that the Government wish to encourage.

A DIFFERENT DEFINITION

8. A number of proposals have been made for changing the definition of self employment. The most radical comes from the Institute of Directors which suggested that people should be allowed to choose whether to be taxed under Schedule D with all the other consequences of being treated as if they were self employed to follow, for example, NIC and employment protection treatment. The Government resisted the suggestion partly because of the cost and partly because we did not wish to weaken the incentives to the genuine self employed by diluting the favourable treatment by extending it to people who are not

self employed, that is to say they are not genuinely in business on their own account and not risk takers. Variations of this theme have been suggested such as allowing choice only to those whose circumstances put them within a more limited grey area. This would also be extending the advantages to albeit a smaller number of people not genuinely self employed. In addition there would need to be two new borderlines on either side of the grey area.

9. Several other proposals have been made to have a statutory definition tied to one of the features of employment eg whether the work is pensionable or is there only one employer/contractor or by reference to the place where work is carried out. When looked at in detail none of these proposals has been shown to produce a more certain and flexible dividing line without producing unsupportable cliff edge anomalies.

The main arguments against these new definitions are:

- they would all to a different extent weaken the incentive to become genuinely self employed by extending the advantageous treatment to people who are not genuinely risk takers
- a new definition far from increasing certainty will hinder it. A new definition would act as a new starting point and inevitably after a time lag a new body of case law would develop which may differ from existing guidelines. During the transition uncertainty could be expected to increase.
- a legal definition would have consequences well beyond the taxation field eg employment law, health and safety aspects and public liability insurance. If the new definition was restricted to tax/NIC only there would be greater scope for inter departmental disputes if say the Revenue treated someone as self employed whereas the Department of Employment treated the same person as employed for the purposes of access to Industrial Tribunals or for reinstatement after maternity leave.
- the present test which has stood the test of time is flexible and can adjust to changes in society and patterns of working. A fixed statutory definition tied to one or a number of factors would not be so capable of adapting to major changes in working in society. The existing general law test "are you in business on your own account" is about right and difficult to improve upon

INLAND REVENUE AND DHSS INITIATIVE

10. Because in a small proportion of cases it can be difficult to decide which side of the borderline an individual falls the Inland Revenue and the Department of Health and Social Security in April 1987 started an initiative aimed at helping people who were uncertain of their employment status. Each Tax District and local Social Security office appointed a person responsible for all enquiries and decisions about employment status. A written

decision made by one department is now accepted by the other provided all the relevant facts were accurately and clearly given at the time and the circumstances remain the same. Anyone in work can now get a written decision on their employment status from either the Inland Revenue or the DHSS. The joint arrangements for decisions were extended to November 1987 to give provisional decisions to those about to start work who had a firm written proposal.

REVIEW

11. Both Departments have recently reviewed the operation of the arrangements. In general the review suggests that the new arrangements are starting to work increasingly well and that several advantages accrue:

- (a) Enquiries concerning more than one worker with a particular concern can be co-ordinated;
- (b) There is more uniformity of treatment and consistency of decisions and duplication of effort for both businesses and Departments is avoided;
- (c) There is an acceleration of the decision making process by arranging for all cases to be brought to the immediate attention of the nominated Inspector;
- (d) Specialisation has brought more expertise.
- (e) Awareness of the advisability of consulting the Revenue or DHSS is spreading amongst taxpayers and employers.

In the first ten months of operation 15,000 status cases were handled by the Inland Revenue. During the same period only 22 contentious cases were heard by the General Commissioners (the independent local appeal body).

The closer co-operation between the two Departments has ensured that any difference in approach has rapidly been resolved at both Head Office and local office levels. Individuals or businesses are given in writing reasons why they fall on one side or another of the dividing line. They can then if they wish change their working practices or make new arrangements and reapply for a decision once they have implemented changes.

We ought to wait for rather longer before reaching a final decision on the new arrangements for providing guidance of employment status. But the first reports are encouraging and I am not aware of any barrier in the tax or social security field for those who are genuinely seeking to be self employed.

BETTER GUIDANCE

12. Another way of helping businesses is by the provision of clear and simple literature explaining the borderline and how someone might know how they were affected. The Inland Revenue and the Department of Health and Social Security have just

produced a revised joint leaflet setting out the factors to be considered and explaining the new arrangements for obtaining decisions on status. The leaflet also briefly explains the main differences for tax and NI purposes of being employed or self employed. The joint leaflet has been written in consultation with officials from the EDU. [a copy is attached. Alternatively we could set out the main guidelines in a separate paragraph eg

The leaflet sets out the guidelines any one of which is not decisive but by looking at the job as a whole - all the conditions - in the light of the guidelines should provide the answer. The guidelines are:

If you can answer "yes" to the following questions, it will usually mean that you are self-employed:

- * Do you have the final say in how the business is run?
- * Do you risk your own money in the business?
- * Are you responsible for meeting the losses as well as taking profits?
- * Do you provide the major items of equipment you need to do your job, not just the small tools which many employees provide for themselves?
- * Are you free to hire other people on terms of your own choice, to do the work that you have taken on? Do you pay them out of your own pocket?
- * Do you have to correct unsatisfactory work in your own time and at your own expense?

If you can answer "yes" to the following questions, you are probably an employee:

- * Do you yourself have to do the work rather than hire someone else to do it for you?
- * Can someone tell you at any time what to do or when and how to do it?
- * Are you paid by the hour, week, or month? Can you get overtime pay? Though even if you are paid by commission or on a piecework basis you may still be an employee.
- * Do you work set hours, or a given number of hours a week or month?
- * Do you work at the premises of the person you are working for, or at a place or places they decide?]

INTERNATIONAL COMPARISONS

13. The Inland Revenue is not aware of any countries that have developed a system of choice or an arbitrarily defined definition of self employment. In many of the English speaking countries eg Canada, Australia and New Zealand the background is very similar with a common law set of guidelines based in most cases on the same case law, that is Australian cases for example are relevant and quoted in British Courts. In the United States the position is in many ways similar to ours with no legal definition, but they have an extended explanation of employment in their regulations including listing categories of workers that are to be treated as employees. In general they apply the same common law guidelines. There exists a procedure for obtaining rulings from the Internal Revenue Service.

In France there is no tax definition and in Germany the position reflects the British system. The main guideline appears to be whether the worker is integrated into the contractor's business.

Self employment in the UK now exceeds the levels in most other western industrialised countries. The latest comparative OECD figures of self employment in the non-agricultural sector (the Revenue do not have figures covering the agricultural sector also, but in any case they would be of less immediate relevance) show the United Kingdom exactly halfway up the league table for the proportion of the civilian employed who are self employed. We are already on the whole above the more successful industrialised ones, namely Austria, Canada, Denmark, Finland, France, Germany, Iceland, Netherlands, Norway, Sweden and the United States. But some of the figures are very out of date and examination of the trends would suggest that given the substantial growth in self employment in the United Kingdom we have almost certainly overtaken New Zealand and Switzerland. Indeed, we might also have overtaken, or at least not now be far short of, Australia, Belgium, Ireland, Japan and Portugal. Only Greece, Italy, Spain and Turkey have levels of self employment which are well in excess of those in the United Kingdom.

CONCLUSION

14. Given the existing burden on employers and the fiscal incentives to self employment that have arisen as a result of a series of decisions to help encourage self employment, it is scarcely surprising to find substantial pressure to extend this regime. I am satisfied that no genuine risk taking entrepreneur need be prevented from being treated as self employed by the present rules or by the administration of these rules. We have significantly reduced compliance burdens by providing the new arrangement for authoritative and joint decisions by improving publicity and by setting out clear guidelines. The balance of argument favours the present position of keeping the common law guidelines rather than attempting a legal definition. The present system represents the best mix of certainty and flexibility and has been shown to foster genuine self-employment.

UNCLASSIFIED



mwp

FROM: MISS M P WALLACE

DATE: 18 April 1988

MR PATTERSON

cc Mr Pickford
Mr R I G Allen

LABOUR MARKET STATISTICS

The Chancellor was grateful for your minute of 14 April. He has commented that it is worth using the fact that the (seasonally adjusted) unemployment figure is now the lowest since 1981.

mwp

MOIRA WALLACE

CONFIDENTIAL



→ J J Heywood

FROM: J J HEYWOOD

DATE: 19 April 1988

MR W P CARR - IR

cc

PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Monck
Mr Scholar
Mr Burgner
Mr Culpin
Miss Peirson
Mr MacAuslan
Mr MacPherson
Mr Cropper
Mr Tyrie
PS/IR

EMPLOYMENT AND SELF-EMPLOYMENT

The Financial Secretary discussed with you and others today the various outstanding papers on this (minutes of 28 March from you and Mr Isaac, minutes of 14 April from you and Mr Isaac and your minute of 18 April covering the draft MISC 133 paper).

2. On the substance, the Financial Secretary said that he was wholly persuaded of the arguments against Mr Cropper's suggestion (his minute of 21 March). After some discussion the Financial Secretary also accepted that there was no real case for a statutory definition of self-employment. The Financial Secretary's conclusion was that the administration of the case law borderline was basically working well but that we would continue to face criticisms from people unable to get the status they wanted as long as the tax, NIC (and, for employers, the Employment Protection Act) implications of being self-employed were so favourable.

3. Turning to the draft MISC 133 paper, the Financial Secretary said that he thought the first draft was very good indeed. Nevertheless he had a few comments:

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- (i) We should suggest that as part of the pilot study a person should be put into one of the One Stop Shops, who was competent to deal with enquiries on employment status. (The Financial Secretary thought this gesture would go down well with Lord Young).
- (ii) We should attach the new version of the leaflet rather than outlining in the paper (in paragraph 12) its contents.
- (iii) We should cut out the detailed argumentation in paragraph 9 (ie delete the 4 indents).
- (iv) Paragraphs 8 and 9 should be redrafted in a more structured way as a list of alternative options which have been proposed:
 - Option 1 : Allowing people to choose
 - Option 2 : Choice for those in a grey area
 - Option 3 : Statutory definition
 - Option 4 : Amalgamating employee/self-employed NICs.
- (v) There should be more detail in the last sentence of indent 2 in paragraph 3.
- (vi) The section on the IR/DHSS Initiative should not appear too complacent.
- (vii) The Initiative ought to be reviewed again (with EDU involvement) in 6 months' time
- (viii) The final paragraph should be "toned down" slightly.
- (ix) The section (in paragraph 5) on the employment protection and health and safety implications of self-employment should be expanded to give some examples.

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(x) A qualification should be inserted in paragraph 13 about the reliability of the figures.

4. In addition, the Financial Secretary specifically asked for the following issues to be covered in his briefing for MISC 133:

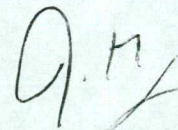
(i) The impact of NICs on low-paid employees and self-employed.

(ii) The arguments against a statutory definition (ie the points made in paragraph 9 of the draft).

(iii) The relevance of "self-assessment" to this issue.

(iv) The specific circumstances of divers, music teachers and any other groups which are not covered by the IR/DHSS initiative.

5. Finally, the Financial Secretary said that he was content for the revised paper to be shown to DE officials. I would be grateful if you could get the revised paper up by close tomorrow at the latest. I would like to circulate the final version on Friday morning (and even that is later than the Cabinet Office would prefer).



JEREMY HEYWOOD
Private Secretary

purp.



Ch;

You wanted a word about this subject at Prayers.

2. FST will not be at Prayers tomorrow - he is in (?) Keswick - and this ppr. needs to go round MISC 133 this week. Did you want to speak to him before the ppr. ~~was~~ went round? If so, we'll manage a word this p.m.

~~No need flood up paper.
We can discuss it
at prayers w/k
Mon.~~



Inland Revenue
Deregulation Unit

BF
2/4 TD

Somerset House
London WC2R 1LB
Telephone 01-438

6722

FROM: W P CARR

20 April 1988

Princess Mauding

FINANCIAL SECRETARY

EMPLOYMENT AND SELF EMPLOYMENT: PAPER FOR MISC 133 ON 27 APRIL

1. I attach a revised paper to reflect your comments made at the meeting on Tuesday.
2. We are asked to send the paper to Cabinet Office for circulation today. If you are content with this draft your office will arrange circulation.
3. With your agreement I am sending a copy of this draft today to the Department of Employment, Department of Health and Social Security and the EDU to facilitate their briefing arrangements. I have made it clear that this draft is not final and may be subject to changes.

W.P. Carr

W P CARR

cc Chancellor of the Exchequer

Chief Secretary
Economic Secretary
Mr Monck
Mr Scholar
Mr MacAuslan
Mr McIntyre
Miss Sinclair
Mr Wynn Owen
Mr Cropper
Mr Tyrie
Mr Ramsden
Mr Flanagan

Mr Battishill
Mr Isaac
Mr Painter
Mr Beighton
Mr Corlett
Mr Cherry
Mr Lewis
Mr McGivern
Mr Marshall
Miss Rhodes
Mr Elliott
Mr Eason
Mr O'Brien
Mr Fraser
Mr Carr
Mr Jarvis
PS/IR

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MISC 133(88)

COPY NO

20 APRIL 1988

CABINET

MINISTERIAL GROUP ON DEREGULATION

EMPLOYMENT AND SELF EMPLOYMENT: TAX ISSUES

Note by the Financial Secretary to the Treasury

INTRODUCTION

1. During the 1970s the numbers of self employed slowly drifted downwards. Since 1979 the number has increased by 50 per cent from about 1.9 million to over 2.7 million and Inland Revenue planning is based on the assumption that this trend will continue. We are also witnessing the development of new patterns of employment, to some extent made possible by new technology and, in general, encouraged by and responding to a general loosening of employer-employee relationships.

2. It is entirely up to the individual to decide whether to arrange his affairs so that he is employed or self employed but his choice has important implications for tax, National Insurance contributions and other areas such as employment protection. In this paper I am looking mainly at the taxation implications though inevitably I stray into the related areas. The Government has done much, not only in the tax/NIC field, to encourage self employment: it has also added to the burdens of employers. My purpose in this paper is to consider whether the operation of the tax system puts any brakes on the development of self employment which could reasonably be removed, particularly in relation to the dividing line between employment and self employment. The

question also arises whether we should extend the advantages of self employment to some employment activities by treating them as if they were self-employment.

THE TAX AND NIC DIFFERENCES BETWEEN EMPLOYMENT AND SELF EMPLOYMENT

3. Whether someone is employed or self employed affects how much tax and NIC they have to pay. The main differences are:

- the self employed are taxed under Schedule D and their liability is calculated by reference to the business profits earned in the preceding year. The employed are taxed under Schedule E and tax is deducted from their remuneration each week or month under PAYE. Hence the self employed have a significant cash flow advantage. When someone first starts as self employed there is a period during which no tax is due; although they catch up in the second year the way the tax is calculated in the first two or three years can provide them with an actual as well as a timing advantage.
- an employee can get relief for only those expenses which are "wholly, exclusively and necessarily incurred in the performance of" his duties; there is no equivalent to the "necessary" test for the self employed and it would be extremely difficult to try to impose one. The Revenue have to rely on the business man himself to judge what he needs to spend on his business. The self employed can therefore get relief for a wide range of expenditure which is not available to the employed. This might include relief for travelling expenses, part use of the home and opportunities for income splitting by paying wages to a spouse or close relative for nominal work thereby utilising an additional set of personal allowances.
- because tax is deducted at source there is far less scope for evasion by the employed than by the self employed. Very broad Inland Revenue estimates (which are consistent with the more authoritative external accounts of the black economy) suggest that around 5 per cent of employment income escapes tax compared with perhaps 25 per cent and possibly rather more of self employed income (in the USA the disparity is rather greater despite the stronger compliance powers of the Internal Revenue Service). The absence of deduction of tax at source can also be expected to increase the frequency of "earning and drawing".

- the self employed pay a flat rate Class 2 contribution of £4.05 per week unless earnings are below £2,250 a year and an application has been made to be excepted under what is known as the Small Earnings Exception. They also pay Class 4 contributions at 6.3 per cent on earnings between £4,750 and £15,680 a year. Tax relief is given on half the Class 4 contributions. The maximum annual payment for Class 2 and 4 in £910.53. Employees pay a maximum rate of 9%, up to a maximum contribution from all employments of £1,427.40. In addition employer's contribution will be due at a maximum rate of 10.45 per cent with no upper limit.

4. The reduction in National Insurance contributions can perhaps best be seen by looking at the example of someone earning £10,000 per annum (close to the national average earnings).

If employed	Earnings £10,000	
Class 1 NIC (if category A not contracted out)		
Employer's contribution		£1,046.24
Employee's contribution		£900.64
	Total	<u>£1,946.88</u>

If self employed	Earnings £10,000	
Class 2 NIC		£210.60
Class 4 NIC	£330.75	
less tax relief at 25% on half	£41.34	£289.41
	Total	<u>£500.01</u>

A difference of £1,446.87 per annum.

To some extent the self employed pay lower NI contributions because they derive fewer benefits. But actuarially their contributions fall short by over £1 billion per annum. This shortfall has arisen as a result of a series of decisions to help encourage self employment. The GAD estimate that on an actuarial basis the self employed should be paying as a minimum a Class 2 contribution of £10.60 and a Class 4 contribution of 11.6% instead of £4.05 and 6.3%.

PRESSURES FOR SCHEDULE D TREATMENT

5. In addition to the considerable financial advantages of self employment, which apply both to the individual and his contractor/employer, an employer may want to have his workforce dealt with as self employed to avoid problems such as:

- employment protection law
- maternity rights
- trade union recognition
- redundancy payments
- minimum wages legislation

and so on. These matters are the responsibility of the Department of Employment but they add to the pressure for self employment treatment. In some respects life has also been made more difficult for the employer in recent years with the introduction of statutory sick pay and statutory maternity pay. It is not surprising to find therefore that this combination of factors results in pressure from both the providers and users of labour trying to obtain the advantages of the less onerous rules for the self employed.

We need to ensure that whatever arrangements we have distinguish between:

- i. people who are genuinely self employed, to ensure that no difficulty is put in their way in being recognised by Government Departments as self employed and treated accordingly and
- ii. people who are in fact in an employer/employee relationship but who press to be treated as if they were self employed where they are not in order to get the substantial benefits which self employment provides.

EXISTING DEFINITION

6. The borderline between employment and self employment is not defined in statute and is a matter of general law with a few marginal exceptions in tax and social security legislation eg

North Sea divers and agency workers on the tax side, which rarely cause problems. Although the borderline is largely based on employment law, in practice it is Tax Offices and DHSS local offices rather than the Department of Employment that are usually called upon to meet the first approach from individuals or businesses.

7. For most people deciding whether they are employed or self employed is not difficult but for a small number deciding on which side of the borderline they fall may not be easy. With over 30 million people at work with a wide variety of individual circumstances any borderline, wherever drawn, is unlikely to be free from doubt. Over the last eight years this Government has on several occasions looked at the question of redrawing the borderline but has concluded on each occasion that the present test derived from case law "are you in business on your own account?" is about right. This test correctly identifies the risk taking entrepreneurs that the Government wish to encourage.

A DIFFERENT DEFINITION

8. A number of proposals have been made for changing the definition of self employment.

- First, the Institute of Directors have suggested that people should be allowed to choose whether to be taxed under Schedule D. An election for self employed tax treatment would mean that the person would also be treated as if they were self employed for NIC, employment protection and Health and Safety rules. The Government resisted this suggestion partly because of the cost but also because it did not wish to weaken the incentive to the genuine self employed by diluting the favourable treatment by extending it to people who were not genuinely in business on their own account, that is not risk takers.
- Second, variations of this theme have been suggested such as allowing choice only to those whose circumstances put them within a more limited grey area. This would also be extending the advantages of self employment to people who are not genuinely self employed, albeit a smaller number. In addition there would need to be two new borderlines on either side of the grey area.
- Third, several proposals have been advanced to introduce a statutory definition tied to one or other of the features of

employment, eg whether the work is pensionable or there is only one employer/contractor or by reference to the place where work is carried out. When looked at in detail none of these proposals has been shown to produce a more certain and flexible dividing line without producing unsupportable cliff edge anomalies. As I noted above this matter has been considered on several occasions by this Government both inter-departmentally and with the Prime Minister. It was then decided that none of the proposed alternatives offered an improvement on the existing approach.

- Fourth, it is open for consideration whether the existing NIC advantages for the self employed should be reduced or removed altogether. This would considerably reduce the fiscal advantage for both the contractor and the worker to try to achieve self employment status in cases where the facts did not support this. There would be disadvantages in that it would be an increase in the financial burden on the self employed.

INLAND REVENUE AND DHSS INITIATIVE

9. Because in a small proportion of cases it can be difficult to decide which side of the borderline an individual falls the Inland Revenue and the Department of Health and Social Security in April 1987 started an initiative aimed at helping people who were uncertain of their employment status. Each Tax District and local Social Security office appointed a person responsible for all enquiries and decisions about employment status. A written decision made by one department is now accepted by the other provided all the relevant facts were accurately and clearly given at the time and the circumstances remain the same. Anyone in work can now get a written decision on their employment status from either the Inland Revenue or the DHSS. The joint arrangements for decisions were extended to November 1987 to give provisional decisions to those about to start work who had a firm written proposal.

REVIEW

10. Both Departments have recently reviewed the operation of the arrangements. In general the review suggests that the new arrangements are starting to work increasingly well and that several advantages accrue:

- (a) Enquiries concerning more than one worker with a particular concern can be co-ordinated;
- (b) There is more uniformity of treatment and consistency of decisions and duplication of effort for both businesses and Departments is avoided;
- (c) There is an acceleration of the decision making process by arranging for all cases to be brought to the immediate attention of the nominated Inspector;
- (d) Specialisation has brought more expertise.
- (e) Awareness of the advisability of consulting the Revenue or DHSS is spreading amongst taxpayers and employers.

In the first ten months of operation 15,000 status cases were handled by the Inland Revenue. During the same period only 22 contentious cases were heard by the General Commissioners (the independent local appeal body).

The closer co-operation between the two Departments has ensured that any difference in approach has rapidly been resolved at both Head Office and local office levels. Individuals or businesses are given in writing reasons why they fall on one side or another of the dividing line. They can then if they wish change their working practices or make new arrangements and reapply for a decision once they have implemented changes.

Even though first reports are encouraging we ought to wait for rather longer before reaching a final decision on whether the new arrangements are reducing the number of complaints in this area. I propose to ask officials to look again at the working of these arrangements in six months time in consultation with EDU officials.

BETTER GUIDANCE

11. Another way of helping businesses is by the provision of clear and simple literature explaining the borderline and how someone might know how they were affected. The Inland Revenue and the Department of Health and Social Security have just produced a revised joint leaflet setting out the factors to be considered and explaining the new arrangements for obtaining decisions on status. The leaflet also briefly explains the main differences for tax and NI purposes of being employed or self employed. The joint leaflet has been written in consultation with officials from the EDU. (Copy attached)

Wider access to advice might be considered in the feasibility work on One Stop Shops. It is for consideration whether at one of the pilot shops an official could make arrangements for an authoritative ruling to be given in writing if all the facts were made available. All of the shops will be able to provide guidance and advice. In the vast majority of cases this would be all that is required. The pilot could test what the level of demand is for written authoritative rulings arranged through the One Stop Shop.

INTERNATIONAL COMPARISONS

12. The Inland Revenue is not aware of any countries that have developed a system of choice or an arbitrarily defined definition of self employment. In many of the English speaking countries eg Canada, Australia and New Zealand the background is very similar with a common law set of guidelines based in most cases on the same case law; Australian cases for example are relevant and quoted in British Courts. In the United States the position is in many ways similar to ours with no legal definition, but they have an extended explanation of employment in their regulations including listing categories of workers that are to be treated as employees. In general they apply the same common law guidelines. There exists a procedure for obtaining rulings from the Internal Revenue Service.

In France there is no tax definition and in Germany the position reflects the British system. The main guideline appears to be whether the worker is integrated into the contractor's business.

Statistics available to the Revenue suggest that self employment in the UK now exceeds the levels in most other western industrialised countries. (This is a subject where the Department of Employment may have access to more up to date figures or a more comprehensive analysis.) The latest comparative OECD figures of self employment in the non-agricultural sector (the Revenue do not have figures covering the agricultural sector also, but in any case they would be of less immediate relevance) show the United Kingdom exactly halfway up the league table for the proportion of the civilian employed who are self employed. We are already above the more successful industrialised ones, namely Austria, Canada, Denmark, Finland, France, Germany, Iceland, Netherlands, Norway, Sweden and the United States. But some of the figures are very out of date and examination of the trends would suggest that, given the substantial growth in self employment in the United Kingdom, we have almost certainly overtaken New Zealand and Switzerland. Indeed, we might also have overtaken, or at least not now be far short of, Australia, Belgium, Ireland, Japan and Portugal. Only Greece, Italy, Spain and Turkey have levels of self employment which are well in excess of those in the United Kingdom.

CONCLUSION

13. I am satisfied that no genuine risk taking entrepreneur need be prevented from being treated as self employed by the present rules or by their administration. In the light of the arguments outlined above I think our predecessors reached the correct decision when they concluded that the present tax and NIC dividing line properly reflects the differences between employment and self employment and hence is in the right place. Given the overall burden on employers and employees it is hardly surprising that there should be pressure on the borderline: it raises the question whether too much now rides on it.

Meanwhile we have significantly reduced compliance burdens by providing the new arrangement for authoritative and joint decisions by improving publicity and by setting out clear guidelines. The balance of argument favours the present position of keeping the common law guidelines rather than attempting a legal definition. The present system represents the best mix of certainty and flexibility and has been shown to foster genuine self-employment.

FROM: MISS C E C SINCLAIR
DATE: 20 April 1988

CHANCELLOR

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Mr Anson
- Mr Byatt
- Mr Monck
- Mr Phillips
- Mr Scholar
- Mr Culpin
- Mr Hawtin
- Mr Odling-Smee
- Miss Peirson
- Mr Turnbull
- Mr McIntyre
- Mr Pickford
- Mr Riley
- Mr Tyrie
- Mr Call

The further details you asked for at flag. Content now, and we will give you amended letter to sign?

*Thanks, slight PSE let
OK on... we have...
MPW 20/4
letter for sign.*

THE POVERTY AND UNEMPLOYMENT TRAPS

Miss Wallace's minute of 18 April asked a question about the impact of rate cuts/increased personal allowances on marginal rates or replacement ratios in future; and set out your comments on the draft paper.

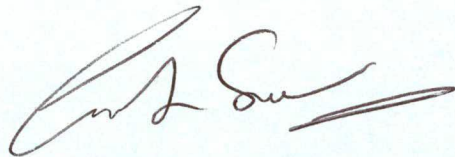
2. I attach a revised version of the draft incorporating your comments, together with a slightly revised annex. Housing Benefit figures in the latter now include the effect of loss of rate rebate. This does not affect the annex's conclusions.

X 3. I attach 2 tables and a note by Mr Scotter comparing the effect of income tax changes on the traps under the new social security system as compared with the old. Table 1 shows that under the post-April social security regime, increases in personal allowances have very little direct effect on marginal rates. Basic rate cuts have a very limited effect on marginal rates under either

social security system.

4. Table 1 also shows the limited effect of an increase in allowances on replacement ratios under the new system. Basic rate cuts will in future have no effect on replacement ratios for those receiving benefits.

5. If you are content with the paper, it would be helpful to get it to Lord Young as soon as possible.

A handwritten signature in dark ink, appearing to read 'Carolyn Sinclair', with a long horizontal flourish extending to the right.

CAROLYN SINCLAIR

1. This note examines the extent to which the combination of tax, national insurance and benefit rules act as a disincentive to employment and growth.

2. The tax and benefits systems can give rise to two kinds of problem: people can find themselves in an unemployment trap because the family's income out-of-work can be close to, or above, its income if a member of the family works; or they can find themselves in a poverty trap, with net income rising by only a small proportion of any increase in gross income.

Poverty trap

3. A common definition of the poverty trap is families who face effective marginal rates of tax, NICs and benefit withdrawal above 70 per cent. At present these amount to some 3 per cent of the workforce.

4. For low paid workers who pay neither tax or NICs, the poverty trap is entirely a function of the rate of withdrawal of income-related benefits.

5. For workers liable to NICs alone, and for those liable to tax and NICs, only a proportion of any high marginal rates which they may face will be due to the tax and NIC systems. The rate of NICs payable by those earning between £41 and £70 is only 5 per cent; and for those earning between £70 and £105, only 7 per cent. Above £105 people pay 9 per cent up to the Upper Earnings Limit.

6. Apart from those near the NIC steps, the highest marginal rate of tax and NICs combined for a basic rate taxpayer is 34 per cent (25 per cent income tax + 9 per cent NICs). The Annex illustrates the combined effect of tax, NICs and benefit withdrawal on a low income family.

Unemployment trap

7. People might be regarded as being in this trap if the ratio of their out of work income to income in-work (the replacement ratio) is 80 per cent or more. The unemployment trap is affected by the level of benefits out of work in relation to earnings; and the combined effect of tax, NICs and benefit withdrawal as people move into work. The scope for working in the black economy also contributes to keeping people in the unemployment trap. For variety of reasons, it is difficult to estimate the numbers in the unemployment trap.

Effect of Social Security Reforms

8. Under the Social Security changes which came into effect in April 1988, entitlement to income-related benefits is based on income net of tax and NICs. This removes the possibility that the combined effect of tax, NICs and benefit withdrawal would leave someone worse off after a pay rise than before. But it means that in future changes to tax and NICs - eg increases in personal allowances or cuts in the rates - will of themselves have a limited direct impact on marginal rates or replacement ratios. If someone pays less tax and NICs, so that his net income rises, income-related benefits will be progressively withdrawn.

9. There is no way of avoiding poverty traps given the policy of concentrating help where it is most needed. This policy has the twin advantages of minimising dependence on benefits; and of containing the cost of helping the really needy to something which can be paid for without damaging the economy by requiring higher taxes, or borrowing, or both.

10. There is no way of avoiding unemployment traps given the existence of a benefit system which supports people out of work.

11. Moreover, increasing help to the poor is bound to worsen the traps. We have made Family Credit (FC) more generous than Family Income Supplement in order to improve the position of those in work in relation to those out of work. And it is expected

to be paid to around 450,000 people, more than double the number who got Family Income Supplement. But one of the consequences is to increase the numbers facing high marginal rates.

X 12. Many Family Credit claimants will also be in receipt of Housing Benefit (HB). ^{Some} 5½ million people receive HB in the current year. It is subject to a 65 per cent taper (85 per cent if the claimant is in receipt of rate rebate), and is assessed on income net of other benefits including FC. A claimant receiving both FC and HB will lose 97 per cent of any increase in income after tax and NICs (see Annex).

X 13. It should be noted that the disincentive effects of the trap are less immediate than is sometimes assumed. An FC/HB claimant does not lose 97p of each extra pound he earns; since FC and HB are ~~only~~ reassessed ^{only half-yearly and yearly} every 6 months and one year respectively, the high marginal rates usually quoted are somewhat theoretical. A claimant who works a few hours overtime is in practice unlikely to lose most of his extra earnings.

14. Making the withdrawal rates for FC and HB less steep would involve considerable cost and add substantially to the numbers on benefit. For example, the recent decision to reduce the community charge rebate taper is estimated to cost around £130 million and will add about 1 million people to the benefit population. Unless the taper rates were cut dramatically, we would still find people at the bottom end of the income scale facing marginal rates above the top rate of income tax faced by high earners.

15. The benefit system already costs almost £1,000 million per week - or roughly £50 per family. That has to be paid by those in work. Any changes to the benefit system which cost more money would need to be paid for by higher taxes, which would scarcely assist the enterprise culture.

Case 3: Family claims housing benefit (including rate rebate) and family credit

GE	T+NI	NE	FC	HB	DY
£150	£31.31	£118.69	£2.45	£5.00	£100.64
£151	£31.65	£119.35	£1.99	£4.83	£108.67

Net gain from extra £1 earned = 3p

Summary

Benefits claimed	Percentage clawback in tax, NICS and benefit withdrawal
FC and HB	97%
HB only	90%
FC only	80%
none	34%

(assuming tax and NICs being paid at standard rate and HB recipients also entitled to rate rebate, giving an overall HB taper of 85 per cent, of which 65 per cent is the rent taper and 20 per cent the rate taper).

Table 1: Marginal rates and replacement ratio of couple with children aged 6 and 12 and entitled to benefits.

	---Weekly earnings---		
	£88	£100	£150
Marginal tax rates			
Old social security with:			
Present allowances	98.5	105	80
£10 a week on allowances	73.5	105	80
Reformed social security with:			
Present allowances	96.9	96.9	93.1
£10 a week on allowances	95.8	96.9	93.1
Replacement ratios			
Old social security with:			
Present allowances	83.5	83.4	85.2
£10 a week on allowances	81.6	81.4	83.1
Reformed social security with:			
Present allowances	90.3	90	88.5
£10 a week on allowances	90.3	90	88.4

Table 2: Working families in poverty and unemployment traps

	Thousands of families			
	Poverty trap		Unemployment trap	
	Before reform	After reform	Before reform	After reform
Number in trap	250	475	445	475
Change from 1p basic rate cut	0	-15 (-3%)	-10 (-2%)	-10 (-2%)
Change with 7% on allowances	-10 (-4%)	-35 (-7%)	-35 (-8%)	-25 (-5%)

Effect of tax changes on poverty and unemployment traps

There are two aspects to these effects:

- the effect on marginal tax rates and replacement ratios of those who remain entitled to benefits and in the traps;
- the effect on those floated off benefits and out of the traps;

Table 1 gives an illustration of the effect of a £10 a week increase in personal allowances on the marginal rates and replacement ratios of a specimen family with two children at different levels of earnings. Under either social security system, their marginal rate is only affected if they are taken out of tax. This only happens in this example for the couple on £88 a week.

Under the old system their marginal rate is reduced by 25 percent points. Although their marginal rate remains above 70 percent, the reduction is possibly sufficient to encourage them to earn more. But under the new system their marginal rate only falls by 1 percent point. Taking people out of tax does not reduce their marginal rate if they are on benefit, under the new system.

With the old system, the increase in allowances reduces their replacement ratio by about 2 percent points across the income range illustrated. But with the social security reforms there is hardly any change in their replacement ratios. Tax changes cannot reduce the replacement ratios of those who stay on benefit.

Table 2 shows numbers taken out of the traps by a 1p basic rate cut and a 7 percent increase in allowances (very roughly the same cost) under both social security systems. After the reforms both basic rate cuts and allowance changes can float people of benefit and out of the traps, thus reducing their marginal rates from over 70 percent to 34 percent. ~~Because there are more in the poverty trap after the reforms, allowance increases float more out in absolute terms, but also in proportionate terms. The basic rate cut would not affect the poverty trap under the old social security arrangements.~~

The basic rate cut has a similar effect on the unemployment trap before and after the reforms (it mainly affects those above the range of benefits). The increase in allowances takes about a third less out of the unemployment trap after the reforms than it would have before.

But the numbers affected are very small indeed.



FROM: J J HEYWOOD
DATE: 21 April 1988

MR CARR IR

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
Mr Monck
Mr Scholar
Mr MacAuslan
Mr McIntyre
Miss Sinclair
Mr Wynn Owen
Mr Cropper
Mr Tyrie
Mr Ramsden
Mr Flanagan
Mr MacManus IR (by fax)
PS/IR

EMPLOYMENT AND SELF EMPLOYMENT: PAPER FOR MISC 133 ON 27 APRIL

The Financial Secretary has a number of further comments on the draft paper.

- (i) Delete all of paragraph 2 except the first 2 sentences;
- (ii) Open paragraph 1 with:

"The Government has done a great deal, not only in the tax/NIC field, to encourage self-employment"
- (ii) Delete "travelling expenses" from paragraph 3, indent 2.
- (iv) Finish paragraph 3, indent 3 at "self-employed income".
- (v) Correct £15,680 in paragraph 3, indent 4.
- (vi) Paragraph 5, include a new indent "health and safety law".

- (vii) Insert new sentence in paragraph 5 after "employment treatment" as follows:

"It must be Government policy to continue to review the case for easing these burdens."

- (viii) Start second part of paragraph 5 with:

Because of the potentially heavy costs, we need to

- (ix) Delete the example from paragraph 6.

- (x) Change sentence 3 in paragraph 7 to read:

"The Government has reviewed on several occasions the question of re-defining self-employment but on each occasion"

- (xi) Replace second half of first indent in paragraph 8 with:

"The Government rejected this suggestion because of the substantial costs it would involve and because it believed that the favourable treatment accorded to the self-employed should not be extended to people not in business on their own account and therefore not risk-takers.

- (xii) In the fourth indent of paragraph 8 start with

"Fourth, some have suggested that there should be a level playing field and that the existing NIC advantages for the self-employed should be removed altogether."

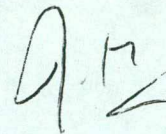
Also delete "considerably" and change "advantage" to "incentive".

(xiii) Last sentence of paragraph 10 - change the order of the clauses.

(xiv) Amend paragraph 11 to make it clear that we should consider putting someone into an OSS who was himself competent to give a ruling.

(xv) Change conclusion so that it just makes 3 points

- (i) The OSS suggestion;
- (ii) The 6 month review;
- (iii) The first line of the existing conclusion.



JEREMY HEYWOOD
Private Secretary



Inland Revenue
Deregulation Unit

Somerset House
London WC2R 1LB

Telephone 01-438

6722

FROM: W P CARR

21 April 1988

FINANCIAL SECRETARY

EMPLOYMENT AND SELF EMPLOYMENT: PAPER FOR MISC 133 ON 27 APRIL

1. I attach a final version of this paper incorporating your further comments (Mr Haywood's note of 21 April).
2. Provided you are content with this draft your office will arrange circulation today (along with the leaflet IR56/NI39 referred to in paragraph 11).

W.P. Carr

W P CARR

cc Chancellor of the Exchequer —
Chief Secretary
Economic Secretary
Mr Monck
Mr Scholar
Mr MacAuslan
Mr McIntyre
Miss Sinclair
Mr Wynn Owen
Mr Cropper
Mr Tyrie
Mr Ramsden
Mr Flanagan

Mr Battishill
Mr Isaac
Mr Painter
Mr Beighton
Mr Corlett
Mr Cherry
Mr Lewis
Mr McGivern
Mr Marshall
Miss Rhodes
Mr Elliott
Mr Eason
Mr O'Brien
Mr McManus
Mr Fraser
Mr Carr
Mr Jarvis
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MINISTERIAL GROUP ON DEREGULATION

EMPLOYMENT AND SELF EMPLOYMENT: TAX ISSUES

Note by the Financial Secretary to the Treasury

INTRODUCTION

1. The Government has done a great deal, not only in the tax/NIC field, to encourage self employment. During the 1970s the numbers of self employed slowly drifted downwards. Since 1979 the number has increased by 50 per cent from about 1.9 million to over 2.7 million and Inland Revenue planning is based on the assumption that this trend will continue. We are also witnessing the development of new patterns of employment, to some extent made possible by new technology and, in general, encouraged by and responding to a general loosening of employer-employee relationships.

2. It is entirely up to the individual to decide whether to arrange his affairs so that he is employed or self employed but his choice has important implications for tax, National Insurance contributions and other areas such as employment protection. In this paper I am looking mainly at the taxation implications though inevitably I stray into the related areas.

THE TAX AND NIC DIFFERENCES BETWEEN EMPLOYMENT AND SELF EMPLOYMENT

3. Whether someone is employed or self employed affects how much tax and NIC they have to pay. The main differences are:

- the self employed are taxed under Schedule D and their liability is calculated by reference to the business profits earned in the preceding year. The employed are taxed under Schedule E and tax is deducted from their remuneration each week or month under PAYE. Hence the self employed have a significant cash flow advantage. When someone first starts as self employed there is a period during which no tax is due; although they catch up in the second year the way the tax is calculated in the first two or three years can provide them with an actual as well as a timing advantage.
- an employee can get relief for only those expenses which are "wholly, exclusively and necessarily incurred in the performance of" his duties; there is no equivalent to the "necessary" test for the self employed and it would be extremely difficult to try to impose one. The Revenue have to rely on the business man himself to judge what he needs to spend on his business. The self employed can therefore get relief for a wide range of expenditure which is not available to the employed. This might include relief for part use of the home and opportunities for income splitting by paying wages to a spouse or close relative for nominal work thereby utilising an additional set of personal allowances.
- because tax is deducted at source there is far less scope for evasion by the employed than by the self employed. Very broad Inland Revenue estimates (which are consistent with the more authoritative external accounts of the black economy) suggest that around 5 per cent of employment income escapes tax compared with perhaps 25 per cent and possibly rather more of self employed income.
- the self employed pay a flat rate Class 2 contribution of £4.05 per week unless earnings are below £2,250 a year and an application has been made to be excepted under what is known as the Small Earnings Exception. They also pay Class 4 contributions at 6.3 per cent on earnings between £4,750 and £15,860 a year. Tax relief is given on half the Class 4

contributions. The maximum annual payment for Class 2 and 4 in £910.53. Employees pay a maximum rate of 9%, up to a maximum contribution from all employments of £1,427.40. In addition employer's contribution will be due at a maximum rate of 10.45 per cent with no upper limit.

4. The reduction in National Insurance contributions can perhaps best be seen by looking at the example of someone earning £10,000 per annum (close to the national average earnings).

If employed	Earnings £10,000	
Class 1 NIC (if category A not contracted out)		
Employer's contribution		£1,046.24
Employee's contribution		£900.64
	Total	<u>£1,946.88</u>

If self employed	Earnings £10,000	
Class 2 NIC		£210.60
Class 4 NIC	£330.75	
less tax relief at 25% on half	£41.34	£289.41
	Total	<u>£500.01</u>

A difference of £1,446.87 per annum.

To some extent the self employed pay lower NI contributions because they derive fewer benefits. But actuarially their contributions fall short by over £1 billion per annum. This shortfall has arisen as a result of a series of decisions to help encourage self employment. The GAD estimate that on an actuarial basis the self employed should be paying as a minimum a Class 2 contribution of £10.60 and a Class 4 contribution of 11.6% instead of £4.05 and 6.3%.

PRESSURES FOR SCHEDULE D TREATMENT

5. In addition to the considerable financial advantages of self employment, which apply both to the individual and his contractor/employer, an employer may want to have his workforce dealt with as self employed to avoid problems such as:

- employment protection law
- health and safety law

- maternity rights
- trade union recognition
- redundancy payments
- minimum wages legislation
- Data Protection Act

and so on. These matters are the responsibility of the Department of Employment but they add to the pressure for self employment treatment. It must be Government policy to continue to review the case for easing these burdens. In some respects life has also been made more difficult for the employer in recent years with the introduction of statutory sick pay and statutory maternity pay. It is not surprising to find therefore that this combination of factors results in pressure from both the providers and users of labour trying to obtain the advantages of the less onerous rules for the self employed.

Because of the potentially heavy costs, we need to ensure that whatever arrangements we have distinguish between:

- i. people who are genuinely self employed, to ensure that no difficulty is put in their way in being recognised by Government Departments as self employed and treated accordingly and
- ii. people who are in fact in an employer/employee relationship but who press to be treated as if they were self employed where they are not in order to get the substantial benefits which self employment provides.

EXISTING DEFINITION

6. The borderline between employment and self employment is not defined in statute and is a matter of general law with a few marginal exceptions in tax and social security legislation which rarely cause problems. Although the borderline is largely based on employment law, in practice it is Tax Offices and DHSS local offices rather than the Department of Employment that are usually called upon to meet the first approach from individuals or businesses.

7. For most people deciding whether they are employed or self employed is not difficult but for a small number deciding on which side of the borderline they fall may not be easy. With over 30 million people at work with a wide variety of individual circumstances any borderline, wherever drawn, is unlikely to be free from doubt. The Government has reviewed on several occasions the question of redefining self employment but has concluded on each occasion that the present test derived from case law, viz "are you in business on your own account?", is about right. This test correctly identifies the risk taking entrepreneurs that the Government wishes to encourage.

A DIFFERENT DEFINITION

8. A number of proposals have been made for changing the definition of self employment.

- First, the Institute of Directors have suggested that people should be allowed to choose whether to be taxed under Schedule D. An election for self employed tax treatment would mean that the person would also be treated as if they were self employed for NIC, employment protection and Health and Safety rules. The Government rejected this suggestion because of the substantial costs it would involve and because it believed that the favourable treatment accorded to the self employed should not be extended to people not in business on their own account and therefore not risk-takers.
- Second, variations of this theme have been suggested such as allowing choice only to those whose circumstances put them within a more limited grey area. This would also be extending the advantages of self employment to people who are not genuinely self employed, albeit a smaller number. In addition there would need to be two new borderlines on either side of the grey area.
- Third, several proposals have been advanced to introduce a statutory definition tied to one or other of the features of employment, eg whether the work is pensionable or there is only one employer/contractor or by reference to the place where work is carried out. When looked at in detail none of these proposals has been shown to produce a better result - in terms of greater certainty without causing anomalies. As I noted above this matter has been considered on several occasions by this Government both inter-departmentally and with the Prime Minister. It was then decided that none of

the proposed alternatives offered an improvement on the existing approach.

- Fourth, some have suggested that there should be a level playing field and that the existing NIC advantages for the self employed should be removed altogether. This would reduce the fiscal incentive for both the contractor and the worker to try to achieve self employment status in cases where the facts did not support this. There would be disadvantages in that it would be an increase in the financial burden on the self employed.

INLAND REVENUE AND DHSS INITIATIVE

9. Because in a small proportion of cases it can be difficult to decide on which side of the borderline an individual falls, the Inland Revenue and the Department of Health and Social Security in April 1987 started an initiative aimed at helping people who were uncertain of their employment status. Each Tax District and local Social Security office appointed a person responsible for all enquiries and decisions about employment status. A written decision made by one department is now accepted by the other provided all the relevant facts were accurately and clearly given at the time and the circumstances remain the same. Anyone in work can now get a written decision on their employment status from either the Inland Revenue or the DHSS. The joint arrangements for decisions were extended in November 1987 to give provisional decisions to those about to start work who had a firm written proposal.

REVIEW

10. Both Departments have recently reviewed the operation of the arrangements. In general the review suggests that the new arrangements are starting to work well and that several advantages accrue:

- (a) Enquiries concerning more than one worker with a particular concern can be co-ordinated;
- (b) There is more uniformity of treatment and consistency of decisions. Duplication of effort for both businesses and Departments is avoided;

- (c) There is an acceleration of the decision making process by arranging for all cases to be brought to the immediate attention of the nominated Inspector;
- (d) Specialisation has brought more expertise.
- (e) Awareness of the advisability of consulting the Revenue or DHSS is spreading amongst taxpayers and employers.

In the first ten months of operation 15,000 status cases were handled by the Inland Revenue. During the same period only 22 contentious cases were heard by the General Commissioners (the independent local appeal body).

The closer co-operation between the two Departments has ensured that any difference in approach has rapidly been resolved at both Head Office and local office levels. Individuals or businesses are given in writing reasons why they fall on one side or another of the dividing line. They can then if they wish change their working practices or make new arrangements and reapply for a decision once they have implemented changes.

Even though first reports are encouraging we ought to wait for rather longer before reaching a final decision on whether the new arrangements are reducing the number of complaints in this area. In consultation with the EDU I propose to ask officials to look again at the working of these arrangements in six months time.

BETTER GUIDANCE

11. Another way of helping businesses is by the provision of clear and simple literature explaining the borderline. The Inland Revenue and the Department of Health and Social Security have just produced a revised joint leaflet setting out the factors to be considered and explaining the new arrangements for obtaining decisions on status. The leaflet also briefly explains the main differences for tax and NI purposes of being employed or self employed. The joint leaflet has been written in consultation with officials from the EDU. (Copy attached)

As part of the feasibility work on One Stop Shops it is worth considering whether at one of the pilot shops there should be an official competent to give an authoritative ruling provided all the facts are made available. All of the shops will be able to provide guidance and advice and in the vast majority of cases this is all that would be required.

INTERNATIONAL COMPARISONS

12. The Inland Revenue is not aware of any countries that have developed a system of choice or an arbitrarily defined definition of self employment. In many of the English speaking countries eg Canada, Australia and New Zealand the background is very similar with a common law set of guidelines based in most cases on the same case law; Australian cases for example are relevant and quoted in British Courts. In the United States the position is in many ways similar to ours with no legal definition, but they have an extended explanation of employment in their regulations including listing categories of workers that are to be treated as employees. In general they apply the same common law guidelines. There exists a procedure for obtaining rulings from the Internal Revenue Service.

In France there is no tax definition and in Germany the position reflects the British system. The main guideline appears to be whether the worker is integrated into the contractor's business.

Statistics available to the Revenue suggest that self employment in the UK now exceeds the levels in most other Western industrialised countries. (This is a subject where the Department of Employment may have access to more up to date figures or a more comprehensive analysis.) The latest comparative OECD figures of self employment in the non-agricultural sector (the Revenue do not have figures covering the agricultural sector also, but in any case they would be of less immediate relevance) show the United Kingdom exactly halfway up the league table for the proportion of the civilian employed who are self employed. We are already above many successful industrialised ones, namely Austria, Canada, Denmark, Finland, France, Germany, Iceland, Netherlands, Norway, Sweden and the United States. But some of the figures are very out of date and examination of the trends would suggest that, given the substantial growth in self employment in the United Kingdom, we have almost certainly overtaken New Zealand and Switzerland. Indeed, we might also have overtaken, or at least not now be far short of, Australia, Belgium, Ireland, Japan and Portugal. Only Greece, Italy, Spain and Turkey have levels of self employment which are well in excess of those in the United Kingdom.

CONCLUSIONS

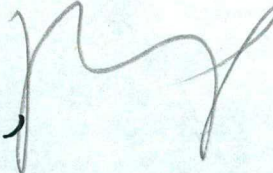
13. (a) I am satisfied that no genuine risk taking entrepreneur should be prevented from being treated as self employed by the present rules or by their administration (paragraphs 5-8).
- (b) I propose a review in consultation with the EDU of the IR/DHSS liaison arrangements in six months time (paragraph 10).
- (c) I suggest we consider putting an official competent to give an authoritative decision on employment status in one of the pilot One Stop Shops (paragraph 11).



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REC.	25 APR 1988 ✓ 25/4.
ACTION	CST
COPIES TO	

QUEEN ANNE'S GATE LONDON SW1H 9AT

22 April 1988

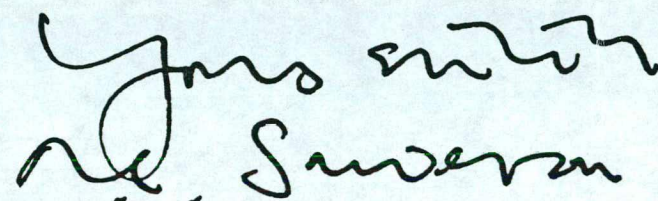
Dear Secretary of State, 

Thank you for your letter of 8 March which sought progress on the introduction of the Youth Training Scheme into the Home Office.

Until now the Home Office has acted only as a placement centre. We have provided work experience to small numbers of trainees sponsored by other Managing Agents, but have not applied for Managing Agent status as we have not been sure that we would be able to offer enough places to make this worthwhile. The majority of Home Office staff work either in prisons - which are unlikely to offer suitable places - or in London and the South East, where the pressure for YTS places is not so great. In the past we have been unable to get the CPSA to agree to any placements; the trainees have been placed in areas of work covered by the IPCS.

I am anxious that the Department should improve its record on YTS and I have asked my officials to prepare proposals for increasing our involvement in the Scheme: our Computing and Pay Services centre in Bootle, in the regional offices of the Prison Department and other parts of the Home Office are obvious starting points. I note that you say that Departments may well face some token industrial action, but we shall not regard this as an insuperable obstacle to progress.

I am copying this letter to the Prime Minister, other members of the Cabinet, Richard Luce and Sir Robin Butler.


Norman Fowler
(approved by the
Home Secretary and
signed in his
name)

The Rt Hon Norman Fowler, MP

Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir Peter Middleton
 Mr Anson
 Mr Byatt
 Mr Monck
 Mr Phillips
 Mr Scholar
 Mr Hawtin
 Mr Odling-Smee
 Miss Peirson
 Mr Turnbull
 Mr Culpin
 Mr McIntyre
 Mr Pickford
 Mr Riley
 Miss Sinclair
 Mr Tyrie
 Mr Call



Treasury Chambers, Parliament Street, SW1P :
 01-270 3000

The Rt Hon Lord Young of Graffham
 Secretary of State for Trade and Industry
 1 Victoria Street
 LONDON SW1

25 April 1988

THE POVERTY AND UNEMPLOYMENT TRAPS

In your letter of 12 April to Nicholas Ridley, you say that "we have to face up to the fact that very high marginal tax rates are a real disincentive to employment and growth". This prompts me to register three simple points.

First, there are no "very high marginal tax rates". The marginal rate of income tax is 25 per cent for almost everyone. It is 40 per cent for a few at the top. The marginal rate of employees' national insurance contributions is either 5 per cent or 7 per cent for the low paid, and otherwise 9 per cent (up to the upper earnings limit). The problem you are addressing is a benefit one, not a tax one. The attached paper goes into more detail.

Second, while there are indeed high withdrawal rates for benefits, such as family credit and housing benefit, that is an inescapable consequence of providing benefits for those in need. If the benefits are to go to people who need them but not to those who don't - as they clearly must - we have to withdraw them from people as their income rises. And, of course, to reduce the withdrawal rates would put more people on benefit, at considerable cost - surely the last thing we want.

Third, I think it is a mistake to look at benefit withdrawal rates in quite the same light as the marginal rates of tax. The marginal tax rate is crucial for incentives right across the board. Clearly the social security system should do the least possible damage to incentives. But the plain fact is that, for those in greatest need, the priority probably has to be the alleviation of poverty rather than the provision of incentives and it clearly cannot be both.

I am sending copies of this letter to the Prime Minister, Nicholas Ridley, John Moore, Malcolm Rifkind, Peter Walker, Norman Fowler and Sir Robin Butler.


 NIGEL LAWSON

1. This note examines the extent to which the combination of tax, national insurance and benefit rules act as a disincentive to employment and growth.

2. The tax and benefits systems can give rise to two kinds of problem: people can find themselves in an unemployment trap because the family's income out-of-work can be close to, or above, its income if a member of the family works; or they can find themselves in a poverty trap, with net income rising by only a small proportion of any increase in gross income.

Poverty trap

3. A common definition of the poverty trap is families who face effective marginal rates of tax, NICs and benefit withdrawal above 70 per cent. At present these amount to some 3 per cent of the workforce.

4. For low paid workers who pay neither tax or NICs, the poverty trap is entirely a function of the rate of withdrawal of income-related benefits.

5. For workers liable to NICs alone, and for those liable to tax and NICs, only a proportion of any high marginal rates which they may face will be due to the tax and NIC systems. The rate of NICs payable by those earning between £41 and £70 is only 5 per cent; and for those earning between £70 and £105, only 7 per cent. Above £105 people pay 9 per cent up to the Upper Earnings Limit.

6. Apart from those near the NIC steps, the highest marginal rate of tax and NICs combined for a basic rate taxpayer is 34 per cent (25 per cent income tax + 9 per cent NICs). The Annex illustrates the combined effect of tax, NICs and benefit withdrawal on a low income family.

Unemployment trap

7. People might be regarded as being in this trap if the ratio of their out of work income to income in-work (the replacement ratio) is 80 per cent or more. The unemployment trap is affected by the level of benefits out of work in relation to earnings; and the combined effect of tax, NICs and benefit withdrawal as people move into work. The scope for working in the black economy also contributes to keeping people in the unemployment trap. For variety of reasons, it is difficult to estimate the numbers in the unemployment trap.

Effect of Social Security Reforms

8. Under the Social Security changes which came into effect in April 1988, entitlement to income-related benefits is based on income net of tax and NICs. This removes the possibility that the combined effect of tax, NICs and benefit withdrawal would leave someone worse off after a pay rise than before. But it means that in future changes to tax and NICs - eg increases in personal allowances or cuts in the rates - will of themselves have a limited direct impact on marginal rates or replacement ratios. If someone pays less tax and NICs, so that his net income rises, income-related benefits will be progressively withdrawn.

9. There is no way of avoiding poverty traps given the policy of concentrating help where it is most needed. This policy has the twin advantages of minimising dependence on benefits; and of containing the cost of helping the really needy to something which can be paid for without damaging the economy by requiring higher taxes, or borrowing, or both.

10. There is no way of avoiding unemployment traps given the existence of a benefit system which supports people out of work.

11. Moreover, increasing help to the poor is bound to worsen the traps. We have made Family Credit (FC) more generous than Family Income Supplement in order to improve the position of those in work in relation to those out of work. And it is expected

to be paid to around 450,000 people, more than double the number who got Family Income Supplement. But one of the consequences is to increase the numbers facing high marginal rates.

12. Many Family Credit claimants will also be in receipt of Housing Benefit (HB). Some 5½ million people receive HB in the current year. It is subject to a 65 per cent taper (85 per cent if the claimant is in receipt of rate rebate), and is assessed on income net of other benefits including FC. A claimant receiving both FC and HB will lose 97 per cent of any increase in income after tax and NICs (see Annex).

13. It should be noted that the disincentive effects of the trap are less immediate than is sometimes assumed. An FC/HB claimant does not lose 97p of each extra pound he earns; since FC and HB are reassessed only half-yearly and yearly respectively, the high marginal rates usually quoted are somewhat theoretical. A claimant who works a few hours overtime is in practice unlikely to lose most of his extra earnings.

14. Making the withdrawal rates for FC and HB less steep would involve considerable cost and add substantially to the numbers on benefit. For example, the recent decision to reduce the community charge rebate taper is estimated to cost around £130 million and will add about 1 million people to the benefit population. Unless the taper rates were cut dramatically, we would still find people at the bottom end of the income scale facing marginal rates above the top rate of income tax faced by high earners.

15. The benefit system already costs almost £1,000 million per week - or roughly £50 per family. That has to be paid by those in work. Any changes to the benefit system which cost more money would need to be paid for by higher taxes, which would scarcely assist the enterprise culture.

Case 3: Family claims housing benefit (including rate rebate) and family credit

GE	T+NI	NE	FC	HB	DY
£150	£31.31	£118.69	£2.45	£5.00	£100.64
£151	£31.65	£119.35	£1.99	£4.83	£108.67

Net gain from extra £1 earned = 3p

Summary

Benefits claimed	Percentage clawback in tax, NICs and benefit withdrawal
FC and HB	97%
HB only	90%
FC only	80%
none	34%

(assuming tax and NICs being paid at standard rate and HB recipients also entitled to rate rebate, giving an overall HB taper of 85 per cent, of which 65 per cent is the rent taper and 20 per cent the rate taper).



the department for Enterprise

Your suggestion that the off-the-job training element for Whitehall schemes might be organised centrally is interesting but departments whose schemes are now well advanced, including my own, are adopting the practice of using outside providers. This gives a saving in manpower and also benefits from economies of scale.

When we have experiences of our first groups of trainees my officials will be pleased to discuss with yours whether there is any scope for DTI to act as a Managing Agent for an FCO scheme. I look forward to hearing from you if you would like to pursue this.

I am sending copies of this letter to the Prime Minister, other members of Cabinet, Richard Luce and to Sir Robin Butler.

pip

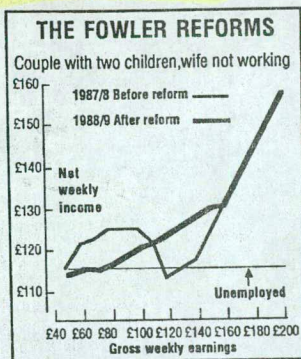
Poor critics miss point on end of poverty trap

"WHEN you are willing to cut marginal tax rates on the rich, why not do it for the poor and improve the poverty trap?" This was the cry from some critics after the Budget.

Yet the Fowler Social Security reforms, which do just that, have been attacked by much the same critics on the grounds that they create losers. Such loose consistency suggests confusion.

The basic point of the reforms is illustrated by the accompanying chart for a family man with two children and a wife at home. His net income is plotted against his gross earnings from work (and his unemployment benefits), before and after the latest reforms.

The 'before' line shows net income as it would now have been after the Budget and indexation only. The 'after' line shows the current situation.



Before Fowler, the net income line rose with in-work benefits and then fell as benefits were quite rapidly withdrawn with rising gross earnings. This was the poverty trap.

Furthermore, the net income line plunged close to or at some points even below the unemployment support level. This was the unemployment trap.

It took a long campaign and thousands of printed words to convince a bored Parliament, and politicians reluctant to venture into this taboo area, that these were serious problems, responsible for unemployment and a dependent under-class of both unemployed and dead-end low-paid workers. One of the first to understand this system's abominable workings was the Conservative MP, Ralph Howell, with his 1981 pamphlet 'Why Work? A radical solution'.

I was fortunately able to do some work around that time

ECONOMIC VIEW

By Patrick Minford

which found a strong link between benefits and wages and so to unemployment in the UK and some other countries.

The details have been inevitably queried by rival econometricians but few now doubt that there is a strong link between the benefit system and unemployment in this country, and indeed in many other European countries.

The work goes on piling up, including much out of the centre-left LSE Centre for Labour Economics run by Professor Richard Layard.

In 1984, Mrs Thatcher, always the cautious politician, was finally persuaded to set up the enquiries into the system under Mr Fowler. They bore fruit in the law passed in 1986, which in turn has been implemented this month.

Why do I bore you with a little intellectual and political history? First, because—for all the furore—this has been debated widely for four years and ratified by Parliament for two. They who will the end must will the means.

Second, because some hostile media and other critics have suggested that the reforms were inspired by American sociologists close to President Reagan, such as Charles Murray.

This is nonsense. Murray's work, 'Losing ground,' is persuasive and fascinating but it is on US black dependency, it was not published until 1985, it was not econometrically-based and it draws no parallels with the United Kingdom; lessons for us there are, but they were too late for these particular reforms, except on the fringes.

The chart shows that Fowler achieved a dramatic improvement for family men with children, both in the poverty and the unemployment traps. Yet he did so while keeping intact essentially the same safety net levels of support previously in existence.

A moment's contemplation of the chart reveals that there must be losers if the two traps are to be improved. The progression from the minimum level can only

be smoothed to improve incentives if those just above the bottom get smaller benefits.

Had the government maintained their benefits and increased benefits higher up to give a better progression, the chart shows that benefits would be paid much higher up the earnings scale, bringing millions more into the higher marginal tax brackets of benefit withdrawal.

Besides, the extra benefit cost would require a substantial rise in the standard rate of tax, reducing incentives for still more millions of ordinary taxpayers.

A similar logic applies to many other criticisms of the reforms.

Take the Social Fund. In some areas, its use was particularly widespread, intensifying the traps, a major threat to the new system's careful improvements. Discretionary loans prevent this while still providing the intended help for lumpy purchases.

The pensions limit is needed to prevent people artificially reducing their occupational pension in favour of other savings in order to obtain Income Support and housing benefit in old age.

It is the existence of income support at all for pensioners that is the disincentive to save. But, as long as we have it and meanstest it, there has to be a savings as well as an income limit; theoretically, it should be set low at a 'working balance' level, for, before they build up their other assets, people are expected to save for their pension.

Other detailed changes have thrown up genuine and quite unintended anomalies, almost always involving handicapped or ill people. Obviously, means will have to be found to remedy these, perhaps by social service direct provision or an independent set of handicap allowances.

There was one major *faux pas* in presentation. To present the changes without allowing for indexation (the source of the misleading '88 p.c. not-losers' claim) was to allow Mr Cook an easy goal. Otherwise, John Moore and Nicholas Scott have made all the right points; their problem was that many in their audience either could not or did not want to understand their main message about poverty and unemployment.

Patrick Minford is professor of applied economics at Liverpool University

Ch
Good stuff, in case you missed it.
AA
1/2nd.
1/2nd.

6/7.

UNCLASSIFIED

FROM: C E I JONES, EOG1

DATE: 29 April 1988

1. MR BUTLER *OK 3/K*
2. PAYMASTER GENERAL
3. CHIEF SECRETARY

cc Chancellor
 Sir Peter Middleton
 Mr Anson
 Mr Phillips
 Mr Monck
 Mr Burgner
 Mrs Case
 Mr Luce
 Mr Turnbull
 Mr C C Allan
 Mr Burr
 Mr McIntyre
 Mr MacAuslan

WORK EXPERIENCE FOR PUPILS UNDER 16 IN THE CIVIL SERVICE

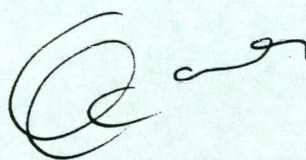
The letter from the Secretary of State for Education and Science of 26 April encourages departments to make available work experience placements for fifth-year school pupils. Whilst it is recognised that there might be some areas of work inappropriate for such schemes (and some parts of the Treasury might fall into this category), generally a yearly target of placements equivalent to 2% of departmental complement is sought, with an expectation that each placement will last for about two weeks.

2. As the letter indicates, this matter has already been aired amongst Establishment Officers and we have been anticipating the Secretary of State's letter. The scheme has obvious value on general economic grounds, but there are also advantages for recruitment potential and as a training discipline for existing staff. We are thus already in discussion with Divisions to identify possible placement areas.

3. To meet the general target we will need to offer about 65 placements each year (ie in the Treasury proper; other departments in the Chancellor's group will be dealing with their own plans individually). We hope that where work areas are suitable for placements they will be able in most cases to take

two pupils each year. This will cut down the administrative overhead of running such a scheme, which should not be underestimated. We are thus looking to find about 30 slots and will do our best to reach this figure if we can.

4. The Secretary of State refers to the problems of liability, safety etc. We await his department's further advice on these aspects. But assuming that any such difficulties can be overcome we do hope to be able to offer work experience placements to a level as near to the 2% target as practicality allows. A draft reply is attached.

A handwritten signature in black ink, consisting of a large, stylized 'C' followed by a series of loops and a final flourish.

C E I JONES

DRAFT LETTER TO SECRETARY OF STATE FOR EDUCATION AND SCIENCE

WORK EXPERIENCE FOR PUPILS UNDER 16 IN THE CIVIL SERVICE

Your letter to Richard Luce of 26 April sought the support of colleagues for an expansion in the availability of work experience placements in the Civil Service. I am keen for the Treasury to play its part in this worthwhile scheme.

2. We have already started work in examining possibilities, following the Establishment Officers' discussions. You rightly point up the fact that some parts of some departments will not be appropriate for such a scheme and we may find that to be the case for some of our own work. But I hope to no great extent and that we will be able to get reasonably near to the 2% target. We look forward to the promised advice on practical points.

4. I am copying this letter to members of the Cabinet and other Ministers in charge of departments and to Sir Robin Butler.



CHIEF SECRETARY

REC. 21 APR 1988

Mr C.D. Bytler

PMG

Ex Sir Peter Middleton

Mr Hanson Mr H. Phillips

Mr Marsh Mr Burgess

Mrs Care Mr Luce

Mr Turnbull Mr C Allan

Mr Burr Mr McIntyre Mr MacArthur

PS/112 PS/CTE

26 April 1988

Mr C.E. Jones
Any reply
Shia note
Ueas you
are responding
for Tony
- not
sub dept.

ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

The Rt Hon Richard Luce MP
Minister of State
Privy Council Office
Whitehall
LONDON SW1A 2AT

The Treasury Valuer
The Treasury Solicitor
The Government Actuary
The Director - NILO
The Director - DVS
The Controller - HMSO

The Director-General - COI
The Deputy Minister of the Mint
The Chief Registrar - RFS

Richard Luce

WORK EXPERIENCE FOR PUPILS UNDER 16 IN THE CIVIL SERVICE

I am writing to you and colleagues to seek support for the extension of work experience for school pupils and similar placements in our Departments. The idea has been well ventilated with Establishment Officers and has their agreement. But support from the top is all important.

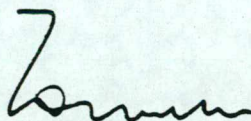
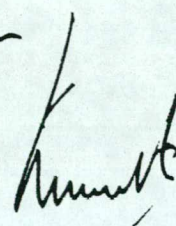
At the moment, about two-thirds of fifth year pupils - some 400,000 in all - benefit from placements with employers lasting on average about two weeks. The Government has a policy commitment to extending this benefit to all pupils before they leave school. This means that another 200,000 or so placements every year need to be found. Major employers in the private sector are already generously committed, as the current take-up figures show. If we are going to achieve our target, we shall need to look more to the public sector.

This is desirable in educational policy terms: we want to ensure that, across any one class, pupils get a good spread of experience of the challenges and obligations of working life. It is also, I believe, desirable in terms of the needs of the Civil Service. We need to widen our appeal as an employer - the more so with the demographic downturn we face in the next few years. We have a very positive contribution to make both in many inner city areas and in a number of rural localities where we are a major employer. Involvement in this sort of activity can, moreover, be very rewarding for established staff.

Departments may need help or advice on a number of practical points such as liability, confidentiality, safety and how to arrange placements. At the request of the Establishment Officers' meeting, my Department has now prepared with the help of other Departments guidance on these and similar points. It will be ready for issue next month. One point worth emphasising is that work experience normally lasts for only a couple of weeks for each group of pupils and though it takes some staff time to make a success of it, it ought not to detract from the much deeper and continuing commitment to YTS. Work experience also has the support in principle of the Trade Unions and I am grateful to your officials for clearing that with the CCSU on certain conditions which are reasonable and are covered by the guidance. It is worth recording that the TUC's recent letter to David Young about work experience for school pupils made a special plea for a public sector commitment.

Against that background, I invite you and colleagues to give a lead from the top in your own Departments. I would like to suggest a yearly target equivalent to about 2% of the workforce in each Department, but I recognise that some parts of some Departments are not appropriate places for school pupils and something less there will have to be offered. Nevertheless, targeting a specific number from the top would be the best way of securing a worthy Civil Service contribution to this development.

I am copying this letter to members of the Cabinet and other Ministers in charge of departments and to Sir Robin Butler.



FROM: S P JUDGE
DATE: 4 May 1988

ppp

MR C E I JONES

cc APS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Sir Peter Middleton
Mr C D Butler
Mr Luce
Mr C C Allan
Mr Burr
Mr McIntyre
Mr MacAuslan

WORK EXPERIENCE FOR PUPILS UNDER 16 IN THE CIVIL SERVICE

The Paymaster General has seen your submission of 29 April.

2. He thinks it would be better for a consolidated reply to be sent, covering all the Chancellor's departments.

3. I am happy to co-ordinate this, and have therefore sent the attached minute to the other departments that report to the Chancellor.

S P JUDGE
Private Secretary



FROM: S P JUDGE
DATE: 4 May 1988

PS/INLAND REVENUE
PS/CUSTOMS & EXCISE
MR DOLE - HMSO
MR JOHNSTON - GAD
MR GARRETT - RM
MR TAYLOR - COI
MR PATTERSON - DNS
MR LADD - NILO
MR BRIDGEMAN - RFS
MR SIMPSON - CISCO
MR ANDREWS - PGO

WORK EXPERIENCE FOR PUPILS UNDER 16 IN THE CIVIL SERVICE

I hope that you all have copies of the Secretary of State for Education and Science's letter of 26 April to Mr Luce.

2. I have volunteered to co-ordinate a consolidated reply on behalf of all the Chancellor's departments. I would therefore be grateful for a short note, setting out:

- your Department's general attitudes to this initiative;
- whether you can finance any activity within existing resources; and
- some indication of future action, and whether you expect to achieve the 2 per cent target.

3. To avoid this dragging on too much, I would be grateful if you could let me have your replies by Wednesday, 25 May. Please ask if you need more time.

S P JUDGE
Private Secretary

MANAGEMENT - IN CONFIDENCE

FROM THE MINISTER OF STATE



SCOTTISH OFFICE

WHITEHALL, LONDON SW1A 2AU

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

CH/EXCHEQUER	
REC.	04 MAY 1988
ACTION	CST
COPIES TO	

[Handwritten signature]
4/5

4 May 1988

Dear Norman,

YTS IN THE CIVIL SERVICE

Thank you for the letter of 8 March which you and Richard Luce sent to Malcolm Rifkind about the wider introduction of YTS in the Civil Service.

The Scottish Office already operates an 18 place YT Scheme for industrial staff and was accorded the status of full Approved Training Organisation by MSC last October. However my Department has been examining ways of widening the scheme to include a further 20 places for training in clerical workskills and informal discussions have been held with the local area office of MSC and with the Trade Unions.

Preliminary indications from MSC suggest that demand and supply for clerical training places in the Edinburgh area is about evenly matched at present but there is of course further scope for schemes where the trainees have employee status.

The need to contain running costs is well appreciated in the Scottish Office and it is doubtful therefore whether we will be able to move in the direction of "employee" status schemes - desirable as this would be to MSC. In any event permanent positions could be offered only to those trainees who had acquired the minimum qualifications required by the Scottish Office for entry to AA and AO grades.

My officials have had an exploratory discussion with the trade unions who in general maintain that they are not opposed in principle but wish to apply conditions as regards pay and guarantees of continued employment at the end of the training which suggest that in fact they are opposed. The CPSA however have indicated their total opposition and have said that they will take industrial action to try to prevent the extension of our existing scheme. In addition there is an active Edinburgh group of the Youth Trade Union Rights Campaign who have already staged demonstrations in Edinburgh against YTS. Despite this we are proceeding as quickly as resources enable us to do. There is still some work to be done before we can submit our detailed proposal for approval to the MSC Area Manpower Board but our aim remains to extend the scheme by a further 20 places in time to attract summer school leavers.

I am copying this letter to the Prime Minister, other members of the Cabinet, Richard Luce and to Sir Robin Butler.

Yours sincerely,

Ian

IAN LANG

PMG-5 MAY 1988 7



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

CHIEF SECRETARY	
REC.	- 5 MAY 1988
	PMG

The Rt Hon Kenneth Baker MP
Secretary of State for Education
and Science
Elizabeth House
York Road
LONDON
SE1 7PH

5th May 1988

Dear Kenneth,

WORK EXPERIENCE FOR PUPILS UNDER SIXTEEN IN THE CIVIL SERVICE

Thank you for sending me a copy of your letter of 26 April to Richard Luce about extending work experience for school pupils to the Civil Service.

I agree wholeheartedly with the aim of this scheme. Provided the detailed guidance deals appropriately with pupils having access to confidential papers (there is virtually no area of my Department's work where access to classified material is not an integral part of duties), my Department will be ready to play a positive part. At this stage, I cannot commit us to a particular number of placements, but I hope that we can approach your optimum target.

I am sending a copy of this letter to members of the Cabinet and other Ministers in charge of Departments, as well as to Sir Robin Butler.

Yours Ed,
Cecil

CECIL PARKINSON

PAYMASTER GENERAL	
REC.	5 MAY 1988
ACTION	Mr C D Butler
	Cx Sir P Middleton
	Mr Anson
	Mr Phillips
	Mr Monck
	Mr Burgner
	Mrs Case
	Mr Luce

- Mr Turnbull
- Mr C Allan
- Mr Butt
- Mr McIntyre
- Mr MacAvulan
- PS/FR
- PS/CE
- The Govt Actuary
- The Director - NILO
- The Director - DNS
- The Controller - HMSO
- Mr Simpson - CISCO
- Director General - COI
- Deputy Master - MINT
- Chief Registrar - R.F.S.
- Mr Andrews - P.G.O.

pp

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

MANAGEMENT IN CONFIDENCE

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

CH/EXCHEQUER	
REC.	06 MAY 1988
ACTION	C&T
COPIES TO	

6th May 1988

Dear Norman,

YTS IN THE CIVIL SERVICE

Thank you for the letter of 8 March which you sent me jointly with Richard Luce about progress with YTS.

I share the commitment to YTS and I have gone very fully into what is involved in developing schemes in this Ministry. I have to say that the conditions which the MSC insist upon do not make this easy. I understand that they would, for example, expect us to appoint a full time HEO in each location to manage the programme. This level of administrative overheads is very onerous and we do, of course, have to find these out of our running costs provision. Moreover, it seems unlikely that many such trainees - even if they last the course - will become suitable recruits.

I have no doubt that it would help Departments if the MSC rules could be made more flexible and less burdensome so that the administrative overheads were less off-putting. But I accept that we must try to help. I have therefore, set in hand a feasibility study. My officials will certainly wish to take advantage of the advice you kindly offer.

I am copying this letter to the Prime Minister, other members of the Cabinet, Richard Luce and Sir Robin Butler.

I do feel strongly about the HEO requirement. It will inhibit us. Can it be eased?

Yes, yes,

JH

JOHN MacGREGOR

dti

the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon Kenneth Baker MP
Secretary of State for Education
and Science
Department of Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

Department of
Trade and Industry

1-19 Victoria Street
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01-215 7877

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Direct line 215 5422
Our ref DC4AMW
Your ref
Date 6 May 1988

CH/EXCHEQUER	
REC.	06 MAY 1988 <i>CS</i>
ACTION	<i>CS</i>
COPIES TO	

WORK EXPERIENCE IN THE CIVIL SERVICE

In your letter of 26 April to Richard Luce and colleagues you sought support for the extension of work experience for school pupils in government departments. I am writing to extend my strong support for this exercise and to let you know that my own Department, which already has experience of taking on school pupils, intends to work towards the target suggested in your letter.

At a time when departments, and in particular their personnel divisions, are facing the challenge of a number of new practices and methods of operation, from flexible pay to the setting up of executive agencies, and when problems of recruiting and retaining young people are demanding more and more attention, it may be tempting to plead resource constraints and put proposals such as yours to one side for the time being. And yet it is precisely at this time, when demographic changes threaten to strike severe blows at our ability to recruit young people in a few years' time, that it is vital to start finding new ways of investing in our children and young people.

the
Enterprise
Initiative



the department for Enterprise

My own Department will be attaching top priority in the coming months establishing a vigorous Youth Training Scheme, but we shall also then be seeking to extend our existing work experience schemes for schoolchildren, with the aim of devoting particular attention to schools in inner city areas close to our offices. I hope that other departments will also see the long-term benefits to them, as well as to the schoolchildren, of operating this scheme, even if it may not be feasible to reach the 2% target straight away.

I am copying this letter to recipients of yours.

Yours,
David

