

PREM 19/837

● PART 6 ends:-

1663 to PM Qn 05875 of 30/3/82

PART 7 begins:-

ch of Ex to PM of 30/4/82.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(81) 31st Meeting, Minutes 3 & 4	2.11.81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed *Wayland*

Date 18 October 2012

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. House of Commons Hansard, 15 December 1981,
columns 153 - 165

"Employment and Training"

2. House of Commons Hansard, 27 January 1982,
columns 902 - 980

"Employment Situation"

Signed Wayland Date 18 October 2012

PREM Records Team

Prime Minister

(1)

cc/50

As you requested, I
have arranged for you to
have a talk* with



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*next Tuesday
den

Qa 05875

Alan Walters

Would it not be a
good idea for John Sparrow
also to be present?

Yes
mt

To: PRIME MINISTER

30 March 1982

From: J R IBBS

MCS 30/3

CPRS Interim Report on Unemployment

1. I have seen Alan Walters' minute to you of 26 March.
2. There seems to have been a misunderstanding. Like Alan Walters, we think that it is the marginal situation facing an unemployed person on return to work that matters. To get a balanced picture, we have to look at a representative sample of unemployed with different family circumstances. We know already that for a minority (particularly some family men with children) the effective marginal 'tax' rate is 100 per cent or more and this is included in our Interim Report. The heart of the problem lies in estimating the numbers who are in this kind of situation, not in the concept.
3. Because of the importance we attach to establishing the numerical relationship between unemployment and wage rates and benefit levels, and the need to throw light on special circumstances in this country which exacerbate the unemployment problem (including unionisation), we wanted to commission further work on international comparisons. We welcomed Alan Walters' offer to supervise this work, particularly in view of his familiarity with Professor Minford's methodology. This arrangement, which we have always regarded as one of amicable co-operation, frees resources within the CPRS to concentrate on the practical policy implications, which is the essential role of the CPRS.
4. The aim of the Interim Report is to encourage comments so that the study does not go off-course. The drawing together of some soundly based lines of practical strategy remains our final objective. I hope that Alan Walters' minute does not mean that the study is about to fragment into two separate exercises. If I were remaining at the



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CPRS I would want to ensure that we stayed in very close touch with the work Alan Walters is supervising, as it develops. But obviously this is something you will wish to discuss with John Sparrow.

5. I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Employment, Alan Walters, and Sir Robert Armstrong.

SRJ

CONQUEROR

29 March 1982

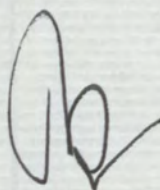
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MR WHITMORE ✓

cc Alan Walters

JOHN VEREKER'S NOTE ON CPRS/No.10 ARGUMENT ON THE
UNEMPLOYMENT STUDY

Just a quick note to say that I do not agree with John Vereker's proposed approach. If there is disagreement, we should get it out in the open and not seek an artificial consensus. I am talking with Alan about this. We cannot afford to fudge the report on such an important issue.



JOHN HOSKYNS

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Prime Minister

MR. WHITMORE

My preference is to let this work rest until John Sparrow arrives (next week) and can get to grips with it. I would hope that he and Alan Walters, working together, would be able

cc Mr. Walters
Mr. Hoskyns

CPRS Unemployment Study

to reconcile the two different conceptual approaches and agree on the way forward. 26.iii.82.

I will see Alan first
not.

We spoke about the handling of the CPRS interim report on unemployment, submitted under cover of Robin Ibbs' note today. Alan Walters in his own note makes clear his disagreement with the CPRS basic approach. As you know, I have to some extent been holding the ring between the opposing factions, and I have observed that there is a substantial amount of fundamental mutual disagreement. I think we must pause to consider the handling of further work.

The main issue seems to me to be whether it is sensible to proceed with, in effect, two teams working from totally different conceptual foundations: on the one hand the CPRS team, whose approach is demand-based, although they are prepared to make a nod or two in Patrick Minford's direction; and on the other hand the Alan Walters/Adrian Smith/Patrick Minford team whose approach is based on the marginal analysis of the labour market. I am convinced that if further work continues on this basis, it will lead to disagreement about the eventual report, with a high probability of Alan Walters dissenting from the recommendations; and I fear that such disagreement on this politically charged subject might find its way into the Press.

At this stage the disagreement is about economic principles, not policies. The Prime Minister may feel that it would be right for her to instruct that economists get together to agree a conceptual framework on which further work on policies will be based, before such further work is authorised. That might best be done by the introduction of a hitherto neutral party, such as Terry Burns: but I must make it clear that I have not had an opportunity this evening to discuss that suggestion with Alan. I think also, as I have said before, that we may need to look again at the desirability of allowing the eventual further work to be done in two separate sub groups, and John Sparrow might be

/encouraged

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encouraged to consider whether Adrian Smith ought not to be physically integrated with the rest of the CPRS team. In short, I believe that these conflicts should be resolved at as early a stage, and at as low a level, as possible.

J.

26 March 1982

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26 March 1982

ALAN WALTERS

PRIME MINISTER

CPRS INTERIM REPORT ON UNEMPLOYMENT

1. The CPRS have consulted me frequently about their study. They have taken many of my points of criticism into account in the existing interim report, both as regards the content and the proposed work programme. However, CPRS do not believe they can take on board some of the central points of methodology and approach which I believe are essential.

2. One matter of crucial importance is that CPRS believes that, in the tax benefits wage nexus an analysis of the average ratios of benefits to net wages is adequate for discussing the effects of tax rates and benefits in generating unemployment. I believe this is quite wrong. In economics it is always the marginal rates that matter for incentives employment and unemployment. To illustrate this simple point: consider a tax system that takes 5% of income up to £3,000 then confiscates all income above £3,000 at 100% rate. The effective average tax rate in that system would be 5%, since no one would earn more than £3,000. But the 100% rate at £3,000, although no income would be earned there nor would tax be collected, would have an enormous effect on incentives. It is the marginal rates and only the marginal rates that matter. Similarly, with all benefits and wages, we should analyse them in terms only of the marginal rates. The averages are irrelevant.

3. An analysis of these marginal rates will give us the basic material on which we can proceed to discuss those methods of reforming the tax structure and benefit systems which are most cost-effective and which give us the biggest incentive effect. Since I believe this is absolutely central to our policies and since the CPRS do not seem to be so persuaded, I have undertaken to supervise some additional work. This will be done mainly by Patrick Minford on the Liverpool computer, assisted by an economist who I have borrowed from the FCO, Adrian Smith. We will also at the same time compare the marginal rates in different European countries. And of central importance, a point again that I believe CPRS has missed because of its devotion to average rather than marginal relationships, we shall examine the important effects created by unions, and in particular the fact that the choice for an unemployed man is likely to be a non-unionised wage. The division between the unionised and the non-unionised sector for marginal analysis seems to me quite crucial.

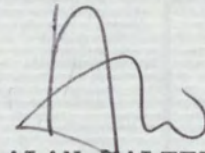
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4. Much of the rest of the report provides useful information and provokes thought. As an interim report, however, it lacks incisiveness. It requires a great deal more critical reflection.
5. I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Employment and Robin Ibbs.

26 March 1982


ALAN WALTERS

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copy of this minute is
in the attached wallet.

Qa 05874

26 March 1982

To: PRIME MINISTER

From: J R IBBS

CPRS Unemployment Study

1. You asked us to undertake a study into the causes of unemployment, obstacles to the creation of jobs and possible remedies.
2. It is now two months since we began and I attach an interim report which embodies the first stage of our work so that you can see before I leave how the study is developing. The report and annexes are mainly concerned with diagnosis, but sections 7 and 8 list possible remedies on which we propose to do further work. Annex A reports progress on the particular question we were asked on the measurement of unemployment, and again suggests some areas (paragraph 9) which could be explored more fully in the final report.
3. Our first purpose in submitting this report is to set out the broad analysis of the causes and to indicate the further work we propose. The subject offers a wide range of ramifications that could be explored and we have to be selective. It would be helpful to know at this stage whether Ministers accept our initial assessment of the causes and whether they are content with the proposal for further work in this area.
4. After describing in Section 4 the reasons for the rise in unemployment over the last fifteen years, we list in Section 5 the main causes as we see them:
 - (a) low world growth;
 - (b) poor UK economic performance;
 - (c) previous policies which have contributed to poor performance (accommodating supply-side weaknesses, adding to labour costs);
 - (d) structural shifts (from manufacturing into services);
 - (e) lack of real wage flexibility (influenced by a number of factors, listed in paragraph 34, including trade union power

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CPRS UNEMPLOYMENT STUDY

INTERIM REPORT

March 1982

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CPRS UNEMPLOYMENT STUDY: INTERIM REPORT

SECTION 1 - INTRODUCTION

1. Our remit is to examine the causes of unemployment, the obstacles to the creation of jobs, and possible remedies. This interim report sets out our main findings on causes, indicates the further work we plan on this aspect, and makes proposals for work on remedies.
2. The remit also includes examination of whether the unemployment register totals are the best measure of unemployment. Our tentative conclusions on this question are set out in Annex A.
3. In producing this interim report, we have studied the literature, held discussions with some academic economists (including Professor Patrick Minford), and obtained views from the CBI and one or two large employers. We have also had assistance from the Government Departments concerned, but have not sought an agreed view.
4. We invite Ministers to consider whether they agree with our analysis, and are content that we should carry out further work on the lines proposed, in particular some aspects of causes (Section 5) and remedies (Sections 7 and 8).

SECTION 2 - THE CPRS APPROACH

5. People are unemployed because the supply of labour (those wanting work) exceeds the demand for labour (jobs offered by employers). The supply of labour is mainly determined by demographic and social trends, and is affected by willingness to work at given wage levels. The demand for labour depends on a variety of factors - wages and other costs of employing labour, shifts in productivity, success of companies in meeting the requirements of the market, and the overall performance and growth-rate of the economy.

6. Unemployment can be seen as fundamentally a problem of labour market rigidities. It has been put to us strongly that, if wages could be brought down enough (in real terms), employers could afford to take on more people and there would be jobs available for all those willing to work at these lower rates.

7. The reasons for "real wage stickiness" have been much discussed, and we have looked in particular at the work of Professor Minford on trade union power and the effect of social security benefits. He has examined the numerical relationship between unemployment and these factors. We believe that an understanding of these relationships is valuable and we propose with his help that further work should be done on them by making some international comparisons of the apparent effects of these factors. However, in our view the behaviour of employers also contributes to real wage rigidity.

8. We consider that the role of the CPRS must be to work towards realistic remedies for Ministers to consider. It is worth trying to establish the probable numerical relationship between levels of real wages and unemployment for the range of wage reductions that might be politically feasible. But in practice there are constraints on the speed and extent to which real wages and social security benefits can be brought down. It is our belief that the reduction in unemployment that could in practice be achieved reasonably soon by this route will be insufficient. Hence we have not confined our attention to real wage reductions. We are convinced that in practice it will also be important to find ways of improving the performance of the economy, and in particular the productivity and competitiveness of the trading sector, both manufacturing and services.

9. Unless world growth recovers, the need for continued improvements in efficiency is likely to mean little or no net increase in employment in the trading sector - indeed, there may be some further reduction. But this is not a reason to prop up uncompetitive enterprises indefinitely - on the contrary, Government action needs to be directed towards encouraging entrepreneurial skills and innovation that will lead to new sources of employment.

10. In the long term, competitive success in the trading sector could generate enough wealth to allow the non-trading service sector within the United Kingdom to expand and provide jobs for most of those now seeking work. Obviously the lower real wages fall the easier this will be. However, because of the inevitable delay in the improvement of the trading sector, part of the immediate adjustment needs to be through shorter hours and more work-sharing if this can be achieved without raising unit costs. But at best there will still be problems of mismatch in the medium term between the demands for labour and the skills and expectations of the work force. Therefore, substantial unemployment is likely to continue as these structural adjustments work through. We propose to extend our examination of remedies to include the scope for shorter-term measures to ease this, eg on the lines of the community work scheme announced in the Budget.

KEY FACTS ABOUT UNEMPLOYMENT

SECTION 3

11. Data are provided in figures 1-7 which can be found at the end of the report. They suggest three basic phenomena to be explained -

a. the rising trend in United Kingdom unemployment from around 350,000 (1.5 per cent of employees) in the mid 1960s to 1.3m (5.6 per cent of employees) in the late 1970s (see figure 1);

b. the steep rise since 1979 to the level of 2.8m in February 1982 (seasonally adjusted, excluding school leavers);

c. in part the increase has been an international phenomenon (figure 2). Thus the secular rise to 1979 occurred in other European countries though Britain's relative position deteriorated from about the middle of the pack in the early 1960s to near the top of the unemployment table by 1981.

12. Associated with the rise in unemployment were certain key developments in labour supply and employment patterns -

- the most significant loss of jobs has been in manufacturing (figure 4). This is associated with the fall in male employment since 1966 (figure 5) and with the rise in total unemployment (figure 6);

- but total employment declined only slightly between 1966 and 1979 (figure 3) as a result of growth in non-manufacturing jobs;

- the growth in non-manufacturing jobs was concentrated in the public sector and largely benefited part-time female workers (figure 5);

- this growth in female employment drew on the very long term tendency for an increasing rate of participation of married women in the workforce particularly in the early 1970s. Since 1974, however, female unemployment rates have been rising (though partly as a result of an increased propensity to register) (figure 1);
- there was a surge of young people coming onto the labour force after 1974 (the consequence of the 1960s baby boom); and a sharp rise in youth unemployment;
- despite these changes in participation and composition of the workforce, the average annual increase in the labour supply between 1974 and 1979 was similar to that experienced in the full employment years in the first half of the 1970s (figure 3).
- employment in full time jobs has been falling since the early 1960s: in 1978 there were 1.7 million fewer full time jobs than in 1961. For the last fifteen years part time employment has been the only type of employment to grow. Self employment has been static;
- labour mobility also appears to have declined. There has been a downward trend in labour turnover rates in manufacturing industry for the last fifteen years.

SECTION 4 - HISTORICAL BACKGROUND TO THE GROWTH OF UNEMPLOYMENT

13. Unemployment has traditionally been classified under the following headings. There will always be some frictional unemployment however many jobs are available, since some people take time to find a new job. Structural unemployment comes when the productive resources available do not match the requirements of the market (eg a mismatch of skills to jobs and also insufficient adaption by both employers and potential employees). Cyclical unemployment arises from a deficiency of demand. This division has to some extent broken down with the emergence of accelerating wage inflation at levels of unemployment significantly in excess of the apparent level of vacancies. (This has led to the concept of the "natural rate of unemployment" which is broadly understood to be that level at which inflation is stable.) Also trade unions and their advisers have encouraged a tendency for economic realities to be lost sight of so that people have in effect been quite ready to risk pricing themselves out of jobs. When unemployed some have not sought work that is available, or have held out for higher wages or better jobs than are currently offered: such unemployment is voluntary.

14. We use these categories in looking at the period since 1966 in 3 phases; 1966-74, 1974-79 and 1979-81.

1966-1974

15. Up to 1966 there had been no significant trend increase in unemployment. High GDP growth, associated with strong investment and export demand, assured growing employment accompanied by expanding labour supply. From 1966-74 GDP growth on average remained at previous levels and, as can be seen in table 4.1, and figure 6, the demand for labour remained high as measured by notified vacancies and by the percentage of firms reporting skilled labour shortages to the CBI. Despite these factors, the unemployment rate began to rise during the period. Of several possible explanations, two are the most plausible.

Table 4.1

UNITED KINGDOM DEMAND FOR LABOUR

Peak to Peak Averages	Unemployment GB (excluding school leavers) (000)	Vacancies (000)	CBI Capacity (% of firms working below capacity)	CBI skilled labour (% of firms reporting shortages of skilled labour)
1960-1964	388	194	53	22
1964-1969	426	220	52	30
1969-1973	668	174	55	21
1973-1979	1020	209	63	24

Source: Department of Employment and CBI

16. The first explanation is that the economy was experiencing the beginnings of structural changes, a phenomenon common to other industrialised countries. The impact of these on unemployment was exacerbated by the underlying weaknesses of the United Kingdom manufacturing sector, which had persisted at least a century and had been largely concealed in the early post-war period by favourable world conditions and accommodating fiscal and exchange rate policies. But by the middle of the period the weaknesses - in terms of lack of motivation and entrepreneurship, weak management and poor industrial relations, resistance to change and the effect of restrictive labour practices - were making it increasingly difficult to match foreign competition. Moreover wage demands were increasing because monopoly trade unions could exercise greater power in the relatively tight labour markets, and the fact that inflation eroded the value of nominal wage increases was becoming more clearly recognised. These wage demands made it harder for government policies both to contain inflation and to maintain employment.

17. During this period there was a fall in employment in manufacturing, mining and construction of 1.3 million. Though the fall in industrial jobs was matched in terms of numbers by a substantial rise in service employment (mainly part-time), it called for a different quality of labour (in particular high female employment in the service sectors) from that released from declining industries. The mismatch of people to jobs was especially marked in the regions formerly dependent on the old basic industries: the new manufacturing jobs have arisen mainly in other regions, in part to avoid reputed bad labour relations. Figure 6 shows a close relationship between the loss of manufacturing jobs and the increase in unemployment over this period.

18. The second explanation is that increased unemployment benefits, primarily affecting male workers, had made unemployment financially less of a hardship. Important legislative initiatives occurred in 1965 and 1966 with the introduction of the Redundancy Payment Act and the Earnings Related Supplement (ERS). Unemployment and other benefits subsequently rose sharply, both in real terms and in relation to workers' take-home pay (see figure 7). Whilst the great majority of people were still significantly worse off when unemployed, the incentive to work declined. Various

econometric studies have shown that there is a relationship between the "replacement ratio" (the ratio of net income out of work to net income in work) and unemployment. The higher the ratio, the more people may be willing to become unemployed or, more importantly, the longer they are prepared to stay unemployed while looking for other work. (These issues are discussed further in Section 5 and Annex C.)

1974-1979

19. The difficulties leading to a secular rise in frictional and structural unemployment in the previous period were further aggravated between 1974 and 1979 by -

- a. a world-wide fall in economic growth (partly associated with the slow-down in the pace of technological change);
- b. world inflation (which had begun to emerge in the late 1960s);
- c. shifts in relative prices - in particular of oil and energy - which in the short run added to inflation, depressed profits in the industrial world, and on balance reduced world demand.

20. These developments (particularly the much higher energy costs) required rapid adjustment of relative prices, and of wages in particular. A combination of overseas borrowing and a willingness to allow the external value of the pound to fall delayed the immediate need to adjust internally. But this was at the price of -

- a. the postponement of some necessary structural changes both within industries (eg in the steel industry), and in the development of new ones;
- b. the failure to adjust long-term wage aspirations to the reduced growth prospects: hence a build-up of inflationary pressures.

21. The effect on unemployment was a significant increase of some 700,000, though the fall in productivity growth indicates that the necessary degree of labour-shedding was being avoided. The loss of manufacturing employment was also offset to some extent by the continued growth of employment in the service sector, especially in public services such as education and health.

1979-1981

22. After 1979 the task of achieving the necessary adjustments was tackled through a policy of fiscal and monetary stringency. Unfortunately the problems of adjustment were exacerbated by the coincidence of severe domestic and international events, notably -

- a. high inflation of 1979 and 1980, partly the overhang of previous incomes policies;
- b. the oil price rise of 1979
- c. the sterling appreciation of 1979-1980.

23. The combination of these shocks meant that, by 1980, many companies were finding their financial position worse than expected. Lower profits from domestic and overseas sales left little internally-generated cash to finance investment plans, maintain dividend levels and keep prudential levels of liquidity. Mindful of the liquidity crises which many companies had suffered under similar circumstances in 1974, they resorted to de-stocking on a large scale, lower investment and a shake-out of labour. The high exchange rate, in particular, rendered many low productivity activities unprofitable and, where productivity could not be increased substantially, many were closed entirely.

24. Business in the trading sector took a somewhat harder line on pay than public sector employers (with the exception of British Steel), and the EEF fought a long and expensive battle over the 39 hour week. In general it had been assumed that prices in the UK economy could not diverge for long from

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world prices, and therefore that, despite increases in the exchange rate, international pressures would bring it back towards a level reflecting the comparative level of costs between the UK economy and elsewhere. From autumn 1979 it became increasingly clear that this might not be so, and that the combination of petrocurrency pressures and higher interest rates could extend the period when the UK's unit costs were out of line with its competitors. This has led many companies to take a much more drastic view of the need for cost reduction (and in some cases to abandon businesses). The resulting substantial shake-out of labour represented a start in tackling many years of accumulated inefficiency.

25. The experience of this period illustrates the central importance of the inflation problem. Up to 1980 wages and prices continued to follow each other closely even when the underlying situation could be resolved only by a fall in real wages. This reflected the pushfulness of wage-bargainers seeking recompense for past price increases (and even additions to real incomes) and comparable gains to those made elsewhere. But also, despite the uncertainties described above, employers granted wage increases which were soon shown to be too high in relation to their deteriorating financial position. It was not until 1981 that real wages began to fall back. By this time unemployment had risen over 2½ million.

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SECTION 5 - CAUSES OF UNEMPLOYMENT

26. There are several problems of definition and analysis in offering firm conclusions on the causes of unemployment. More detailed work still needs to be done, especially drawing on international comparisons. In this interim report we offer the following tentative list of main causes, based on the discussion of historical trends in Section 4. As noted there, unemployment is inextricably bound up with the general problems of the economy. There is no single cause but a set of inter-related causes.

(a) Low World Growth

27. Rising unemployment is a world-wide phenomenon, and reflects the fall in the rate of growth of world output, which has halved since 1973. The two oil shocks have contributed to this, and there appears to have been a period of reduced technological change and hence fewer new employment opportunities.

(b) Poor United Kingdom Economic Performance

28. The poor relative performance of the United Kingdom economy has persisted for most of the last century. The relatively low trend rate of growth of productivity, and inadequate non-price competitiveness, have meant that the turn-down in world growth led to a more rapid decline in the United Kingdom manufacturing sector than in other industrialised countries. More recently the exchange rate rise reflecting the petro-currency status of sterling has aggravated this trend. The economy has not shown enough flexibility and determination in moving out of declining sectors into new products and processes designed to meet changing demands. Hence not enough viable jobs have been generated in the trading sector.

(c) Policies Contributing to Poor Performance

29. In Annex B we note that a major factor has been the past accommodation of supply side weaknesses by exchange rate, fiscal and monetary policies (plus ill-directed industrial subsidies and occasional incomes policies). This has underwritten the modes of behaviour which need to be changed to derive a high-wage high-productivity economy (especially the lack of management motivation to squeeze costs and go for higher value-added

products). Such accommodating policies could work only for a short time, and only then if the community at large were willing to accept the slow growth of real incomes which is the concomitant of low productivity growth. If there is no such willingness, lax monetary and exchange rate policies seeking to compensate for an indifferent industrial performance can only lead, and have only led, to inflation. Nevertheless balance is important in that an excessively high exchange rate for a prolonged period can do permanent damage to the industrial base and jobs.

(d) Structure

30. Some of the unemployment in the United Kingdom is structural - that is, labour released as a result of decline in some sectors has not matched the job opportunities arising in the expanding sectors in terms of skills, attitudes and location (or willingness to accept the pay rates offered). Hence the relatively low absorption of males into the service sector where employment is typically female and often part-time. The education and training system has not done enough to create and adapt skills to meet the needs of sectors where opportunities have been expanding, including the advanced technologies:

(e) Lack of Real Wage Flexibility

31. The economy could have adjusted to these factors (structural shifts, low world demand, lack of competitiveness and exchange rate fluctuations) with a lower level of unemployment, if real wages had been more flexible. Lower real wages would have made the manufacturing sector more competitive and reduced the loss of jobs.

32. The evidence suggests that wages in the United Kingdom are more rigid than in most developed economies, except those with a very high degree of wage indexation (eg Belgium, Italy). Various efforts have been made to quantify the impact of a fall in wages on the demand for labour, but the scale and timing of the effect are very uncertain. There is no doubt that a fall in real wages would increase employment and the key question is how such a reduction in real wages could be brought about.

33. We were asked to look particularly at the work of Professor Minford in this area. He identifies trade union power, the level of unemployment benefits, lack of mobility (especially because of housing policy) and high taxes as the key factors causing labour market rigidity and hence unemployment. We agree that these factors are central, although the quantification provided by his model is open to doubt. This is further discussed in Annex D. We propose as part of the second phase of our study to extend his work to some other countries so as to get a better appreciation of the impact of these factors. The important aspect at this stage is to consider what practical policy recommendations follow from the analysis.

34. The causes of real wage rigidity are complex (as discussed in Annex C) but trade unions and social security benefits have played a significant part. Trade union coverage has increased over the last twenty years both in absolute terms and relative to the position in most of our main competitors. This increased bargaining power could be expected to show itself in a widening of the union/non-union wage differential. The differential did indeed widen up to 1973, but since then it appears to have remained roughly constant. The current size of the differential is a matter of some debate. The most recent direct estimates suggest a figure of around 10 per cent for male manual workers in manufacturing industries, smaller than that implicit in Professor Minford's work. Nevertheless there is no doubt that many unions have exploited their growing monopoly power to oppose falls in real wages, or improvements in productivity, even though the result is higher unemployment either within the industry or (through higher prices and/or taxes) elsewhere in the economy.

35. Social security benefits are higher in relation to earnings than in the early 1960s (as illustrated in figure 7) and this has made unemployment less of a financial hardship. The level of benefits must set an ultimate floor to wages, below which people are unwilling to take jobs and employers do not offer jobs. Current evidence on the extent to which this occurs is not clear (see Annex C) and needs to be explored further. The most comprehensive survey in this area, the DHSS Cohort Study, found that among men entering unemployment in 1978 there was a small group - 7 per cent - whose

incomes out of work were higher than their incomes in their last employment. In addition a larger group - 12 per cent - experienced a drop in income of less than 20 per cent. These percentages include men in receipt of occupational pensions. Excluding this group suggests that around 15 per cent of those becoming unemployed had limited financial incentive to return to work. On the other hand, for nearly half the men entering unemployment loss of work is associated with a drop in income of at least 50 per cent, and for most of the men, who are without families, even the lowest wages on offer are a good deal higher than their benefits. The main effect of security benefits on wages is probably that employers are unwilling to offer wages below the level of the supplementary benefit payable to a family man with children - even though this level does not in fact apply to the majority seeking work.

36. While important these factors do not provide a complete explanation of wage rigidity. Downwards adjustment of real wages has been difficult to achieve in other times and in other places even in the absence of the present degree of union power and the present levels of benefits. Other important influences are -

- i. There has been a growth of "internal labour markets", where large employers in both private and public sectors offer "career jobs" sheltered from direct influence of competitive forces.
- ii. The monopoly position of some employers in both public and private sectors has protected their substantial labour force from immediate market pressures.
- iii. Social pressures, centred on notions of "fairness" and "the going rate", below which even employers outside the unionised sector are reluctant to offer jobs to full-time male employees. Adjustment is also delayed by the importance attached to "traditional" earnings differentials across industries and occupations.

(f) Wage Inflation

37. The United Kingdom appears to be particularly prone to wage inflation and the need to control this has prevented Governments from allowing output to expand. The causes are closely related to those listed above under "real wage rigidity" - just as the growth of nominal wages cannot quickly be adjusted downwards even in a recession, so nominal wages rise to take advantage of any expansion in demand. One view is that since the late 1960s there has been an "aspirations gap" - a desire for a growth in real living standards in excess of what the economy can deliver in the form of rising productivity. The slow-down in productivity growth in the early 1970s and the fall in real incomes caused by higher real oil prices may have contributed to such a gap. These developments have also affected other countries and could help to explain the world-wide increase in wage inflation. In the United Kingdom over-ambitious aspirations have been translated into particularly inflationary settlements because the strength of union bargaining power is not restrained by an understanding that profit levels need to be held up to maintain jobs. Weak resistance by nationalised industries and other employers enjoying protected markets has also played a part.

SECTION 6 - PROSPECTS

The Trading Sector

38. An improvement in the competitiveness of the United Kingdom trading sector is essential for securing further employment opportunities overall. However, in the short run, the continued pressure on profitability and the need for further improvements in working practices will mean that the expected recovery of output is likely to be associated with some continued shake-out of labour (though not on the scale of last year). This view is supported by statements of a number of leading businessmen that they expect not to increase the size of their work force to a significant extent. This underlines the importance of getting inflation under control so that the economy can move into sound, sustained growth which will inevitably bring new opportunities for jobs.

39. In the longer term, companies in manufacturing and internationally traded services will need to move "up market" into newer product ranges, embodying new technologies, which tap the fastest growing markets internationally. New products and processes are unlikely to be particularly labour intensive and therefore may not directly create many jobs. This is as true of services as it is of manufacturing: there are signs of increasing capitalisation within some internationally-competing service activities (eg financial services and shipping) stemming from the increased sophistication of technology. Moreover the mismatch between the skills required for the new sectors and those available from the shake-out in the declining sectors will contribute to a continuing unemployment problem for some time. The benefit to jobs will come through the general up-grading of performance in the United Kingdom, the improvement in living standards that this delivers and thus the higher level of activity which is sustainable without balance of payments and inflationary difficulties.

The Non-Trading Sector

40. The commercial success of the trading sector determines the sustainable long-term rate of expansion of the other areas of the economy which serve domestic needs. Taxable capacity and the need to limit public expenditure will continue to limit the growth of public services (a major source of employment growth in the early 1970s). On the other hand house-building, an important source of new employment in the 1930s, should show some expansion

if interest rates continue to fall. There may also be modest expansion in the services sector with the growth of small businesses. It is particularly in this sector that more jobs can be created if real wage flexibility can be increased.

Implications

41. It is very hard to forecast the longer-term trend in aggregate unemployment. Although demographic trends of labour supply are predictable, at least up to 16 years ahead, other factors which influence employment trends (eg activity rates, economic growth, and technological change) are uncertain. A number of studies have pointed to a pessimistic view of the prospects based on the belief that technological advances will eliminate many jobs. By contrast, there are some United States predictions which take a more optimistic view. We believe these differences should be explored and propose to do so in further work though the time-scale of this may extend beyond our next report. In particular we propose to test remedies (including labour market proposals) to assess their likely effect against these longer term projections.

42. But the immediate outlook remains difficult particularly in view of the unavoidable transitional problems of creating a more competitive trading base. The implications are particularly disturbing for:

- the long-term unemployed. In the course of 1982 the numbers continuously unemployed for over 1 year are expected to exceed 1 million, double the maximum experienced in the 1930s. By the beginning of 1983 over 400,000 will have been unemployed for over 2 years without a break. Post-war experience suggests that it is exceedingly difficult to re-absorb the long term unemployed into regular employment.

- the traditional industrial regions. Unemployment continues to be heavily concentrated in areas which seem the least likely to generate new high technology industries, and lack the income base on which to found continuing growth of private sector service employment.

- the growing labour force of young people in their teens and twenties. The access of the better qualified to worthwhile careers will continue to be restricted by low levels of recruitment to large organisations and the public sector. Many will have to settle for less good jobs, displacing the less well qualified into irregular employment and the least employable into long term unemployment. It is in this age group that the gap between aspirations and reality is likely to be greatest and to have the biggest social consequences.

43. It is against this background that we have started to examine a whole range of ways that could contribute to reducing unemployment and mitigating the consequences.

SECTION 7 - MEASURES TO REFORM THE LABOUR MARKET

44. For this Interim Report we have concentrated our initial thinking about cures on measures to reform the labour market, which is a central part of our remit. But we believe that a comprehensive strategy for tackling unemployment will need to contain other elements, including measures to speed up innovation, steps to develop new patterns of working time and measures to deal with the residual unemployment problem. These other elements are discussed in Section 8. The ideas and comments which feature here and in Section 8 are not our final views. Nor are they comprehensive. The aim is to enable Ministers to indicate any preliminary views about the areas which should receive priority in our further work.

45. It is important to distinguish between measures to reform the labour market which, however desirable, can only affect unemployment in the medium to long term and those which may offer more immediate benefits: ie within the course of this Parliament. We discuss long term measures in paragraphs 43-51 and shorter term measures in paragraphs 52-55.

Long Term Reforms

46. Almost everything in this section has already been considered by Ministers in MISC 14 and elsewhere. The problem has been that most radical reforms offer uncertain and relatively small benefits for employment in the short term, whereas they generally involve very immediate political difficulties. Nevertheless, in view of the serious prospects for unemployment, they deserve re-examination.

a. Further steps to reduce the power of organised labour

47. Ministers have decided that the present Employment Bill (subject to possible scope for amendment) is the limit of what can be achieved in the present Parliament. But thought needs to be given to further measures which might be taken in the next Parliament, eg a requirement for secret ballots before strike action. Other areas for consideration include ways of -

- inducing unions to broaden their bargaining aims to take a more balanced view of the trade off between wages and jobs (see also paragraph 57)
- trimming the monopoly power of public sector unions eg by breaking down monopolies in product and service markets
- removing constraints on the expansion of the non-union sector (see b-d below).
- repealing the Fair Wages Resolution.

b. Abolition of Wages Councils

48. Insofar as Wages Councils enshrine in statute the principle of the going rate and the associated idea of a family wage, they are a fundamental obstacle to the generation of new jobs. The strength of the case for abolishing councils in their present form has been recognised, but it is thought to be dependent on an international agreement which cannot be denounced before 1985. We see merit in the Government's -

- exploring the feasibility of narrowing the scope of Wages Councils, by reducing the number of trades covered or by keeping them simply as a safeguard against abuse of a labour monopsony
- initiating with European and OECD partners a debate on the need to reform labour market conventions which impede employment.

c. Repeal of employment protection legislation

49. In circumstances of deep recession and uncertainty like the present, this legislation operates against the interests of those already employed by discouraging employers from taking on more labour. Ministers have relaxed the obligations on small firms and some further modifications are being studied. So far Ministers have rejected ideas such as enabling recruits to opt for an "unprotected" employment contract, or exempting small firms from the state redundancy scheme. These ideas may bear re-examination. They probably would have little impact on the practices of firms which are unionised or operate company labour markets. But they could be important as part of a strategy for encouraging the non-union sector.

d. Reform of the benefits and tax system

50. The Government have acted to improve incentives by abolishing earnings - related supplement and by taxing unemployment benefits. It would be possible to go further eg by -

i. tying the minimum uprating of benefits to the lower of increases in prices or earnings

ii. imposing a simple benefit limit, eg a fixed percentage of average earnings (previous earnings as a basis for limiting benefit proved in practice to be excessively complex)

iii. reducing the independent entitlement to benefit of people who do not head families. (About 40 per cent of all benefit recipients are not householders.)

51. A more radical step would be to abolish unemployment insurance benefit. This could be seen as a logical development following the abolition of earnings related supplement and the growing dependence on supplementary benefits. It would also result in very substantial benefit and staff savings. However, it would have very little impact on high income replacement ratios, which are mainly determined by supplementary benefits, and hence on work incentives. But it might have some limited discouraging effect on the incentive of marginal groups, such as occupational pensioner and some married women, to register as unemployed.

52. A constraint on the introduction of the above measures especially at a time of mass unemployment is that they need to seem fair when set alongside the treatment of other groups such as the sick and elderly. The increasing pressure to put the benefits for long term unemployed on a par with other long term recipients of supplementary benefits is evidence of this.

53. Fundamental reforms not only of benefits but also the tax system may be necessary to deal adequately with the problem of work incentives while enabling society to provide a minimum standard of living both for the unemployed and those in low paid employment. In particular, child support

and the support of housing costs are both areas in which the low paid receive less support than the unemployed, thus worsening the incentives problem. Proposals for radical reform of tax and benefits have foundered in the past on the cost of making changes without large numbers of losers, and the administrative complexity. If Ministers were prepared to tolerate a large number of losers it would be worth re-examining the scope for moves in this direction. Alternatively, there are more modest steps that could be taken, building on existing schemes. If the tax and benefit systems can become more effective in compensating for the cost of dependents, there may be greater scope for employers to offer more jobs at low wages.

e. Reform of the housing market

54. Proposals for radical reform of the housing market (both public and private), including Professor Minford's suggestion of abolishing private rent controls, have foundered primarily on the lack of clear evidence about the gains which would accrue to the economy. In the case of private renting there has also been the prospect that the opposition would commit themselves to reintroduce controls, thereby discouraging landlords from taking advantage of their removal. Moreover there is a widespread feeling that, with high levels of unemployment everywhere, geographical mobility has become less important. However, if the restoration of fuller employment is to depend heavily on the creation of new service jobs in the non-trading sector it may be necessary to make it easier for more of the unemployed to live nearer to where the people with high incomes are mostly to be found ie in the South East. Also the high proportion of the young and single among the unemployed suggests in principle a higher latent level of mobility than is sometimes assumed. It may be worth re-examining the obstacles to mobility in this new context.

Gaining public acceptance of the need for radical change

55. If a programme of radical labour market reforms is to succeed in a democratic society, there has to be public acceptance of the need for radical change. There are a number of obstacles to this. At most levels of society many still believe that Governments can deliver both full employment and stable or rising living standards. There is insufficient understanding

that crude attempts to do this lead to continued economic decline. A fear of unemployment and understanding of its consequences are not widespread, since the experience of unemployment is confined to a much smaller segment of the population than in, say, the United States. Achieving acceptance of change will be partly a question of convincing people of the seriousness of the problems, and partly of allaying fears about the hardship or social dislocation which might result from the cures. The inclusion of some measures which alleviate the consequences of unemployment (discussed in Section 8) will be important in the latter context.

Shorter term measures

56. There are a number of less radical ideas for labour market reform which could have a beneficial impact on unemployment in the next two or three years. These can be grouped under three headings -

a. Increasing the influence of the unemployed on the labour market

57. We have noted that the existence of a large pool of unemployed has had relatively little influence on the wage bargaining stance of employers or the employed. The influence of the unemployed on wage negotiations could be increased gradually by -

i. measures to improve their employability. These could include basic remedial education and training in general working skills. The long term unemployed might be enabled to have short periods with employers in order to let them acquire relevant work experience. There could be more hostels and furnished accommodation for the young and mobile in areas where job opportunities are better;

ii. incentives to employers to hire the unemployed at low wages. The idea in the Young Workers scheme of linking subsidies to wage levels might be extended to adults. An alternative which might be worth exploring is offering vouchers to the long term unemployed which they would pass to employers willing to hire them.

iii. incentives to the unemployed to accept low paid jobs. The Family Income Supplement effectively offers a small subsidy to people with families who accept low paid jobs. This aspect might be developed.

b. Changing the aims of the bargaining process

58. At present employers and employees have a common interest in adapting to cuts in demand by reducing employment rather than wages. At the margin it may be possible to change the balance so that restraint of wages is chosen instead of cuts in hours or further redundancies; for example by -

i. reducing the generosity of the state redundancy scheme for employees to increase the financial penalty of being made redundant.

ii. encouraging the greater use of profit related schemes in wage bargaining so that employees relate more closely their demands for wages to the future competitiveness of the firm.

c. Speeding-up job search among the unemployed

59. Two possible developments that could be psychologically important are -

i. to amend the "suitable work" definition in unemployment benefit regulations to make it clear that the unemployed are expected to take work offering below the "normal rate", provided that it is at a level above their unemployment benefit;

ii. to require the employment service to concentrate on getting and advertising the maximum number of vacancies, including low paid and casual work.

60. A longer term development that would speed up job search and assist the testing of "work availability" would be to bring together Job Centres and Unemployment Offices. This would reverse the change made during the 1970s.

SECTION 8: OTHER REMEDIES

61. For the reasons discussed earlier a balanced package for tackling unemployment would need to go beyond measures to reform the labour market. Other necessary elements would include measures -

- a. to accelerate innovation and new jobs in the trading sector;
- b. to develop new patterns of working time;
- c. to deal with the residual unemployment problem;

62. As yet we have done no detailed work on remedies in these areas. The following paragraphs indicate the aspects we think important.

Accelerating Innovation and New Jobs in the Trading Sector

63. There has to be a shift of attention away from the support of old industries, including fundamentally unviable parts of the public trading sector, towards support for new activities and new technologies. Any shift has to be gradual, since the resources of labour, capital, and management and technical expertise tied up in old industries could not switch overnight to new products or markets, however flexible the labour market might be.

64. But there is a continuing need to stimulate growth and innovation in new areas of activity. A wide range of Government policies (including trade, public purchasing, regulation, taxation, education, training and so on) have an impact on the performance of the United Kingdom trading sector. Some industries, particularly in advanced technologies, are directly dependent on public sector support. Without discouraging enterprise or imposing a rigid "industrial strategy", Government policies need to adapt more rapidly to match industrial priorities, so that innovation keeps up with our international competitors. In particular there is a need for greater innovation within existing large and medium sized businesses.

65. Some existing policies are more appropriate for an economy in which labour is in short supply and where capital needs to be subsidised to compensate. On top of high real wages, employers also have to face additional costs of employing labour in the form of national insurance contributions, redundancy payments, industrial tribunals and health and safety regulations. Combined with high real wages and increases in labour taxes, the effect has been to encourage labour shedding and low capital productivity. Consideration should therefore be given to ways of reducing the costs of employing labour. These arguments also apply to the non-trading sector.

66. One important policy objective is to encourage the formation and expansion of new businesses as competitive growth points for output and employment. In addition to the range of business start-up measures introduced by the Government, the following deserve further investigation -

i. whether large companies could be given incentives which would make them more likely to encourage ambitious managers to use the skills developed within their mainstream activities to branch out and develop new businesses. An alternative is to encourage managers to acquire the ownership of businesses.

ii. whether measures designed to alleviate unemployment, particularly in severely affected areas, should be more directly aimed at helping people to become employers, rather than employees, along the lines of the pilot Enterprise Allowance Scheme. One feature of this scheme is a regular payment to compensate for the loss of benefit as soon as a person is classified as self-employed. It may be possible to extend this idea more generally.

iii. whether successful entrepreneurs can be given better inducements to go on expanding their businesses, to grow into medium-sized and, ultimately, big firms.

67. There is a potentially fast growing world market for tradeable services, for which the United Kingdom has a high reputation eg university teaching and research, broadcasting, health care. The obstacle to the expansion of trading is that many of these are provided primarily as a public service, by people not particularly motivated to selling their services. We need to investigate the scope for developing a more entrepreneurial approach, without jeopardising the quality of public services.

Assisting the Development of Forms of Work Sharing

68. Part time work has been the only growing form of employment in the last twenty years. It is worth exploring how far it is possible by more flexible working arrangements to shorten the total number of hours per worker per year and to increase the job opportunities for part time work, without raising unit labour costs. Ideas to this end include -

- i. incentives to employers to split normal full-time jobs, perhaps linked with the requirement that the new part-time jobs so created be filled from the (long term) unemployment register;
- ii. incentives to employees to retire partially, or more generally to reduce their hours, (and their pay) thereby releasing jobs for the unemployed;
- iii. reorganisation of the social security benefit system to give incentives for the unemployed to seek part time work; and for those who do a reasonable amount of part-time work to be treated as employed and eligible for family income supplement.

A cost-effective approach to the residual unemployment problem

69. On any reasonable expectation of success in creating new jobs in the viable market sector, it is still likely that there will be a significant level of 'long term' unemployment for some time to come - and that this group will consist of a high proportion of unskilled manual workers, and a growing number of young people. In order to retain public support for the economic policies which are necessary to restore competitiveness, it will continue to be necessary to take measures to alleviate the consequences of unemployment.

70. There is already a large array of special employment measures, but the overriding emphasis is on schemes which are cost effective in reducing the unemployment register. In our further work we shall try to address the following questions -

i. should there be more emphasis on the net resource effect of measures, ie should more weight be put on the value of the output which schemes produce?

ii. should there be an attempt to discern the main features of unemployment which give rise to public anxiety (perhaps poverty, local unrest, lack of career prospects for the young) and to tailor measures more directly to relieving those concerns?

iii. can existing measures be tailored - and any new measures designed - so as to do more to speed the adjustment of the labour market?

iv. which is the most cost effective way of relieving the financial and personal hardship associated with long term unemployment (work programmes, higher benefits, training and so on)?

Conclusions

71. We are conscious that these proposed remedies would have varying effects, in varying time-scale, and fall a long way short of a comprehensive strategy. They are put forward specifically as suggestions on which, subject to Ministers' views, we would wish to do more work. In our final report, when we are in a position to make a better assessment of their individual merits, we plan to consider how they might be fitted together and presented as a coherent strategy for tackling unemployment.

FIGURE 1 Registered unemployment in United Kingdom, 1961-1981
Registered unemployed, excluding school-leavers

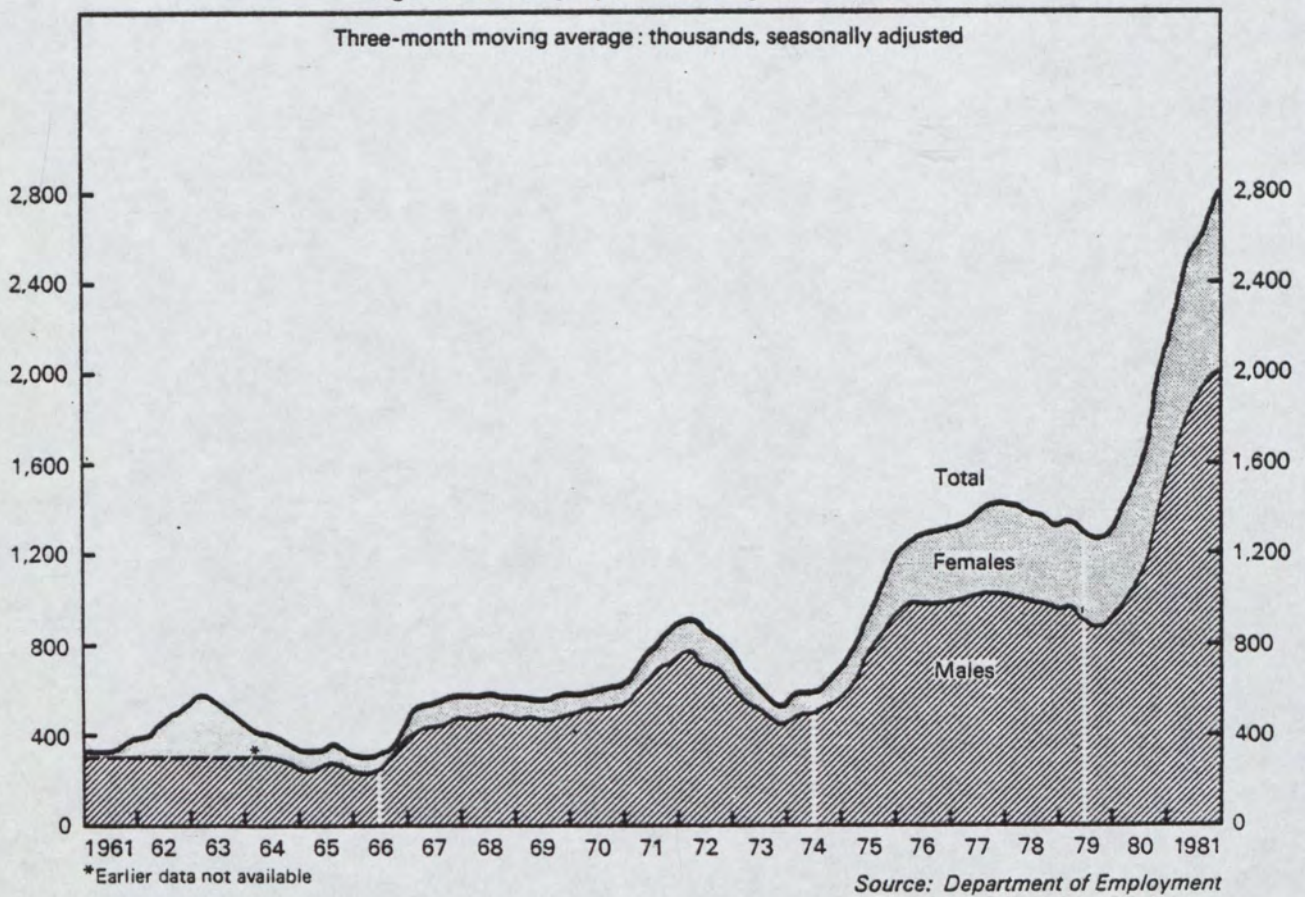
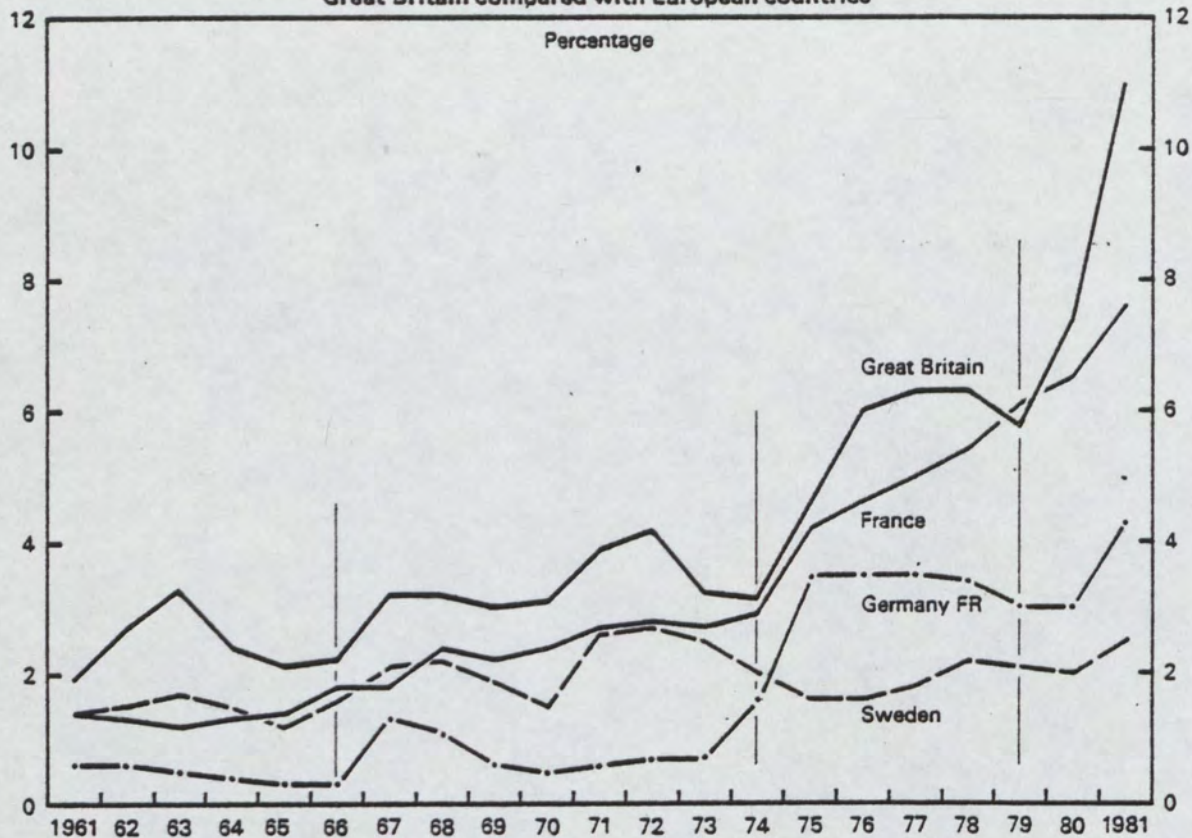


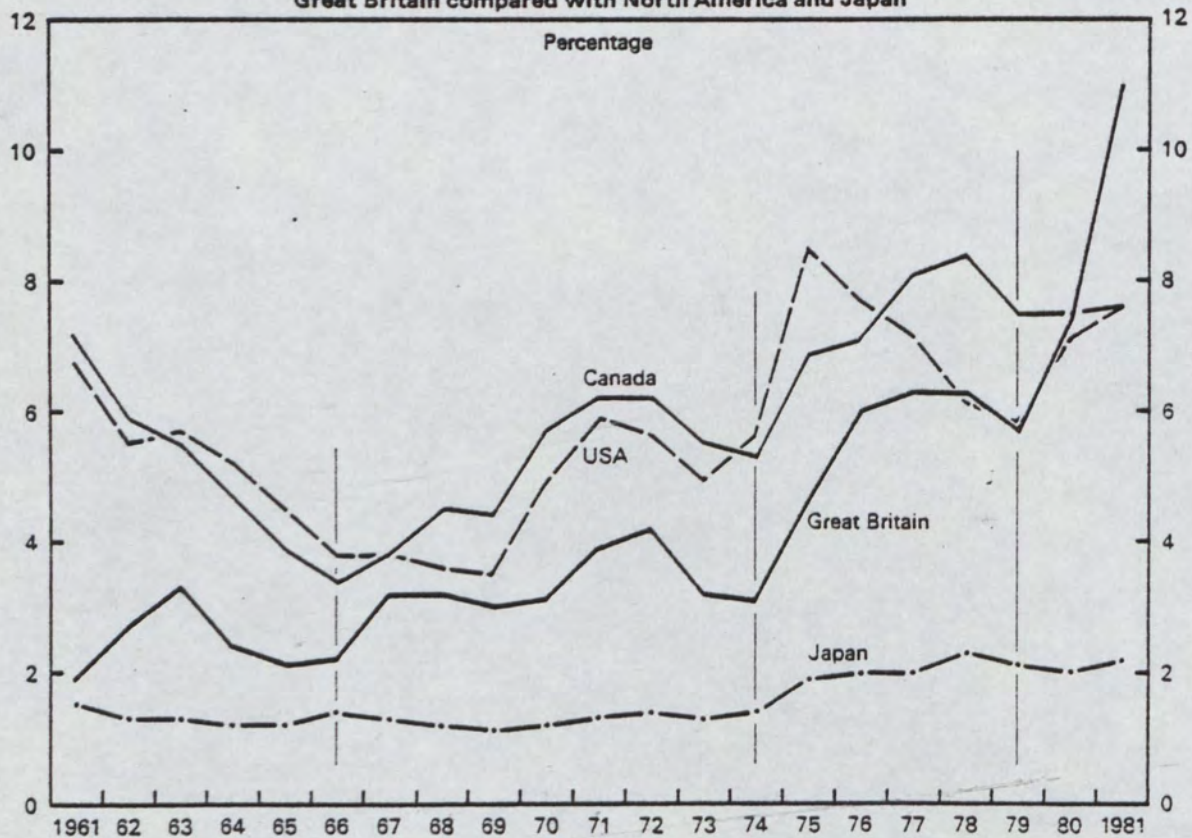
FIGURE 2

International trends in unemployment, 1961-1981
Unemployment rates adjusted to US concepts

Great Britain compared with European countries



Great Britain compared with North America and Japan



Source: Bureau of Labor Statistics, US Department of Labor.

FIGURE 3

Employment, labour supply and unemployment, Great Britain, 1961-1981

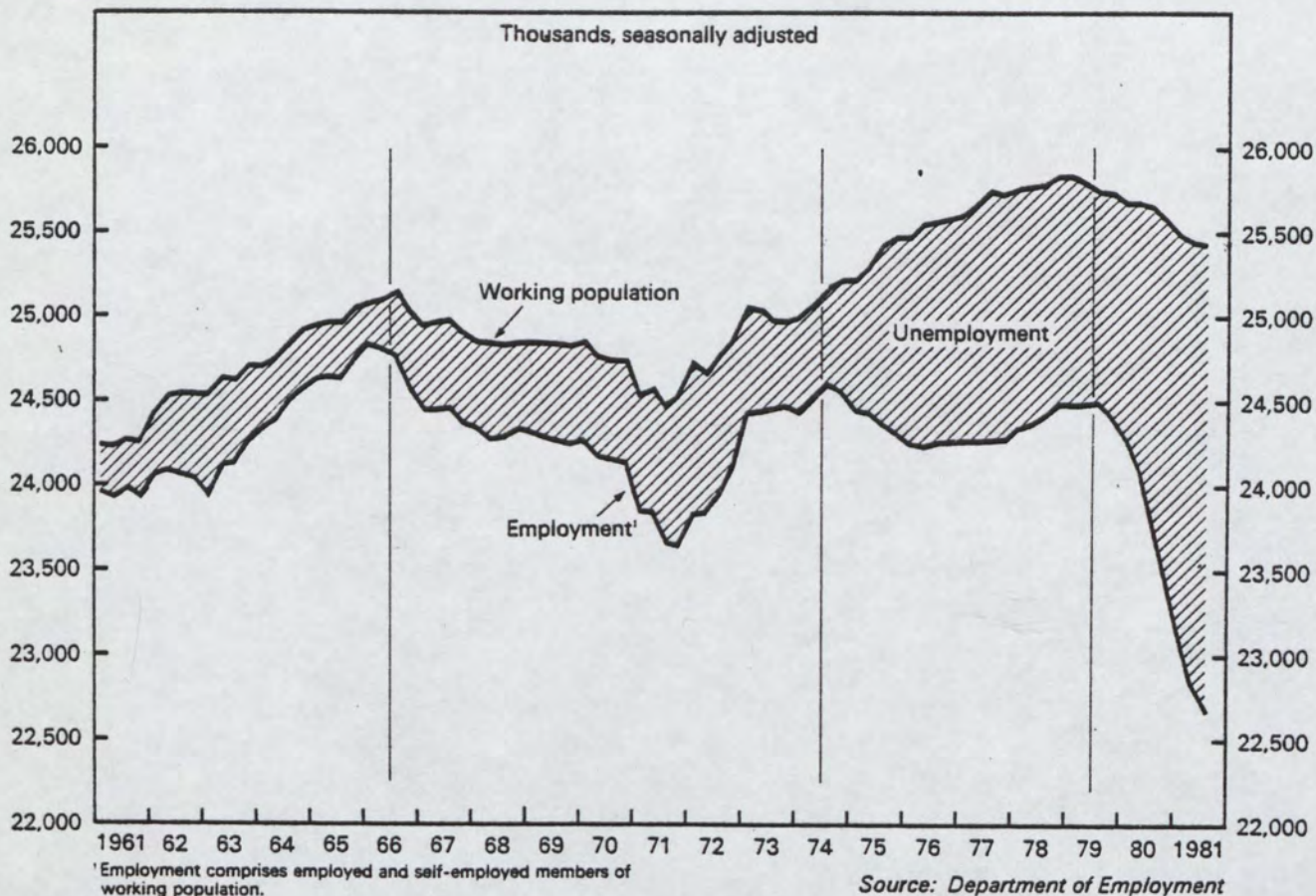


FIGURE 4

Manufacturing and non-manufacturing employment, Great Britain, 1961-1981

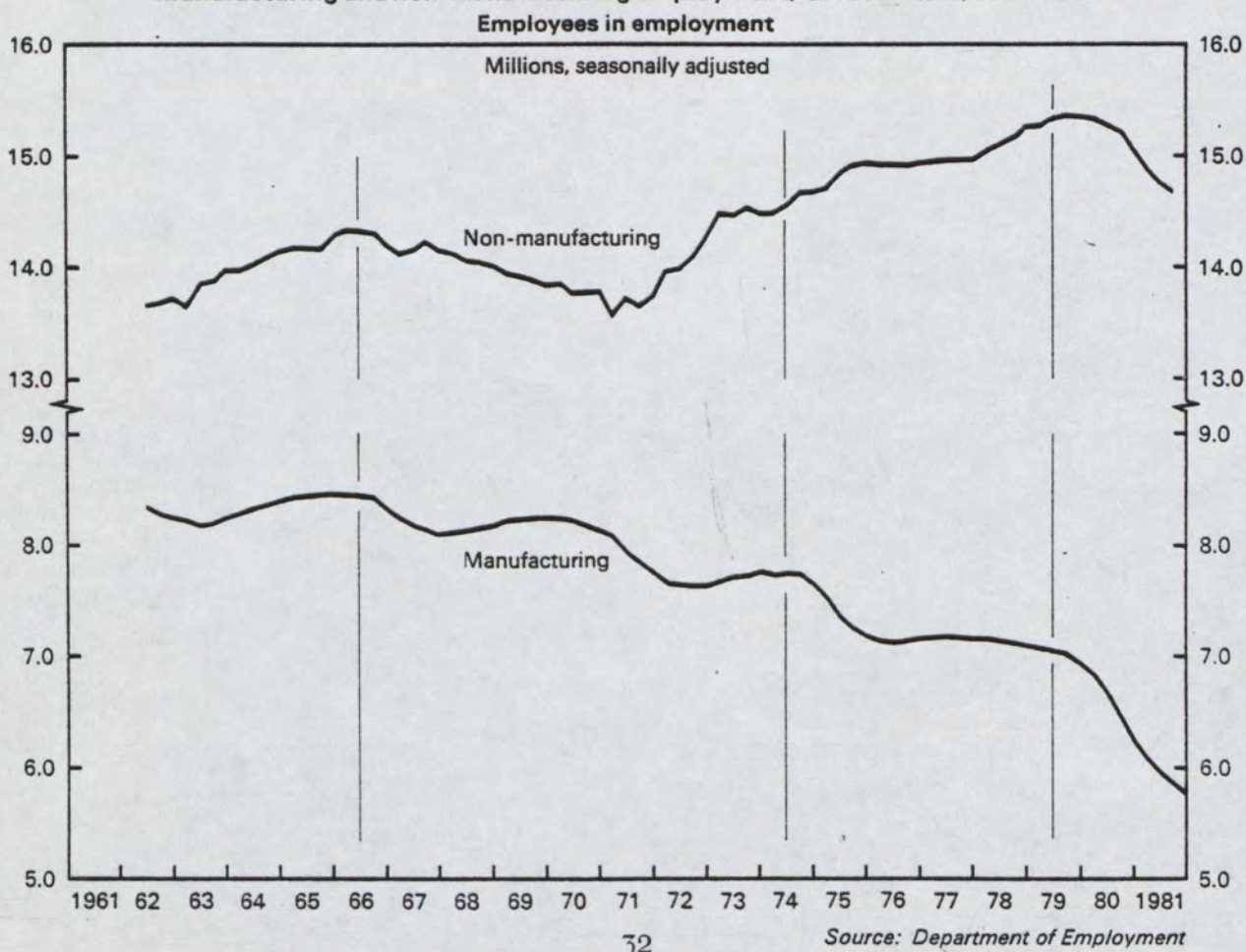
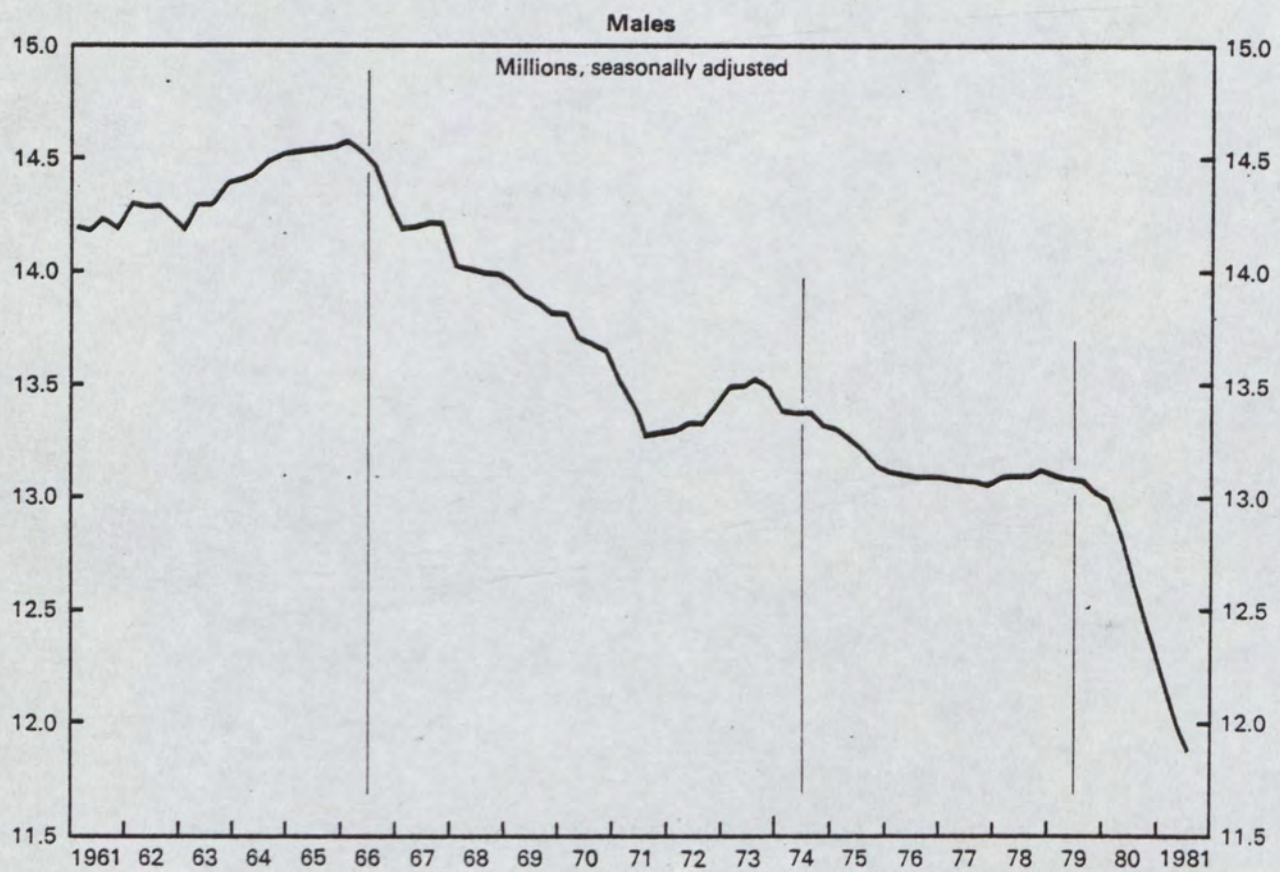
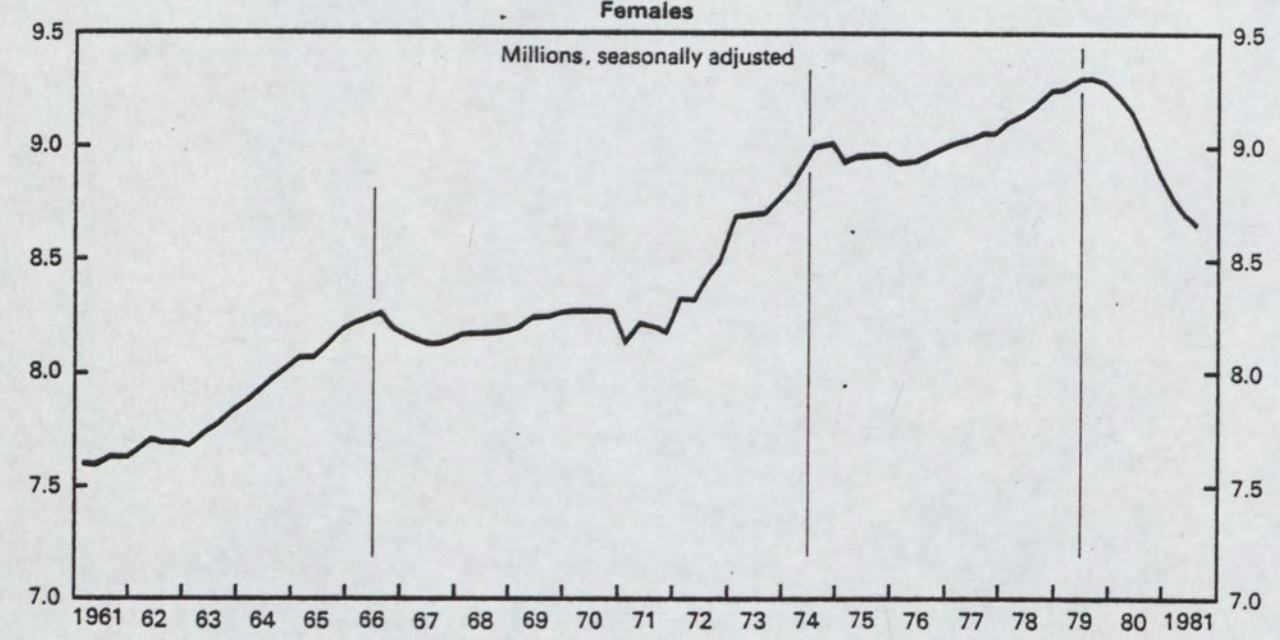


FIGURE 5 Trends in male and female employment, Great Britain, 1961-1981



Source: Department of Employment

FIGURE 6

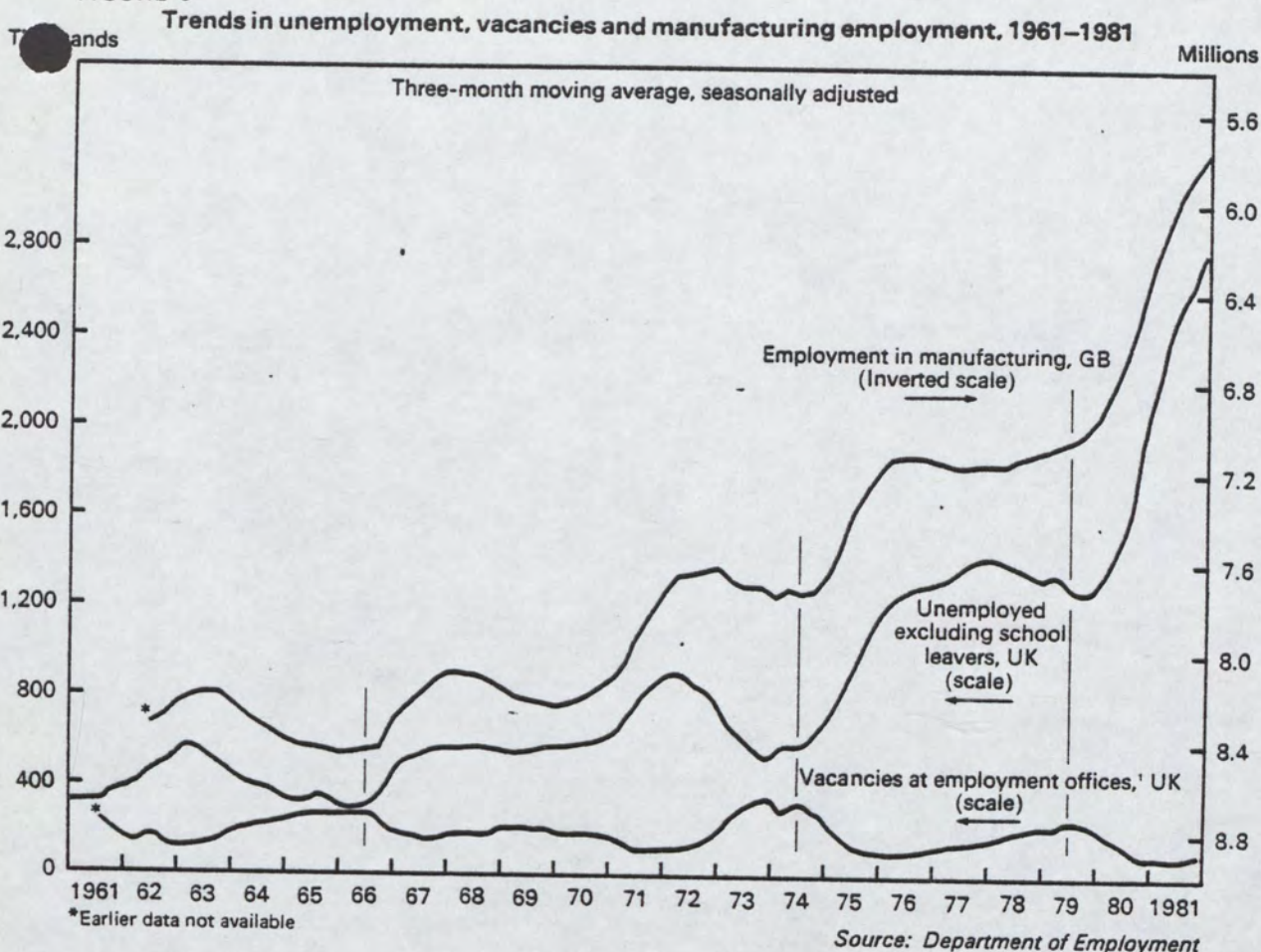


FIGURE 7

Replacement rates for unemployed, Great Britain

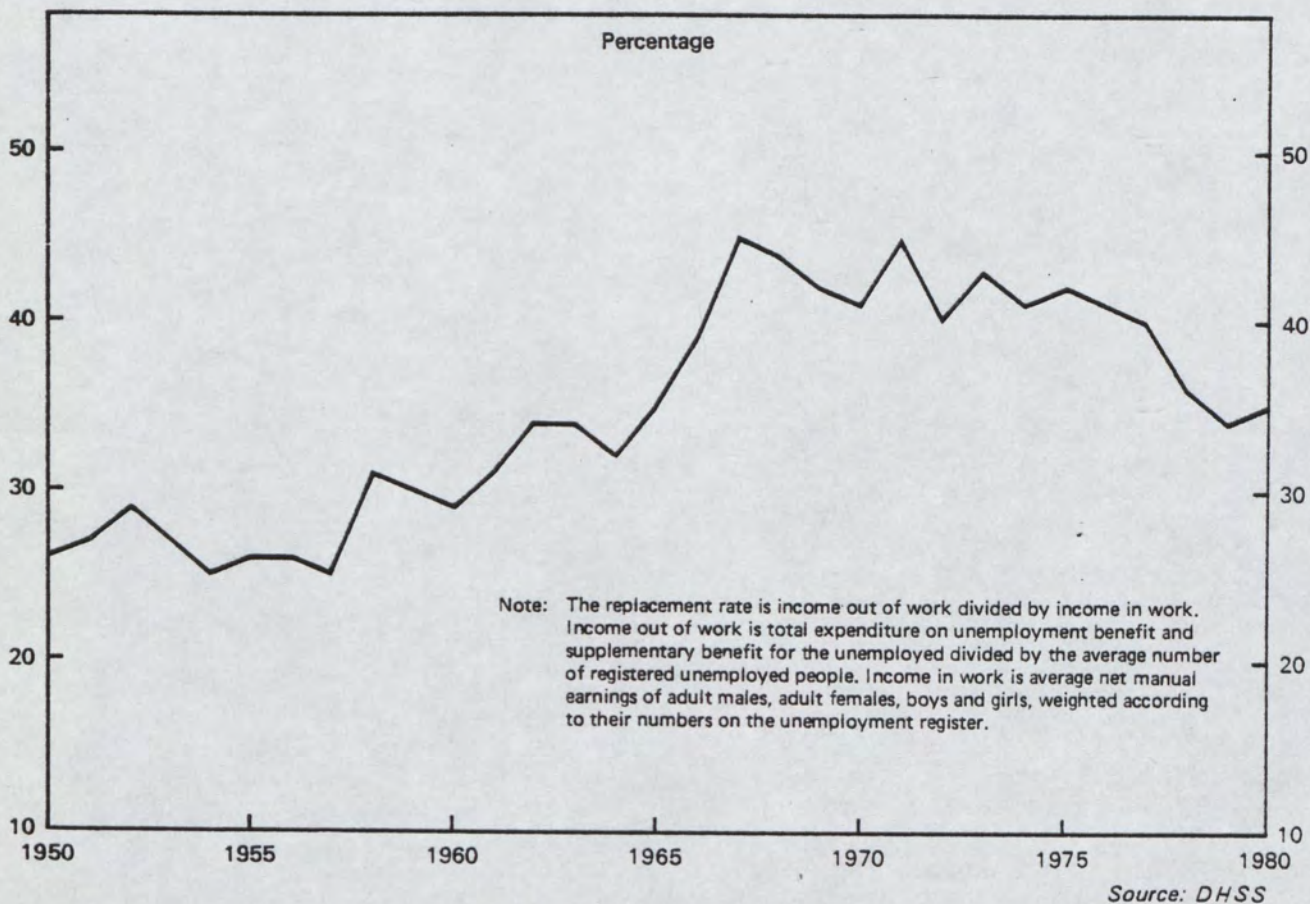
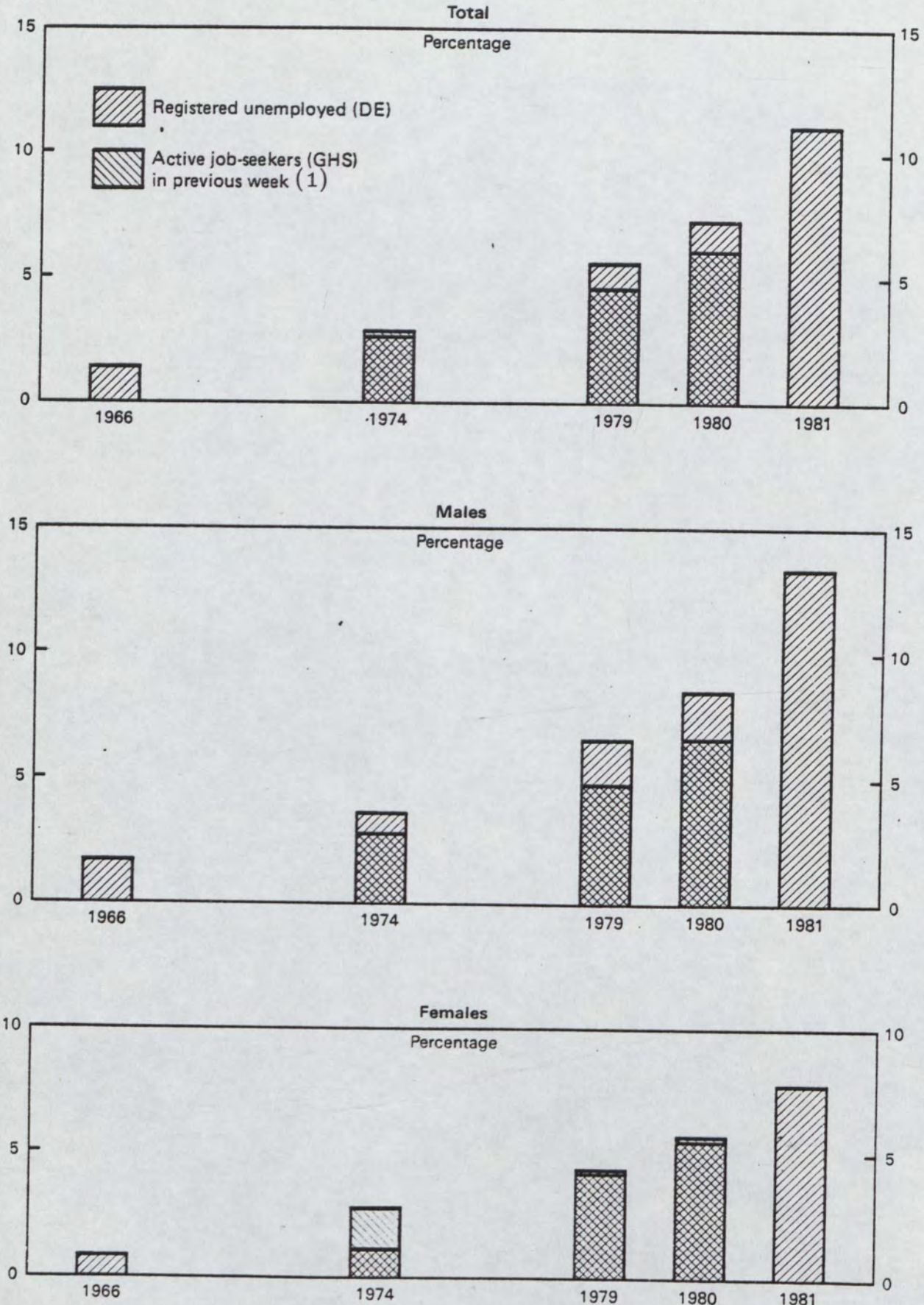


FIGURE 8

Unemployment rates in Great Britain (annual average)



*Sources : Department of Employment
Central Statistical Office*

(1) There may be technical deficiencies in the GHS rate - see Annex A.

CATEGORIES OF THE UNEMPLOYED

1. Our remit includes an examination of the categories making up the unemployed. We understand that the main purpose of this is to shed light on whether the unemployment register provides an accurate measure of the true level of unemployment, and a good basis for international comparisons of unemployment.

2. Paragraphs 4-9 of this annex summarise our provisional conclusions and indicate where further work is planned. Paragraphs 10-21 discuss the principles and practical difficulties of measuring unemployment. Paragraphs 22-40 assess the possible extent of overcounting and undercounting in Britain's current unemployment register. Paragraphs 41-42 touch briefly on the international implications.

3. The Department of Employment and the Central Statistical Office have supplied helpful material for the preparation of this Annex. But there has not been time to consult them about our provisional findings, including our assessment of the register.

Summary of main points

4. There seems little doubt that the great majority of the current register are genuinely unemployed (as defined in para 11 below). However it seems possible that the register exaggerates by several hundred thousands the readily available supply of labour. Our guess is that somewhat over half a million of the present register are not a readily usable supply (para 33) while only one or two hundred thousand seekers of full-time, permanent jobs do not register. On the other hand there may be a considerable unrecorded demand for part-time jobs (para 37). Moreover the shortfall of viable jobs in the economy (to replace special measures and jobs in lame duck industries, and to reabsorb workers who have left the labour force involuntarily) is probably several hundred thousand greater than the size of the register (para 36).

5. Similarly the substantial increase in the register over the past decade is for the most part a true increase in unemployment, although it has probably exaggerated by several hundred thousand the increase in the effective supply of unemployed workers (paras 39-40).

6. However, all these comments are hedged around with great uncertainties. The simple fact is that the register has become a less certain measure of unemployment, now that there is such a shortage of vacancies to test availability. We see advantage in making greater use of household surveys to cross check the evidence from the register.

7. Greater use of household survey material would also help to remedy a further deficiency in the register, namely its inability to measure the impact of unemployment on households. Such information, if more widely used and collected on an up to date basis, could help rebut some of the more extreme claims about the social consequences of unemployment. For example, the number of households on the official poverty line because of unemployment is considerably smaller than is suggested by the number of unemployed claimants of supplementary benefit.

8. No single figure can adequately measure all the economic and social dimensions of unemployment for which people attempt to use the present figures. It is therefore worth considering the compilation of a range of regular unemployment measures. (The Americans have U1 to U7). For example there could be an unemployment rate confined to active seekers of full time jobs, a rate for part-time job seekers, a rate for the "3 months plus" category of unemployed, a rate for prime age workers (25-55 year olds) and so on.

9. There are four main areas which can be explored more fully for our final report -

1. a fuller examination of survey evidence on the trend and level of unemployment up to 1980 (and perhaps 1981);
2. the household incidence of unemployment as measured by household surveys;
3. the effect on the unemployment figures of the black economy;
4. international comparisons.

Uses for unemployment figures

10. It is unlikely that a single figure can satisfactorily measure all the dimensions of unemployment. People use unemployment figures -

- in political debate, as a yardstick of economic success, of social problems and of a burden on taxpayers.
- in economic policy making, as a measure of labour supply.
- in social policy making, as an indicator of financial hardship or social need.

11. Official unemployment figures in Britain, and abroad, are designed to meet the needs of economic policy. For this purpose, the aim is to count people who are (a) capable of work, (b) without work, (c) available for work and (d) looking for work. It is immaterial from the economic policy viewpoint whether people are dependent on work for their livelihood (a criterion suggested by Beveridge in the 1930s). The figures make no attempt to measure this, nor to measure the impact of unemployment on families, nor the extent to which the unemployed are being supported by the state. In view of the intense social and political concern about unemployment we find it regrettable that there is so little information on such topics, and that so little use is made of what is available. Such evidence as there is suggests that the degree of household poverty associated with unemployment is well below the level suggested by the degree of dependence of individual claimants on supplementary benefit, and that the incidence of unemployment among heads of families with dependent children is lower than for other categories of the unemployed. This kind of information could be useful in rebutting the more extreme claims about the consequences of unemployment. There is however a scarcity of up to date information and some problems in reconciling evidence from different sources. We intend to do further work on this for our final report. Our provisional view is that more use should be made of household surveys to provide regular and up to date information on the incidence of unemployment, and its financial impact, by household.

Measuring unemployment

12. This annex focusses on whether the register succeeds in its aim of measuring unemployment in the conventional economic sense, according to the 4 criteria at the beginning of para 11. Paras 13-21 set out some general observations about the problem and methods of measurement.

13. There are some unavoidable problems, whatever the method of measurement. "Work" is not a standard commodity and very few people are totally unrestricted in the kind of work that they seek or can do. Thus the economic significance of unemployment figures depends on how selective job seekers are in their search for work, and how wide a range of work they are capable of performing. The answers to these questions are largely matters of subjective judgement. Hence availability and capability for work cannot be measured in a hard and fast way.

14. There are two ways of measuring unemployment. The first, used by Britain and most European countries, is linked to registration for unemployment benefits and state employment services. The second, used in North America, Japan and Sweden, is to use a regular household survey which questions people about their employment status.

15. The main advantages of registration based figures are that -

- a. they are a complete count, free from the sources of error associated with sample surveys;
- b. provided there is a reasonable supply of vacancies, the act of registration is a more stringent test of availability for work than simple answers to household surveys.

16. Their main disadvantages are that -

- a. they may include people who are not available for work, but register in order to obtain benefits;
- b. they may exclude people who are available for work but choose not to register;
- c. the propensity of job seekers to register may change over time, or differ among countries, eg because of differences in coverage of benefits, thus obscuring trends over time and international comparisons.

17. The main advantages of survey-based figures are that -

- a. they are free from the "benefit" distortions listed in paragraph 16;
- b. they are somewhat more likely to get honest answers about the employment status of black economy workers;
- c. they can be designed so as to facilitate international comparisons;
- d. they can measure the incidence of unemployment among households, not merely individuals.

18. Their main disadvantages are that -

- a. they are liable to sampling errors
- b. they rely entirely on what people say
- c. their definition of unemployment (having looked actively for a job in the last week, or month) may include people who are not looking very seriously, or who are highly selective about the work they would accept
- d. the same definition may miss people who want work, but do not look in the specified period because they reckon no jobs are available for them

19. In paras 22-37 below we try to quantify the possible sources of under and over-counting in the UK register. However, accuracy is not possible, particularly in present circumstances when there are few vacancies relative to the supply of unemployed, so that it is hard to obtain a positive test of availability for work. It may no longer be sensible in these circumstances to rely exclusively on the register for our basic measure of unemployment. Greater use of household surveys may be desirable, for the reasons given in paragraph 17.

20. Britain has in fact collected a limited amount of survey information about unemployment since 1970, in the annual General Household Survey (GHS). We have also participated since the early 1970s in the European Community's biennial Labour Force Survey. And further information about the incidence of unemployment can be obtained from the Family Expenditure Survey. All of these are based on small samples and the latest information currently available is for 1980. Hence they can shed no light as yet on the current level and incidence of unemployment. Nevertheless it is of interest to establish what pattern of unemployment they show for the 1970s. We are currently working on this with the help of the Central Statistical Office and hope to report our findings in our final report.

21. As an indication of the present state of uncertainty, figure 8 (at the end of the main report) shows unemployment rates compiled from the GHS alongside the registered rate for the 1974-1980 period. The GHS confirms the existence of a rising trend and a high level of unemployment in 1980, but the rise is less steep and the level in 1980 is not so high as the register. It would be premature to draw conclusions from the GHS figures. There are a number of technical problems which cast doubt on their reliability. Also, the GHS count is based on active job seekers in the previous week (a shorter period than in comparable surveys in other countries) and thus excludes discouraged workers (see para 18 d.). We need to cross check the GHS findings with other surveys and investigate further the differences between them and the register before we can draw conclusions about which source gives the better measure of unemployment.

Over and under counting on the register

22. Subject to the preceding caveats we now set out our current best estimate of the adequacy of the register. Estimates of the size of particular categories are largely illustrative and subject to revision upwards or downwards in the light of further work.

Possible sources of over counting

23. The register may overstate unemployment because it includes the following categories. (Note that several categories overlap).

a. "Unemployables"

24. Strictly, these are people unable to hold down jobs for various reasons, mainly health, disability, poor mental capacity or personal difficulties. The nearest to an objective estimate derives from surveys in the mid 1970s which put about 135-150,000 into this category. (Some subsequently did find work.) There is no evidence of a subsequent net rise. Higher and longer term unemployment may have led to an increase, but some people previously registered as unemployed may now be treated as long term sick, a group which has increased by over 100,000 since the mid 1970s.

25. However, the unemployable are probably part of a larger group, those who are very hard to place in employment, except in a tight labour market. The over 60s (220,000 unemployed for 4 weeks or more) and the very long term unemployed (130,000 under 60 continuously unemployed for 3 years) give some clue to the size of this wider category. (Many of them will feature also in category c below.)

26. Another group with restricted chances of employment are unskilled manual workers with low educational standards and few attributes to fit them for non-manual or service jobs. These are the areas in which job vacancies are increasingly concentrated. Nearly a million of the register are unskilled labourers and even larger numbers lack minimum educational qualifications (60 per cent of unemployed males under 40 and 75 per cent of those over 40 in the late 1970s). We know nothing about their level of literacy, numeracy or spoken language skills, hence we cannot pinpoint a particular number who would be difficult to place in non-manual or service work.

b. Unavailable because working

27. This category comprises people who are not available for work because they are already working in the black economy. (Not all those who work while on the register are in this position. Some will still be in the market for regular jobs.) A Rayner scrutiny in 1980 estimated that a minimum of 8 per cent of unemployed claimants of supplementary benefit (who made up half the register) were working. In 9 cases out of 10 the amounts earned were not trivial but it is not known how many were no longer on the market for regular jobs. There is no comparable information for claimants of unemployment benefit. Nor do we know how the picture has been affected by the rise in unemployment since 1980. Our study of the black economy will try to shed some light on this difficult area. In the meantime we are in the area of guesswork. If, for illustration, 5 per cent of today's register are doing enough work to make them unavailable for regular work they would account for 150,000 of the total. (To the extent that larger numbers of registrants are able to supplement their benefit with small amounts of earnings, the black economy will also contribute to the phenomenon of selective job seekers discussed in paragraph 30.)

Not available for work

28. This group would de-register rather than take a job, if deprived of benefit. They primarily include older workers who have retired on an occupational pension, or on grounds of health and redundancy, but sign on to claim benefits or preserve state pension rights. There are also others - mostly but not exclusively married women - who have withdrawn from the labour force for domestic reasons but sign on for a period to draw NI benefits. Survey evidence suggests that about 150,000 registrants may regard themselves as retired. There may also be small numbers of workers who want and can afford a short rest between jobs, but sign on for benefits in the expectation of not being offered a job rapidly. We have no idea how many people, if any, are in this category. The point is that not every slow job changer would speed up his spell between jobs if benefit was withdrawn; some might de-register.

d. Not looking for work

29. This is a category who would need to work if deprived of benefit but do not look for work. Special surveys suggest that the most common reason for not looking is that people believe (perhaps mistakenly) there are no jobs available for them. This phenomenon is bound to have risen at current levels of unemployment. The people concerned are best regarded as genuinely unemployed. This leaves the "workshy", people who prefer living off benefits to working. It is often argued that people with high benefit/work income ratios will fall into this category. Yet evidence suggests that such people look harder for work than others. They are more properly regarded as selective job seekers (para 31).

e. Selective job seekers

30. There are probably considerable numbers of people who are genuinely seeking work, and who would be publicly regarded as unemployed, but who contribute to a higher than necessary level of unemployment by being selective in the kind of work they will accept, with the result that vacancies remain unfilled longer.

31. We have not found it possible to put a particular figure on this category, for two main reasons. First, most people are selective to some extent - the rules for unemployment benefit and the aims of the employment service, with their emphasis on "suitable employment", sanction this. Hence in present circumstances it would not be possible to sustain the argument that people were not unemployed simply because they were selective. Secondly, the effect which people's selectivity has on the register is unclear. In present circumstances, getting some people back to work more quickly would, to a considerable extent, displace others into unemployment.

32. Lower benefits, stricter rules on refusal of job offers and more effective control of fraudulent working - all of these would probably lead to a fall in the register, through faster job filling. For example, econometric studies suggest that in present circumstances a 10 per cent cut in benefits would reduce the register by 100,000. But it is not possible to deduce from this hypothetical estimate a particular component of existing unemployment which could be regarded as not genuine.

Summary of "overcounting"

33. There is considerable overlap among the above categories. Our current best estimate is that, taken together, the very hard to employ, fraudulent workers and the unavailable cause the register to overstate the readily usable supply on the register by at least half a million. But the uncertainties surrounding this figure are great.

Sources of under estimation in register

a. Uncounted registrants

34. Students registering for vacation work (up to 200,000 at the seasonal peak), non claimants seeking part-time work (about 45,000), and people laid off temporarily (10-20,000) are excluded from the regular count. A case can be made for these exclusions on the grounds that the prime measure of unemployment should be restricted to people seeking permanent full time jobs. But in that case the regular count should also exclude claimants seeking only part-time work. (Such claimants probably number a few tens of thousands.) This could be supplemented by a more comprehensive measure including seekers of part time and seasonal work.

b. Unregistered job seekers

35. The Department of Employment estimate (from household surveys up to 1980) that about 300-350,000 people, not on the register, are looking for work. Three quarters are women, two in three of whom are seeking part-time work. Their value to potential employers will be limited in many cases by their need to find hours and conditions of work which fit in with domestic responsibilities. The TUC argue that the recession will have raised the number to 670,000. Some increase is likely to have occurred but unregistered unemployment tends not to rise as rapidly in a down-turn as the register does.

c. Special Measures

36. Over 300,000 people without real jobs are currently kept off the register by special employment and training measures. They are a labour supply in the sense that the schemes would be wound down if enough real jobs were available, and on some schemes (eg YOP) participants are encouraged to

continue looking for jobs. But it can be argued that people whose jobs are kept alive in fundamentally unviable activities by public subsidy are equally lacking in real jobs. On this analysis special measures are a partial record of underemployment, not an uncounted category of unemployed.

Summary of "undercounting"

37. If the register is regarded as a measure of permanent full time job seekers it probably counts all but 100 or 200 thousand of them, though it underestimates the shortage of viable jobs in the economy. But much of the work which becomes available is on a part-time basis. The register is not a good measure of the labour supply for part-time work, because benefit claimants have little incentive at present to take part-time work (legally), whereas large numbers of retired people, housewives, students, school children and those already in work are potentially available for part-time work, without necessarily registering or looking regularly for work. Only a household survey could provide information on the full extent of the potential demand for part-time work. So far as we know this has not yet been attempted.

Implications for the trend of unemployment

38. The register's rise since the mid 1960s has probably exaggerated, by several hundred thousand, the rise in the effective supply of unemployed workers. But it may not exaggerate the increased shortfall of viable jobs in the economy.

39. On the one hand higher benefits probably induced about 50,000 extra "voluntary" unemployed by the early 1970s; the decline of traditional male manual employment may have added a few hundred thousand to the ranks of "hard to employ"; and laxer administration coupled with shortage of notified vacancies may have allowed some tens of thousands more to participate in the black economy. Also at least 100,000 of the increase reflects an increased propensity of job seekers (mostly on the part of women and girls) to register as unemployed.

40. On the other hand the increase since the mid 1970s could have been much greater but for the introduction of special employment measures, the support of jobs in unprofitable industries and the withdrawal of large numbers of workers from the labour force in the present recession. Some measure of this effect is given by the estimate that on past experience, in an economic recovery unemployment will fall by only 3 for every 4 extra jobs generated.

Implications for international comparisons

41. Our work on international comparisons of unemployment levels is at an early stage, since the first requirement is to gain a better understanding of the British figures. DE normally estimate that putting our figures on an international basis would add one percentage point to the unemployment rate primarily because of the unregistered unemployed. But an internationally standard rate based on household survey evidence would measure job seeking activity in the previous month. This might not be higher than the register, if it proves to be true that a good number of registrants are not actively seeking work.

42. However, even internationally consistent definitions of unemployment can mean different things in different countries. In Japan, for example, large companies keep "unemployed" workers on the payroll, while in Sweden the number on special training and employment measures greatly outnumber the unemployed. Also, unemployment can differ qualitatively. In the United States for example a given level of unemployment involves more people in shorter spells of unemployment than is the case in Britain. We shall pursue these issues in greater depth for our final report.

STRUCTURAL CHANGES: THE PROBLEMS OF MANUFACTURING INDUSTRY

The main paper identified the fall in employment opportunities in manufacturing industry in the United Kingdom and the general problems of securing growth without inflation as factors contributing to the secular rise in unemployment. This annex looks at the issues in greater depth.

2. The key points are as follows.

(i) Poor Productivity

3. The central weakness of industry is its poor stewardship of resources and its lack of innovation and adaptability, all this reflected in low levels and rates of change of productivity of both capital and labour. Poor productivity and lack of innovation in turn undermined the ability of manufacturing industry to compete internationally, leading to a secular deterioration in trading performance. But favourable world developments in the 1950s and 1960s and accommodating fiscal, monetary and exchange rate policies helped mask these underlying weaknesses. Manufacturing employment was thus maintained, at least until the mid 1960s.

4. However, the efficacy of easy money policies dwindled - harsher, more competitive world markets and increasing dissatisfaction with low standards of living at home severely blunted the ability of conventional policies to sustain jobs without simply creating inflation. Lax monetary policies pursued before 1979 also tended to ossify the industrial structure by removing incentives to improve performance and upgrade the quality of goods produced.

5. Upwards movements in labour costs, relative to the costs of investment, may also have encouraged labour-saving investment with a consequential loss of job opportunities.

(ii) Common Industrial World Developments

6. Although the UK's relatively poor industrial performance goes some way to explain why unemployment since the early 1960s has been higher compared with many other main industrial economies and, in particular, with our major European competitors, the rise in unemployment has become a common feature, especially since the early 1970's, in the OECD area. Further work will be required to establish firm conclusions but our preliminary view is that there are common changes in the pattern and growth of activity - in particular, a decline in manufacturing industry - which has contributed to rising unemployment internationally.

7. For the UK, we note that unemployment has emerged because jobs lost in manufacturing have not been fully matched, in terms of quantity or quality, by the relative expansion of the service and energy/oil sectors. Other countries have seen a rise in service employment but many are less fortunate than the UK in not having sizeable indigenous oil reserves. The effect of the energy problem on unemployment and, in the UK, the connected influences of North Sea oil and the real exchange rate, are particular areas which require further study.

LOW PRODUCTIVITY

8. The facts about productivity in the UK are familiar. Productivity growth has been persistently worse in the UK than abroad (Table B1) with the inevitable result that there has emerged an ever-widening gap in levels of productivity.

9. Several studies - the following are just a small sample - illustrate this:

i. In a National Institute article published in 1976, Jones estimated that, even in 1955, manufacturing output per man hour was higher (by a factor of 8-18 per cent) in major European countries, with the exception of Italy which caught up with UK productivity levels by the late 1960s. Preliminary findings from a recent and, as yet, unpublished National Institute paper updating Jones' work suggest that this gap had widened by 1973 to between 29 per cent (Italy) and 83 per

TABLE B1: Manufacturing Industry - Output and Employment Growth (Average annual rates of change, per cent)

	EC FIVE			UK		
	Output Growth	Employment Growth	Productivity Growth	Output Growth	Employment Growth	Productivity Growth
1955-60	6.9	2.2	4.6	3.0	0.6	2.4
1960-64	6.6	1.7	4.8	3.2	0.1	3.1
1964-69	6.5	0.5	5.9	3.2	-0.2	3.4
1969-73	5.4	0.7	4.6	2.6	-1.6	4.3
1973-78	1.7	-1.5	3.3	-0.8	-1.5	0.7

Sources i. EC Five, 1955-73, D T Jones: Output, employment and labour productivity in Europe since 1955, National Institute Economic Review, August 1976. EC Five, 1973-78, estimated from unpublished National Institute paper. Figures are not strictly comparable with those in Jones or for the the UK.

ii. UK data from Department of Employment; National Income and Expenditure, 1981. Employment data for 1955-60 are more than usually uncertain. The figures shown are very close to those presented by Jones.

Notes i. EC Five - Belgium, Netherlands, France, Germany and Italy.

ii. Productivity - output per employee; no allowance for hours worked though Jones (p78) finds that comparison between UK and EC Five is not affected by adjusting for hours.

cent (Netherlands). The same paper estimates that by 1980, manufacturing output per worker in the UK was less than half that prevailing in the United States, the Netherlands and Japan; little more than half that of France, Belgium and West Germany; and around two-thirds of the next lowest country, Italy*.

ii. Also in 1976, a study by Pratten, using data supplied by international companies for their factories in the UK and abroad, showed that, compared with the UK, average labour productivity in the USA in 1972 was over 50 per cent higher, while in Germany it was over a quarter and in France 15 per cent higher.

iii. The 1975 CPRS report on the future of the British car industry found that overall labour productivity in British car plants was some 30 per cent lower than in France, Italy and West Germany in 1973; comparable figures compiled by Pratten and Silberston in an earlier study showed that the UK motor industry had had the highest labour productivity in Europe in 1955, although it was then less than 40 per cent of the US level. By 1973, US productivity was twice the European level but only 20 per cent above Japanese productivity which had risen dramatically over the period.

* These results are obtained by converting one currency into another at a rate that equates amounts of currency of equal purchasing power. From the point of view of international competitiveness, it is however more appropriate to use the going rate of exchange. Other calculations by Jones suggest that if this is done the comparison is even more unfavourable (by a factor on average of nearly 10 per cent) to the UK. All these estimates are subject to a wide band of uncertainty though the broad picture is clear.

10. This long standing malaise in British industry cannot be explained away by purely economic factors. Relative to the level of output, productive investment in the UK does not compare unfavourably with abroad*; capital productivity - the increment to output achieved from investment - is, like labour productivity, a major weakness. Lack of R & D expenditure, lack of scale, excessive product ranges, high marginal tax rates, and uncertainty created by stop-go macro-economic policies all contribute something to the explanation, but not the whole story.

11. A pervasive factor, which has been identified by commentators for over a century, is the lack of adaptability of UK industry; its unwillingness to innovate and inability to secure a good return when it does.** This deficiency, together with the poor productivity of existing resources, seems in turn to derive from long-standing weaknesses in motivation; reflecting our divisive class structure, the poor quality of management and industrial relations.

Impact on Output and Employment

12. Such fundamental deficiencies could be expected to prejudice our trading performance and industrial profitability. The UK's share in the value of world trade in manufactures halved between 1955 and 1973 (from 20 per cent to 10 per cent), though it is stabilised thereafter. Such a decline might of course have been expected; it is the natural concomitant of a relative shrinkage in the UK component in total world activity and is not necessarily prejudicial to domestic employment. The rising share of imports in home markets, which paralleled the loss in export markets, is similarly less disturbing than might appear at first sight since the phenomenon is a general one, reflecting increasing intra-industry specialization in the industrial economies.

* Based on OECD data, the ratio of investment to value added in manufacturing (valued at market prices) in 1978 was, in per cent, 11.9, 8.9, 10.4 and 15.3 in the UK, US, Germany and France respectively. An estimate for Japan in 1976 is 15.0 per cent. (Figures provided by Department of Industry economists.)

** The appendix, prepared by Department of Industry economists, amplifies on this theme.

13. What is without question abnormal and worrying is that, in the UK, imports of manufactures have grown much faster in volume than manufactured exports (Table B2), giving rise to the potential dilemma of maintaining, at the same time, external balance and full employment. Associated with the decline in trade performance went a fall in profitability which, while apparent in other sectors, was particularly marked in manufacturing.

TABLE B2: Growth in Volume of UK Manufacturing Trade
Annual average change per cent; cyclical peak years

	1964-69	1969-73	1973-78
Exports	6.7	5.5	3.4
Imports	8.3	13.4	5.7

Source: Monthly Review of External Trade Statistics

14. Reflecting on these developments in trade and profitability, some commentators have gone so far as to suggest the emergence of a downward spiral: poor productivity performance and lack of innovation leading to balance of payments problems, low growth and thus low profitability, this in turn reducing the wherewithal and incentive to invest in new products and processes, a development which, in the long run, intensifies the trade and profitability problems. There is some weak support from this view in the imperfect correlation between the evolution of R & D expenditure and manufacturing profitability - Table B3 - and the UK's relatively poor showing in terms of the amount and effectiveness of R & D expenditure compared with major competitor countries (see Appendix).

15. Given all these weaknesses at home (low productivity and low profitability) and externally (poor manufacturing trade performance), the query arises why it was at all possible to maintain a growth in manufacturing employment (until 1966) and output (to 1973). (After 1973 output fell absolutely; employment continued to decline until the next peak year at a trend rate similar to that of the late 1960s - Table B1).

16. We believe that a major factor which served to paper over the cracks in the post-war period, and perhaps in earlier times, was the accommodation of supply side weaknesses by exchange rate, fiscal and monetary policies, buttressed in various episodes by resort to incomes policies. But such policies could work only as long as the country was willing to accept relatively low real living standards - the concomitant of low productivity - and as long as wages responded only weakly to increases in prices and taxation.

17. Accommodation of supply side difficulties also carried the disadvantage of underwriting the very modes of behaviour - lack of motivation and entrepreneurship, weak management and poor industrial relations - which in the long run had to change if the UK was to evolve into a high wage-high productivity economy.

The Historical Pattern - Pre 1979

18. This interpretation of history could be illustrated in the following broadbrush way.

19. In the 1950s, and apart from the Korean war, world economic developments and the UK external trade performance were favourable: real commodity prices fell, world trade grew rapidly and our major competitors were still undergoing post-war reconstruction; the UK still had close trading links with the Commonwealth, though this was to prove less of an advantage as trade became increasingly one of an exchange of manufactures between industrial economies; quantitative controls on UK manufactured imports were not fully withdrawn until the late 1950s (thus helping to disguise any underlying weaknesses); the current account was generally in surplus.

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TABLE B3: UK Manufacturing Profitability and Research and Development
(R & D) Expenditure

	1960	1964	1969	1973	1978	1979	1980
1. Gross Profit share %	31.6	30.0	26.3	26.0	23.7	18.6	15.3
2. Net Rate of Return %	12.1	10.5	8.1	7.2	4.8	2.7	1.1
3. R & D (£mn 1975 prices)	na	1365	1491	(1376)	1512	na	na
4. (3) % of value added	na	6.1	5.6	(5.1)	5.4	na	na
5. (3) % of gross capital stock	na	2.1	1.9	(1.6)	1.5	na	na

na = not available

Notes 1. Gross trading profits in manufacturing industry (private and public sector) net of stock appreciation, gross of capital consumption, as a percentage of value added, net of stock appreciation.
Source: National Accounts, CSO

2. Gross trading profits as in 1. net of stock appreciation and capital consumption as a percentage of mid-year estimates of the current replacement value of the net capital stock plus the book value of stocks.
Source: National Accounts, CSO

3. Manufacturing industry expenditure on research and development related to science and technology. Bracketed figures are for 1972.
Source: Economic Trends, August 1981, p 108.

4. Value added calculated at constant 1975 prices.

5. Gross capital stock estimated for mid years at 1975 prices.

20. An underlying bonus to industry, enabling it to compete in price and cost terms over this period, derived from the massive (30½ per cent) sterling devaluation in 1949. As Professor Burns and his colleagues have noted the competitive advantage so conferred was gradually whittled away by higher rates of UK inflation but while this adjustment took place "the level of output was higher than it would have been and the balance of payments better. This resulted in an enormously optimistic unemployment objective". (Ball, Burns and Laury; the Role of Exchange Rate Changes in Balance of Payments Adjustment - the UK Case, Economic Journal, March 1977.)

21. By the early 1960s, this price/cost advantage was almost completely eroded. In addition, Europe and Japan emerged as major competitors; in the late 1960s, newly-industrializing countries also posed a threat. Inflation and the current account were becoming persistent problems. Policy-makers over the next two decades responded in a variety of ways:

- there were repeated attempts at incomes policies aiming to improve or maintain competitiveness;
- fiscal incentives were strengthened, particularly in the form of increased capital allowance nationally and in the regions; debt financing became more advantageous from a tax point of view after the introduction of corporation tax in 1965 - this kept down the post-tax interest cost of financing investment; more generous capital allowances and stock relief were introduced in the 1970s;
- various efforts were made to speed-up industrial change and improve technological performance;
- public expenditure and public employment were increased, partly in response to unemployment; combined with the fiscal easements to industry, this led to a rising personal tax burden;
- sterling was devalued again in 1967 and allowed to depreciate repeatedly after 1972.

22. Some would claim that, to a certain extent, these policies were successful. Their broad rationale was to offset the adverse competitiveness and profitability effects of low productivity of labour and of capital by making labour and capital cheaper. Thus:

- international price and cost competitiveness, contrary to popular belief, improved between the early 1960s and late 1970s;
- furthermore, despite rising cash wages per unit of output, real wages (real in terms of manufacturers' output prices) did not rise relative to productivity between 1960 and 1978 on a secular basis (though there were substantial year-to-year variations) - monetary and exchange rate policies were therefore sufficiently accommodating to allow prices to rise in line with unit cash wages;
- on a post-tax basis, tentative calculations by Professor King suggest that profit share in manufacturing was stable until the late 1960s (despite a falling pre-tax profit share); the decline thereafter into the early 1970s may have been due simply to the delayed introduction of stock relief.

23. Thus, despite losses of trade share, manufacturers enjoyed some gains in price competitiveness which helped sustain output and employment; similarly investment remained buoyant, even in the 1970s, despite a significant fall in pre tax "real" profits. Some of these developments are shown in Table B4.

TABLE B4: Trends in UK Manufacturing Industry

	Competitiveness Index(1)	Index of Real Wages Relative to Productivity(2) 1975 = 100	Effective Tax Rate (3)		Gross Capital Expenditure(4)	
			on gross trading profits	on "real" profits	1975 prices, including leased assets	Percentage of £mn value added
(5)						
1960	(109.8)	91.1	24.8	31.6	2818	14.2
1964	105.1	89.8	21.0	27.5	3056	13.5
1969	95.3	91.0	16.9	26.8	3877	14.7
1973	88.7	93.0	11.6	24.4	3440	11.7
1978	96.0	88.0	na	na	4137	14.7

na = not available

Notes (1) UK unit labour cost competitiveness, cyclically-adjusted. Bracketed figure is for 1961. A decline in the series indicates an improvement in competitiveness. Source: Monthly Review of External Trade Statistics.

(2) Calculated by dividing an index of the wage and salary bill in manufacturing by a index of the value of gross output - the output volume index multiplied by the index of wholesale prices of goods sold at home. Sources: CSO, National Accounts, Economic Trends.

(3) From M A King, The UK Profits Crisis: Myth or Reality?, Economic Journal, 1975, Table III. Refers to manufacturing excluding metal manufacturing. "Real profits" are gross trading profits less capital consumption and stock appreciation. Effective tax rate is the ratio of tax liability to profits.

(4) Value added calculated in 1975 prices by applying the output index to the GDP contribution of manufacturing in 1975. Source: National Accounts, Economic Trends.

(5) The years chosen are cyclical peaks in manufacturing though there is some uncertainty whether 1978 or 1979 represents the last peak. 1978 is preferable for illustrative purposes in that it precedes the recent large change in competitiveness trends.

Policy Weaknesses

24. But the policies designed to make UK labour and capital cheap had, in the long run, serious weaknesses which in our view outweighed any short run benefits:

i. We believe they reduced the incentive to improve non-price competitiveness - ie to improve product quality and reliability. UK goods sold abroad failed to tap the strongest growing markets; domestically, imports responded disproportionately to increases in output and income. The existence of favourable trends in price/cost competitiveness (para 22) and the results of wider academic work (by eg Soete and Keesing) linking economies' export performance to measures of innovative activity, strengthen the view that it is poor product quality and marketing - related to lack of technological development and exploitation - which is the source of these difficulties. Furthermore by weakening the incentive to move "up market", conventional policies exposed UK producers to competition from less developed countries who were expanding into product areas involving simple technology and cheap labour.

ii. Some commentators believe that fiscal incentives for capital investment, given the continued upward movement in real wages, magnified by the imposition of labour taxes, may have induced excessive labour saving investment, reflected in artificially high rates of labour productivity growth; it is claimed that this helps explain the fall in manufacturing employment from the mid-1960s despite increasing output levels (until 1973) and buoyant investment.

iii. Most seriously, the policies led to rising inflation: triggered by the 1967 sterling devaluation, the breakdown of incomes policies and the rise in world prices, inflation accelerated from the late 1960s.

25. Our interpretation of the wages explosion in the late 1960s and thereafter is that there emerged through that decade (in the UK and elsewhere) increasing awareness of, and resistance to, the effect of inflation and rising taxation on real living standards; this blunted the ability of accommodating fiscal, monetary and exchange rate policies to offset underlying supply weaknesses and thereby secure employment. For the same reasons, conventional income policies were only of temporary effect. The world stagflationary condition in the 1970s and the associated slowdown in productivity growth severely aggravated these tendencies by reducing the sustainable growth of real incomes. The response of UK governments was, however, largely one of increasing the dosage of old medicines; but the patient hardly responded. Inflation accelerated; manufacturing employment and output fell.

26. As the paper by Professor Burns and others cited earlier puts it: "The problem of British post-war inflation, compared to other countries, has been one of pursuing levels of economic activity relative to world activity which continuously weakens the balance of payments and tempts the Government to devalue in order to reconcile the unemployment target with external balance. This, in turn, generates inflation as incomes chase import prices upward, under free collective bargaining.....It follows... that it is not possible to pursue a simple policy rule of directing fiscal policy toward determining full employment while allowing the exchange rate to adjust the balance of payments. The refusal of the community to bear, or the government to inflict, the real income adjustment necessary following an exchange rate depreciation will simply not permit this." (emphasis added)

Post 1979

27. In the long run, this situation is clearly unsustainable without an improvement in real performance or greater acceptance of a reduced rate of growth in real incomes. But there exists great inertia in the system; the result of decades of indifferent productivity growth and an entrenched wage-price inflationary spiral. Thus the attempt after 1979 to reverse policies of cheap money and cheap factors of production - in particular, the reversal of previous accommodating movements in the exchange rate, leading to a severe loss of price/cost competitiveness - came as a severe shock (see paras 23-24 of main report). In retrospect, the considerable fall in manufacturing output and employment was hardly surprising.

COMMON INDUSTRIAL WORLD DEVELOPMENTS

28. The preceding paragraphs have presented an explanation of falling employment opportunities in manufacturing industry couched largely in terms of particular British problems.

29. This is undoubtedly too parochial. Manufacturing employment, both absolutely and as a proportion of the workforce, has been falling in other industrial countries, most particularly since the early-mid-1970s. Profitability has fallen elsewhere (Table B5), and inflation and unemployment have risen throughout the OECD area. The UK generally turns in the worst performance - hence our emphasis on the British disease as an explanation of unemployment - but there are clearly some common industrial world developments which also impinge upon the unemployment story, in particular the relative or absolute decline of manufacturing.

Table B5: Gross Rates of Return on Fixed Capital(1) in Manufacturing per cent

	Canada	USA	Japan	Germany	UK
1955	19	25	na	29	14
1960	15	20	na	26	14
1964	17	24	(28) ²	20	12
1968	15	24	37	20	11
1973	15	19	37	15	9
1978	12	18	35	16	7
1979	14	17	34	na	6

1. Operating surplus (broadly equivalent to gross trading profit net of stock appreciation) as a percentage of gross capital stock (inventories excluded). Based on National Account statistics as returned to the OECD on internationally agreed definitions. Estimates provided by Department of Industry.

2. 1965 figure.

30. There is no completely satisfactory explanation of the causes of structural changes in employment or output but judged from an examination of UK developments and a still tentative analysis of trends abroad, we believe that there is an element in the declining fortunes of manufacturing industry (de-industrialisation) which results from the natural development of economies; a response to shifts in comparative advantage reflected in relative rates of return. To that extent, de-industrialisation in the UK may not be as pernicious as would appear at first sight.

31. There is some support for this view in the surprising buoyancy of "profit" share in a wide industry grouping in the UK including oil, services, public utilities and manufacturing, despite the continued fall in manufacturing profit share - Table B6. In particular:

- rates of return in private sector services have been far more buoyant than in UK manufacturing. It is a common feature of OECD economies that prices of services have tended to rise relative to manufactured goods prices - reflecting perhaps shifts in tastes as income grows. This shift in relative prices may have contributed to relative movements in profitability and thus output and employment, if only because manufacturers have to buy services during the process of production. The incursion of the newly industrialising countries into manufacturing activities especially since the late 1960s may also have influenced the re-allocation of industrial activity on a world-wide basis, consistent with movements in comparative advantage.

- the rise in real energy prices has caused a similar shift in relative rates of return. The manufacturing sector seems particularly hard hit. Table B7 shows the evolution of the real cost of materials and fuel bought by manufacturers and tentative calculations of the observable impact of higher material prices on profit share. (The data here do not discriminate between energy and non-energy inputs.) Although the figures are to be treated with caution, the impression is that the fall in profit share over the period shown is very largely accounted for by the

TABLE B6: Comparative "Profit"(1) Shares (%) in the UK

	Manufacturing Industry (1)	Production Industries Transport and Communication ² (2)	Production Industries, Transport and Communication less Manufacturing Industry (3) = (2) - 1
1960	32.9	31.2	28.3
1964	31.4	31.2	30.9
1969	27.8	30.9	35.8
1973	28.1	31.7	36.9
1978	25.9	32.9	42.5

1. To enable comparison between industries, profit share in value added is defined to include income from self-employment which contains an element of income from employment as well as profit. The buoyancy of profit share may thus be overstated, particularly in column (3). Data are gross of capital consumption, net of stock appreciation.
2. Sectors included here are: petroleum and natural gas, other mining and quarrying, manufacturing, construction, gas, electricity and water, transport and communication. The aggregate is that used by Professor Hill in his international study of rates of return: Profits and Rates of Return, OECD, 1979.

Source: National Accounts, Table 3.1.

TABLE B7: Change since 1972 in Real Material Costs and Profit Share in UK Manufacturing

	Change in		
	Real Material and Fuel Costs(1) %	Profit Share(2) Percentage points	Profit Share directly attributable to higher material costs (including services)(3) Percentage points
1972-73	+ 23.3	+ 0.2	- 1.2
1972-74	+ 48.4	- 6.5	- 6.7
1972-75	+ 39.9	- 8.0	- 2.2
1972-76	+ 51.4	- 6.8	- 4.2
1972-77	+ 44.9	- 2.5	- 7.0
1972-78	+ 31.9	- 2.1	- 4.5
1972-79	+ 36.3	- 7.2	- 7.6
1972-80	+ 40.5	- 10.5	- 6.6

Notes

1. Percentage point change in the ratio of the index of prices of materials and fuels purchased by manufacturing industry to the index of wholesale prices of goods sold at home. Source: Economic Trends.
2. Percentage point change in gross profit share (gross of capital consumption, net of stock appreciation) in value added in manufacturing industry. Source: CSO, National Accounts.
3. Estimated impact on profit share of increases in the real price of materials and services purchased inferred from movements in value added and the movements in the value of gross output in manufacturing. Source: National Accounts, Economic Trends.

sustained rise in the real cost of materials bought which, while reflecting a number of influences (eg exchange rate changes), is clearly related to the rise in real energy prices. Although data for other countries have yet to be examined, it would not be surprising if there were similar developments in other major economies, many of whom are far less fortunate in not having sizeable indigenous oil reserves.

Effect on Employment

32. Shifts in the pattern of activity, in the UK between manufacturing on the one hand, and services and energy on the other, create difficulties for employment if the labour shed from declining sectors is not suited to jobs available in expanding sectors or if the latter are relatively frugal in their use of labour. If relative pay levels do not move quickly enough to compensate or if demand for labour in the relevant sector is not especially sensitive to shifts in real pay, the result will be mis-match or structural unemployment.

33. An element in UK unemployment trends fits this pattern:

- the expansion of services was largely of benefit to females working more flexible hours, often part-time whereas the fall in employment in production industries was concentrated on males, often older males used to full-time jobs. Lack of flexibility in attitudes and skills and the relative cheapness of female labour probably contributed to the low rate of absorption of males into the service sector.

- the expanding energy sector is relatively capital intensive and, particularly in the case of oil production, unable to absorb labour shed elsewhere. The effect is reflected in relative movements in productivity and output growth at a national level: the annual average growth of output and labour productivity between 1973 and 1979 for the economy excluding oil is less than half that recorded for the economy including oil: overall rates of output growth have been associated with less employment growth.

TECHNOLOGICAL DEVELOPMENT AND EXPLOITATION

1. The United Kingdom ranks below the United States, Japan, Germany and France in terms of gross expenditure on R and D and, despite a somewhat better performance in the late 1970s, has shown lower growth in this item compared with the last three countries since the late 1960s (see Table B8).
2. Overall, from the late 1960s growth in R and D expenditure in United Kingdom industry has not kept pace with that in France, Germany and Japan.
3. Whilst the United Kingdom employs about the same proportion of the total industrial work force as R and D scientists and engineers as Japan and Germany and more than France, the rate of growth of this employment category has been substantially lower since the late 1960s.
4. United Kingdom business spends less on R and D than Japan in all manufacturing sectors, except aerospace; less than Germany except in aerospace, food, drink and tobacco and miscellaneous manufacturing; and more than France in all sectors except transport equipment and basic metal manufacture (see Table B9). Moreover, compared to its main competitors, it is only perhaps in chemicals and electronic engineering that the United Kingdom can lay claim to a respectable R and D growth performance. Table C10 shows that growth rates of R and D expenditure have varied considerably between countries, sectors and time periods, but the United Kingdom is the only country where, for six of the eight industries identified in Table B10, R and D expenditure was lower in 1978 than in 1967.
5. United Kingdom government expenditure on R and D is lower than in France and Germany in all categories of expenditure by objective, except in defence. Its expenditure on R and D categorised by the objective 'industrial productivity and technology' is below that of France and Germany and the EC average and in current prices has failed to reach the levels of the early 1970s compared with the sustained and rapid growth rates in France and Germany.

6. Expenditure and employment figures are input measures of R and D activity, but the relatively poor United Kingdom performance is also reflected in the output measures available - eg patent data. Table B11 presents data on foreign patenting in the United States. Between 1963 and 1978 the share of the United Kingdom in foreign patenting in the United States halved whilst that of France remained constant, Germany's share fell slightly and Japan's grew dramatically. The United Kingdom's fall in share was much the same across the spectrum of industries, but with parts of chemicals holding their share or even increasing it (eg drugs and agricultural chemicals).

7. It is difficult to resist the conclusion from such international comparisons that, with one or two exceptions (ie chemicals and defence), there is some general sense in which the United Kingdom technological effort is relatively deficient. In addition the literature on innovation recognises that an important role is played in the development of technological sophistication of processes and products by what has been termed 'incremental innovation'. By this is meant gradual modifications and improvements to processes and products in ways and by means of expenditure which may not even be classified as R and D. The extent to which this goes on will depend on managerial, labour and organisational skills, attitudes and relationships. The Japanese, for example, seem to have particular strength in 'shop floor' initiated innovation.

8. Incremental innovation may also be a function of the speed with which experience is accumulated about the characteristics of the production process and the market and about improvements that could be made. In other words, innovative capability in this sense may well be a function of the growth in the volume of output - the so-called 'learning curve' or dynamic scale economy effects. The cumulative effects of slow growth in the United Kingdom on this kind of hypothesis would have a self-perpetuating consequence.

9. Indeed, there is a body of opinion based upon anecdotal and some survey evidence that British technological weakness derives in large part from a failure to exploit technological advances commercially and to sustain

commercial success by continuous, incremental improvement rather than from a failure in the basic scientific and technology infrastructure. This view of a British 'development' or 'post-development gap' is consistent with evidence of a British deficiency in absorbing and developing foreign technology advances. The Germans and the Japanese, on the other hand, seem to thrive on foreign technology supplemented by their own incremental R and D efforts.

10. Studies of various industries (eg Prest on tractors, Rothwell on textile machinery and others in Pavitt (ed); Technical Innovation and British Economic Performance) have found that poor United Kingdom performance in radical innovations has been accompanied by relative deficiencies in incremental innovation. In other words, the relative technological weaknesses of the United Kingdom are a function not only of inadequate R and D investment but also of shortcomings in the other activities necessary for effective innovation such as production engineering, marketing and industrial skills and an awareness and absorption of foreign technological developments.

TABLE B8

GROSS EXPENDITURE ON RESEARCH AND DEVELOPMENT

	<u>INDEX NUMBERS BASED ON</u> <u>\$ 1975 PRICES (1975=100)</u>		<u>\$m 1975 PRICES</u>
	<u>1968</u>	<u>1978</u>	<u>1978</u>
US	110	114	41,868
JAPAN	52	119	11,794
WEST GERMANY	65	113	10,544
FRANCE	86	110	6,699
UK	94	113	5,439

Source: OECD

TABLE B9

INTERNATIONAL COMPARISON OF MANUFACTURING INTRA-MURAL EXPENDITURE ON R AND D, 1977

US \$ million

	France	Germany, FR	Japan	UK ^a	USA
Electrical engineering	1,129	1,888	1,954	1,313	5,952
Chemicals	746	1,936	1,610	802	4,180
Aerospace	756	518	n.a	815	7,078
Other transport	482	879	1,394	284	3,419
Basic metals	152	203	675	126	915
Machinery	205	1,017	891	310	5,375
Chemical linked industries	226	143	457	245	1,035
Other manufacturing	89	58	516	137	1,005
Total manufacturing	3,786	6,642	7,496	4,034	28,959

a 1978

n.a - not available

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EXPENDITURE ON R AND D AT 1975 PRICES. INDEX NUMBERS: 1975 = 100

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1977*
TOTAL INDUSTRIAL										
INTRA-MURAL R & D										
Germany FR	69	-	78	-	97	-	94	-	100	107
France	85	84	89	90	93	97	97	98	100	108
Japan	53	67	78	94	97	104	106	102	100	108
UK	113	112	113	-	-	106	-	-	100	117
USA	110	111	112	104	101	102	105	102	100	111
ELECTRICAL ENGINEERING										
Germany, FR	62	-	81	-	85	-	91	-	100	104
France	65	-	-	81	87	87	89	98	100	100
Japan	50	70	88	110	104	116	117	107	100	113
UK	107	110	112	-	-	105	-	-	100	149
USA	123	124	127	119	118	123	125	119	100	105
CHEMICALS										
Germany, FR	70	-	85	-	88	-	88	-	100	109
France	84	-	-	90	89	98	99	97	100	110
Japan	65	77	89	105	111	106	101	102	100	110
UK	88	91	96	-	-	94	-	-	100	120
USA	89	92	92	93	91	88	91	97	100	110
AEROSPACE										
Germany, FR	38	-	63	-	116	-	100	-	100	89
France	120	-	-	98	104	103	101	98	100	106
Japan
UK	122	122	120	-	-	126	-	-	100	101
USA	161	156	152	128	115	112	108	103	100	112

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Table B10 (continued (i))

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1977*
OTHER TRANSPORT										
Germany, FR	78	-	109	-	129	-	105	-	100	123
France	66	-	-	86	92	99	107	101	100	124
Japan**	36	46	50	63	71	95	102	90	100	111
UK	115	109	117	-	-	105	-	-	100	98
USA	90	95	94	91	96	104	121	110	100	127
BASIC METALS										
Germany, FR	198	-	141	-	109	-	102	-	100	110
France	92	-	-	-	-	-	98	98	100	106
Japan	60	65	74	91	86	91	95	97	100	108
UK	151	130	129	-	-	107	-	-	100	98
USA	87	89	86	88	89	85	88	88	100	108
MACHINERY										
Germany, FR	83	-	56	-	90	-	96	-	100	120
France	92	-	-	185	181	209	172	95	100	112
Japan	58	78	93	116	115	106	106	129	100	136
UK	146	144	133	-	-	100	-	-	100	117
USA	69	76	77	77	77	81	86	88	100	111
CHEMICALLY LINKED INDUSTRIES										
Germany, FR	76	-	71	-	62	-	118	-	100	119
France	83	-	-	98	102	103	100	103	100	104
Japan	65	87	82	90	104	99	106	94	100	109
UK	112	112	112	-	-	91	-	-	100	102
USA	80	82	84	85	84	88	87	85	100	110

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Table B10 (continued (ii))

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976*
OTHER MANUFACTURING										
Germany, FR	96	-	148	-	178	-	94	-	100	102
France	105	-	-	105	99	96	122	112	100	109
Japan**	50	60	69	82	69	98	111	98	100	105
UK	169	166	159	-	-	114	-	-	100	137
USA	76	81	89	93	90	92	91	94	100	117

NOTES

*Based on 1978 figures for UK

**Includes aerospace

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TABLE B11 SHARES IN FOREIGN PATENTING IN THE UNITED STATES, 1963-1978

	1963	1967	1971	1975	1978
France	10	11	10	9	9
Germany	27	26	25	24	24
Japan	5	10	18	25	28
United Kingdom					
Chemicals					
Industrial	17	15	11	11	11
Plastics, etc	11	15	12	9	8
Agricultural	10	15	10	12	16
Drugs	9	15	10	13	15
TOTAL	16	16	11	11	12
Machinery					
Engines, etc	38	30	22	14	10
Farm, garden	17	20	18	12	11
Machine tools	23	18	15	13	9
Office	22	21	17	11	10
Other	22	19	16	12	10
TOTAL	23	20	16	12	10
Electrical Equipment					
Transmission, etc	21	22	18	9	11
Household appliances	15	17	15	9	7
Lighting, wiring	17	21	16	20	14
TOTAL	22	19	18	12	11
Electronic equipment					
Radio, TV	26	21	14	9	10
Communications	28	22	17	13	12
TOTAL	28	22	17	13	11
<u>TOTAL UK</u>	<u>21</u>	<u>19</u>	<u>16</u>	<u>12</u>	<u>11</u>

Source: Office of Technology Assessment and Forecasts, 7th Report, Washington DC, USGPO, 1977; and information supplied to Science Policy Research Unit, Sussex.

UNDERLYING CAUSES OF WAGE STICKINESS

1. It has been argued that increasing unemployment in the United Kingdom has been generated by shifts in the structure of demand and by supply side "shocks". In commodity markets it is normally expected that excess supply will be removed by falls in prices. Why do not wages move in a similar way to clear the labour market? More specifically recent history suggests two related puzzles:

- First, when demand decelerates why do real wages drop so slowly?
- Second, when demand accelerates, even from (increasingly) high levels of unemployment, why do nominal wages rise so rapidly?

These questions are addressed in turn.

WAGE RIGIDITY IN THE FACE OF DECLINING DEMAND

THE EVIDENCE

2. When demand falls, firms can theoretically choose between reducing hours of work, reducing wages and allowing profits to be squeezed. The recessions of the last decade have been accompanied by pressure on manufacturing profits in virtually all Western economies, though the pressures may have been greater in Britain than in most other countries. (See Annex B). There is therefore casual evidence of difficulty in adjusting labour inputs in any way, either via quantities or via prices. Indeed it has been suggested that in the 1960s and early 1970s Britain and Western Europe experienced unemployment rates that were only half the North American levels largely because of a greater reluctance to lay-off workers. The reluctance may have been motivated by job security provisions, including legislation.*

* The same employment protection provisions may now be having an adverse impact on unemployment. Such provisions may discourage lay-offs in periods of mild recession, but at times of deep recession (and great uncertainty) they may well act mainly to inhibit new recruitment.

3. Once profits are squeezed firms initially attempt to reduce hours of work. If that proves insufficient they show a strong preference for reducing labour costs through lay-offs rather than through cutting real wages. In the post-war period nominal wages appear to have responded to decelerations in monetary demand, albeit with long and painful lags, but there have only been three periods, including the present, in which real earnings have actually fallen. The ground lost in the previous falls was recovered within three years.

4. Preliminary work on comparisons with other countries (carried out at the London School of Economics) suggests that real wages in the United Kingdom are more rigid than in most developed Western countries, the major exceptions being those with a high degree of indexation. This work is not yet in a form to be quoted. But there is evidence that unemployment on its own has only a limited impact on wage inflation (as distinct from real wages). Tentative OECD estimates of the short run impact of a percentage point rise in the unemployment rate are as follows; it will be noted that the United Kingdom shows the lowest figure (implying the most rigidity) and Japan much the highest.

TABLE C1: CHANGE IN THE SEMI-ANNUAL GROWTH RATE OF WAGES
FROM A 1 PERCENTAGE POINT RISE IN THE UNEMPLOYMENT RATE

- (a) LOW UNEMPLOYMENT RATES

(Figures in parenthesis show starting level of the unemployment rate)

US	CANADA	JAPAN	GERMANY	FRANCE	UK
(4%) -0.47	(4%) -0.29	(1%) -3.77	(2%) -0.13	(4%) -0.14	(5%) -0.11

5. The same source suggests that excess supply in the labour market may have a smaller effect on wage inflation the higher the starting level of unemployment; the following figures, for higher unemployment levels, show much smaller adjustments in real wages (except for Canada).

TABLE C2: CHANGE IN THE SEMI-ANNUAL GROWTH RATE OF WAGES
FROM A 1 PERCENTAGE POINT RISE IN THE UNEMPLOYMENT RATE

- (b) HIGH UNEMPLOYMENT RATES

(Figures in parenthesis show starting level of the unemployment rate)

US	CANADA	JAPAN	GERMANY	FRANCE	UK
(7%) -0.16	(7%) -0.21	(3%) -1.12	(4%) -0.04	(7%) -0.05	(10%) -0.03

6. Real wage rigidity - the failure of real wages to adjust rapidly to declines in demand - is not a new phenomemon*. In the Great Depression real wages generally rose in the United Kingdom, France, Germany (prior to Hitler's controls) and Sweden, even though money wages fell. In the United States real weekly wages did fall in the early part of the 1930s, before staging a strong recovery. But the initial fall largely reflected the

*In 1919 the Webbs wrote "If every artisan, without the slightest concert with his fellows, is possessed by an unreasoning prejudice that he and his family must consume wheaten bread, butchers meat, beer and tea, instead of living on oatmeal, maize, potatoes and water; the employer will find in useless to suggest that "any meal is better than none"".

adoption of a dramatically shorter working week; on an hourly basis real wages rose across nearly all United States manufacturing industries even over the period 1929-33. The buoyancy of real wages in Britain during the 1930s has been attributed to union bargaining. This may well have played a part. Analysis of the American experience shows that unionised sectors exhibited a smaller fall in money wages than non-unionised sectors. Nevertheless even the non-unionised sectors experienced stable or rising hourly real wage rates alongside unemployment much higher than in Britain and without the safety net of an unemployment insurance system.

EXPLANATIONS

7. For over 50 years attempts have been made to explain the downward stickiness of real wages. There are probably many mechanisms at work and the importance of each will vary across different sectors of the labour market and may change through time. They can be conveniently grouped in terms of influences on employees, influences on employers and influences on both parties.

a. INFLUENCES ON EMPLOYEES

8. One of the earliest explanations offered for the resistance of employees to wage cuts was that they have profound convictions about appropriate relative wages among occupations and industries.* Relative wages are seen as defining status. Decentralised wage bargains can only determine the absolute wage in one occupation, industry or firm at a time. In a period of rising unemployment each worker resists offers below the going rate of wage increases, not because he or she would be unwilling to accept a universal reduction in real wages - "equal misery for all" - but because he or she sees only his or her part of the labour market and observes that to accept a lower rate is to accept a reduced relative wage by the normal standards of comparison. The net, though unintentional, result

* The rigidity of pay relationships was noted by Adam Smith 200 years ago. More recently a rank correlation co-efficient of +0.87 was found for earnings in 132 industries in 1948 and 1959. With a higher rate of pay increase the degree of correlation has fallen: for men manual workers in 124 industries in 1960 and 1975 it was +0.617.

is to preserve the general wage level or its trend. The great importance attached to starting recent wage rounds off on the right foot and to isolating and justifying aberrant awards suggests that this mechanism is very important in current circumstances. Its importance has probably been increased by the post-war growth of single-employer agreements and the declining importance of industry-wide agreements: for two-thirds of manual and three-quarters of non-manual employees in manufacturing the principal means of fixing pay is now through single-employer agreements concluded for individual companies or factories.

9. Another important influence on employee behaviour is the standard pattern of collective bargaining agreements. These agreements normally specify wage rates but not the amount of employment. Reflecting three decades of full employment, unions have placed much more emphasis on improving wages than on maintaining or increasing the number of jobs. The substantial growth of unions and the related extension of collective agreements over the same period have strengthened this source of rigidity. Old attitudes and objectives take time to change and unions have found it easier to accept redundancies than to relax their pressure for higher wages. Generous redundancy benefits may influence the choice, particularly where there is an ageing labour force.

10. For many workers the choice is not directly between a reduction in real wages and redundancy, even at current levels of unemployment. Over the post-war period a growing proportion of the United Kingdom labour force has come to work for large employers offering a high degree of job security. In manufacturing industry the hundred largest employers accounted for 27 per cent of all employment in 1958 and 34 per cent in 1978. Between 1961 and 1979 public sector employment rose from 24 per cent to 30 per cent of all employment. These types of employers often have highly developed "internal labour markets", ie administrative units where most jobs are filled by the promotion or transfer of workers who have already gained entry and which are therefore shielded from the direct influence of competitive forces in the labour market. Such markets may be believed to offer the protection of "lifetime employment". Recruitment with the implicit or explicit aim of

providing lifetime employment is by no means confined to the public sector. IBM, for example, only recruits people it expects to be able to employ on a permanent basis. Moreover, whatever the formal understanding, most people do experience very long attachments to one employer. While turnover rates indicate that there are many short jobs in the economy, the bulk of employment is spent in jobs of considerable length. A recent estimate is that in the mid 1970s men in employment could expect to spend an average of 20 years with the same employer, and employed women 12 years.* At that time the average length of job tenure in public administration appeared to be no higher than in manufacturing. One can readily see why redundancy is viewed as something that affects somebody else.

11. A further but related influence on employee attitudes is that the unemployed do not represent effective competition to most people in work. Those concerned with negotiating higher wages are not, on the whole, the ones that lose jobs as a result and even less are they the ones looking for jobs. As is noted in Annex A, unemployment has been concentrated on a relatively small segment of the labour force, with limited skills, low wages and poor work histories. Union members are under-represented: only four out of ten men and one third of the women becoming unemployed in 1980 were union members in their last jobs, and for most of these membership lapsed in the first few weeks of unemployment.** The concentration of unemployment on the disadvantaged is almost certainly greater than in some other countries, notably North America, and so far there is little sign that it is diminishing. A 1980 survey found that only 13 per cent of men in the labour force reported experiencing unemployment at any time in the previous year.

12. A final reason for expecting employees collectively to accept redundancies in preference to wage cuts is the availability of other sources of income. The obvious source is unemployment compensation, but redundancy benefits, occupational pensions, presence of a second earner, significant savings and various types of fringe activities may also reduce the costs of unemployment. All have greatly increased in the post-war period.

*Average job tenures appear to be only slightly shorter in the United States. In US manufacturing seniority systems are thought to be more widespread than in Britain.

**For all employees the comparable figures were 72 per cent for men and 42 per cent for women.

b. INFLUENCES ON EMPLOYERS

13. While the reasons for employee resistance to real wage reductions are easily understandable, at first sight it is not so obvious why employers do not make greater efforts to take advantage of high unemployment to force wages down. Despite the obligations of job security provisions and the costs of redundancy payments, many employers apparently prefer to look for savings first through reducing the labour force and only secondly through curbing wage increases. Why?

14. One explanation is that employers find it more efficient to take a long-term view of the employer-employee relationship. Employers are concerned to minimise labour costs per unit of output over the long term. If employers believe that aggressive wage cutting in a buyers' market may antagonise the remaining work force, reduce productivity, and make it harder to recruit high quality workers when the labour market tightens, they will be less inclined to push their short-term advantage. Employers with large training investments - either formal or informal - in their work forces and with highly developed internal labour markets are particularly likely to take this view. In contrast to the situation in Japan, profit related bonus payments are not generally available to take the strain of fluctuations in demand. Given the prevalence of internal labour markets and the length of average job tenures, many employers can be expected to be more concerned about the impact of wage settlements on the expectations and motivations of their existing employees than about the ease of obtaining new recruits. This will be all the more true at a time when recruitment is depressed by demand conditions.

15. The extent to which employers can pursue a strategy of pay continuity in the interests of maintaining employee commitment will depend on the market structure. Employers in industries characterised by a significant degree of monopoly or oligopoly power and low sensitivity of demand to changes in prices and/or incomes clearly have the greatest scope for riding out recessions without altering their wage policies. Most of the public utilities and nationalised industries fall into this category but so, for

example, do the clearing banks. With the expansion of the public sector and the growth of concentration in private industry, an increasing share of the labour force have come to work for employers that can afford to (or believe they can afford to) pursue pay policies that disregard changes in the labour market.

16. A further factor influencing the employer's stance is the known attitudes of unions. For the reasons indicated earlier, redundancies and voluntary wastage are less likely to provoke strong opposition than attempts to make significant cuts in real wages. For most of the last ten years there have been 20 stoppages over wage rates and earnings levels for every stoppage caused by redundancy questions. Reducing staff numbers will therefore be seen as the course of least resistance. (However, behaviour is now changing: in 1981 work stoppages over redundancy questions were equal to one quarter of the stoppages attributable to wages and earnings.) In non-unionised sectors the floor set by Wages Councils may act as a similar incentive to opt for reductions in employment.

c. INFLUENCES ON EMPLOYEES AND EMPLOYERS

17. Underlying the wage responses of employers and employees to the difficulties created by rising unemployment are widely held notions of fairness, enforced by strong social pressures. These notions include the idea of a "fair wage", often interpreted as a "family wage"; ie the need for a wage sufficient to support a family. An equally important social convention is the concept of the "going rate", the belief that a particular kind of job carries a particular price tag. Related conventions include the reluctance of employers to take on new recruits at less than the rate paid to existing workers, and the unwillingness of the unemployed openly to offer themselves for wages that would undercut those in employment. These mores may be recognised (and underpinned) by Government regulations - for example, rules on suitable work for unemployment benefit recipients. There are two areas where the conventions do not apply: the "black economy" and the "household economy". But elsewhere these social conventions are possibly the single most important contributor to wage rigidities. It is not clear how the Government can influence them except at the margin.

18. Professor Minford has recently suggested that conventional ideas of a "fair wage" have been both stiffened and raised by the tax and social security system. He argues that the system effectively imparts a "floor" to wages. (This impact is separate from the long-recognised relationship between the level of benefits and the time taken in job search by the "temporarily" unemployed, though arguably it is an extreme form of this relationship.) There are two possible mechanisms. First, the tax and social security system may affect the behaviour of workers: when wages begin to fall people cease looking for work and de facto drop out of the labour force because they find flat-rate unemployment benefits more attractive than the jobs and wages on offer. Second, the tax and social security system may influence the behaviour of employers: even with very large declines in demand employers are unwilling to recruit at significantly reduced wages because they believe taxes and benefits define the minimum level of wage that it is socially acceptable to offer. Both mechanisms may operate together. Nevertheless it is worth reviewing the evidence in relation to each.

19. Until recently there has been very little hard evidence on the relationship between incomes in work and out of work for people experiencing unemployment. Most discussion has centred on illustrative family types and has, perforce, been based on a range of assumptions about the normal earnings levels, family characteristics, other sources of income and benefit take-up rates of the unemployed. In the last year or two the position has improved mainly because of the results coming out of the DHSS cohort study of the unemployed. Tables C3 and C4 draw on these results to provide a more comprehensive picture of "income replacement ratios" ie incomes out of work as a proportion of incomes in work -

Table C3 shows the position in November 1981 of the average man - in terms of earnings - experiencing unemployment in each family type, on the assumption first that there are no other sources of family income except his own earnings (when in work) and various social security benefits, and second that all social security benefits for which he is eligible are claimed. It therefore shows the 'theoretical' replacement ratio for an illustrative example within each family type.

Table C4 shows the distribution of actual replacement ratios for men of each family type becoming unemployed in the autumn of 1978. It takes account of the presence of other sources of family income, such as wives' earnings and occupational pensions, and of the incomplete take-up of social security benefits.

20. With one important exception both tables take into account all the major elements relevant to comparisons of incomes in and out of work.* Allowance is made for all the main means tested benefits - housing benefits, free school meals, free welfare milk, family income supplement, as well as supplementary benefit. The tables exclude free prescriptions but their value is likely to be small and highly variable. (Moreover they are also available to low income families in work.) Both tables also include travel to work costs - the actual reported costs in the case of table C4 and national average costs for Table C3. They do not include the costs of special clothing required when in work or the extra costs of meals. On the other hand, no allowance is made for in-kind benefits provided to those in work; the DHSS cohort study found that about half of the men becoming unemployed received free meals or other in-kind benefits in their last job. It seems reasonable to conclude that the extra costs of work and the extra "perks" roughly cancel each other out. Finally, the calculations make no allowance for the effect of unemployment on tax obligations. They therefore understate replacement ratios prior to the taxation of benefits in June of this year. However, in practice only a minority of the unemployed appear to claim tax refunds before they return to work, suggesting that the majority are not fully aware of the tax advantages of the present position. After June tax rebates will generally be very small and will not usually be paid until the return to work. The tables are therefore a reasonable representation of the position that will obtain after benefits are brought into taxation.

For obvious reasons they do not incorporate earnings in the "Black Economy". The little information available suggests that these will be significant for only a small proportion of the unemployed (see Annex A). In some areas (eg moonlighting) the earnings may affect both sides of the comparison.

TABLE C3 ILLUSTRATIVE INCOME REPLACEMENT RATIOS FOR THE MALE UNEMPLOYED: NOVEMBER 1981

FAMILY TYPE	% of male unemployed (Nov 1980) (3)	Average Gross Earnings(1)	Total Income Support in work (4)	Total Income Support out of work on Sup Ben (4)	Replacement ratio (columnn 4 as % of column 3)
	1	2	3	4	5
	%	£	£	£	£
Single man, aged under 20(5)	15	66	44.6	21.2	47
Single man, aged 20+ (5)	39	107	70.1	38.1	54
Married man, 0 children	21	130	88.9	52.6	59
Married man, 1 child	8	125	91.0	65.4	72
Married man, 2 children	9	147	110.0	76.5	70
Married man, 3 children	4	139	110.3	90.6	82
Married man, 4 children	3	128(2)	114.6	107.2	93

Notes:

1. Based on 1978 DHSS Cohort Study figures, updated to November 1981
2. Based on men with 4 or more children in Cohort Study.
3. Males represented 72 per cent of the unemployed.
4. Illustrative values for householders (except single men under 20).
5. On the assumptions that single men under 20 are non-householders but receive the Sup Ben rate for men aged 18 or over, and that single men aged 20 or over are householders.

Total Income Support in Work: Gross Earnings, minus income tax, NI contributions and fares to work, plus FIS and Child Benefit, free school meals, free welfare milk, and housing benefits.

Total Income Support out of work: Total Supplementary Benefit payable including housing element and water rates, plus free school meals and free welfare milk.

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TABLE C4 ACTUAL INCOME REPLACEMENT RATIOS* FOR MEN BECOMING UNEMPLOYED IN 1978 - EARLY PART OF SPELL**

	% of male unemployed stock (Nov 80)	Income Replacement Ratios				Total
		Up to - 50%	50% - 80%	80% - 100%	100% +	
Single men	54	67	28	3	2	100
Married couple no children	21	30	43	16	11	100
Married couple 1 child:	8	18	48	21	11	100
Married couple 2 children	9	22	46	22	9	100
Married couple 3 children:	4	13	47	25	14	100
Married couple 4 + children:	3	12	32	33	24	100
Total	100	45	36	12	7	100

* All sources of regular family income while out of work, including unemployment benefits, housing benefits, free school meals, wives earnings and occupational pensions expressed as a proportion of total weekly family income prior to unemployment.

** Ratios relate to the first three months of unemployment.

21. The main points to emerge from the tables are that-

- most of the male unemployed (about 75%) are single men or married men without children. Less than one in ten fits the stereotype of a wife and two children;
- taking account of the actual earnings of men experiencing unemployment, calculations of illustrative replacement ratios suggest that only for men with three or four children is the typical ratio high, ie over 75% (Table C3). For the great bulk of the unemployed without children the "typical" ratio is 60% or lower;
- the actual income replacement ratios found by the DHSS cohort study are broadly consistent with the illustrative examples, though there is a wider dispersion than the simple averages might suggest. Early in their spells of unemployment about a fifth of all men had replacement ratios of over 80%, including 7% with ratios of over 100%. A little under half had ratios below 50%, (Table C4). While only 5% of single men had ratios of over 80%, the proportion rose to 27% for married couples without children and to 31% for married couples with two children.

22. A number of comments should be made on the significant proportion of men (20 per cent) with actual income replacement ratios of over 80 per cent. First, the main cause was a combination of low earnings - about half of the men with ratios over 80 per cent were in the bottom decile of the earnings distribution - and high benefits. Second, another contributing factor was the possession of other sources of income, apart from benefits and the man's earnings. The presence of working wives or occupational pensions serves to raise replacement ratios, particularly for married couples without children. In these circumstances the ratios exaggerate the implicit tax rates involved in a decision to return to work; a rough adjustment suggests that about 15 per cent of all men becoming unemployed in 1978 faced tax rates of 80 per cent or more. A third factor was the low receipt of means tested benefits in work, in contrast to the assumption of 100 per cent take up in the illustrative comparisons. For example, in the

DHSS sample less than a quarter of those eligible appeared to receive the housing benefits to which they were entitled while in work. A final point is that since 1978 the numbers and characteristics of the unemployed have changed and there have been important tax and benefit amendments, including the phasing out of earnings related supplement (ERS). On balance the proportion of men becoming unemployed for whom a return to work involves an implicit tax rate of 80 per cent or more is now probably less than 15 per cent, (assuming they can find work paying as well as their previous employment).

23. Apart from obtaining a comprehensive picture of current replacement ratios it is important to establish how the ratios are changing through time. Figure 7 in the main Report provides the best single indicator so far developed of the relationship between unemployment benefits (including payments for housing costs under supplementary benefit) and the average net earnings of manual workers. It may be possible to further refine this series. We would also propose to compare it with the time series used by Professor Minford, which is based entirely on the position of a family with two children.

24. The information on replacement ratios needs to be put alongside evidence on job search behaviour. Surveys of the unemployed have consistently shown that -

- most of the registered unemployed are actively searching for work, through there is a minority who, for a variety of reasons, do very little to help themselves; for example, a survey in 1980 of men and women who had been out of work for about four months found that four-fifths were using one or more of the "normal methods of job search" (as defined by the MSC), but about a fifth reported using none of them;

- many of the unemployed indicate a willingness to accept a real wage below their earnings in their last job, though again there is a minority who are inflexible; for example, in a 1979 survey of men who had been on the unemployment register for about four months, at least one half reported a willingness to accept a significant drop in their real pay. However a few required an increase in their real pay;

- in current circumstances few of the unemployed report turning down job offers. A national survey in mid 1980 found that 12 per cent of people unemployed for about a month had turned down a job offer, but the proportion rose with socio-economic group from 4 per cent of unskilled manual workers to 16 per cent of professional and managerial workers. Men in the same sample who had already returned to work reported a rather higher turn-down rate.

At the same time information on vacancies does not indicate that many low paying jobs remain unfilled for extended period. A 1977 survey found that 90 per cent of the unskilled vacancies that were notified to be filled by Job Centres were filled within 6 days. Since then there has been a large fall in the number of unskilled and semi-skilled manual vacancies on the Job Centre books, down from 90,000 in December 1978 to 35,000 in December 1981, and a large rise in the ratio of unskilled and semi-skilled unemployed people to such vacancies, up from 9 to 1 to 44 to 1. Studies of the residue of jobs that remain unfilled or are difficult to keep filled have usually identified low pay as only one among several contributing factors, including unrealistic qualification requirements, vacancies that are purely "theoretical", poor working conditions, unsocial or long hours, and difficult locations.

25. It seems reasonable to conclude that although a minority of the register show little active interest in finding work, current social security benefit levels are not causing large numbers of the adult unemployed to choose to remain permanently out of work. Hence this mechanism is unlikely to be seriously constraining wage flexibility. This is not, of course, to deny that benefits and taxes will influence the time taken over job search by the great bulk of the unemployed who regard themselves as temporarily out of work: in Annex 5 to MISC 14(82) 1 it was estimated that in present United Kingdom conditions a 10 per cent cut in social security benefits might lead to a fall in unemployment of some 100,000 in the short term.

26. The second mechanism through which benefits might act as a wage "floor" - by influencing the behaviour of employers - is more difficult to test. One possible approach would be to ask employers what determines their minimum wage levels and whether the tax and benefit system inhibits them from offering less. We are not aware of any surveys that directly address these questions, though some useful information should be obtained from monitoring the Young Workers Scheme and from forthcoming research on Wages Councils. In the meantime there is piecemeal evidence that employers see 'the going rate', 'collective agreements', 'the unions' and 'Wages Council awards' as the main explanations for their minimum wage rates. Social security benefits reportedly do enter into discussions about Wages Council awards from time to time. The ceiling on eligibility for Family Income Supplement (the 'prescribed amount') has been used by employees as an argument for larger awards. On the odd recent occasion on which supplementary benefit levels have been quoted they have apparently been referred to by employers as arguments for recommending smaller rises.

27. If any conclusion is possible from such impressionistic evidence it is that the benefit and tax system is just one of several elements that contribute to setting a 'floor' to employer wage offers. As we have seen, for most of the unemployed current minimum wage levels are well above the level of benefits. Moreover, in 1979, the latest year for which we have information, only 4 per cent of single people and family heads in full time

work were estimated to have incomes less than 40 per cent more than their supplementary benefit entitlement (and the proportion had fallen since 1975). Therefore if benefit levels do significantly influence wage offers it must be because employers are consciously or unconsciously aware of the benefit entitlements of families with children and assume the need to provide a 'family wage'. Directly attacking this notion, for example through an enhanced Family Income Supplement, might be a more efficient way of lowering a benefit-related "wage floor" than an across-the-board cut in benefits.

WAGE "PUSHFULNESS" IN THE FACE OF LIMITED EXPANSION
THE EVIDENCE

28. While wage rigidities have long been a feature of periods of recession, fears of high wage inflation at a time of limited expansion have become widespread relatively recently. Table C5 below illustrates the basis of these fears. It shows the relationship between real growth and growth in nominal GDP in the main OECD countries in the two decades since 1960. All countries have experienced a deterioration in the relationship between the 1960s and the 1970s, a reflection of both higher inflation and lower growth. However it is not clear how far this is due to a fall in "supply responsiveness", the trade off between inflation and growth, and how far it is the result of unfavourable supply shocks (for example higher oil prices).

29. But some economies fared worse than others. In particular in the United Kingdom the ratio between real growth and nominal GDP fell fourfold (twice the OECD average), the result of adding a dismal performance on inflation to a longstanding poor performance on growth. Bearing in mind the upward trend in unemployment this comparative deterioration suggests some increase in wage pushfulness. Of the other countries, Japan put in the best performance, even though particularly badly hit by the 1973-74 oil shock. Canada, United States and Germany were also considerably less inflation-prone than the United Kingdom.

TABLE C5: INFLATION AND REAL GROWTH: AVERAGE ANNUAL CHANGES, 1960-1980

	<u>1960-1970</u>			<u>1970-1980</u>		
	Inflation %	Growth % in Nominal Incomes	Growth - Increase	Inflation %	Growth % in Nominal Incomes	Growth - Increase
US	2.9	4.1	0.6	6.9	2.9	0.3
Canada	3.0	4.9	0.6	8.7	4.0	0.3
Japan	4.7	11.4	0.7	6.8	5.3	0.45
Germany	3.5	4.8	0.55	5.3	2.8	0.35
France	4.4	5.7	0.55	9.4	3.6	0.25
Italy	4.5	5.6	0.55	14.7	3.1	0.15
UK	4.2	2.8	0.4	13.8	1.8	0.1
OECD	3.7	5.0	0.55	8.4	3.3	0.3

Source: OECD National Accounts

- Notes: (i) Growth - annual average rate of growth of real GNP, per cent
(ii) Inflation - annual average rate of growth of GDP deflator, per cent
(iii) Increase in nominal incomes - the sum of (i) and (ii)
(iv) Growth - increase in nominal GNP rounded to nearest 0.05

30. Assuming that the whole of the growth of inflation cannot be put down to the direct impact of supply side shocks, there are two questions to explain:

First, why has wage inflation at any given level of labour market slack worsened across nearly the whole of the OECD?

Second, why has the deterioration in the United Kingdom apparently been greater than in most other countries?

EXPLANATIONS

31. At this stage explanations can only be tentative. Many of the mechanisms that appear to make nominal wages "springy" when constraints on monetary demand are loosened are the same as those preventing real wages falling when demand declines. There are, though, additional factors at work. It is again useful to order the arguments in terms of influences on employees, influences on employers and influences on both parties.

a. INFLUENCES ON EMPLOYEES

32. A widely held view is that since the late 1960s there has been an "aspirations gap" - a desire for a growth in real living standards in excess of what the economy can deliver in the form of rising productivity. The gap could be caused by a spontaneous increase in aspirations, perhaps the result of societal changes towards materialism; or by a supply shock reducing productivity growth. In the latter case, aspirations based on a projection of past increases in living standards will create a divergence between desired and attainable real income. Several commentators see the slow-down in productivity growth in the early 1970s and the deterioration in real incomes inflicted by high real oil prices as the sparks which set off the prairie fire of inflation across the major economies.* In time, the problem should resolve itself as aspirations are gradually brought into line with reality. But there may be a protracted learning period, especially if real

* A possible indicator of this aspirations gap was the strike wave that affected many Western countries, including the United Kingdom, after 1968. Most of the extra days lost were over pay issues.

wage demands are met partly out of lower profits, thus sustaining the illusion of a bottomless pint pot. The last time during which Britain experienced a fairly similar situation - a sharp downward turn in the trend of real earnings - was at the turn of the century.

33. Aspiration gaps can only be translated into inflationary wage settlements if employees exert strong bargaining power or employers offer weak resistance. Provided Government policy is accommodating there are three ways in which trade unions can cause the average level of money wages to rise:

i. by increasing the share of the labour force organised into unions or subject to union wages, so that an increased portion of the labour force are paid the union rate;

ii. by increasing the union/non-union wage differential, provided there is not an offsetting shift in employment from the union to the non-union sector;

iii. by causing the non-union wage to rise more rapidly than it would in the absence of trade union activity; for example because non-unionized employers fear encroachment by unions if they do not compete with wages in the unionized sector.

There is a good deal of United Kingdom evidence on the first two of these channels of influence.

34. Measured by union coverage there is no doubt that union bargaining power has increased in the United Kingdom over the last twenty years, both in absolute terms and relative to the position in most of our main competitors. Between 1960 and 1979 union members rose from 44 per cent to 55 per cent of employees plus the unemployed. (In 1980 the figure fell back to just under 54 per cent)*. The same period saw little or no increase in union

* As a proportion of employees only membership has risen more dramatically, from 44 per cent in 1960 to 59 per cent in 1979. It remained at 59 per cent in 1980

penetration in Germany, France, the United States of America and Canada, although in 1960 all four had membership rates that were lower than our own. (The four EEC countries with the highest unionisation rates are Denmark, Italy, Belgium and Ireland but only in the last two has there been a substantial increase in coverage in recent years.) There has also been a significant rise in closed shop arrangements in the United Kingdom. Currently at least one third of blue collar and about one in ten white collar employees are involved in closed shop policies.

35. Evidence on the size of the union 'mark up' (ie the union/non-union wage differential) is harder to interpret. There also appear to be few studies of the mark up in other countries, outside North America, to place the British experience into perspective. Putting together a number of British studies the overall picture is that the union differential rose significantly over the period 1968-73 but has since remained roughly constant. The failure generally to rise after 1973, thought the average position masks different patterns across industries and occupation, is surprising given the usual expectation that the union mark up increases with unemployment. It may be that incomes policies modified the impact of unionism.

36. The absolute level of the mark up is a matter of some debate. A number of studies using industry cross-section data had suggested a differential of around 25 per cent in the early 1970s. However the most recent work using richer data on individuals indicates a mark up of less than 10 per cent for male manual workers in manufacturing industry. For the time being this must be regarded as the most reliable estimate. What is important for Government policy is the sources of the power to produce a mark up. Although there are a large number of theories about the determinants of union bargaining power we have been unable to find any empirical work that convincingly links the size of the union differential to particular legal rights and privileges.

37. Variations in union bargaining power, and employer toughness, across sectors will ensure that the wage structure that emerges from a period of restrained monetary demand will exhibit considerable inequities in terms of traditional industrial and occupational relativities. The problem will

probably be most acute if the constraints on demand have been accompanied by an effective incomes policy. Attempts to restore relativities as soon as the controls are loosened have been among the most pernicious causes of wage inflation in the last twenty years. However, it is not clear whether concern with relativities is greater in the United Kingdom than elsewhere or whether British periods of restraint have left behind larger perceived inequities in the wage structure.

38. The presence of one and a half million unemployed acted as no inhibition on wage demands in 1979. There are reasons for doubting whether three million will be a more effective dampener once output and profits begin to increase and fears of redundancy decline. As has already been noted, because of the segmentation of the labour market, the growth of internal labour markets and the concentration of unemployment on the unskilled, those in work do not by and large see the unemployed as competitors for their jobs.

b. INFLUENCES ON EMPLOYERS

39. Surveys of management negotiations in the United Kingdom private sector have consistently shown that ability to pay (or profitability) is employers' first consideration in drawing up wage offers. In circumstances of depressed demand this consideration will place downward pressure on wage settlements. But once profits begin to rise the same factor may rapidly lead to large wage rises. Recent history suggests that when the general economic situation is seen as improving, the size of profits will be a far more important influence on employer wage offers than the state of the local or national labour market. In times of rapid structural change it is particularly likely that high wage settlements will co-exist with large scale unemployment.

40. As demand rises, expanding firms need to attract new employees. Even with high unemployment there are several reasons why this may lead to the bidding up of wages -

- i. The unemployed are relatively unskilled and where they have skills they are primarily those of declining industries or occupations rather than of expanding ones.

ii. A legacy of recession and high unemployment is a contraction in both the stock of skilled workers and the flow of new skills: firms cut back on training (for example, apprenticeships) and displaced skilled workers move to unskilled or semi-skilled jobs in other sectors.

iii. More speculatively, a further legacy of depressed demand is a decline in mobility. Recessions have long been known to reduce labour turnover through discouraging voluntary job changing. What is now particularly worrying is that the upward trend in unemployment over the last fifteen years appears to have been associated with a secular decline in labour turnover in manufacturing industry (and possibly elsewhere).

The force of these three arguments taken together is that without strong offsetting action the higher the unemployment the higher will be the level of unemployment at which skill bottlenecks begin to emerge and consequently the earlier the point in the recovery at which wages are bid up by competitive pressures.

41. Inflationary pressures created by shortages in even a narrow range of skills can quickly be diffused over wide sectors of the economy. One mechanism is the rigidity of wage structures in many large organisations in both the public and private sectors; to avoid upsetting internal relativities an increase in pay for one skill in short supply may have to be extended to the whole workforce. Another mechanism is the previously noted rigidity of wage relativities between industries and occupations.

c. INFLUENCES ON EMPLOYEES AND EMPLOYERS

42. A history of inflation creates expectations of further inflation. Because the United Kingdom has had a worse inflation record than most of its competitors, employers are probably more ready to assume that high wage settlements can be recouped in higher prices. This assumption may be encouraged by the high degree of concentration in many product markets, higher than in many of our competitors. For the same reasons employees and their representatives are probably more ready to believe that employers can find the money to fund substantial wage claims. They may also be more aware of the danger of being leap-frogged by other bargaining groups should they set their own claims "too low"

THE MINFORD THESIS

1. In its unemployment study the CPRS was asked to give particular attention to the work of Professor Minford on this subject. Accordingly we have had discussions with him, and studied his paper on "The Problem of Unemployment" an article in "Economic Affairs" of January 1982. The result is embodied at relevant points in our interim report. This annex sets out specifically our views on his main propositions.

2. There are some key propositions, central to Minford's thesis, which we have already built into our own work -

i. A useful approach to the problem of unemployment is to consider the labour market as like any other market in that supply and demand are balanced by relative prices - that is, in this case, by real wages. On this approach, the fact of unemployment entails that real wages have not fallen to market-clearing levels.

ii. It follows that if real wages could be lowered (in a closed economy, or in an open economy relative to real wages elsewhere) employment would be increased and unemployment reduced. In practice, employers have generally responded to a fall in demand by cutting back their work-force rather than by cutting real wages - the phenomenon of (downward) "real wage stickiness".

iii. One cause of "real wage stickiness" is that social security benefit levels effectively set a floor to wage bargains, so that employers cannot expect to fill jobs offered at wages below benefit levels. The effective "minimum wage" for unskilled manuals tends to hold up the wage structure for skilled workers, by the operation of traditional wage differentials and employers' needs to keep trained workers in skilled jobs. Higher benefits also encourage those who lose jobs to spend longer unemployed while they search for a suitable new job.

iv. Another important cause of real wage stickiness is the monopoly power of some trade unions. This pushes real wages higher than they would have been otherwise, and to the extent that the non-union sector does not adjust to offset this it reduces the demand for labour and increases unemployment.

v. Other costs of employing labour, direct and indirect, again reduce the demand for labour - Minford mentions social security contributions, redundancy payments, industrial tribunals, health and safety regulations.

vi. The rigidity of the labour market is also increased by the imperfections in the housing market, so that those wishing to move from regions of high unemployment to look for suitable jobs elsewhere face costs and difficulties in finding somewhere to live.

3. On the other hand, there are some further propositions advanced by Professor Minford which in the CPRS's view need some qualifications -

i. He suggests that if constraints were removed so that real wages could fall far enough, all those capable of working could find jobs of some kind - and hence that their unemployment is in this sense "voluntary". In the extreme this may be true, in that without any social security benefits those who could not find work (or support themselves in some other way eg by begging or crime) would starve. But the question is how far real wages and social security benefits would need to fall, and how quickly the new jobs would be generated. The international dimension is relevant here. Minford recognises the importance of the "increasingly tough world environment", and points to increasing competition from the newly industrialising countries, which have maintained rapid growth rates by efficient working at low wages in labour-intensive industries. In our view, a reduction in real wages on any feasible scale is unlikely to bring about a substantial increase in labour demand in the trading sector, unless entrepreneurs and innovators can be encouraged to identify new competitive opportunities; and it must be doubtful whether low-paid jobs in the non-trading sector

alone would be created in sufficient numbers (or how quickly lifestyles would change to make this possible). This question of the elasticity of demand for labour is of course a crucial one, and more is said in our interim report about the prospects as we see them.

ii. Minford implies that real wage stickiness is the result of union power and social security benefits. Even in theory, it seems to us questionable whether these factors provide a complete explanation. There is evidence that downward adjustment of real wages has been difficult to achieve even before the present degree of union power and benefit structure had been built up, and even in places such as the United States non-unionised sector in the 1920s. In our view real wage stickiness results from a broader range of economic and social factors - for example, the employer's interest in maintaining a trained workforce; social pressures (backed by international conventions and legal sanctions) to provide workers with a "fair" rate for the job which should be enough to support a family; and so on.

iii. Minford offers a quantification of the effects of the two main factors highlighted - that the rise in union power since the mid-1960s is responsible for 1 million of current unemployment- and that a 10 per cent rise in real social security benefits would raise unemployment by some $\frac{1}{2}$ million. To evaluate these estimates requires a technical examination of the model, which we have carried out in some detail. A worrying feature is the sensitivity of the estimates to small changes in the original formulation of the equations. Professor Minford himself accepts that the evidence so far is not conclusive, and that his model might usefully be tested on data from other countries than the United Kingdom. We agree with him that the level of social security benefits has an important effect on unemployment, and this was analysed in Annex 5 to MISC 14(82) 1, which estimated that in the current state of the United Kingdom labour market a 10 per cent cut in social security benefits might lead to a fall in unemployment of some 100,000, with further falls in the longer term as the result of downward

pressure on real wages. To estimate the effect of "union power" on wages and unemployment is even more difficult. It operates primarily through increasing the union/non-union wage differential. But the results of recent direct studies of this differential are not consistent with Professor Minford's original estimate that since 1963 it has risen from 10 per cent to 74 per cent. Instead they suggest much lower mark-ups - possibly as low as 10 per cent in the second half of the 1970s - and no significant rise since 1973. Minford has since withdrawn the 74 per cent estimate, but it is still implicit in his estimate of the unionisation effect.

iv. Minford suggests that these two main factors are "largely the responsibility of Government", and that in particular there could and should be "further legislation to ... eliminate the ability of unions to raise relative wages". Obviously the extent to which Government action can in practice be taken to curtail the effect of these two factors is limited and there are difficult matters of political judgement. But any suggestion that either union power or social security benefits could be abolished by legislation would seem highly unrealistic.

4. None of these qualifications disturbs the central Minford thesis, as summarised in paragraph 2 - that in considering remedies for unemployment it is right to look first at ways of increasing the demand for labour by reducing its price, in terms of real wages; and that union power, and the level of social security benefits, are both important factors in this. But Professor Minford acknowledges that what matters essentially is real unit labour costs in relation to our competitors. Given the difficulties in practice of getting any sizeable and rapid reduction in real wages, it is also worth looking at other possibilities for improving productivity and competitiveness so that the demand for labour at a given real wage level can increase. This again is not an easy area in which to propose promising new remedies, given the history of past failures to reverse the United Kingdom's relative decline in competitiveness. An important part of the problem is that organised labour has insisted on restrictive practices which have

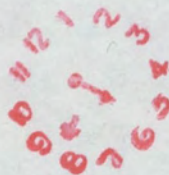
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diverted management effort and discouraged innovation. The CPRS has therefore indicated in its employment study, as well as the factors given prominence by Professor Minford, an examination of other ways in which employers might be enabled to increase their demand for labour.

5. We also propose to commission some further work, in which Professor Minford has agreed to help, to apply his recent work as embodied in his computer model to comparable data for some other European countries. This should enable us to make a better assessment of the magnitude of the factors on which he has focussed attention. It is proposed to complete this work in time for our later report.

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26 MAR 1982



Margaret JR



10 DOWNING STREET

From the Private Secretary

26 March 1982

Dear Jim

JOBS FOR THE YOUNG IN THE CIVIL SERVICE

The Prime Minister has seen Lady Young's letter of 23 February to the Home Secretary. She does of course share Lady Young's concern about job prospects for school leavers. But she is not sure that the right response is to make favouring the young a principle governing recruitment to the Civil Service.

To adopt such a principle would mean departing from what are regarded, and presumably proved to be, the best recruitment practices, in order to reduce youth unemployment. By definition it would mean abandoning value for money as the criterion which should govern recruitment. It was never the intention of the new training initiative, or the Government's policy on youth unemployment, to "create" jobs in this way. And to distort recruitment practices would run counter to the Government's policy of creating a freer labour market, which is important if the economy is to become more competitive.

As I mentioned to you, the Prime Minister is also concerned generally about young people's wages. The large supply of recruits at existing wage rates is an indication that wage rates do not need to be increased. Hence the nature of our pay offer to new recruits. If we stipulate young people's quotas for admission, and thus implicitly lower standards, this will impede the adjustment of the labour market by artificially increasing demand at that level.

Finally, the Prime Minister has a good deal of sympathy with the point made in Mr. Prior's letter of 18 March. School leaver unemployment is a very serious problem indeed; but unemployment in older age groups may be longer term, and is more likely to involve those with dependants.

In the light of these considerations, the Prime Minister thinks it would be right for Departments, where their own management considerations so indicate, to have no hesitation in employing young people; the replies to Lady Young's letter

/show that

JR

CONFIDENTIAL

- 2 -

show that Departments are ready to follow her lead in this way; but the Prime Minister would prefer that no general policy of youth recruitment be brought into effect which might result in further labour market distortions.

I am copying this letter to the Private Secretaries to members of the Cabinet, the Attorney General, the Lord Advocate and to Sir Robert Armstrong.

Yours ever

Willie Rickett

Jim Buckley, Esq.,
Chancellor of the Duchy of Lancaster's Office.



10 DOWNING STREET

Prime Minister

I am sorry to bother you
with these papers again,
but are you content that
I should write to Lady Young's
office as in the draft at E?

WM
25/3

Yes
not

For Refile:
The issue is now with the Jm.

Manpower
cc Mr. Vereker

✓
WV
2/13
MR. RICKETT

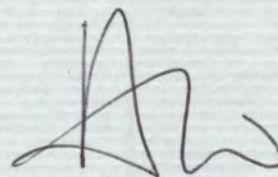
RECORD OF MEETING WITH MR. CASSELS ABOUT RECRUITMENT
OF THE YOUNG INTO THE CIVIL SERVICE

1. Mr. Cassels said that the letters sent by Lady Young did not clearly reveal the underlying reason for biasing the recruitment of the Civil Service in favour of youth. The main reason appeared to be that Cassels believes that the youth training scheme, at present still under negotiation, will be agreed some time next month. He believes it will take the form of paying £30 a week to 16 year olds, with £10 of that or so contributed by Government. He believes that there will be pilot schemes in operation some time before the end of 1982. However, he does not believe that it is possible to pay the pilot scheme youths £30, since the trade unions would object. They would have to be paid normal rates, say £60-£80.
2. Cassels' argument for Civil Service discrimination in favour of youth employment had two elements: (a) he wanted youths for the pilot scheme, and (b) he thought that the Government should "give a signal" that it was interested in youth unemployment and training.
3. I argued that surely there were enough youths already being recruited into the Civil Service in order to provide adequate fodder for the pilot scheme. He agreed that this was so, except there might be shortages in some regions. Then I argued we should deal with that when it arises. There was no reason for any general increase in recruitment. On the second point, I suggested that this would hardly add anything to the public's perception of the Government's recognition of youth unemployment as being a serious problem. After all, we had already budgeted billions for youth unemployment measures and training. An announcement that we were going to bias our recruitment policies would hardly ring the bells in every church steeple. More important, it could be condemned as wasteful recruitment practices. If we hired more youth at £60-£80 now, instead of recruiting them later into the youth training scheme at £30, it would properly be condemned as silly and wasteful behaviour on the part of the Government.

/4. It turned out

4. It turned out also that Cassels is very much in favour of "positive discrimination" to recruit more blacks and presumably other ethnic minorities. From his demeanour and discussion, I gather that they are preparing some initiative of this kind. However, I expressed firm opposition to this, on the basis of American experience, and he may well have been put off. It is, after all, racial discrimination and should not be disguised under any euphamism. I believe it is being discussed actively as part of the policy of the SDP. This may have explained recent interest by the Civil Service in these issues, and is perhaps an underlying reason for the proposed positive discrimination in favour of youth.
5. In conclusion, I can see no reason for changing the views that were expressed in your letter of 4 March. The principle of efficient recruitment at minimum cost should not be compromised by discrimination in favour of the young. If the youth training scheme comes into operation, then the departments should take this into account in their recruitment policies. This will be again consistent with the principle of minimum cost.

24 March 1982



ALAN WALTERS

B.R.

1

PRIME MINISTER

[Handwritten mark]

You will remember that Lady Young wrote to all Departments suggesting that they should do what they could to help reserve jobs for school leavers (Flag A).

Alan Walters questioned whether it was right to make favouring the young a principle of recruitment; and, with your agreement, I wrote to Lady Young's Office to ask for her reaction to Alan Walters' comments (Flag B).

The reaction from Lady Young's Office is at Flag C. It does not really address the points made by Alan Walters. Briefly, it says that Lady Young sees her initiative as contributing to the thrust of the Government's new training initiative, and to our policy on youth unemployment generally. Alan Walters' comments on this letter are at Flag D. I have converted these into a letter which I could send to Lady Young's Office, and which could be copied to the offices of Ministers in charge of Departments. This is at Flag E. Content that I should write in these terms?

Only a few Departments have so far replied to Lady Young's initiative. Most of them have simply said that they will do what they can, within management constraints. Mr. Prior has, however, said that he thinks it would be a mistake to reserve posts specifically for young people: by so doing we would ignore the needs of the long-term unemployed who represent a significant number of those out of work in Northern Ireland.

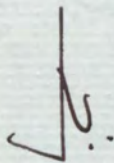
WR

22 March 1982

MR. RICKETT

JOBS FOR THE YOUNG IN THE CIVIL SERVICE

We have discussed your exchange of correspondence with Lady Young's Office, and you asked me to try my hand at a draft letter, to be copied to the recipients of Lady Young's letter of 23 February, which you could show to the Prime Minister. I hope that the attached is suitable. Alan Walters has seen and agreed it.

A handwritten signature, possibly 'J. N.', consisting of a vertical line with a hook at the bottom and a small dot to the right.

19 March 1982

CONFIDENTIAL

DRAFT PRIVATE SECRETARY LETTER TO LADY YOUNG'S OFFICE

JOBS FOR THE YOUNG IN THE CIVIL SERVICE

The P-M - has seen

~~[We had a word about]~~ Lady Young's letter of 23 February to the Home Secretary. ~~[and I have drawn the Prime Minister's attention to the management reasons for correcting the age structure in the Civil Service]~~ ^{She} The Prime Minister does of course share Lady Young's concern about job prospects for school leavers. ~~She has suggested that it might be helpful~~

second para

IP To adopt such a principle would mean departing from what are regarded, and presumably proved to be, the best recruitment practices, in order to reduce youth unemployment. By definition it would mean abandoning value for money as the criterion which should govern recruitment. It was ~~not~~ never the intention of the new training initiative, ~~or the general recruitment~~ ~~policy~~ or the Government's policy on youth unemployment, to "create" jobs in this way. And to distort recruitment practices would run counter to the Government's policy of creating a free ~~labour~~ labour market, which is important if the ~~UK~~ economy is to become more competitive.

generally about young people's wages. The ~~...~~ recruits at existing wage rates [although not apparently

/-extending

CONFIDENTIAL

Second para

1P To adopt such a principle would mean departing from what are regarded, and presumably proved to be, the best recruitment practices, in order to reduce youth unemployment. By definition it would mean abandoning value for money as the criterion which should govern recruitment. It was ~~not~~ never the intention of the new training initiative, ~~or the general recruitment~~ ~~policy~~ or the Government's policy on youth unemployment, to "create" jobs in this way. And to distort recruitment practices would run counter to the Government's policy of creating a free ~~labour~~ labour market, which is important if the ~~UK~~ economy is to become more competitive.

CONFIDENTIAL

DRAFT PRIVATE SECRETARY LETTER TO LADY YOUNG'S OFFICE

JOBS FOR THE YOUNG IN THE CIVIL SERVICE

The P.M. - has seen

~~[We had a word about] Lady Young's letter of 23 February to the Home Secretary, [and I have drawn the Prime Minister's attention to the management reasons for correcting the age structure in the Civil Service]~~ ^{She} The Prime Minister does of course share Lady Young's concern about job prospects for school leavers. ~~She has suggested that it might be helpful if I set out one or two thoughts designed to put Lady Young's proposal into a wider perspective.~~ *But she is not ^{sure} convinced that the right response is to favour the young in recruiting to the Civil Service.*

(make favouring) (a principle governing recruitment)

~~The Government's approach to unemployment is based on the belief that lasting and productive jobs will arise as the economy becomes more competitive; and that at a given point in our economic recovery the response of the labour market will determine the rate of unemployment. That is why so much of our effort has to be directed towards a freer labour market. If labour market considerations justify recruitment into the Civil Service of a particular age group, that ought to happen without the need for quotas. It does seem that individual departments will be best placed to determine their own manpower needs, and indeed that is shown in the responses to Lady Young's letter.~~

As I mentioned to you, the Prime Minister is ^{also} concerned generally about young people's wages. The large supply of recruits at existing wage rates [~~although not apparently~~

~~/-extending~~

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CONFIDENTIAL

~~extending to Croydon~~ is an indication that wage rates do not need to be increased. Hence the nature of our pay offer to new recruits. If we stipulate young people's quotas for admission, and thus implicitly lower standards, this will impede the adjustment of the labour market by artificially increasing demand at that level.

Finally,

The Prime Minister ~~also~~ has a good deal of sympathy with the point made in Mr. Prior's letter of 18 March.

School leaver unemployment is a very serious problem indeed; ~~so too is the problem of the longer term unemployed, and their dependants.~~ but unemployment in the 20-24 year old age group may be ~~and these tend to be older~~ longer term, and is more likely to involve those with dependants. *unemployment in older age groups may be longer term, and is more likely to involve those with dependants.*

In the light of these considerations the Prime Minister thinks it would be right for departments, where their own management considerations so indicate, to have no hesitation in employing young people; *the replies to Lady Young's letter show that departments are ready to follow her lead in this way;* but ~~she~~ *the P-M* would prefer that no general policy of youth recruitment be brought into effect which might result in further labour market distortions.

I am copying this letter to the Private Secretaries to the recipients of Lady Young's letter of 23 February.

CONFIDENTIAL

cc Mr. Hoskyns
Mr. Vereker
Mr. Scholar
Mr. Wolfson

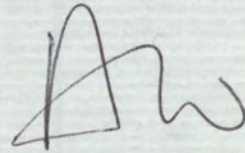
MR. RICKETT

JOBS FOR THE YOUNG IN THE CIVIL SERVICE

1. The letter from the Chancellor of the Duchy of Lancaster in its second paragraph implies that we should distort the recruitment practices of the Civil Service in order to contribute to the thrust of the White Paper on new training initiatives. If that had been the intention of the new training initiative, then surely it would have said as much. It didn't.
2. The second paragraph implies that the Civil Service should depart from what are regarded, and presumably proved to be, the best recruitment practices in order to reduce the level of unemployment of those under 18. By definition therefore we would get less value for money. But since the wages of 16-18 year olds are less than those of the alternative adults, there would certainly be a net expansion of employment - there would be, say, three under-18s replacing two over-21 year old. I do not think, however, it was ever the intention of the new training initiative or the general recruitment policy to "create" jobs in this way. Certainly such job "creation" would never be practised in the private sector. It is difficult to see why there should be justification for it in the public sector.
3. In the third paragraph of the letter it is suggested, per contra, that it would really be more efficient recruitment practice to take on more younger workers. The argument, however, is rather strange since it implies that recruitment before 1979, under a more stringent labour market, was better, or at least better balanced, than it has been in subsequent years when the choice has been considerably greater. This strikes me as odd. But in any case, if the argument is that the better recruitment mix includes a far greater number of young, then that argument stands on its merits irrespective of the unemployment rates among the young, new training initiatives and the like. You can't have it both ways.
4. The last paragraph, apart from containing a rather funny howler (namely that a "zero pay offer" is made to those at the recruitment grades), appears to misunderstand the nature of wage fixing and the labour market. The "zero pay offer" was suggested because there is a very large supply of recruits at the existing wage rates. This still

implies that the wage rates are too high. And removing labour from the market into these jobs will indeed do nothing to help the labour market adjust and will in fact tend to impede that adjustment.

18 March 1982

A handwritten signature in dark ink, consisting of a large, stylized 'A' followed by a cursive 'W'.

ALAN WALTERS



SECRETARY OF STATE
FOR
NORTHERN IRELAND

Rt Hon Baroness Young
Management & Personnel
Office
Whitehall
LONDON
SW1A 2AZ

✓ cc JV
NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

WJN
18/3

18 March 1982

Dear Janet

Thank you for sending me a copy of your letter of 23 February to Willie Whitelaw about the need to take on more young people in the Civil Service.

I agree that we must do all we can to alleviate the problem of youth unemployment, and those responsible for recruitment in the NIO and NI Departments will ensure, as far as possible, that a high proportion of junior posts are offered to school leavers. However, I think it would be a mistake to reserve posts specifically for young people. By so doing, we would ignore the needs of the long-term unemployed who represent a significant number of those out of work in Northern Ireland.

Copies of this letter go to recipients of yours.

*Yours
John*

8 MAR 1982

16
8
3



C
ZPPS

CV JV

Management and Personnel Office
Whitehall London SW1A 2AZ
Telephone 01-273 { 4400
GTN 273 }

Chancellor of the Duchy of Lancaster

18 March 1982

From the Private Secretary

Willie Rickett, Esq
10 Downing Street
LONDON SW1

Dear Willie,

JOBS FOR THE YOUNG IN THE CIVIL SERVICE

Thank you for your letter of 4 March giving the Prime Minister's reactions to the Chancellor of the Duchy's letter of 23 February.

The Chancellor of the Duchy took her initiative against the background of the extremely poor employment situation for school-leavers. Unemployment among those under 18 has been running at about 25 per cent, and without the Youth Opportunities Programme would exceed 40 per cent. Their situation is therefore markedly worse than that of 20-24 years olds. The Chancellor of the Duchy thinks it important that the Government as an employer should by its actions contribute to the thrust of the White Paper on the New Training Initiative, which makes it clear that "special provision will continue to be needed for (young people) in order to achieve our major aim of reaching the position where all young people, on leaving school, either move on to further education, find a job or are given the chance of training or community service" (Cmnd 8455, paragraph 22). What is proposed relates to local recruitment, and the educational standard required relates to "O" levels. Of course those with better qualifications would not be excluded, but they are more likely to be candidates for the openings which already exist for young people under the Executive Officer or parallel specialist competitions.

Value for money is of course crucial. Recruiting older and more mature people certainly has advantages, but departments can also benefit from an input of young people with potential for development. So far as age structures go, the Chancellor's initiative has a corrective effect, since in 1979 and 1980 the proportion of civil service vacancies filled by school-leavers declined.

The Prime Minister was also concerned that a bias towards young recruits would do nothing to reduce wage rates of youth generally. In the current pay negotiations of course a zero pay offer has been made to those at the bottom of the recruitment scales.

Yours sincerely,
Jim Buckley.

J BUCKLEY

18 MAR 1982



THE UNIVERSITY OF CHICAGO

Department of Chemistry

CHICAGO, ILLINOIS

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Faint, illegible text, likely bleed-through from the reverse side of the page.



4/35

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALING 01-218 2111/3

MO 21/8/11

16th March 1982

Dear Janet

JOBS FOR THE YOUNG IN THE CIVIL SERVICE

Thank you for copying to me your letter of 23rd February to Willie Whitelaw.

I quite accept what you say about our doing more, as employers, to bring young unemployed people into the Civil Service. Of course my Department will do what it can to help within manning and cash limits and bearing in mind management considerations.

As I am sure you will know delegated recruitment schemes run by Departments are operated in line with the rules laid down by the Civil Service Commission; and to the extent that Commission rules can be relaxed to help this group we will carry through the spirit into MOD recruitment, although of course we would not want to be limited to recruiting exclusively from younger applicants.

Sms ever

JN

John Nott

The Rt Hon The Baroness Young

8 MAR 1982

801 254
99 87 G



WM 1/13

SV
HW
Maugher

QUEEN ANNE'S GATE LONDON SW1H 9AT

11
March 1982

Dear Lamb

JOBS FOR THE YOUNG IN THE CIVIL SERVICE

You wrote to me on 23 February about recruiting young unemployed people into the Civil Service.

The Home Office is keen to play its part. At present we are restricting recruitment for Clerical Officers and Clerical Assistants in the London area to the under-twenties, and even in areas where good management predicates recruitment of older staff we have managed to recruit under-twenties to half the posts.

A disappointing point, however, is that a recent under-twenties scheme for Clerical Assistants at Croydon - using the educational qualifications method (two 'O' levels) - produced only 37 qualified applicants for interview for 50 vacancies, although prominent advertisements were placed in local newspapers covering a wide area and local Job Centres were notified.

It would be a mistake to draw any firm conclusions from this, but it may be helpful to you to have this information about one modest scheme. We shall not be deterred by this experience and later in the year we shall mount a similar competition for central London.

Copies of this letter go to the Prime Minister, Cabinet colleagues, the Attorney General, the Lord Advocate and Sir Robert Armstrong.

Baroness Young



1 MAR 1982
 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

FROM:

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L. *ec JV*



HOUSE OF LORDS,
SW1A 0PW

8th March, 1982

The Right Honourable
The Baroness Young

WM
1/3

My dear Janet:

Jobs for the Young in the Civil Service

Thank you for your letter of 23rd February in which you ask that all reasonable steps be taken to help reserve for school leavers vacant posts in the Civil Service.

There are, as you say, constraints. Nevertheless, I will see to it that those responsible for the recruitment of junior staff are made aware of the need where possible to bring more young unemployed people into the Department.

I am copying this letter to the recipients of yours.

Yrs:

8 7 6 5
4 3 2
11 12 1

- 9 MAR 1982



10 DOWNING STREET

From the Private Secretary

4 March 1982

JOBS FOR THE YOUNG IN THE CIVIL SERVICE

The Prime Minister has seen Lady Young's letter of 23 February to the Home Secretary, in which she suggests that departments should do what they can to reserve jobs for school-leavers.

The Prime Minister wonders whether it is right to make favouring the young a principle governing recruitment. She is inclined to think that a more important principle is to aim for the best value for money. She also sees a number of other objections to Lady Young's proposal. An age restriction, excluding those who have reached their 20th birthday, could be criticised as unfair discrimination, especially as the unemployment rate in the 20-24 year old age group is also high. It would effectively exclude those who have had two years or more of higher education, not to mention those older people who have useful experience to offer, especially from the private sector. It could create an unbalanced age structure within the service with the consequent problems of promotion blockages, and so on. Finally, a bias towards young recruits would do nothing to reduce the wage rates of youth generally; it could indeed exacerbate the problem.

The Prime Minister would welcome Lady Young's reaction to her concerns.

~~W. F. S. RICKETT~~

W. F. S. RICKETT

Jim Buckley, Esq.,
Chancellor of the Duchy of Lancaster's Office.

SB



Also the
 was 1/2 of the
 18-24 of the
 group in
 high
 me

10 DOWNING STREET

Prime Minister 1

Here are Alan Walter's comments
 on Lady Young's suggestion that
 departments should do what
they can to help reserve jobs
for school leavers.

If you agree, I will ask Lady
 Young's office for her reaction to
 these points. Ministers have not
 yet reacted to Lady Young's
 letter, and you may feel it would
 be premature to try to squash it
 without giving her a chance to
 respond to Alan's comments. If
 necessary, Lady Young's proposal
 can always be raised in Cabinet.
 Yes please
 me L/R 3/3

CONFIDENTIAL

3 March 1982

ALAN WALTERS

PRIME MINISTER

JOB'S FOR THE YOUNG IN THE CIVIL SERVICE

1. The letter from Baroness Young to the Home Office of 23 February suggests that Civil Service recruitment should depart from the open competition system and restrict some forms of entry to the under-20s. She suggests that many of the vacancies in departments should be reserved for younger entrants.
2. Before embarking on this, we should ask whether the possible political benefits of favouring the young outweigh the serious drawbacks.
3. This would be a retrograde step. The principle of recruitment should be to minimise costs and the ground rules should have only this principle in mind. We should aim only for the best value for money.
4. An age restriction, excluding those who have reached their 20th birthday, would not merely invite inefficiency, but it would also be unfair discrimination. For example it would effectively exclude those who have had two years or more of higher education. And there are many other cases where delayed entry beyond the age of 19 may indeed be a good thing.
5. With such very low wastage rates reported by Baroness Young, recruitment of the young will mean that a substantial fraction of them will stay in the Civil Service all their working life. For obvious reasons I think that this is undesirable. Recruitment over the whole range of the age scale will at least help some of the mobility which we would all like to see between the Civil Service and the private sector.
6. Finally, a bias towards younger recruits will do nothing to help reduce the wage rates of youth generally. If anything it will exacerbate the problem. Although we have suggested low or zero increases for the Civil Service in this year's pay negotiations, it is yet to be seen whether we shall succeed in realising this objective.
7. I suggest Lady Young should be asked to bring this policy issue forward for debate. My own view is that the proposal contains serious disadvantages. It is not too late to stop it.

AW
ALAN WALTERS

G10

Manpower cf. A.D.
A



Management and Personnel Office
Whitehall London SW1A 2AZ
Telephone 01-273 4400
GTN 273

Chancellor of the Duchy of Lancaster

23 February 1982

The Rt Hon William Whitelaw, CH, MC, MP
Secretary of State for the Home Department
50 Queen Anne's Gate
LONDON SW1H 9AT

Prime Minister 2

WM
25/2

ms

Dear Sir,

JOBS FOR THE YOUNG IN THE CIVIL SERVICE

I have been considering what the Government as an employer can do to alleviate youth unemployment, and during recent weeks my officials have been exploring with departments ways of bringing more young unemployed people into the Civil Service.

There are limits to what we can do. Recruitment is now running at only about half the 1978 rate, because of the reductions we are making in the numbers in the Service, and the present very low rates of wastage. Some jobs call for qualifications and experience which teenagers simply will not have. Most jobs are in the clerical grades, which account for nearly half of the non-industrial Civil Service, but even at this level some jobs are more suited to older people because they require a degree of maturity - for example, because they involve sensitive dealings with the public. Nevertheless, despite the constraints, I have been heartened to find that at official level departments have responded positively and are generally willing to do all they can to recruit more youngsters.

All posts have to be filled by fair and open competition, so once the eligibility rules for a competition have been laid down it is not possible to recruit young applicants for jobs when better qualified older persons apply. But the ground rules may be drawn up so as to give preference to youngsters. Departments are empowered to run competitions for Clerical Officers and Clerical Assistants open only to the under-20s, for example, while the Civil Service Commission runs a special Executive Officer competition for school-leavers for however many of their vacancies departments decide to reserve for younger entrants.

I am sure you and colleagues share my concern over this question, and as 90% of all Civil Service recruitment is carried out by departments themselves, I would be very grateful if you would ensure that, so far as management constraints allow, your department does all it can to help to reserve jobs for school-leavers.

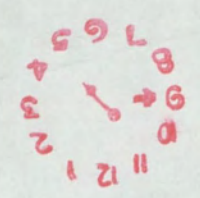
I am copying this to the Prime Minister, members of the Cabinet, the Attorney General and the Lord Advocate and to Sir Robert Armstrong.

Yours etc

Dand

BARONESS YOUNG

Faint, illegible handwriting in the upper left corner.



25 FEB 1982



COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA
01-219 3268 (Direct Line)
01-219 3000 (Switchboard)

THE EMPLOYMENT COMMITTEE

The Employment Committee adopted a Report on the MSC's Corporate Plan 1982-86 on Wednesday, 17th February.

The Report recommends that the Secretary of State for Employment should look again, with sympathy, at the MSC's request for provision for a higher number of places for the Community Enterprise Programme in 1982-83.

A copy of the Report is attached, and, as it has now been made available to Parliament, can be freely quoted.

22nd February 1982

CONFIDENTIAL

To be published as HC 195

HOUSE OF COMMONS
Third Report from the
EMPLOYMENT COMMITTEE
Session 1981-82

THE MANPOWER SERVICES COMMISSION'S CORPORATE PLAN
1982-86

NOT FOR PUBLICATION, BROADCAST OR USE ON
CLUB TAPES BEFORE 1000 HOURS ON 22 FEBRUARY 1982
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Ordered by The House of Commons to be
printed 17 February 1982

THIRD REPORT

The Employment Committee have agreed to the following Report:

THE MANPOWER SERVICES COMMISSION'S CORPORATE PLAN
1982-86

1. The MSC submitted their draft Corporate Plan 1982-86 to the Secretary of State for Employment and the Secretaries of State for Scotland and Wales on 2 February. In accordance with the practice adopted following the recommendation in our First Report, Session 1979-80,¹ the draft Corporate Plan was made available to Parliament. We are glad to see that the improvement in presentation which we noted in our First Report, Session 1980-81,² in relation to the MSC Corporate Plan 1981-85, has been continued.

2. We have studied the latest draft Corporate Plan and we took oral evidence on it from Sir Richard O'Brien, Chairman of the MSC, on 10 February. There are a number of points to which we wish to draw attention.

3. The first concerns the level of unemployment. For the reasons set out in the draft Plan³ it is particularly difficult this year to make predictions about future levels of unemployment. It is necessary however to have a working assumption for planning purposes, and while we accept that it is reasonable for the MSC to adopt for the purpose of this year's Plan the working assumption of a level of registered unemployment of around 3 million in 1983,⁴ we consider that they should keep this assumption under review in the light of changing circumstances throughout the planning period.

1. HC (1979-80) 444, para. 5.

2. HC (1980-81) 101, para. 3.

3. MSC Draft Corporate Plan, para. 1.3.

4. *ibid.*, para. 1.4.

4. We wish particularly this year to draw attention once again to the level of provision for the long-term unemployed. In our First Report, Session 1979-80, we said that providing training and work experience for the long-term unemployed should be a principal objective of the MSC.⁵ In their response the MSC said they shared the Committee's concern on behalf of the long-term unemployed.⁶ The Commission reviewed this question in the present draft Corporate Plan, and in oral evidence Sir Richard O'Brien claimed that MSC schemes for the long-term unemployed had been successful, though limited in relation to the extent of the problem.⁷ In reply to a question he said that the MSC did not consider that enough had been done for the long-term unemployed.⁸ The MSC are planning developments which could improve the Community Enterprise Programme, including in particular opportunities for unpaid voluntary work using funds specially provided for this purpose. We note however that while the Commission considered that the provision for CEP in 1982-83 should be 60,000 filled places, the Secretary of State has decided that the level should be 30,000.⁹ This is very small compared with the total of around 1 million long-term unemployed estimated for 1982. We consider that in view of the serious problems of the long-term unemployed more should be done for them, and recommend that the Secretary of State should look again, with sympathy, at the MSC request for a higher number of places. The MSC have confirmed that there would be no practical difficulties in filling 60,000 places.¹⁰

5. HC (1979-80) 444, para. 20

6. HC (1979-80) 817, Annex, para. 10.1

7. MSC Draft Corporate Plan, paras. 5.5 - 5.10; Ev. Q.24-25

8. *ibid.* Q.21.

9. MSC Draft Corporate Plan, para. 5.8.

10. Evidence, Q.40-42.

5. We share the MSC's concern for the problems of unemployed young people and have noted the proposals made to deal with them, but we do not wish to comment at this stage. We will be looking at questions of youth unemployment and training later.

6. Sir Richard O'Brien told us that the MSC maintain close relations with the education services,¹¹ but we are not entirely satisfied that these have always resulted in adequate information concerning MSC programmes reaching young people in schools. We intend to keep a continuous interest in this question as it is important that the MSC and the education services, including the careers service, should work closely together.

11. *ibid.* Q.17-19.

CONFIDENTIAL

Manpower
Prime Minister (2)
ms 11/2
ms

PRIME MINISTER

YOUNG WORKERS SCHEME (SOMETIMES CALLED THE WALTERS SCHEME)

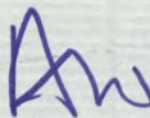
1. Preliminary statistics from the Department of Employment suggest that the Young Workers Scheme has got off to a very good start. Applications are running considerably higher than I expected.
 - a. Publicity

The initial print of 300,000 leaflets is exhausted. There is a reprint going through of an additional 400,000.
 - b. Applications

Twenty-thousand were received in the first month and they are now arriving at 4,000 a week. The rejection rate is very low at only 3%.
 - c. Spread

It seems that all sizes and kinds of companies are applying. There is no marked concentration in any size, range or trade except perhaps in retail distribution.
2. In spite of the fact that the large number of applications took the Department of Employment slightly by surprise, they have been dealing with them very efficiently. Some additional staff have been drafted to deal with the flood. I suspect that there will be an additional rush of applications in July, August, September as the school-leavers come on to the market.
6. The number of applications is very high also in view of the fact that many must be inhibited by Wage Council regulated wages above the limit of £40 a week. Once the power to control youth wages is eliminated, one would expect both considerable reductions in wages of youths and, of course, more applications for the YWS.

11 February 1982


ALAN WALTERS

CONFIDENTIAL

APPOINTMENTS - IN CONFIDENCE

cc AD



HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

19 January 1982

Dear Mrs Wilde

VMP

REVIEW GROUP ON THE YOUTH SERVICE

As you know, Willie Rickett sent me a copy of his letter of 8 January conveying the Prime Minister's approval to the proposed appointment of Miss Jan McKenley to the Review Group, provided that the Home Secretary was satisfied that she is the best candidate.

Neither the Home Secretary nor officials here know of Miss McKenley, who has not come to notice in the field of community relations. It is therefore difficult for us to judge whether she would be the best candidate for this appointment. In view of the adverse comment which the absence of an ethnic minority member on the Youth Group had attracted, it will be important that the proposed appointment should carry a measure of credibility with the ethnic minorities. Provided your Department is satisfied on this point, the Home Secretary has no objection to the appointment of Miss McKenley.

I am copying this to the recipients of Willie Rickett's letter.

Yours sincerely
C. J. Walters

C. J. WALTERS

Mrs. Imogen Wilde

120 JAN 1982





Manpower JR

cc HMT
CDK
D/M
SO
WO
CO
HO

10 DOWNING STREET

From the Private Secretary

8 January 1982

APPOINTMENTS - IN CONFIDENCE

REVIEW GROUP ON THE YOUTH SERVICE

The Prime Minister has seen your Secretary of State's minute of 6 January.

The Prime Minister agrees that this Group should include a member from the ethnic minorities, and is content for Miss McKenley to be appointed, provided that the Home Secretary is satisfied that she is the best candidate.

I am copying this letter to the Private Secretaries to the recipients of your Secretary of State's minute, and I am also sending a copy, with a copy of Sir Keith Joseph's minute, to Andrew Jackson in the Home Office.

W. F. S. RICKETT

Mrs. Imogen Wilde,
Department of Education and Science.

su



Prime Minister

④

L.C.A.D.

MS 6/1

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Leon Brittan QC MP
Treasury Chambers
Parliament Street
LONDON
SW1

6 January 1982

MS

Dear Leon.

Thank you for your further letter of 16 November enclosing a couple of press cuttings about the Review Group on the Youth Service.

I am sure that it would undermine the credibility of the Group and of the Government's intention in setting it up, if it were to be seen to approach its remit with anything less than an open mind. Moreover, with a review of this kind, it is inevitable that some of the bodies which are submitting evidence will seek and obtain publicity for their views. Indeed, given the importance of the Group's work for the field, I am surprised by the limited extent of press comment so far. The Group is bound to receive a mixed bag of advice. However, it has been well aware throughout that we expect a sensible and pragmatic set of recommendations. Bill Shelton reinforced that message when he met the Group recently, mentioning among other points, constraints on government spending, and the need to be realistic. I am sure that nothing more needs to be done, certainly for the time being.

I am copying this letter to the Prime Minister, the Secretaries of State for Employment, Social Services, Home Affairs, Scotland and Wales and to Sir Robert Armstrong.

Evan

Kear

Prime Minister

cc A/D

1

PRIME MINISTER

REVIEW GROUP ON THE YOUTH SERVICE

You will recall agreeing earlier in the year to Mark Carlisle's suggestion to establish a Review Group on the Youth Service. It was decided then to keep the Review Group small to limit its cost and to enable it to work quickly. However, the progress of the review so far has indicated that we may have erred on the side of caution and the Group is proving too small to work effectively. In particular it is now clear that the Group ought to include a member from the ethnic minorities, who are large users of the Youth Service. This lack has caused public criticism, and I am concerned that we may unnecessarily alienate a significant body of opinion.

The terms of reference and composition of this group are at A.
 I am sure that the Home Secretary will have an interest in Sir Keith's proposal to appoint a member from the ethnic minorities. Are you content for me to say that you agree there should be such a member (especially in the wake of Scorman) and that you are content for Miss Mckenley to be appointed, provided the Home Secretary is satisfied that she is the best candidate?

WR
 7/1/82

Officials have come up with Miss Jan Mckenley who is a young black further education lecturer. They advise that she is impressive, intelligent and business-like with a balanced and realistic attitude towards the problems of young people. It is thought that she would make a responsible and constructive contribution to the Group and would fit in readily with the existing members. If you are content I will invite her to join the Review Group in the New Year.

Yes

I am copying this to Geoffrey Howe, Janet Young, Norman Tebbit, George Younger, Nicholas Edwards and Sir Robert Armstrong.

KJ

6 January 1982



Home Office

NEWS RELEASE

50 Queen Anne's Gate London SW1H 9AT
Telephone 01-213 3030/4050/5050

30/12

213 3000 (Night Line)

December 30, 1981

DEVELOPING LOCAL VOLUNTARY ACTION

Two more three year pilot projects are to be set up under the scheme sponsored by the Home Office's Voluntary Services Unit (VSU) for the development of local voluntary action.

A Consultative Group was set up to advise the VSU on the administration of the scheme and on their recommendation six pilot projects were announced in July. It has now been agreed to add two further projects to complete the programme.

The two projects are:

HULL COMMUNITY RESOURCES DEVELOPMENT PROJECT

The aim of the project is to create profit-making schemes which will generate revenue to fund services for the elderly, mentally ill and deprived groups. The VSU grant will provide a small amount of seed capital for new ventures and will cover the costs of a development officer with experience of business and organisational development.

Contact: Mr. Kevin Curley
Hull Council for Voluntary Service
Voluntary Organisation Centre
8 Lonsdale Street
Anlaby Road
HULL
HU3 6PA
(Tel: (office) 0482 51044)

WILTSHIRE INFORMATION RESOURCE EXCHANGE (WIRE)

The purpose of this project is to improve the ability of intermediary voluntary organisations within Wiltshire to develop on a co-operative basis their roles as information and resource centres for voluntary organisations, community groups and

statutory agencies. Of particular interest will be the application of computer technology to the collection and retrieval of information. The VSU grant will pay for a project leader and meet essential computer hardware and software costs.

Contact: Mr. P R A Newell
Secretary
Community Council for Wiltshire
Wyndhams
St Joseph's Place
DEVIZES
Wiltshire
SN10 1DD
(Tel: 0380 2475)

NOTE TO EDITORS

The Home Secretary announced in May 1980 the scheme to stimulate new mechanisms for improving the range, quality and capacity of local voluntary activities concerned in a broad sense with personal and community welfare. The scheme is expected to cost approximately £160,000 a year for three years.



Prime Minister

2

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

MUS 22/12

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1

see AD

21 December 1981

Dear Norma

MB

JOB RELEASE SCHEME

Thank you for your letter of 4 December. I am sorry that my previous letter led you to infer that my Department might have been abusing the Job Release Scheme (JRS). *see below.*

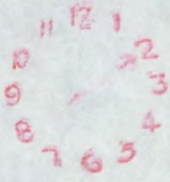
To achieve the manpower savings required in DTp, I have had to restrict recruitment. In the junior non-mobile grades, where releases have mostly occurred, the number of new recruits cannot exceed the number of those who leave (for whatever reason). Thus, what my previous letter sought to describe was a situation in which we may allow job release to an older officer in one part of the Department and use the headroom created by his departure to recruit to another part of the Department. That, as I understand it, is the sort of indirect replacement which is permissible under the present arrangements.

The difficulty is not one of ensuring that each release creates a consequential vacancy, but of demonstrating a clear link between the two, given the wide geographical spread of DTp. The mechanics of having to do so could well prove so cumbersome that we should have to withdraw from the scheme.

David Howell

DAVID HOWELL

21 DEC 1981



file

cc: Mr. Duguid do:



10 DOWNING STREET

From the Private Secretary

21 December 1981

Dear Richard:

Young Workers' Scheme and the European Commission

The Prime Minister has seen a copy of your Secretary of State's letter to the Chancellor of the Exchequer of 17 December. She is content with the change in the scheme suggested by your Secretary of State.

I am copying this letter to Brian Fall (FCO), David Heyhoe (Lord President's Office), Jim Buckley (Chancellor of the Duchy of Lancaster's Office), Stephen Boys-Smith (Northern Ireland Office) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Richard Dykes, Esq.,
Department of Employment.

BIC



✓ AD ✓

*Margaret
Spalding*

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

21 December 1981

The Rt. Hon. Norman Tebbit, MP
Secretary of State for Employment,
Department of Employment,
Caxton House,
Tothill Street,
LONDON. S.W.1

Dear Norman

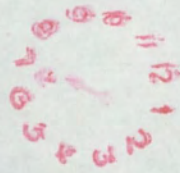
Thank you for your letter of 17 December about your proposed announcement of a change in the rules of the Young Workers Scheme.

It is unfortunate, though perhaps not altogether surprising, that the Commission has objected to the degree of retro-spection. I agree that the change should be made to forestall the possibility of the Commission opening formal proceedings. Because of the need to announce the change as soon as possible, an arranged Parliamentary Question seems appropriate. It is hard to see how the answer can fail to mention the Commission; but I presume you will discuss its precise terms with Peter Carrington.

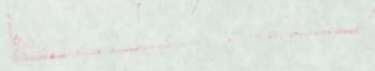
I am copying this letter to the Prime Minister, the Foreign Secretary, the Lord President, the Chancellor of the Duchy of Lancaster, the Secretary of State for Northern Ireland and Sir Robert Armstrong.

Geoffrey Howe

GEOFFREY HOWE



21 DEC 1981





Prime Minister

Content with this change?

Caxton House Tothill Street London SW1H 9NX F

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

GTN 213

Plus 18/12

Yes Mr.

The Rt Hon Sir Geoffrey Howe MP QC
Chancellor of the Exchequer
Treasury
Great George Street
LONDON SW1

17 December 1981

D. Geoffrey

YOUNG WORKERS' SCHEME AND THE EUROPEAN COMMISSION

Under Articles 92 and 93 of the Treaty it was necessary to notify the Young Workers' Scheme to the European Commission as a state aid. My officials have had informal discussions with Commission officials and it appears very likely, but not yet absolutely certain, that the Commission will approve the Scheme, although initially for one year and subject to monitoring the Scheme closely, on the basis of quarterly statistical reports submitted by us, especially to ensure that there is no sectoral bias. We can readily agree to these points, although I ought to make it clear that the Commission officials have expressed doubts about the Scheme's compatibility with the Treaty principally on the ground that assistance to employers is not confined to the creation of new jobs, and not directly related to training. They also have fears, which we have argued are quite unjustified, that, like the Temporary Employment Subsidy, help will be unduly concentrated on textiles, clothing and footwear leading employers to replace adult with juvenile labour to an extent which would distort competition.

Commission officials were also concerned about one other point. Although payments under the Scheme do not start until 4 January 1982, young people taken on earlier would be eligible provided they were still in their first year's employment on 4 January. They have, however, accepted that as the Scheme was first announced in July it would have been difficult to rule out those taken on between the announcement and 4 January without running a serious risk that employers would delay taking on school leavers which could have



materially worsened youth unemployment in the autumn. They have however refused to accept that those taken on before 27 July should be eligible. Commission officials regard such payments as too much like an operating aid to employers rather than an encouragement to recruit young people, because employers could not have known when they took the young people that they would be eligible to the Scheme.

I am convinced that it is necessary to exclude those recruited to their present job before the Prime Minister first announced the Scheme on 27 July and Commission officials have been told we are prepared to do this. This is a relatively small change, although we had hoped that to widen the effect of the Scheme on wage levels by including such people. I am sure it is better to make the change now than to run the risk that the Commission open proceedings formally, which would be bound to delay the start of the Scheme and, even more serious, could call its basis into question. It is a small price to pay to secure approval.

It is however a change on what we had previously decided and announced, and I therefore think it necessary to announce it by an arranged Question and Answer. We have, of course, held up the issue of the Scheme's publicity leaflet while an amendment was prepared and, although this is now ready for issue, we cannot distribute it until we have formally announced the change. There is great demand for the leaflet and the present hiatus is becoming increasingly embarrassing. In any case, details of our difficulty with Brussels have already been mentioned in the press.

I propose to say simply that I have now decided, in the light of consultations with the European Commission that the Scheme will apply only to young people recruited after the Prime Minister first announced the Scheme on 27 July. I understand that Foreign and Commonwealth Office officials would prefer not to mention the European Commission. My intention is not to criticise the Commission for their views, but I cannot at this late stage justify the change simply in terms of the purposes of the Scheme, as the decision to allow those recruited before 27 July flowed from the Scheme's primary purpose - to hold down juvenile wages.

I will ensure that in presenting the change we do not give the impression that there has been, or is, a serious issue with the Commission over the matter. but to ignore the fact that this has arisen from our notification to the Commission could lead to criticism of the Government and the Commission's role might well come out from Brussels anyway.

I hope therefore that you will feel able to accept my proposal. We must announce the change very shortly and so I hope you and other recipients will let me know if you have any objections to it by tomorrow evening. I am sorry for the short notice.

I have told
Mr Tebbitt
Office that
Monday will
have to do.

MCS 18/12



There is a practical problem in that a small number of cases relating to people taken on before 27 July have already been approved. My officials are in touch with yours about the possibility of paying in these cases.

I am copying this letter to the Prime Minister, the Foreign Secretary, the Lord President, the Chancellor of the Duchy of Lancaster, the Secretary of State for Northern Ireland and Sir Robert Armstrong.

J. Norman



MAP
hangover
INFORMATION FOR PRESS

COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA
01-219 (Direct Line)
01-219 3000 (Switchboard)

THE EMPLOYMENT COMMITTEE

The Employment Committee will hold a Press Conference on Thursday, 17th December, at 5.00 pm. in Committee Room 16 at the House of Commons on its Report on the MSC Review of the Quota Scheme for the Employment of Disabled People. The Report was adopted yesterday.

The Report examines the Quota Scheme and ways in which it might be improved if the Government decide to keep the Quota Scheme. It recognises that the MSC proposals to replace the present system by a general duty linked to a code of practice could offer considerable attractions to the disabled but the Committee consider that the MSC should give further thought to the questions of the definition of the disabled, their identification by employers, and enforcement.

Other matters dealt with in the Report include the special problems of the mentally ill and handicapped, anti-discrimination legislation, the training of Disablement Resettlement Officers, designated occupations, and the role of education in improving employment opportunities for the disabled.

Confidential copies of the Report will be available beforehand. They will be distributed from the Main Committee Office in the House of Commons. Copies will also be placed in the Press Gallery.

17th December, 1981

CONFIDENTIAL

To be published as HC 27

MAP

HOUSE OF COMMONS
Second Report from the
EMPLOYMENT COMMITTEE
Session . 1981-82

THE MANPOWER SERVICES COMMISSION'S REVIEW OF THE QUOTA
SCHEME FOR THE EMPLOYMENT OF DISABLED PEOPLE

NOT FOR PUBLICATION, BROADCAST OR USE ON
CLUB TAPES BEFORE 1700 HOURS ON 17 DECEMBER 1981
THIS DOCUMENT IS ISSUED IN ADVANCE ON THE
STRICT UNDERSTANDING THAT NO APPROACH IS
MADE TO ANY ORGANISATION OR PERSON ABOUT
ITS CONTENTS BEFORE THE TIME OF PUBLICATION.

Ordered by The House of Commons to be
printed 16 December 1981

The Employment Committee have agreed to the following Report:

MSC REVIEW OF QUOTA SCHEME
FOR THE EMPLOYMENT OF DISABLED PEOPLE

1. In July 1981 the MSC published a report on their Review of the Quota Scheme for the Employment of Disabled People, and the Government asked interested parties for any comments by the end of the year.

2. The Committee decided to conduct an inquiry into this subject and sought the observations of a variety of organisations and individuals. They are grateful to all those who submitted written evidence or appeared as witnesses before them.

The Existing Quota Scheme

3. The Quota Scheme was established by the Disabled Persons (Employment) Act 1944, following the report of the Tomlinson Committee. The Scheme provides that employers with 20 or more employees must employ at least 3% registered disabled people. It is an offence to engage someone other than a registered disabled person if the employer is below the quota limit or will become so, unless he is granted a permit to do so on the grounds that no suitable registered disabled person is available. It is also an offence to discharge a registered disabled employee without reasonable cause when below quota (or when to do so would bring the firm below quota). The register of disabled people is kept at Jobcentres. Registration is voluntary and applicants must

show that they have a substantial handicap on account of injury, disease or congenital deformity in obtaining or keeping employment suited to their age, qualifications and experience, and that the disablement is likely to last at least a year.

4. When the Quota Scheme was introduced in 1944 it was widely supported, and for a good many years it appears to have worked well in meeting the Tomlinson aim of securing for the disabled "their full share, within their capacity, of such employment as is ordinarily available". The Scheme has the merit of simplicity: employers know what is expected of them. But over the years the numbers registered as a percentage of the workforce have declined substantially and there was general agreement among all those consulted that the Scheme is no longer working satisfactorily. By 1981 registered disabled persons constituted only 1.9% of the workforce so that general compliance with the Quota Scheme is currently impossible.

5. Various reasons for the decline in the success of the Quota Scheme have been mooted, such as changing attitudes of the disabled towards registration, and the fact that whereas in 1944 registration gave the disabled protection against dismissal, subsequent legislation giving protection against dismissal to employees generally has removed that reason for registration.

6. It is clear therefore that the Quota Scheme as it stands could not be made to work satisfactorily without amendment.

An Improved Quota Scheme

7. If the Government decide therefore to keep a quota system the Committee think that they should examine the various possibilities of improving the existing scheme.

8. There are a number of ways in which this might be done. One obvious possibility would be to lower the quota figure to a level which would be more realistic in current circumstances, e.g. to 1½% or 2%. However, a single national figure is not necessarily the right answer. Variations in the percentage of employed registered disabled people in different areas of Great Britain, which range from 0.9% to 1.8%, suggest that different quota figures for different areas might be appropriate. Alternatively variations based on different industries or occupations might relate more closely to the real opportunities for employment of the disabled. It would be for the MSC to make the studies needed to set variable limits of this nature. The result could be a scheme which was more capable of being enforced than the present quota system. The Committee believe that if the Government decide to retain a Quota Scheme serious consideration should be given to ways of varying the Quota by area, industry or occupation.

9. The Committee believe it is not only the number of registered disabled people who find employment that is important, but also the quality of employment open to them. The MSC should consider whether account could be taken of this by steps short of their present proposals.

10. In any improved quota scheme attention should be given to incentives to the disabled and to employers. The Committee recognise however the difficulties which were set out by the MSC in their review, in the way of financial incentives to the disabled to register, such as tax reliefs. As to incentives to employers the Committee would support the continuance and expansion of existing schemes for selective financial support to employers to encourage the employment of disabled workers, such as the Job Introduction Scheme and grants for the adaptation of premises and equipment.

11. Several submissions gave support to the idea of a levy scheme, but the Committee are unable to recommend this. The MSC have set out the arguments against a system of levies in paragraph 8.15 of their report, and the Committee are in general agreement with them, particularly as regards the risk that employers might simply opt to pay the levy rather than take on disabled people.

12. Under any future scheme, whether an improved quota scheme or not, there is a need for better training for Disablement Resettlement Officers. This is considered in paragraph 24 below.

13. Similarly the problems of the mentally disabled in the field of employment, which differ in many ways from those of the physically disabled, constitute a general question which is examined in paragraphs 20 to 22 below.

14. Even with the possible improvements considered above, there remains the difficulty about any statutory quota scheme that since registration is voluntary there might not be enough registered disabled persons to enable employers to comply with the law. This is one of the fundamental reasons for the MSC's search for a new approach.

15. The MSC proposals are for a general duty linked to a code of practice. Employers with 20 or more employees would be obliged to "take reasonable steps to promote equality of employment opportunity for disabled people". Legislation would require employers to:

- a) give disabled people full and fair consideration for all vacancies;
- b) retain newly disabled employees wherever reasonable and practicable;
- c) provide full and fair opportunities for the career development of disabled people.

The code of practice would give guidance on the three principles (which would be taken into account in an industrial tribunal or court of law) and on other general matters both of policy and practice. It would provide guidance on the definition of a disabled person and recommend what proportion of a firm's workforce should be disabled people. (The MSC's suggested outline code retains the 3% figure, but all disabled people and not just those at present registered would be counted towards the quota.)

16. This is not a purely voluntary scheme. It is a statutory approach, and it would be an offence for an employer not to comply with the statutory duty. Only MSC officers would be able to take prosecutions, but every effort would be made by the MSC to resolve disputes by persuasion before legal action was taken. The MSC expect that few cases would require recourse to the law.

17. The Committee recognise that the MSC proposals could offer considerable attractions to the disabled, and the National Advisory Council on Employment of Disabled People support the MSC's general approach. But there are certain questions about which the Committee are not at present satisfied. The main ones are:

- a) The definition of the disabled - the MSC have not yet framed a new definition; they acknowledge the need to consult disabled people and other interested parties about a definition. Without a clear definition of the disabled it is not possible to judge the proposals.
- b) The identification of the disabled by employers - the MSC envisage that the code of practice would advise employers on how to recognise disability and what steps to take to ensure that disabled applicants or existing employees were encouraged to disclose their disability without fear that this would have an adverse effect on their employment prospects. But the Committee are concerned about possible difficulties here, e.g. would employers become involved in the medical examination of

employees? Would there be a risk of endangering the confidentiality of medical records? Would there be a form of conscription of unregistered employees? Would there not be a great deal of extra paper work?

- c) Enforcement - how for example would the requirement for employers to "take reasonable steps" be interpreted? The Committee also consider that more thought needs to be given to the parts which will be played by magistrates courts and industrial tribunals, and they are concerned about the length of time which could elapse before a decision is reached in an individual case under the proposals in paragraphs 8.29 and 8.30 of the MSC Report.

18. The Committee consider that the MSC need to give further thought to these problems. The Committee are unable to make a recommendation on the adoption of the MSC proposals until the MSC provide satisfactory answers to these questions.

19. If any scheme based on the MSC proposals was to be accepted by the Government, the Committee consider it essential that sufficient resources be made available to implement it.

The Mentally Disabled

20. There are special problems affecting the employment of the mentally disabled, who now represent a substantial proportion of all disabled people. Whereas it is widely

recognised that a person with a physical disability such as blindness or the loss of a limb can nevertheless perform a variety of jobs not affected by the particular disability, there is less understanding of the problems and potential of the mentally disabled.

21. MIND draw a distinction between people suffering from mental illness, which may be only temporary and not affect their employability at other times, and those who suffer from a congenital mental handicap where the problems are more difficult. The proportion of both mentally ill and mentally handicapped persons who register as disabled is much lower than the proportion of physically disabled people. This appears to be partly due to a fear that registration as mentally disabled is a stigma; in addition medical advice is often against registration.

22. The MSC claim that their proposals would help mentally ill and handicapped people more than the present quota scheme because they extend to all disabled people and cover experience in work as well as recruitment. But the difficulties claimed over stigma and prejudice would not simply disappear. No firm practical proposals have been suggested in the evidence the Committee have received for dealing with the special problems of the mentally ill and handicapped in the field of employment, and the Committee recommend that the MSC should give further thought to this group of the disabled.

Anti-discrimination Legislation

23. Several submissions argued that protection for the disabled should be given by anti-discrimination legislation like that which applies to discrimination on grounds of sex or race, and even that there should be a single Commission covering discrimination on grounds of sex, race and disability. The Committee do not support this approach. There is a fundamental difference between the disabled on the one hand and women or people of different races on the other in the field of employment. As the MSC Report says in paragraph 8.22, "while the characteristic of being female or belonging to an ethnic minority is not of itself an indication of inability to do a job, the characteristic of being disabled may well genuinely impair a person's ability to perform specific types of work".

Training of Disablement Resettlement Officers

24. There is general appreciation of the commitment of Disablement Resettlement Officers (DROs) in their efforts to place the disabled in employment, but some suggestions have been made that their recruitment and training could be improved. The Committee agree that more could be done in this field. They consider that the training and work of DROs should cover more thoroughly not only the placing of the disabled in employment but also the subsequent training and progress of the disabled; this would be essential under the MSC proposals. Moreover it is important that a sufficient number of DROs should be trained and made available for their important task.

Sheltered Employment

25. The Committee were primarily concerned with the review of the Quota Scheme and did not directly inquire into sheltered employment. Little evidence was received on this subject. It is clear however that provision should continue to be made for those who because of the severity of their disability are unlikely to obtain or retain employment in open industry. The MSC should consider what improvements could be made in this field.

Designated Occupations

26. Certain occupations are reserved for registered disabled people, namely passenger electric lift operators and car park attendants, and it is an offence, without special permission, to employ any other person on such work.

27. The MSC recommend that this provision should be abandoned. The Committee have noted the arguments of the MSC and others that it could be considered to be not in keeping with the philosophy of encouraging disabled people to compete as ordinary members of the workforce and could create the impression that disabled people are only capable of low grade work. But practical realities, rather than philosophical arguments, point to the need to continue the scheme: this is not the time to drop a measure which helps the disabled when there are some three million unemployed.

Education of Employers

28. Witnesses have pointed to the need to encourage wider understanding among employers of the contribution that the disabled can make. The Committee agree with this but would extend publicity and education on these lines to all who are concerned with the recruitment and career advancement of the disabled, including for example the involvement and experience of trade unions: DROs should be encouraged to maintain contact with trade unions as well as employers.

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15 December 1981

Dear Michael MAJ

TRAINING AND SPECIAL EMPLOYMENT MEASURES

I attach a copy of the Statement which my Secretary of State is making to the House this afternoon, together with a copy of the White Paper "A New Training Initiative: A Programme for Action".

I am sending copies of this letter and attachments to other Private Secretaries to Members of the Cabinet, Mr Robin Ibbs and Sir Robert Armstrong.

Yours sincerely

John Anderson

J ANDERSON
Private Secretary



DEPARTMENT OF EMPLOYMENT

A NEW TRAINING INITIATIVE: A PROGRAMME FOR ACTION

*Presented to Parliament by the Secretary of State for Employment,
the Secretary of State for Education and Science, the Secretary of State
for Scotland and the Secretary of State for Wales
December 1981*

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Presented to Parliament by the Secretary of State for Employment, the Secretary of State for Education and Science, the Secretary of State for Scotland and the Secretary of State for Wales by Command of Her Majesty December 1981.

A NEW TRAINING INITIATIVE: A PROGRAMME FOR ACTION

A New Training Initiative

1. Last May the Government endorsed the Manpower Services Commission's consultative document "A New Training Initiative". This set out three major national objectives for the future of industrial training:

- (i) to develop skill training including apprenticeship in such a way as to enable young people entering at different ages and with different educational attainments to acquire agreed standards of skill appropriate to the jobs available and to provide them with a basis for progress through further learning;
- (ii) to move towards a position where all young people under the age of 18 have the opportunity either of continuing in full-time education or of entering a period of planned work experience combined with work-related training and education;
- (iii) to open widespread opportunities for adults, whether employed or returning to work, to acquire, increase or update their skills and knowledge during the course of their working lives.

2. The Commission has now published its report on the response. This shows that there has been overwhelming support for these three objectives from employers, unions, educational and training bodies—all who have a part to play—and general agreement on the need for urgent action. The time has now come for the Government to give a lead. We therefore set out in this White Paper our decisions on immediate action and proposals for the longer term. These draw substantially upon the recommendations made by the Commission in its report and the Commission will play a central role in their implementation.

Programme for Action

3. The Government's 10-point programme for action comprises:

- (i) *a new £1 billion a year Youth Training Scheme, guaranteeing from September 1983 a full year's foundation training for all those leaving school at the minimum age without jobs;*
- (ii) *increased incentives for employers to provide better training for young people in jobs;*
- (iii) *development of an "Open Tech" programme to make technical training more accessible to those who have the necessary ability;*
- (iv) *a working group to report by April 1982 on ways of developing the Youth Training Scheme to cover employed as well as unemployed young people, within available resources;*
- (v) *setting a target date of 1985 for recognised standards for all the main craft, technician and professional skills to replace time-serving and age-restricted apprenticeships;*

- (vi) *better preparation for working life in initial full-time education;*
- (vii) *more opportunities for vocationally relevant courses for those staying on in full-time education;*
- (viii) *closer co-ordination of training and vocational education provision nationally and at local level;*
- (ix) *a £16 million fund for development schemes in particular localities or sectors;*
- (x) *examination of longer-term possibilities for more effective, rational and equitable sharing of the costs of training between trainees themselves, employers of trained people and the general taxpayer.*

4. This programme is developed in greater detail under the following main headings:

- The need for action.
- The transition from full-time education to work
- A new Youth Training Scheme
- Training for craft, technician and professional skills
- Institutions
- Funding

The Need for Action

5. People as producers create wealth by providing goods and services that people as consumers want to buy. They create machines and equipment as tools of wealth creation. People are our pre-eminent resource and that is why they have to be given the best backing that the nation can afford. New technology offers us the chance to become more productive and to create new and better jobs selling goods and services to the rest of the world. But we need a better educated, better trained and more adaptable workforce if we are to take that opportunity.

6. Our major competitors lay much greater emphasis on training young people than we do. In France and Germany 80 per cent or more of young people reaching minimum school leaving age receive further education or training of some kind. In Britain in 1979 on the most favourable interpretation the figure was less than two-thirds.

7. In Britain the training provided is mainly apprenticeship in traditional craft and technician skills, for many of which there is declining demand. Opportunities for day release to Colleges of Further Education are limited and sometimes lack co-ordination between the college and where young people work. Full-time college courses often seem financially unattractive to many young people compared with the immediate rewards of an unskilled job.

8. Training for adults is also inadequate. We have until now assumed that the training given in a person's first job is all he will need for the rest of his working life. Entry to some craft and other occupations is so restricted that there is little point in providing training for adults or for adults to seek it.

9. Who has the responsibility to train? At the moment the position is muddled. Individual employers, local education authorities, joint negotiating bodies,

Industrial training bodies, the Manpower Services Commission and Government Departments are all involved. The cost of training is basically a matter for the individual employer, but a wide variety of grants, subsidies and courses is provided at the taxpayers' expense or from Industrial Training Board levies on particular industries.

10. We must have clearer goals, better means of delivery, a fairer allocation of financial responsibilities and, above all, a will to work together and to get on with it.

The Transition from Full-time Education to Work

11. To get a better trained and more flexible workforce we need to start with better preparation for working life in schools and better opportunities for continuing education and personal development in the early years at work.

The years of compulsory education

12. The last two years of compulsory education are particularly important in forming an approach to the world of work. Every pupil needs to be helped to reach his or her full potential, not only for personal development but to prepare for the whole range of demands which employment will make. The Government is seeking to ensure that the school curriculum develops the personal skills and qualities as well as the knowledge needed for working life, and that links between schools and employers help pupils and teachers to gain a closer understanding of the industrial, commercial and economic base of our society.

Staying in full-time education

13. Nearly one-third of young people between 16 and 19 are still at school or in other full-time education. The Government has made available for 1982-83 additional public expenditure resources totalling £60 million to enable more to do so. Larger sums have been included in our plans for later years, and their adequacy will be kept under review in relation to the number of young people choosing this option.

14. Good academic results are prized by many who recruit direct from school. They can earn entry to technical and professional courses with appropriate exemptions. They also constitute the principal route to degrees and full professional qualifications.

15. But increasing numbers of students are taking full-time vocational courses, combining the theory and practice of particular occupational skills with general education in subjects which have hitherto been studied mainly part-time.

16. There is also a need for vocationally-orientated courses of a more general kind. The Government intend to secure development of a new pre-vocational examination for young people aged 17-plus in schools and colleges in England and Wales. This will be designed particularly for those with modest examination achievements at 16-plus who are not looking towards higher education and are not yet ready for specific vocational education or training, perhaps because they have not yet formed a clear idea of the sort of work they might do. In Scotland there are proposals designed to meet the same need for a one-year course leading to the award of a "Scottish Certificate in Vocational Studies".

The first year in employment

17. However well schools and colleges prepare young people for working life we must improve their training when they start work. Young people need to be equipped not merely to do the immediate task required by the job, but with a basic competence and flexibility which they can build on as they change jobs.

18. The best way of providing this training is through arrangements made by employers for their own young employees. *Yet in 1979 nearly 40 per cent of the 700,000 school-leavers who found jobs received no training at all. About another 20 per cent were receiving training for only eight weeks or less.* Our efforts must therefore be directed not only to creating jobs for young people but also to ensuring that they are properly trained for them.

19. We announced last July the introduction from 4 January of the Young Workers' Scheme, which provides grants to employers who take on young people under 18 in the first year of employment earning less than £45 a week. That scheme is intended to encourage employers to take on more young people at wage levels they can afford, and could enable them to provide the training required.

20. To encourage proper training we are now expanding the scheme of grants to employers who co-operate in providing integrated training, further education and work experience (the Unified Vocational Preparation scheme) so as to cater for some 50,000 young people by 1984-85. We also intend to extend to the 1982-83 training year the higher level of support for skill training—some 35,000 places—announced last July for the current year.

21. The Manpower Services Commission has now proposed to establish a high level working group, including representatives of industry and education, to report urgently on the possibilities of a wider and more general scheme of foundation training for all young people, whether employed or unemployed. Priority must be given to the young unemployed. Nonetheless, we welcome this proposal and shall be fully prepared to consider re-allocating resources available for young people in any way which may contribute more effectively to their futures.

22. Meanwhile, we must continue to plan on the basis that over the next few years many young people may have difficulty in finding jobs on leaving school. So special provision will continue to be needed for them in order to achieve our major aim of reaching the position where all young people, on leaving school, either move on to further education, find a job or are given the chance of training or community service.

A New Youth Training Scheme

23. The young unemployed will remain a priority group in terms of new training arrangements. The Youth Opportunities Programme was introduced in 1978 especially to help the minority of young people who were unemployed and quite unprepared or ill equipped for working life by means of a relatively short period of work experience or work preparation. Since then it has become clear that we need a full-scale training programme that provides for an increasing number and range of unemployed young people, and the Youth Opportunities Programme has begun to develop in this direction. The Government now

proposes that a new and better Youth Training Scheme should be introduced by the Commission to cover all unemployed minimum age school-leavers by September 1983.

Training content

24. The new scheme will build on the experience gained from the Youth Opportunities Programme and the Unified Vocational Preparation programme. It will aim to equip unemployed young people to adapt successfully to the demands of employment; to have a fuller appreciation of the world of industry, business and technology in which they will be working; and to develop basic and recognised skills which employers will require in the future.

25. These aims require an effective integration of skills, knowledge and experience through planned and supervised work experience and properly designed opportunities for off-the-job training or further education. Young people have different abilities and learning aptitudes and local labour market needs also differ. Both will have to be taken into account in designing and operating the scheme, but for young people with no experience of work a training programme of up to a year will generally be needed.

26. There will be five main elements:

Induction and assessment. Individuals will receive a proper induction to the programme and to each element of it. Their skills and attainments will be assessed. This may include opportunities to sample different skills or jobs in order to establish aptitudes.

Basic skills. The programme will aim to ensure that basic skills like numeracy and literacy have been acquired; to develop some practical competence in the use of tools and machinery and in some basic office operations; and to foster skills in communication (in interview for example).

Occupationally relevant education and training, both on and off the job. This will provide opportunity for personal development and use of the basic skills in a variety of working contexts, adapted to the needs of the local labour market. It will be integrated with planned work experience, with young people being given a minimum of three months off-the-job training or relevant further education. Arrangements will be flexible, so that the training can be given in the form of day or block release and can take place in a company training school or at a college.

Guidance and counselling. Young people will receive advice and support throughout the programme under arrangements agreed with their sponsors.

Record and review of progress. Each young person's progress will be recorded, reviewed and assessed as he or she goes through the programme. A document of progress will be given to the young person on leaving the programme and will record standards achieved in a way which is recognisable both to the young person and to potential employers.

27. A scheme of this quality and scale will require the whole-hearted co-operation of many sections of the community—employers, trade unions, local authorities, local education authorities, voluntary bodies and not least the trainees themselves. Its success will depend on engaging the assistance of all

these interests at the local as well as the national level. The Government is therefore asking the Commission to organise the delivery of the scheme in such a way as to provide for full local involvement.

28. Large numbers of sponsors will be needed for the different elements within the scheme, which must be carried out within industry and commerce if it is to be fully effective. So the full co-operation of *employers* is vital. Provision will be made within the scheme towards assisting sponsors with their overhead costs and they will be able to contribute to the local input to the design of the training programme.

29. *Colleges of further education* and their maintaining Local Education Authorities will have an important role in the new programme. It will mean for them a major expansion in provision for this age group, the equivalent of perhaps 80,000 full-time places funded by the Commission. They will also be asked increasingly to relate what is taught to what the young trainees will be doing at the work place and to arrange courses flexibly through the year.

30. *The Careers Service* in recent years has had to switch resources from its more traditional roles to help a large number of unemployed young people. It has been very substantially aided in this work by direct Government funding of nearly 1,100 additional posts for this purpose. It will now have to meet a new challenge, especially in counselling the trainees who are on the new scheme for a year, and in working with people employed on the scheme, whether in colleges or in schemes, and see that all young people receive necessary advice and support.

Coverage

31. Under the new scheme, the Government intends to guarantee an early offer of training to all minimum age school leavers who are unemployed during their first year after leaving school. Unemployed school-leavers will be offered a full year's training course; those who become unemployed after some experience of work will be offered shorter courses which may average six months.

32. Other young people under 18 who leave school or further education after the minimum age and cannot find a job and others under 18 who have had a job but become unemployed within 12 months of leaving school will be eligible for places. The resources made available for the scheme are intended to be sufficient to provide enough places for these two categories on the same basis as for minimum age leavers, ie unemployed school-leavers will be offered a full year's training, and other young people who have had some experience of work will be offered shorter courses. There will not, however, be an absolute guarantee of such places. While resources are limited it seems right to accord priority to minimum age school leavers who find themselves unemployed during their first year after leaving school.

33. Community Industry at present provides disadvantaged 16 to 18 year olds with temporary employment lasting up to a year. The Government recently welcomed a report which examined the role and objectives of this programme and concluded that it should in future concentrate more on 18 year olds. Community Industry will need to consider carefully where its contribution can best be made in a way that is consistent with the new arrangements. One way

forward would be for it, while continuing as a temporary employment programme offering additional help to disadvantaged young people, to provide exclusively for young people—mainly for those aged 17 and 18—who are outside the target group of the new scheme.

Training allowances and benefit arrangements

34. *The new scheme is first and last a training scheme.* This is reflected in its structure, its delivery and the terms and conditions for the young trainees. The young people catered for by the scheme will benefit from having a wider range of skills and experience. As trainees, it seems right that they should receive allowances that reflect their learning role. That is how they will make their contribution to the cost of a foundation training which improves their prospects of employment.

35. The level of the training allowance will reflect not only the benefit of training, but also a change in the provision of supplementary benefit to young people. The provision of guaranteed training places on the new scheme for those who leave school at the minimum age and cannot find jobs brings them into a situation akin to those who go on at that age to further education. For the latter it is accepted that they should continue to be dependent on their parents and that they should not have access to supplementary benefit in their own right. The same will apply to unemployed minimum age school-leavers when they are guaranteed a place on this new scheme. Legislation will be introduced accordingly. They will then, in general, cease to be eligible for supplementary benefit in their own right until 1 September in the year after that in which they leave school. For example, those who leave school at the minimum age in the summer of 1983 will not become eligible for benefit in their own right until 1 September 1984. Scottish leavers at Christmas 1983 will become eligible on 1 September 1984.

36. So, from the date when the new scheme is fully introduced in 1983, parents will be expected to provide any necessary financial support to these trainees and child benefit will continue to be paid to parents so long as the young person is neither in work nor on the scheme. In addition, parents' entitlement to benefit will take account of their responsibility for these young people.

37. The benefit needs of special groups among young people will continue to be met. The intention will be to follow broadly the categories at present allowed to claim supplementary benefit while still at school, and the new arrangements will not affect existing provision such as mobility allowances and non-contributory invalidity pension. All handicapped young people who are within the coverage of the new scheme and who are able to benefit from participation in it will be encouraged and enabled to take part.

38. These new arrangements will provide for payment of a training allowance from the Government. For those unemployed in their first year after leaving school at the minimum age this allowance will be set at a level intended mainly to cover travel and other expenses. Its precise level will be decided nearer the time in 1983 when the scheme comes into full operation, but the level of this Government allowance is likely to be around £750 a year. Those young people who join (or are on) the scheme after 1 September in the year following

their minimum school leaving age will be paid a higher training allowance by the Government since, when unemployed, they will still be eligible for supplementary benefit. Their allowance is likely to be around £1,250 a year. Those who unreasonably refuse a suitable training place would, like adults who unreasonably refuse training offers, have their benefit reduced for 6 weeks. The allowances for both groups will not apply before 1983 when the new scheme becomes fully operational and the Government is asking the Manpower Services Commission, in working out the detailed implementation of the scheme, to advise on the level of allowance which is appropriate and can be afforded within the resources available, which are set out in paragraph 40 of this Paper.

Progress towards the scheme

39. The present Youth Opportunities Programme is already evolving in the direction now planned and will continue to do so in 1982-83. The Government is asking the Manpower Services Commission to develop the programme so as to provide around 100,000 of the new 12-month training places in that year and to be in a position to provide such places for all school leaver entrants in 1983. The new scheme will then replace the Youth Opportunities Programme. Meanwhile, the Government will continue the Youth Opportunities Programme allowance on its present basis, raising it to £25 a week from January 1982 to maintain a differential above supplementary benefit.

Future Development

40. To provide places for some 300,000 young people throughout the year, which may be necessary in 1983-84 and 1984-85, is expected to cost around £1 billion in a full year. This compares with an estimated cost for the Youth Opportunities Programme in the current financial year of £400 million. The average cost per trainee week, exclusive of allowances, will be around twice that of the present programme, reflecting the improved training content. This immense increase in the resources deployed towards training unemployed young people is some measure of the importance that the Government attaches to replacing the existing programmes by a comprehensive and well-founded training scheme.

41. Our ultimate objective must of course be to provide proper training on a comprehensive basis, not only for the unemployed but for all young people in employment too; and to do so in a way which gets many more of the young unemployed into jobs with proper training. The study to be undertaken by the Manpower Services Commission working group (referred to in paragraph 21 above) will be particularly helpful in identifying any fresh ways in which to move towards this objective. It is imperative that the scheme outlined above for unemployed young people should go ahead quickly in order to give them a far better start to working life. But the Government is very willing to consider and develop schemes to help more unemployed young people into jobs with proper training and would be prepared to transfer resources proportionately from the new scheme to such other schemes if they can be developed.

Training for Craft, Technician and Professional Skills

42. Better vocational preparation in school and in the first year of working life will lay the foundation for a more flexible workforce. But urgent reform is

also needed of the arrangements for training in craft, technician and professional skills, both for young people and for adults. We must also remove obstacles to the full and efficient use of the skills acquired.

43. No one can predict the precise composition of the skilled labour force which will be needed over the coming years. What is clear is that we will require a higher proportion of people able to handle jobs at technician level and above and that there will be fewer opportunities at semi-skilled level and below. Technological and market changes will impose major demands on firms and individuals, and not least on managers in industry and commerce.

44. Uncertainty puts a premium on flexibility and mobility within the workforce. A key to this is a training system embodying a wide range of recognised standards of achievement. Access to skilled work, or training to higher levels, should depend not on the form and structure of previous training but on proven ability.

Standards

45. We already have a number of institutions with considerable experience in defining and testing standards of individual competence in theoretical or practical skills. These include the City and Guilds of London Institute, the Royal Society of Arts, the Councils of Technician Education and Business Education and their Scottish counterparts, the professional institutions (soon to be joined by the new Engineering Council), some employer organisations and research associations, voluntary training bodies and Industrial Training Boards.

46. Standards of competence have, however, been seen as optional rather than basic equipment. We therefore endorse the commitment by the Manpower Services Commission to 1985 as the date by which relevant standards of competence, with associated courses and certificates, should be available for all significant skilled occupations. We know that many of those engaged in collective bargaining, nationally and locally, want to replace agreements based on time-serving and age restrictions with arrangements based on such standards. We urge them to do so as soon as possible, and by 1985 at the latest.

47. The Government will make financial support for skill training in industry at the enhanced levels referred to in paragraph 20 above increasingly conditional upon steps towards implementation of these necessary reforms.

Adults

48. The skill shortages which have held back our economic progress in the past could reappear when the economy recovers. They cannot be met solely by training the new intake of young people, but will require considerable readaptation of the existing labour force. Skill needs will continue to change and require updating. Wider opportunities for training and retraining of people in their 20s, 30s and later in life are bound to be required in the future.

49. This is primarily a matter for industry. It will, however, in some cases require quite new arrangements and facilities. The Government therefore intends that the resources of the Training Opportunities Programme, currently running at some £250 million a year, should increasingly be directed to encouraging the necessary provision in industry.

Open Tech

50. There are gaps in the availability of training facilities to firms and to individuals seeking to progress to higher levels of skill and responsibility, particularly at technician and supervisory levels. These could be filled by making existing facilities and new courses more accessible through the use of "open learning" and "distance learning" methods, and exploiting the potential of new information technology. The Government is therefore providing resources for an "Open Tech" programme. This will be supervised by a Manpower Services Commission Steering Group representing industry, education and training interests. It will work with and through many channels (including industrial ones), facilitating the actions of others rather than establishing a new educational or teaching institution. Participants in the programme will typically use a range of printed and audio-visual learning materials, and will work independently, either in college or at home, but with access to tutorial and practical help and facilities. The first project will start in 1982.

Institutions

51. The Manpower Services Commission, which includes representatives of employers, unions and local authorities, is (and will remain) the main agency through which the Government initiates action and monitors progress over the whole field of industrial training. The concerns of training and education policy are, increasingly, closely linked. The Government will ensure that the education Departments and other education interests are fully involved in the development of training programmes and that there is effective consultation when new training and educational initiatives are devised. There will be appropriate arrangements for Scotland and Wales.

52. The Government will rely to the fullest possible extent on the voluntary arrangements already existing or being developed in particular industries, and on the statutory Industrial Training Boards which are being retained. In all sectors the Government looks to those concerned to play their part in pressing forward the plans set out in this White Paper in the fullest co-operation with the Commission. This will mean devising syllabuses and standards of training at all levels to meet the specific needs of their sectors, providing advisory services to individual firms, encouraging the formation of group training schemes where appropriate and providing centralised training facilities where necessary. Industry bodies will also have an important role in encouraging the modernisation and revision through the appropriate negotiating machinery of out-dated agreements and practices which at present impede progress.

53. Success or failure ultimately depends on what happens locally. Many have called for local arrangements to bring industry more closely in touch with the education and training services to identify and meet local training needs. There have been several interesting local initiatives of this kind, as well as the establishment by the Manpower Services Commission of representative Area Boards to oversee local implementation of its special programmes including the Youth Opportunities Programme. The Government is therefore asking the Commission to encourage the development of suitable local arrangements and to play its full part in them. A first priority will be to ensure that there is effective machinery involving local industry and education interests in the delivery of the new Youth Training Scheme for unemployed young people.

54. There have already been interesting proposals for joint initiatives for new types of training scheme coming forward from employers, unions and others in particular localities or sectors. The Government will be making available to the Commission additional funds of £6 million in 1982-83 and £10 million in 1983-84 for the assistance of such developments.

Funding

55. On a broad estimate the United Kingdom has in recent years invested some 2.5 per cent of GDP in vocational education and training. Roughly half was direct expenditure by firms, the biggest single item being trainees' wages. Most of the rest was expenditure by local education authorities, channelled through the Exchequer or the local rating system, the main items being teachers' and instructors' salaries, buildings and equipment. Manpower Services Commission programmes are a smaller but increasing element.

56. In the current recession individual firms have cut back on their contribution. In particular the number of apprentices and other long-term trainees taken on by firms fell from around 100,000 a year in the late 1970s to 90,000 in 1980-81 with another sharp fall expected in the current year, despite larger numbers in the relevant age groups.

57. In these circumstances the Government has stepped up the contribution channelled through public funds. Substantial additional sums have already been allocated to increase the numbers continuing in full-time education and to support apprentice training, vocational preparation schemes and, especially, the Youth Opportunities Programme. When the proposals in this White Paper are fully implemented in 1984-85 public expenditure on Manpower Services Commission training programmes alone will be close on £1.5 billion. This will include more than £1 billion for the new Youth Training Scheme, some £280 million for the Training Opportunities Scheme and £100 million for apprentices and vocational preparation for those in jobs. In addition, some £4 billion will be spent on post-16 year olds through the education system, including about £1 billion on non-advanced further education, a considerable proportion of which will be of a vocational nature.

58. For the immediate future the Government sees an increase of public expenditure on this scale as the only way of plugging the gap in the training provision required if we are to be ready to meet the skill needs of the economy as trading conditions improve and to offer adequate opportunities to the current generation of young people. It is applying these extra resources to help secure longer term reforms in the quality of training and bring about a change in the attitudes of young people to the value of training and acceptance of relatively lower wages for trainees.

59. Nevertheless, this does nothing to alter fundamentally the present somewhat haphazard and often illogical apportioning of costs between the public and private sectors, and between individual undertakings. In occupations as diverse as medicine and hairdressing virtually the whole cost is borne by the tax and rate payer (with some contribution by the trainee). In others, particularly the heavier manual skills, virtually the whole cost is borne by the individual

firm. Yet the individual firm has absolutely no guarantee of a return on this investment since the trainee is under no legal obligation to stay once his training is complete. Attempts to even out costs between employers in particular industries through the Industrial Training Board's levy/grant system foundered under the weight of bureaucracy involved and its inability to deal with the problem in respect of cross-sector skills where much of the difficulty lies.

60. In the longer term the responsibility for training must lie mainly with employers, as it does in most other major industrial countries. It is only in this way that we can ensure that training meets industry's real needs. A remissible tax on the lines of the French system has been suggested as one possibility for influencing positively employers' calculations about the relative costs and returns of investing in training. Another would be a system of training grants to firms financed out of general taxation. Either would involve some measure of bureaucratic intervention. Yet a large-scale expansion of public provision for training, parallel to the public education system, seems even more objectionable. There are many issues here, which will need to be examined. The Manpower Services Commission has proposed to establish, in co-operation with the Government, a general study of the funding of industrial training as a whole. The Government will give further consideration to the matter in the light of that study.

Conclusion

61. For many years now our system of training has failed to produce the numbers of skilled people required by a modern competitive economy. This paper sets out a framework within which employers, employees, unions, educationists and Government can more clearly see what they need to do for the system to work. Not all the questions are resolved and the Government and the Manpower Services Commission are setting further work in hand. But lines of needed advance are clear and the Government invites everyone concerned to play their part.

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STATEMENT TO THE HOUSE ON TUESDAY 15 DECEMBER

TRAINING AND SPECIAL EMPLOYMENT MEASURES

With permission, Mr Speaker, I should like to make a statement on training and special employment measures further to the measures announced on 27 July by my rt hon Friend the Prime Minister.

We have decided to extend the special Job Release Scheme, open to disabled men of 60 and over, until March 1984. Job Release allowances will be increased next April by 9%. At the same time the conditions of the scheme in the public and private sectors will be brought into line.

The Temporary Short Time Working Compensation Scheme will also be extended by two years and will then close, with the last application being taken in March 1984. From July 1982 the maximum period of support will be six months.

Provision for the Community Enterprise Programme will be increased to 30,000 places in 1982-83.

The total provision for these three special employment measures in 1982/83 has now been increased this year by £140m to over £520m, with an additional £61m for the Young Workers' Scheme which starts on 4 January next.

Now I turn to training. We have today published a White Paper on the action needed to bring our system of industrial training up to date. We have drawn substantially upon the recommendations made by the Manpower Services Commission in their Report, also published today, on the response to the consultative document "A New Training Initiative."

The White Paper provides a framework for action by all concerned in industry and education, and sets out the lead the Government is giving in a ten point agenda. I should draw to the attention of the House three of these points in particular.

First, there will be a new £1 billion a year programme for unemployed young people, which will guarantee a full year's foundation training for all those leaving school at the minimum age and finding themselves without jobs. Over the next eighteen months this entirely new Youth Training Scheme will progressively replace the Youth Opportunities Programme and will give these young people training in basic skills which employers will need in the future. We are determined to lose no time in reaching the position where every 16 year old school leaver is in work, or in further education, or has a genuine opportunity of a year's training. By taking the decisions now we are able to ask the Manpower Services Commission to ensure that this new Youth Training Scheme is in full operation by the autumn of 1983.

Meanwhile, the Youth Opportunities Programme will be expanded and developed to provide about 100,000 of the new style training places in 1982-83 and the allowance under it will be increased to £25 from next January

CONFIDENTIAL

Young people in the new Youth Training Scheme in their first year after leaving school at 16 will have "trainee" status. From 1983 they will cease to have eligibility of their own for supplementary benefit, except for the special groups, and so will be treated like those who remain in full-time education.

While on the Scheme they will, however, receive a training allowance from the Government. This will reflect the value of the training and relevant further education they receive and their learning role, and, although its precise level will be decided nearer the time, it is likely to be something over £750 a year. For older trainees who remain eligible for supplementary benefit, the allowance will be higher, probably around £1,250 a year. These allowances will not apply before 1983 when the Scheme comes into full operation and I am asking the Manpower Services Commission, in working out the detailed implementation of the Scheme, to advise on the level of allowances which is appropriate within the resources available for the Scheme as set out in the White Paper.

Employers, trade unions and educationalists have all, rightly expressed concern for the young unemployed. The Government therefore trust that we can now depend upon their wholehearted support in making this new scheme a success.

This new scheme breaks entirely new ground in the training of young people in this country, and it is directed to young unemployed people as a first priority. But our ultimate objective is proper training for all young people, whether employed or unemployed, and to bring more young people into jobs with proper training.

For those in jobs, we are increasing the financial encouragement to employers to provide foundation training and release for education so as to cover some 50,000 trainees in 1984/85. We are also continuing into 1982/83 our support for some 35,000 apprenticeships.

The new scheme I have announced will now go ahead quickly to ensure that there will be universal provision for unemployed school leavers. But the Government hopes that the further study of youth training to be undertaken by the MSC will identify fresh ways in which to help get many more of the young unemployed into paid jobs with proper training. To the extent that their training needs can be met in such ways we would be willing to transfer resources proportionately from the new scheme.

Secondly, we wholeheartedly support the MSC proposal that employers and unions should accept, and implement, the objective that by 1985 all training should be to standards without regard to age. We shall make Government assistance for skill training increasingly conditional upon steps towards that objective and the removal of unnecessary restrictions.

Thirdly, we have asked the Manpower Services Commission to develop an Open Tech programme to make technical training more accessible to all with the necessary ability.

Other important points of action are set out in the White Paper, including steps to improve preparation for working life in schools and colleges.

In pursuit of all these commitments we have during this year increased the provision for training expenditure in 1982/83 by £399m to a total of over £1.1 billion, in 1983/84 by an extra £517m to a total of nearly £1.3 billion and in 1984/85 by an extra £648m to a total of nearly £1.5 billion, including over £1 billion on the new Youth Training Scheme.

The provision for 1982/83 is included in the expenditure plans for that year announced by my rt hon Friend the Chancellor of the Exchequer on 2 December. The amounts for later years will be accommodated within the totals to be announced in due course.

We are therefore providing resources totalling nearly £4 billion over the next three years to bring our training arrangements up to date. With the assistance of the Manpower Services Commission we have now set out a clear framework within which employers, unions, local authorities, education services and trainees themselves can play their part to modernise our training system. These steps are long overdue. Let us set out to provide training fit for a great industrial and trading nation.



✓
SPRY
✓
pa

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GTN 213

The Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

15 December 1981

D Patrick,

WHITE PAPER ON INDUSTRIAL TRAINING

Thank you for your letter of 10 December commenting on the draft of the White Paper which I circulated on 4 December.

You will see that in the final version I have made substantial cuts in what were formerly paragraphs 61 and 62 to meet the points made in the first part of your letter.

As regards paragraphs 21 and 41, I have thought it necessary to maintain a positive approach to the training of young people in jobs as our ultimate objective - not least to meet pressure from our own back benches. However, I have made clear that what we are prepared to consider is reallocation of available resources, and proportionately to the reduction in the numbers of unemployed young people who would otherwise fall to be dealt with under the new scheme.

I have revised the reference to the Engineering Council on the lines you suggest.

J. N.

Total 4 p.p.s.*SCAD**✓ fa*

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The Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
LONDON SW1

15 December 1981*D. Michael.*

WHITE PAPER ON INDUSTRIAL TRAINING

Thank you for your letter of 10 December on the question of stating now the level of allowances proposed under the new Youth Training Scheme.

I am afraid it is just not possible to avoid stating what we have in mind. The figures can broadly be deduced from the other numbers in the White Paper and we do not want them dragged out of us, and the MSC need to know how much is available to spend on the training element in order to be able to start planning. Nor have I any prospect of additional resources with which to raise the level of allowances.

There is in fact a good case for the decision we have taken on the allowances and I think the White Paper clearly spells it out. The 16 year old school leaver will have a guaranteed place on the new scheme, which will provide a genuine foundation training which will improve his or her employment prospects and which will be greatly superior to the Youth Opportunities Programme that it will replace. The trainees will then be in a position on supplementary benefit similar to those in full time education but will also be receiving an allowance sufficient to cover the costs of participating in the scheme. It is right that the allowance should reflect their learning role and that trainees should thereby make their individual contribution to the costs of the training that benefits them. I hope we will all be prepared to get this case across both at the time of publication of the White Paper and subsequently. If we do not we will have difficulty in holding the line against wages for those at school.



I do take your point, however, that these allowances will not actually apply until 1983. I have altered paragraph 38 to make this clear. I have also expressed the allowances in annual terms so as to leave open the possibility of disbursing the money unequally through the year should a participating employer wish to top up the allowance as trainees move through the scheme. I think we should have this flexibility given our emphasis on local involvement. And I have also indicated that we are asking the MSC, in working out the detailed implementation of the new Scheme, to advise on the level of allowance which is appropriate and can be afforded within the resources available for the Scheme as set out in paragraph 40 of the White Paper. I hope that this presentation - which I shall follow in my Statement to the House - will enable us to get our points over in a sensible and acceptable manner.

I am copying this to the Prime Minister, the Chief Secretary (with whom I discussed the revised passage in the White Paper), other Members of E Committee and to Sir Robert Armstrong.

J. Norman



✓ AD
✓ ja

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GTN 213

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Great George Street
LONDON SW1

15 December 1981

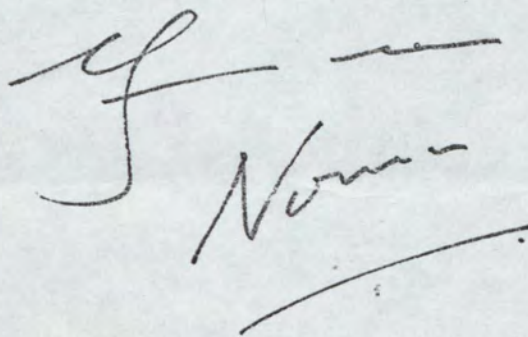
D Geoffrey.

WHITE PAPER ON INDUSTRIAL TRAINING

Many thanks for your letter of 10 December. I have looked particularly at the draft White Paper in respect of the two points you make and have done my best to meet them.

As you will see from my reply of today to Michael Heseltine, I altered paragraph 38 further in the light of his comments, after a helpful word on the telephone with Leon Brittan. We cannot avoid giving figures of the likely allowances and I believe we have a good defence of them which must not go by default.

I am sending a copy of this letter to the Prime Minister, Members of E Committee and to Sir Robert Armstrong.


J. Norman



CC AD

✓
jpa

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Telephone Direct Line 01-213 6400 GTN 213

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Rt Hon Sir Keith Joseph MP
 Secretary of State for Education and Science
 Department of Education and Science
 Elizabeth House
 York Road
 LONDON SE1

15 December 1981

D Keith,

WHITE PAPER ON INDUSTRIAL TRAINING

Thank you for your letter of 9 December. I was pleased to hear that you were content with the approach taken in the White Paper. I have taken into account the points made in your letter, and the suggestions for drafting changes and accepted the majority of them. I agree particularly that we need to widen our focus to include the contribution which full time education generally can make, and not limit it to the last two years of compulsory schooling, vital though those are.

There is one other point on which I should comment. You suggested that paragraph 35 should refer to those who leave school at Easter 1983 losing their entitlement to benefit in their own right until September 1984, as well as those who leave school in the summer.

The paragraph as drafted is not meant to exclude this possibility. It is, however, not possible to commit us to that course now. First, primary legislation will be needed, and I understand it may not be possible to obtain it in time. Second, while I do expect the Manpower Services Commission to provide sufficient of the new style places for those who leave school in April 1983, we cannot yet be certain that this will be possible in time and I am sure it would be wrong to commit ourselves to withholding benefit until the places are available. Moreover, I have tried in the published version of the White Paper to avoid unnecessary precision as to the timing of the various changes in 1983 and the exact level of allowances. Paragraph 35 as drafted seems to me to accord well with that



approach. If asked, we will need to say that the course of the transitional arrangements in 1983 is something which will be considered further as plans for the new scheme develop.

I am copying this to the Prime Minister, other members of E Committee, to the Secretaries of State for Scotland, Wales and Social Services, the Lord President, Sir Robert Armstrong and Mr Ibbs.

J. Norman



✓ C AD
✓ JG

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Rt Hon James Prior MP
Secretary of State
Northern Ireland Office
Government Offices
Great George Street
LONDON SW1P 3AJ

15 December 1981

D Jim,

WHITE PAPER ON INDUSTRIAL TRAINING

Thank you for your letter of 10 December setting out your comments on the White Paper and telling me what you propose for Northern Ireland.

As regards the White Paper, you will see from my letter to Michael Heseltine (and as I know you will understand) that we cannot avoid giving the figures of allowances, and that there is a good case to make for our decision. But I have changed the presentation in paragraph 38 of the White Paper.

I am pleased to hear that you are thinking in terms of similar developments for training the young unemployed in Northern Ireland and my officials are in touch with yours about your proposed programme and the draft of your discussion document. At first sight that document seems to be quite consistent with the New Training Initiative and I do not think that to introduce it in the autumn of 1982 would cause any problems for my plans for Great Britain. The difference in timing can be justified by the scale and deep seated nature of the problem of youth unemployment in Northern Ireland.

You recognise in your letter that there is no scope for a separate Northern Ireland initiative on the question of entitlement to Supplementary Benefit and levels of training allowances. There must be a question, of course, whether the new benefit provisions and allowances should not come

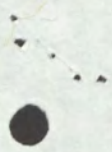
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into operation along with the full introduction of your programme next Autumn, but you may have strong grounds for preferring to defer the change until it is made in Great Britain.

I am copying this to the Prime Minister, other members of E Committee, to the Secretaries of State for Scotland, Wales and Social Services, the Lord President, Sir Robert Armstrong and Mr Ibbs.

J. Norman



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15 DEC 1981

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✓ pa

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

15 December 1981

The Rt. Hon. Norman Tebbit, MP.,
Secretary of State for Employment

Dear Norman

DRAFT PARLIAMENTARY STATEMENT ON TRAINING AND SPECIAL EMPLOYMENT MEASURES

Thank you for sending me a copy of your minute of 10 December to the Prime Minister, enclosing a draft of the statement which you propose to make on 15 December. I am broadly content with the draft, but have a number of suggestions to offer.

First, I think we should be careful not to suggest that the new Youth Training Scheme is a complete departure from the Youth Opportunities Programme. Such a claim would be hard to sustain; and anyway, we do not want to suggest that all aspects of the YOP are unsatisfactory. I can well understand the need to emphasise the changes justifying the reduction in the level of allowances for 16 year olds. But I think it would be helpful to make it clear that features such as work experience on employers premises, and community service projects, will remain.

A second and connected point is that I think we should take more credit for the planned expansion of YOP during 1982-83. A large part of the additional provision announced in July was to improve the duration and quality of YOP courses; and it would be helpful to make this clear, perhaps in the first full paragraph on page 3 of the draft.

Next, I am anxious to avoid too much precision about the level of the allowance for 16 year olds when the comprehensive scheme is introduced in September 1983. I suggest that the second full paragraph on page 3 of the draft should say that the allowance is expected to be "around £15" rather than "something over £15" (the same expression is used about the allowance for older trainees).

Turning to other aspects of the draft, I think the passage on the temporary short-time working compensation scheme could give the impression that the extension by two years is a concession, whereas we have, of course, decided to terminate the scheme in 1984. I suggest inserting at the end of the first sentence of the paragraph "when the scheme will be wound up".

/Finally, it



Finally, it is essential to bring out that the expenditure announced in your statement is within existing public expenditure and fiscal strategies. I should be grateful if you would add at the end of the last paragraph but one of the draft:

"The provision for 1982-83 is included in the expenditure plans for that year announced by my rt. hon. Friend the Chancellor of the Exchequer on 2 December. The amounts for later years will be accommodated within the totals to be announced in due course".

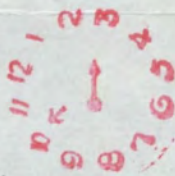
I am sending copies of this letter to the Prime Minister, other members of E, the Secretaries of State for Scotland, Wales and Social Services, the Lord President, the Chief Whip, Sir Robert Armstrong, Mr. Ibbs and Mr. Ingham.

I have, of course, seen a note of the changes which you discussed with Leon Brittan

GEOFFREY HOWE

[Handwritten signature]

75 DEC 1981



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cc AO ✓ per

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE, YORK ROAD, LONDON, SE1 7PH
TELEPHONE 01-928 9222

FROM THE PARLIAMENTARY UNDER-SECRETARY OF STATE

The Rt Hon Norman Tebbit, MP
Secretary of State,
Department of Employment
Caxton House
Tothill Street
London SW1

14 December 1981

Dear Norman,

DRAFT PARLIAMENTARY STATEMENT ON TRAINING AND SPECIAL EMPLOYMENT MEASURES

In his absence abroad Keith Joseph has asked me to let you have our comments on the draft statement attached to your minute of 10 December to the Prime Minister. ^{TPM}

2. We are generally content, but hope you will emphasise the importance of cooperation with education interests at all stages. I would suggest that this should be made quite clear in the interests of accuracy in your references to the content of the Youth Training Scheme, to Unified Vocational Preparation and to the function of the Open Tech. In addition, the very slight substantive reference to the role of the education service might appropriately be expanded to refer to the increased provision being made for 16-19s.

3. I accordingly suggest that:

the third line of the last paragraph on the second page of the draft might refer to "foundation training and relevant further education";

the third line of the second full paragraph on page 3 should read "full-time education" and the seventh line of that paragraph should refer to "training and education";

the second line of the first full paragraph on the penultimate page should refer to "provide foundation training and release for education";

the penultimate line of that page should refer to "technical training and education";

the following sentence should be added to the first paragraph on the final page: "For those over 16, this will be helped by the funding for extra provision announced by my rt hon Friend the Prime Minister on 27 July 1981."

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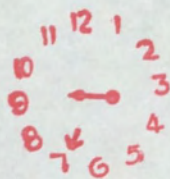
4. I am sending copies of this letter to the recipients of your minute to the Prime Minister.

For you,

Bill

WILLIAM SHELTON

15 DEC 1981



CONFIDENTIAL

Prime Minister

2



David Wolfson offers a rather more defensive presentation of the NTI which you may find useful.

10 DOWNING STREET

PRIME MINISTER

MUS 14/12
14 December 1981

NTI PRESENTATION RATHER THAN POLICY

The flavour of the New Training Initiative is very much that all school leavers should have a year's training. It is close to suggesting that they should not be allowed to get jobs which provide no training, through such jobs almost don't exist by definition. Within this flavour, we want them to receive only about £15 a week. And we are taking away their right to Supplementary Benefit, to force them to take these training places.

Could the flavour not be turned? Start off by saying that we want youngsters to stay on for further education if they can. If not, we want them to take up skill training at technical colleges etc, or apprenticeships in Industry. But for those who cannot attain the required standard, or have not the inclination for further education, we are trying to create job opportunities, witness the Job Release Scheme etc. So that where a youngster cannot get a job presently available, we are encouraging employers to create more jobs for the young with the Young Workers Scheme. Where a youngster cannot obtain further education, find a normal job or a "subsidised" Young Workers job, we are creating a fall-back of YOP-type places, to (last for a year instead of only six months. The young person will receive, on this scheme of training, on average*what he would have received in further education, which of course it is to a great extent. And if no further education, no job, and no training scheme is available, he will be able to claim Supplementary Benefit. (But not, of course, if he or she refuses a scheme.)

needs more facts

* (i.e. asked)

D/Emp for some figures

to support

this argument

MUS

Finally, today's Guardian (attached). Language like Jim Prior's note. But then an interesting idea. Allow employers to enhance the YOP payment. In recognition of the fact that real work is in fact being done. (Some employers do this, illegally, now.) This turns the whole scheme into a variation of Walters, real work paid for with a training element subsidy, rather than pretend work experience. Unions would scream substitution, but would employers make more jobs available as a result? That's the key to anything non-cosmetic.

* Varies greatly.



10 DOWNING STREET

My commitment was to "about the time of the year."

My impression of Employment was that their worry on timing was your committment to December 14, so that there was time for a rethink of the whole scheme. Not to change the training part of it, but to make that a fall back to real jobs or partly subsidised jobs (at low rates) for the young. Not an objective in itself for all school leavers, with the Unions insisting that no real work be done on the training scheme.

This is all rather off the cuff, but would provide a basis for discussion with Norman Tebbit et al if soundings showed that there are greater problems than we think in Parliament.

Of course, I think that a Walters type scheme, with YOP type fallback, would in fact do much more to create jobs than the other way round. The Economist seems to agree.

Tebbit faces Tory revolt

By Ian Aitken,
Political Editor

Tory backbench rebels who believe that they have forced the Chancellor into retreat over his proposed 2 per cent cut in unemployment benefit are now turning their guns on Mr Norman Tebbit's plan to pay teenage trainees £16 a week.

The group of rebel "wets," 12 of whom abstained in last week's Commons vote on Sir Geoffrey Howe's mini-Budget, are now convinced that the Cabinet will decide after all to uprate short-term benefits by the full amount of inflation.

For the Government the alternative was a much larger revolt over the orders increasing benefits by less than the full amount. The rebels informed the Tory Whips last week that they would be prepared to vote against them, thus threatening a humiliating defeat in the Commons.

But many members of the same group — who are now known among their colleagues as "the Bolshies" — are pressing ministers to revise the plan to introduce a substantial new training scheme for young people which is to be unveiled by the Employment Secretary, Mr Norman Tebbit, tomorrow.

The critics accept that Mr Tebbit's new scheme, which is likely to add more than £800 million to the £700 million already being spent on youth unemployment programmes, represents a substantial advance on anything which has gone before.

They regard it as a big step towards genuine training, as opposed to the cosmetic provision of work.

But they fear that the Government is about to jeopardise an otherwise admirable idea by cutting the payments to young people who participate from the present level of £23.50 a week in the youth opportunities scheme to £16 a week on the new scheme.

A blizzard of memoranda, letters and papers has descended on ministers urging them to reconsider this feature of the plan. One proposal being strongly canvassed is a move to persuade employers who take on trainees to make up the money by £8 or £10 a week on top of the Government's contribution.

Critics insist that employers could afford to make up the money, in their own interests as well as the Government's.

So far, ministers have taken the view that employers are more likely to refuse cooperation if they have to pay part of the cost themselves. They appear to have been encouraged in this view by some of the employers' organisations, including the CBI.

But the critics insist that most managers who take on young trainees will be aware that they are getting one or two days of work a week out of each teenage recruit, and will be well able to afford a modest supplementary payment.

They believe that the alternative could deprive the Government of the credit for a valuable advance.

sw

✓ Jc

A NEW TRAINING INITIATIVE: A PROGRAMME FOR ACTION

1. On 15 December the Government published a White Paper on the New Training Initiative, described by the Secretary of State for Employment as "the most far reaching and ambitious set of proposals for industrial training ever put before Parliament".

2. The consultations on the MSC document "A New Training Initiative" published last May showed overwhelming support for three objectives: skill training to standards without restrictions of time or age, enabling all young people under 18 to be able to work in further education or receive training, and wider opportunities for adults to acquire, increase or update their skills during their working lives.

3. The White Paper now sets a framework for action by everyone concerned - employers, unions, employees themselves, local education authorities, the Careers Service - and gives the lead by the Government that so many asked for in the consultations. It includes a ten point programme for action (attached) which draws substantially on unanimous recommendations from the MSC, which comprises employer, union, local authority and education members. In all, the Government will be spending nearly £4 billion on improving training between now and 1985.

4. There is no doubt of the need for early action. Our major competitors have given much greater emphasis to training young people. In France 80%, and in Germany 90% of young people

reaching minimum school leaving age receive further education training. In Britain in 1979, on the most favourable interpretation, the figure was less than two-thirds, of whom most were receiving further general education rather than training.

NEW YOUTH TRAINING SCHEME

5. This ambitious new Scheme will guarantee a full year's foundation training for all those leaving school at the minimum age and without jobs. Over the next eighteen months the Scheme will progressively replace the Youth Opportunities Programme to give unemployed school-leavers 12 months training in the basic skills that employers will need in the future. The Manpower Services Commission will be asked to ensure that the Scheme is in operation by the autumn of 1983. Meanwhile the Youth Opportunities Programme will continue to be developed as announced by the Prime Minister in July.

6. When the new Youth Training Scheme is in operation no 16 year old need remain unemployed. He or she can be in a job, in further education or have the opportunity of the training scheme. Those guaranteed training under the new scheme will have a new "trainee" status and will be treated for supplementary benefit like those who remain in further education. They will thus have no eligibility of their own for supplementary benefit (except for the special groups), though if the parents are on supplementary benefit they will be able to claim for the trainee as they can for a 16 year old in further education. Unlike those in full-time education, young people on the Youth Training Scheme will receive

training allowance. Its level will reflect the value of the training they receive and their learning role and be intended mainly to cover travel and other expenses. For older entrants, who remain eligible for supplementary benefit, the allowance will be higher.

7. The precise level of the allowances will be decided nearer the time, but is likely to be something over £750 a year for those trainees who are unemployed in the first year after leaving school at 16 and around £1,250 a year for older trainees. These allowances will not apply before 1983 when the new Scheme comes into full operation and the MSC are being asked to advise, as they now work out the detailed implementation of the Scheme, on the level of allowances appropriate within the resources available for the Scheme as set out in the White Paper.

8. The new Scheme is directed to young unemployed people as the first priority. But the ultimate objective is proper training for all young people, whether employed or unemployed, and to bring more of the young unemployed into jobs with proper training. For those in jobs, the financial encouragement given to employers to provide foundation training and release for education/ for their young employees will be increased so as to cover some 50,000 trainees in 1984/85 (possibly one-third of those who will stand to benefit).

9. The new Scheme will go ahead quickly to ensure that there will be universal provision for unemployed school leavers in 1983. But the MSC is undertaking a further study on the possibility of developing foundation training for all young people, employed

or unemployed. The Government hopes that this study will identify fresh ways in which to help get many more of the young unemployed into paid jobs with proper training.

The Government has made clear that to the extent that the training needs of the young unemployed can be met in such ways they would be willing to transfer resources proportionately to such schemes.

10. The Scheme's success will depend on enthusiastic involvement of local communities and flexible adaptation to local employment and training needs. The Government is therefore asking the MSC to organise delivery of the new Scheme in such a way as to provide for full local involvement.

SKILL TRAINING

11. The Government has expressed wholehearted support for the MSC proposal that employers and unions should accept, and implement, the objective that by 1985 all training should be to standards without regard to age. The higher level of support for apprentice training announced for the present year last July, giving continued support to some 35,000 trainees, will be continued into 1982/83. Government assistance for skill training will however be made increasingly conditional upon steps towards implementing training to standards and the removal of any unnecessary restrictions in accordance with the 1985 objective.

ADULT TRAINING

12. The Manpower Services Commission will be developing an Open Tech programme to make technical training more accessible to all with the necessary ability. Participants will typically use a range of printed and audio visual learning materials, work independently, either in college or at home, but with access to tutorial and practical help and facilities. This will be organised by an MSC steering group representing industry, education and training interests and the first project will start in 1982.

FUNDING

13. Despite restraints on public expenditure we are providing resources totally nearly £4 billion over the next three years to bring our training arrangements up to date. This is additional to spending on special employment measures, such as the Temporary Short Time Working Scheme. In pursuit of the commitments described above the Government has, during the course of this year, made provision for spending an extra £399m in 1982/83, an extra £517m in 1983/84 and a further £648m in 1984/85. This will bring the total spending in 1982/83 to over £1.1 billion; in 1983/84 to nearly £1.3 billion and in 1984/85 to nearly £1.5 billion, including over £1 billion on the new Youth Training Scheme.

14. The White Paper draws attention to the present "somewhat haphazard and often illogical apportioning of (training) costs

between the public and private sectors and between individual undertakings". It goes on to discuss some possible new mechanisms including the French remissible tax system. The Government will be co-operating with the Manpower Services Commission in a general study of the funding of industrial training as a whole, in order to get a more coherent and effective apportionment of costs.

IMPLEMENTATION

15. The Manpower Services Commission will remain the main agency of Government action in industrial training but the Government will ensure that education Departments and other education interests are fully involved in the development of programmes. In all sectors of industry, whether with statutory training boards or new voluntary arrangements, the Government looks to those concerned to play their part in pressing forward the plans in this White Paper. Local arrangements bringing together industry, education and training services will be particularly important and the Government is providing extra funds of £6 million in 1982/83 and £10 million in 1983/84 to assist joint initiatives of this kind.

ACTION

The Government's ten-point programme for action comprises:

- i a new £1 billion a year Youth Training Scheme, guaranteeing from September 1983 a full year's foundation training for all those leaving school at the minimum age without jobs;
- ii increased incentives for employers to provide better training for young people in jobs;
- iii development of an "Open Tech" programme to make technical training more accessible to those who have the necessary ability;
- iv a working group to report by April 1982 on ways of developing the Youth Training Scheme to cover employed as well as unemployed young people, within available resources;
- v setting a target date of 1985 for recognised standards for all the main craft, technician and professional skills to replace time-serving and age-restricted apprenticeships;
- vi better preparation for working life in initial full-time education;
- vii more opportunities for vocationally relevant courses for those staying on in full-time education;
- viii closer co-ordination of training and vocational education provision nationally and at local level;

ix a £16m fund for development schemes in particular localities or sectors;

x examination of longer-term possibilities for more effective, rational and equitable sharing of the costs of training between trainees themselves, employers of trained people and the general taxpayer.

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MA)

STATEMENT FROM THE CBI

CBI WELCOMES GOVERNMENT'S TRAINING PROPOSALS

"The Government announcement today is a major step forward for the training of all school leavers. The package should be judged as a whole, not piece by piece" said Sir Terence Beckett, Director General of the CBI.

"Our members, I feel sure, will do their utmost to make the Government's new training scheme a success. It is a tremendous challenge to employers and will demand all the effort and imagination they can give it. Every youngster in Britain should have the opportunity for proper preparation for work. But employers cannot do it alone. What is needed now is a comprehensive joint effort with local authorities, trade unions, and voluntary bodies to provide young people with the opportunities they so badly need."

Tory effort to boost training pay

By Elinor Goodman, Political
Correspondent

A ROW was brewing at Westminster last night over plans to pitch the new training allowance for school leavers well below the amount paid to teenagers on the existing Youth Opportunities Programme.

A group of Tory MPs was hoping to see the Employment Secretary, Mr Norman Tebbit, to warn that this aspect of his promised new package could endanger the whole new training initiative, and to urge him to think again.

But the signs were that the Government has already made up its mind to fix the training allowance at £15 a week—£8.50 below the amount paid on YOP—and that it would be difficult to achieve any increase in the figure.

The new scheme, which still has to be agreed by the Cabinet, will offer all school leavers who do not go into a job or further education, the opportunity of some training for a year.

If they refuse the offer of a place, they will probably lose their entitlement to supplementary benefit and be regarded as their parents' financial responsibility for the first year after leaving school.

Earlier this year, a group of Tory MPs, including the former junior Employment Minister, Mr Jim Lester, drew up their own proposals for a new training package which would have offered school leavers two years of training and work experience, with the cost shared between the Government and employers.

Yesterday, the group was worried about both the proposal to pay participants in the new scheme less than is now available on YOP, and the Government's apparent determination effectively to make the scheme compulsory by withdrawing supplementary benefit from teenagers who refuse to take part.



10 DOWNING STREET

Michael Scholar.

Average costs of scheme £70 per week, of which only £16 going to trainee.

Aside from the apparent meanness to those who can not get a job, compared to those who can, the impression of an expensive bureaucracy will emerge.

If we are forced to increase the allowance, we will have the worst of all worlds. Scrooge defeated by kinder people!

Daint -

14.12.87.

CONFIDENTIAL

Rdy

Handwritten notes:
New powers
Special Employment



B/C Mr Ingham
Mr Duguid

10 DOWNING STREET

From the Private Secretary

14 December, 1981

White Paper on Industrial Training

The Prime Minister was grateful for your Secretary of State's minute of 4 December together with its attached draft White Paper.

The Prime Minister agrees to publication, and has commented that it would be very damaging to defer or cancel publication at this stage.

I am sending copies of this letter to the Private Secretaries to members of E Committee, Muir Russell (Scottish Office), John Craig (Welsh Office), Angela Lingwood (DHSS), David Heyhoe (Lord President's Office), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

M. C. SCHOLAR

Richard Dykes, Esq
Department of Employment

Handwritten signature



①

10 DOWNING STREET

Prime Minister

Industrial Training

I attach the correspondence
we discussed earlier this
evening.

MB

MUS 14/12



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

cc A.D. B1
J.V.
AW

mes / pm seen

From the Minister

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London SW1H 9NF

14 December 1981

WHITE PAPER ON INDUSTRIAL TRAINING

My letter of 9 December indicated that I was broadly content with the text of the White Paper on Industrial Training which you intend to publish tomorrow.

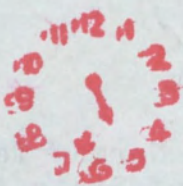
I have, however, seen the comments of Michael Heseltine and Jim Prior on your proposed reference to the training allowance for 16 year olds being set at a level around £16 per week. May I say I fully share their view that the publication of the figure of £16 is unwise, and could provoke an immediate hostile reaction.

I would much prefer this figure to be omitted.

I am copying this letter to the Prime Minister, to E Committee colleagues, the Secretaries of State for Scotland, Wales and Social Services, the Lord President, Sir Robert Armstrong and Robin Ibbs.

PETER WALKER

14 DEC 1981



Department of Employment
London

14 December 1981

UNITED KINGDOM OF GREAT BRITAIN

The Secretary of State for Employment
London

I have now read the comments of the Secretary of State and the
on your proposed response to the training programme for 10 years
and the fact that the programme is to be a full-time
programme and the Secretary of State has indicated that
I would provide an immediate response to the Secretary of State.

I would now prefer that a letter be written.

The Secretary of State has indicated that the programme is to be a full-time
programme and the Secretary of State has indicated that
I would provide an immediate response to the Secretary of State.

Prime Minister

2

MUS 19/12
 Management and Personnel Office
 Whitehall London SW1A 2AZ
 Telephone 01-273 4400
 GTN 273

Chancellor of the Duchy of Lancaster

11 December 1981

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

Dear Secretary of State,

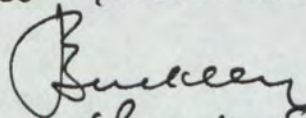
JOB RELEASE SCHEME

Thank you for your further letter of 24 November. I have also seen the letters from John Nott, David Howell and Michael Heseltine to you, and from Leon Brittan to me.

As I said in my letter of 10 November, I had intended to recommend to our colleagues that greater use should be made of the Job Release Scheme in the Civil Service as a means of encouraging the retirement of more of the over 60s (there are 52,000 in the Home Civil Service at present) thereby making room for some of the young unemployed. This seemed to be the one option which would ensure that there was a net reduction in the unemployment register, and I hoped that this would commend itself to you. However if you need the savings for the special employment measures for next year and beyond I will not press my objection to your removing the modification. I am glad to note from your letter that the modification will be withdrawn from those other parts of the public service which make use of it so there is no question of the Civil Service being singled out.

This change will reduce considerably the extent to which the Civil Service can participate in the Job Release Scheme. My officials have, however, been in touch with yours in order to identify possible ways in which the Civil Service could continue to play some part under the normal arrangements for the Scheme. I understand that this may be possible when there are redundancies (to which John Nott drew particular attention in his letter of 3 December) and in a situation in which Departments could undertake to recruit replacements among school or college leavers. I will ask my officials to pursue these possibilities as a matter of urgency.

I am copying this to the Prime Minister, members of E Committee and Sir Robert Armstrong.

Yours sincerely,

 Buckley
 (Private Secretary)

BARONESS YOUNG

Approved by the Chancellor
 and signed on her behalf.

CONFIDENTIAL

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1112

74 DEC 1981

PRIVATE AND CONFIDENTIAL



Government Chief Whip

12 Downing Street, London SW1

*overaken by today's
meeting.*

Secretary of State for Employment *ra*

MFD 14/11/81

Thank you for sending me a copy of your draft Parliamentary Statement on Training and Special Employment Measures. I am very concerned not to have a further row within the Party, and do not, therefore, believe that it would be sensible to agree this finally until we have considered the points which Jim Lester and others have raised.

I am sending a copy of this minute to the Prime Minister, Francis Pym and Sir Robert Armstrong.

11 December 1981

CONFIDENTIAL

cf AD
mcs/pm men

YDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

11th December 1981

D. Norman

Thank you for sending me a copy of your minute to the Prime Minister and the draft of the proposed White Paper. I have no comments on the content of the draft.

I assume that, since the publication of the MSC Consultative Document was endorsed by the four Secretaries of State concerned, the White Paper is also to be presented on a joint basis.

/ Copies of this letter go to the recipients of yours.

J. Norman

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON

CONFIDENTIAL

14 DEC 1981

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sc AD

cc Mr Ingham



Prime Minister

Yes - excellent. m

Content with this draft, despite its length?

I believe you have told Mr Tebbit that you are content with the draft of the White Paper - that is elsewhere in the box.

MAD 11/x11

PRIME MINISTER

DRAFT PARLIAMENTARY STATEMENT ON TRAINING AND SPECIAL EMPLOYMENT MEASURES

Further to my minute of 4 December I now enclose a draft text of the Statement I propose to make in the House on Tuesday next, 15 December.

As you will see, I have emphasised in paragraphs 11-13 our ultimate objective of bringing more of the young unemployed into jobs with proper training.

I have done my best to keep the statement as short as possible but there is a great deal of ground to cover and I doubt whether it can be compressed any further without losing important material.

I am copying this minute to E Committee colleagues, the Secretaries of State for Scotland, Wales and Social Services, the Lord President, the Chief Whip, Sir Robert Armstrong, Mr Ibbs and Mr Ingham.

NT

N T

10 December 1981

DRAFT STATEMENT TO THE HOUSE ON TUESDAY 15 DECEMBER

TRAINING AND SPECIAL EMPLOYMENT MEASURES

With permission, Mr Speaker, I should like to make a statement on training and special employment measures further to the measures announced on 27 July by my rt hon Friend the Prime Minister.

As is appropriate in the International Year of the Disabled I have decided to extend the special Job Release Scheme, open to disabled men of 60 and over, until March 1984. All the Job Release allowances will be increased next April by 9%. At the same time the conditions of the scheme in the public and private sectors will be brought into line.

I have decided to extend the Temporary Short Time Working Compensation Scheme, which is due to end next March, by two years, taking the last application in March 1984. From July 1982 the maximum period of support will be six months.

In the last annual review provision was made to expand the Community Enterprise Programme to 25,000 places. This will now be further increased to 30,000 places in 1982-83.

With these changes the total provision for these three special employment measures in 1982/83 has been increased this year by

£140m to £524m, with an additional £61m for the Young Workers' Scheme which starts on 4 January next.

Now I turn to training. I have today published a White Paper which sets out the action needed to bring our system of industrial training up to date. We have drawn substantially upon the recommendations made by the Manpower Services Commission in their Report, also published today, on the response to the consultative document "A New Training Initiative" which was issued last May.

The White Paper provides a framework for action by all concerned in industry and education, and sets out the lead the Government is giving in a ten point agenda. I should draw to the attention of the House three of these points in particular.

First, there will be a new £1 billion a year programme for unemployed young people, which will guarantee a full year's foundation training for all those leaving school at the minimum age and finding themselves without jobs. Many other unemployed youngsters under the age of 18 will also be eligible for suitable training under the programme. Over the next eighteen months this entirely new Youth Training Scheme will progressively replace the Youth Opportunities Programme and will give unemployed young people training in basic skills which employers will need in the future. We are determined to lose no time in reaching the position where every 16 year old school leaver is in work, or in further education, or has a genuine opportunity of a year's training. By taking the decisions now I am able to ask the Manpower Services Commission to ensure that this new Youth Training

Scheme is in full operation by the autumn of 1983.

Meanwhile the Youth Opportunities Programme will be expanded as announced in July, the Careers Service will accordingly be strengthened by 240 posts, and the YOP allowance will be increased to £25 from next January.

Under the new Youth Training Scheme young people who are unemployed in their first year after leaving school at 16 will have a new "trainee" status. Like those who remain in further education they will have no eligibility of their own for supplementary benefit except for the special groups. While on the Scheme they will, however, received a training allowance. This will reflect the value of the training they receive, and their learning role, and I expect it to be something over £15. For older trainees who remain eligible for supplementary benefit, the allowance will be higher. I expect it to be around £25.

Employers, trade unions and educationalists have all, rightly, expressed concern for the young unemployed. I therefore trust that I can now depend upon their wholehearted support in making this new scheme a success.

This new scheme breaks entirely new ground in the training of young people in this country, and it is directed to young unemployed people as a first priority. But our ultimate objective is proper training for all young people, whether employed

or unemployed, and to bring more of the young unemployed into jobs with proper training.

For those in jobs, we are increasing the financial encouragement we already give employers to provide foundation training for their young employees, so as to cover some 50,000 trainees in 1984/85. We are also continuing into 1982/83 the higher level of support for apprentice training announced for the present year last July, so giving continued support to some 35,000 trainees.

The new scheme I have announced will now go ahead quickly to ensure that there will be universal provision for unemployed school leavers. But the Government hopes that the further study of youth training to be undertaken by the MSC will identify fresh ways in which to help get many more of the young unemployed into jobs with proper training where, of course, they could be paid more than the allowances under our scheme for the unemployed. To the extent that their training needs can be met in such ways we would be willing to transfer resources proportionately to such schemes.

Secondly, we wholeheartedly support the MSC proposal that employers and unions should accept, and implement, the objective that by 1985 all training should be to standards without regard to age. Government assistance for skill training will be made increasingly conditional upon steps towards implementing training to standards and the removal of any unnecessary restrictions.

Thirdly, we have asked the Manpower Services Commission to develop an Open Tech programme to make technical training more accessible to all with the necessary ability.

Other important points of action are set out in the White Paper including steps to improve preparation for working life in schools and colleges.

In pursuit of all these commitments by Government we have during the course of this year increased the provision for training expenditure in 1982/83 by £429m to a total of over £1.1 billion, in 1983/84 by an extra £517m to a total of nearly £1.3 billion and in 1984/85 by an extra £648m to a total of nearly £1.5 billion, including over £1 billion on the new Youth Training Scheme.

Despite restraints on public expenditure we are therefore providing resources totalling nearly £4 billion over the next three years to bring our training arrangements up to date. With the assistance of the Manpower Services Commission's proposals we have provided a clear framework within which employers, unions, local authorities, education services and trainees themselves can play their part to modernise our training system. These steps are long overdue. Let us set out to provide training fit for a great industrial and trading nation.

17 DEEC 1981

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17 DEEC 1981



2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:
to December 1981

Dear Secretary of State

WHITE PAPER ON INDUSTRIAL TRAINING

You will know that my Private Office has alerted yours and I had a quick word with you personally this morning about my concern with paragraph 38 of the draft White Paper.

I write on a very narrow point which is the publication in that paragraph of a reference to the training allowance for 16 year olds which "will be set at a level intended mainly to cover travel and other expenses, probably around £16 a week when the new programme is fully introduced in 1983."

I very much hope that you will feel it possible not to publish this figure.

It is a long way from now to 1983 and there is no point in provoking the storm of protest that this figure will arouse, particularly amongst more organised and vocal black communities in the inner cities.

As the White Paper itself implies we shall have to take a final decision much closer to the time about what it is right, and what we can afford, to pay. I see no benefit in getting the new announcements off to what I think would be a bad beginning by the inclusion of this figure.

I am copying this to the Prime Minister, Members of E Committee and to Sir Robert Armstrong.

Yours sincerely
M. Heseltine
M.H.

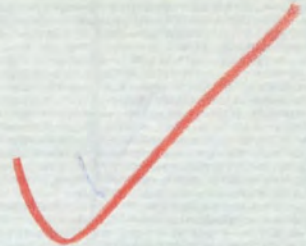
MICHAEL HESELTINE

(dictated by the Secretary of
State and signed in his absence)

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10 DOWNING STREET

Prime Minister.

Dec 10, 1981.

Michael Hesselstine's note shows a major problem ahead. The £16 per week is only a small part of the total cost of the New Program, which averages about £70 per week. So that, for instance, one could put the £16 up to £30 per week and reduce the period from 12 months to ten months within the same overall cost.

If backbench pressure were to lead to this type of variation, we would be seen as having wanted to be "mean" to all the young people who couldn't find jobs, and having been prevented from doing so by the wets. Not a good political situation..

DW.

David Wolfson.

CONFIDENTIAL

✓ AD MCS/PM seen



NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

Rt Hon Norman Tebbit MP
Secretary of State for Employment
Caxton House
Tothill Street
LONDON SW1

10 December 1981

Dear Secretary of State,

WHITE PAPER ON INDUSTRIAL TRAINING

Thank you for giving me the opportunity to comment on your draft White Paper.

I am content that the draft reflects the decisions we have taken although I have one major caveat. This relates to any mention of a figure of £16 for 16 year olds. I believe this figure is unrealistically low and could cause the whole excellent idea to founder.

As you know, much of the ground covered in the paper is my separate responsibility in Northern Ireland and I will need to clarify the position in a separate statement following publication. You will appreciate, however, that some of the matters referred to involve initiatives at national rather than regional level, for example the introduction of recognised skill standards and the possibility of new funding arrangements for training which might include provision through the tax system. It would also seem desirable to avoid unnecessary duplication in developing the Open Tech proposal. I will wish my officials to be closely involved in the work to be done in such areas.

I should like to move forward with my own proposals for Northern Ireland. The employment prospects for school-leavers are even grimmer than they are in GB and I am convinced that I should move from the present YOP to a more comprehensive scheme as quickly as possible.

I want my statement to be as positive as possible and, in what is frankly a discouraging situation, our commitment to youth training is the major shot in my locker.

/...

CONFIDENTIAL

CONFIDENTIAL

I know that your officials are aware of the proposals for a vocational preparation programme on which my officials have been working. The Programme would be on broadly similar lines to what you are proposing for GB. There would be a guaranteed year for 16 year old school-leavers unable to get a job, and we would also provide a range of opportunities - though not a guarantee of places - for others in the 16/17 year age group who find themselves unemployed after their guaranteed year or after a short spell in a job. (These are, of course, largely the group who under present circumstances are entering the Youth Opportunities Programme.)

Total numbers likely to be seeking places in Northern Ireland's Programme are, of course, small by GB standards - in present circumstances probably just over 15,000. The guarantee of a year's full-time training for 16 year old school-leavers would extend to about 10,000 of these. The components of the present Youth Opportunities Programme - courses at Government Training Centres and Colleges of Further Education, work experience with employers, apprentice and attachment training and community work preparation units (which are well developed in Northern Ireland) - provide the main building blocks to start off the new Programme; but the aim would be to give each young person a combination of modules planned to suit his or her particular needs and aptitudes.

I want it to be clear in Northern Ireland that this Programme is intended to provide more than a temporary escape from unemployment. It should be seen as the start of a permanent, comprehensive and integrated arrangement offering better vocational preparation (and hence encouragement) for those who remain in full-time education beyond the minimum leaving age. It will also offer training places for school-leavers in this age group who do not get a job; and better training opportunities for those young people who do get jobs, but would not get adequate training without some special provision. The integration of these various facets should help me in promoting the scheme as a genuine contribution to the job of halting and eventually reversing the Province's economic decline.

If all goes well, I hope to introduce the new scheme in the autumn of 1982. This is because the present scale and shape of the Northern Ireland YOP is much less reliant than the corresponding GB programme on work experience places, and the average length of stay for individual participants is longer. I am convinced that I could not justify delaying my scheme in the face of your own proposal to provide 100,000 full-time places in GB by Easter 1983.

I intend funding the programme in the years 1982/83 to 1984/85 from within the total NI PES provision which has emerged from Cabinet decisions on the 1981 Public Expenditure Survey.

I am clear that there is no scope for a separate Northern Ireland initiative on the question of entitlement to Supplementary Benefit and levels of training allowances. Sixteen year olds would continue to be entitled to claim SB when the NI scheme is introduced in 1982 and the training allowance would remain at the (revised) GB level. We would change to the new arrangements for SB and the training allowance at the same time as GB. It will not be easy to secure the co-operation which will be essential to the success of this plan and I shall be making it clear that I can only deliver given this co-operation.

CONFIDENTIAL

CONFIDENTIAL

1821330 1 1

My statement will emphasise the consistency of my proposals with the New Training Initiative, and the details will be published in a discussion document which has been copied in draft to your Department. I do not think that my proposals should produce any difficulties outside Northern Ireland - indeed it should be helpful to you to see what progress we can make - and I therefore hope you can support the way in which I am planning to move forward.

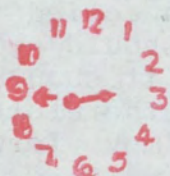
I am copying this letter to the Prime Minister, other members of E, the Secretaries of State for Scotland, Wales and Social Services, the Lord President, Sir Robert Armstrong and Mr Ibbs.

Yours sincerely

James Prior

PP JAMES PRIOR
(Signed on behalf of
the Secretary of State
in his absence)

'11 DEC 1981





2 pp

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

10 December 1981

Secretary of State for Industry

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London SW1H 9NF

Dear Norman,

WHITE PAPER ON INDUSTRIAL TRAINING

Thank you for sending me a copy of your minute of 4 December to the Prime Minister.

2 I am content with most of the text, which provides a clear and positive statement of our policies. But I do wonder whether the draft strikes quite the right note in the section on funding and more generally on the question of the appropriate balance between public and private funding for training those in employment.

3 The first sentence of paragraph 61 encapsulates a large part of the case made for the Industrial Training Act 1964. But that Act has clearly not achieved all that was hoped; why else would we be intending to issue a White Paper? Added to that our predecessors decided that the mechanisms it embodied were excessively bureaucratic, particularly as regards small firms, and major changes had been made through the Employment and Training Act 1973. And we have just decided to abolish sixteen statutory Industry Training Boards, with excessive bureaucracy again being a major factor.

4 I entirely accept that there are powerful arguments for the proposition that a system which depends on individual employers meeting the cost of training their own employees will not secure an adequate supply of trained manpower. I also accept that it may be possible to devise a funding mechanism which can realistically be expected to have a better chance of achieving that objective, without unacceptable disadvantages, than the levy-grant/levy-exemption systems we have tried to date. But we have not yet carried our thinking to the stage of identifying what that mechanism might be.



5 The tone of the draft White Paper is clearly in favour of introducing a new funding mechanism. What I fear is that this would be seen as marking a shift in our thinking - a move away from placing greater reliance on voluntary arrangements - and that, because we would not yet be in a position to explain why what we have in mind differs from, and will not have the disadvantages of, what has gone before, this would call into question our decision to cut back on the Industry Training Board superstructure and would substitute suspicion for the credit we have gained with industry by that decision. Indeed we might arouse fears in the small firms sector that they will once more become entrapped in the bureaucracy of collective funding for training.

6 Added to that, we seem simply to be providing the Opposition with ammunition to use in the debates on Orders to abolish Industry Training Boards (which, as you know, are subject to Affirmative Resolution procedure) when the present text refers, for example, to 'some danger that individual firms may become more and more reluctant to spend money [on training] for uncertain return'?

7 I agree that there is a need to take another look at the role of public funding for the training of those in employment, but again I wonder whether we have carried our thinking sufficiently far for it to be prudent to be as forthcoming, as for example, the present texts of paragraphs 21 and 41. It is clear that a shift in the present allocation of responsibilities could result in a very large additional call on the Exchequer and our experience with the Youth Opportunities Programme has shown, if nothing else, how rapidly a modest, initial commitment can develop into a major, at least medium to long term, programme.

8 I would, consequently, be inclined to deal with these issues much more briefly than in the present text and, for the present, to adopt a more neutral posture. Could we not, for example, simply note the Manover Services Commission's proposal to establish a high level task group and express our willingness to collaborate in its work?

9 Apart from that, I have one, minor comment - on paragraph 45. The Engineering Council is only now on the point of coming into existence and cannot, therefore, yet have "considerable experience in defining and testing standards of individual competence" etc. Perhaps the present reference should be replaced, at the end of the sentence, by "soon to be joined by the new Engineering Council."



10 I am sending copies of this letter to the Prime Minister, the other members of E Committee, the Secretaries of State for Scotland, Wales and the Social Services, the Lord President and to Sir Robert Armstrong and Mr Ibbs.

Your ever
Patel



cc to Duguid

mcsl/pm seen

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

10 December 1981

The Rt. Hon. Norman Tebbit, MP
Secretary of State for Employment,
Department of Employment
Caxton House,
Tothill Street,
S.W.1

Norman

WHITE PAPER ON INDUSTRIAL TRAINING

Thank you for sending me a copy of your minute of 4 December to the Prime Minister.

My officials have agreed with yours a number of amendments to the text enclosed with that minute. The general points to which I attach importance are as follows:-

- (a) More emphasis should be put on the necessary contributions from industry and others: the present draft concentrates, understandably but rather excessively, on what the State can do.
- (b) The paper should say more about the need to eliminate restrictions on the use of skills. It is here, rather than in youth training, that the quickest economic pay-off will be found.

I also understand that it is now proposed to redraft paragraph 38 of the White Paper in less definite terms, and mentioning a round figure of £15, rather than £16, a week for those who leave school at the minimum age. There are dangers in mentioning any figure; but on balance, I think that the new approach is acceptable.

Geoffrey Howe

GEOFFREY HOWE

P.S. I am sending copies of this letter to the other recipients of your minute.



MTT DEC 1981

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10 DOWNING STREET

MAP

Mr Tebbit told me the PM
had agreed during a private talk
in the House to his 1 T White
Paper. I put the pp's in the "book"
again last night (the first time)
asking if this was so. No reply.
I deal in or get me to deal.

MUS 20/12

CONFIDENTIAL



cc AD

nes/pm seen

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

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

9 December 1981

Norman

WHITE PAPER ON INDUSTRIAL TRAINING

Thank you for copying to me your minute of 4 December to the Prime Minister and the enclosed draft White Paper. I am broadly content with the approach you propose but have one or two minor comments.

... The Annex to this letter sets out one or two amendments which I would propose; as you will see, the majority of them are drafting amendments but I would offer comment on one or two. I think it is important (as suggested in my amendments to paragraphs 3 and 4) to focus attention not simply on the last two years of compulsory schooling extremely important though those are - but on the contribution of full-time education generally and the issue of the transition from full-time education to work at any age. We are in danger, in all this, of focussing too narrowly on the needs of young people leaving school at the minimum age and I think it is important that we should remember that nearly half of all young people do not do that.

I am aware that there has been considerable discussion about the presentation of international comparisons in paragraph 6. There are so many uncertainties here that I consider that the position should be expressed much more tentatively than the present paragraph does, and I hope you will accept my alternative form of words; I realise that certain comparisons have been published in the past in MSC publications which have gained a certain amount of currency, but we are not sure that these are entirely soundly based and I do not think we should continue to give credibility to such comparisons which might lay us open to criticism.

There are one or two points on the proposed comprehensive scheme for unemployed young people which I think need to be set out more clearly. For example, in paragraph 29, it would certainly be helpful from my point of view if it could be made clear, as I suggest, that the additional places will be funded by the MSC and not by LEAs themselves. In addition, in paragraph 35, I suggest we ought to refer to the position of Easter school leavers; this will be quickly picked up in educational circles and - whilst I welcome the removal of any possible incentive under the present

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system to young people to leave school too early - I feel we should be frank about the implications of the new system.

I am copying this letter to the other members of E Committee, the Secretaries of State for Scotland, Wales and Social Services, the Lord President, Mr Ibbs and Sir Robert Armstrong.

Yours,

Ken

*Sorry about call - caught without a suitable pen!
K.*

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ANNEX

PROPOSED AMENDMENTS

Paragraph 3

Indent vi, delete "in the last years of compulsory schooling" and substitute "in initial full-time education".

Indent vii, delete "more work-related courses" and substitute "more opportunities for vocationally relevant courses".

Paragraph 4

Delete "school" and substitute "full-time education".

Paragraph 5

Delete first sentence and substitute:-

"People as producers create wealth by providing goods and services that people as consumers want to buy".

Paragraph 6

Delete last 2 sentences and substitute:-

"In France and Germany, 20% or fewer leave school at the minimum age without receiving further education or training of some kind. In Britain in 1979 the figure was one-third or more".

Paragraph 7

After "craft" add "and technician".

Paragraph 9 Delete "the Education Departments" and substitute "Government Departments".

Paragraph 14

Is "some employers.....nevertheless" really necessary?
Does it add to the argument which relates to the potentially
positive contribution of education? Is not the (legitimate)
point covered in paragraph 12?

Paragraph 16

Delete "but are not yet ready" and substitute "nor are they
yet ready".

Paragraph 29

After "80,000 full-time places" delete "a year" (which is
redundant) and add "funded by the MSC".

Paragraph 35

Last sentence, before "summer of 1983" insert "Easter or".

Paragraph 42

Delete "technical" and substitute "technician".

Paragraph 44

Delete "the key to" and substitute "one pre-requisite of".

Paragraph 62

Delete third sentence and substitute "yet a large-scale
expansion of public provision for training, parallel to
the public education system, seems even more objectionable".

10 DEC 1981

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Paragraph 1

is 'some employment...
hours of work...
available...
could cover...

Paragraph 2

Before...
yet ready...

Paragraph 3

After...
...and add...

Paragraph 4

Last sentence...

Paragraph 5

Before 'technical'...

Paragraph 6

Before the...

Paragraph 7

Before this...
expansion of public provision for...
...being even more...

*With the Compliments
of the
Secretary of State*

*Scottish Office,
Dover House,
Whitehall,
London, S.W.1 A 2AU*



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mcs/PM seen

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON SW1

9 December 1981

Dear Norman,

WHITE PAPER ON INDUSTRIAL TRAINING

Thank you for sending me a copy of your minute of 4 December to the Prime Minister, covering the draft White Paper on Industrial Training.

My Department has been consulted on the preparation of the White Paper and I am content with the draft. In particular, I welcome the emphasis on flexibility of approach and I agree with you that we should express willingness to transfer resources proportionately into schemes to help more unemployed young people into employment with proper training, as these can be developed.

I also welcome the emphasis on ensuring that education interests are more fully involved in the development of training programmes; and, as you know, the Scottish Education Department stands ready to play a full part in the development of the new schemes. I have however some minor reservations about what is said in paragraph 12 of the draft White Paper about the last two years of compulsory education, which I consider does not fully reflect the substantial progress which has already been made in Scotland towards giving the school curriculum a more practical emphasis. I should like to suggest that the last two sentences of this paragraph should be amended to read -

"The Government is seeking to ensure that the school curriculum develops the personal skills and qualities as well as knowledge needed for working life, and that links between schools and employment help pupils and teachers to gain a closer understanding of the industrial, commercial and economic base of our society."

I assume that the White Paper will issue in the names of the same four Secretaries of State (including myself) who signed the foreword to the New Training Initiative consultative document.

I am copying this letter to the Prime Minister, to other members of E Committee, the Secretaries of State for Wales and Social Services, the Lord President, Sir Robert Armstrong and Mr Ibbs.

Yours very,
George



From the Minister

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

cc AD

Manpower ✓

CONFIDENTIAL

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

9 December 1981

Handwritten signature

WHITE PAPER ON INDUSTRIAL TRAINING

I can confirm that I am broadly content with the text of the White Paper which, subject to the Lord President's agreement, you intend to publish on Tuesday 15 December.

In the agricultural sector there has been some criticism that the operation of the Youth Opportunities Programme has had an adverse effect on the formal apprenticeship arrangements which are run by the Agricultural Training Board. I know that representations have been made to the Manpower Services Commission about these difficulties and that discussions are being held to try to improve the "articulation" between the two schemes. I would hope that as the proposals in the White Paper are translated into practice care will be taken to integrate the new approach with the existing arrangements which are complementary to it so that the overall impact is enhanced and not reduced.

I am copying this letter to the Prime Minister, to E Committee colleagues, the Secretaries of State for Scotland, Wales and Social Services, the Lord President, Sir Robert Armstrong and Mr Ibbs.

Large handwritten flourish

PETER WALKER

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CONFIDENTIAL

Mr. J. M. [Name]
[Address]
Washington, D.C.

9 DEC 1961

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(1)

10 DOWNING STREET

Prime Minister

I understand you
discussed with Mr Tessit
yesterday evening.

Agree - notwithstanding
the Policy Unit's observations - ^{Flajo} A+S
to publication as proposed?

Mes 9/12

Yes - we cannot
stop it now - the
effect of trying to do so
would be very damaging
not

AD
AW MBPM



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Linell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

CONFIDENTIAL

8 December 1981

RECEIVED
12 DEC 1981
SECRETARY OF STATE FOR WALES

Den Nw...

George Younger in his letter of 11 November confirmed his support for Keith's proposal that some of the additional money to be made available to the MSC should if necessary be transferred to the education service. He asked to be included in any further meetings which might be arranged.

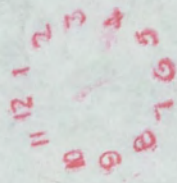
If further discussions are held on the prospects of additional funds being made available to the education service I too would like to be involved.

Copies of this letter go to Keith Joseph, George Younger, the Prime Minister and other members of E Committee, to Francis Pym, Michael Jopling, Norman Fowler and Sir Robert Armstrong.

Norman Tebbit
Nick

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Department of Employment.
Caxton House
Tothill Street
LONDON

1-9 1111111111





①

10 DOWNING STREET

Prime Minister

Industrial Training White Paper

You saw this over the weekend. Would you wish the Policy Unit to suggest drafting amendments?

(You are seeing Norman Tebbit on Wednesday).

MUS 7/12

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. B AU
7 December 1981

Policy Unit

PRIME MINISTER

INDUSTRIAL TRAINING

1. Norman Tebbit's draft White Paper is excellent in many respects. The plans for breaking down the rigidities of the old apprentice system are long overdue. The Open Tech looks imaginative. The whole document strikes the right positive note.
2. But the central proposal - one year's training for all unemployed school-leavers - may fall flat on its face. For many of these youngsters, lengthy training is neither welcome nor necessary. What they want is a job. To learn to operate a cash-till takes a couple of weeks. To become a good sales assistant at Marks and Spencer takes 6 weeks; a copy typist, 3 months; a first-class secretary, a year. Does it make sense to attempt a year's training for everyone?
3. For many companies, one year training will be almost impossible to provide. Youngsters' hostility and the small allowance will make things worse. The unions will jump on the bandwagon of criticism. We may end up with a scheme that everyone condemns. Our approach will look half-baked and the most likely immediate result will be the early collapse of co-operation over YOP (already over-strained).
4. This is not just our opinion. The MSC Chairman has written privately to Norman Tebbit to tell him, in effect, that he does not believe the scheme can be delivered.
5. At the moment, paragraphs 23-41 outline a new training programme for young people. They explain the rationale, stress the training nature of the programme, spell out the size of the allowance and the coverage. The section ends by saying that the Government is very willing to consider alternatives - ie ways of helping people into jobs-with-training.
6. It is just possible that MSC will be able to salvage some order out of the ensuing chaos and secure agreement on a scheme for subsidising people in real jobs instead. But it would be very much better if we proposed this ourselves in the first place. As matters stand, a re-run of the referendum debacle is quite possible. The storm

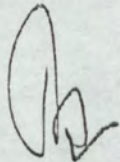
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will not be centred on Parliament: unions, youngsters, parents and companies will all be involved.

7. We therefore think it is a mistake to publish a White Paper which presses so hard for this scheme - even though it admits the possibility of alternatives.
8. Before going ahead, we suggest you ask Norman Tebbit how confident he is that the reaction of the CBI and unions will not be wholly negative; and whether, if he had another month, he might be able to come up with a better approach - possibly job-based - with a better chance of support from both employers and youngsters themselves.

I am copying this minute to Geoffrey Howe, Robin Ibbs and to Sir Robert Armstrong.



JOHN HOSKYNs

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✓
MJD

*With the Compliments of
the Secretary of State for Social Services*

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Alexander Fleming House
Elephant and Castle
London, SE1 6BY

Bradan
O'Gorman
✓ 7/12

Manpower Special
employment records. 102



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE LONDON SE1 6BY
TELEPHONE 01-407 5522 EXT

Your reference
Our reference

4 December 1981

OPPORTUNITIES FOR VOLUNTEERING

The attached consultation paper "Opportunities for Volunteering" invites suggestions from selected voluntary organisations and other interested bodies on how best to expand the opportunities for unemployed people to undertake voluntary work in the health and personal social services. £3.3m is available in 1982/83, the English share of the £4m announced for this purpose for the country as a whole by the Prime Minister on 27 July (Hansard, Column 836).

The paper seeks suggestions for unemployed people to act as volunteers under the auspices of a voluntary or statutory agency; to contribute to neighbourhood care groups which reinforce the support given by families, friends and neighbours to the elderly, handicapped and other people in difficulty; and to take part in community and self-help groups. Priority will be given to schemes that will secure lasting benefits from increased volunteer involvement.

Volunteering cannot of course make up for the lack of a normal paid job, and that is why the Prime Minister's announcement of 27 July was chiefly concerned with a substantial package of measures to extend the Government's special employment and training programmes. However, many unemployed people derive satisfaction from helping others and we want to make sure that those who want to volunteer can do so.

Copies of this letter and the consultation paper are being sent to the organisations listed in the Annex to the paper. We should be grateful to receive comments, which should be sent to LASS Branch 2, Department of Health and Social Security, Room B1608, Alexander Fleming House, Elephant and Castle, London SE1 (Tel 01-407 5522 ext 6003) by 8 January 1982; additional copies of the paper, if required, can be obtained from the same address.

Yours faithfully

D M Woolley

D M WOOLLEY

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RT DEC 1984

OPPORTUNITIES FOR VOLUNTEERING

**A CONSULTATION PAPER BY
THE DEPARTMENT OF HEALTH AND SOCIAL SECURITY**

December 1981

OPPORTUNITIES FOR VOLUNTEERING

CONSULTATION PAPER BY THE DEPARTMENT OF HEALTH AND SOCIAL SECURITY

A. INTRODUCTION

1. On 27 July 1981, in a speech to the House of Commons, the Prime Minister included the following announcement:-

"Finally, I believe that we should immediately develop further opportunities for voluntary service for unemployed people of all ages. Our seventh proposal, therefore, is that the Government will provide additional funds for this purpose. We will provide a further £4 million for the remainder of this year and £8 million in 1982-83 for voluntary work in connection with the Manpower Services Commission's community enterprise programme.

There are also opportunities in social service and health where community support for the handicapped and elderly depends on a wide range of voluntary services as well as statutory provision. An additional £4 million will accordingly be available in 1982-83 to expand these activities and the departments concerned will be considering how best to apply this money." (Hansard, col 836).

2. The second of the 2 sums of £4 million referred to is to be shared between the Department of Health and Social Security and the Northern Ireland, Scottish and Welsh Offices, the DHSS share (for England) being £3.3 million. This consultation paper is concerned solely with the expenditure of the £3.3 million in England; separate arrangements are being made in respect of Northern Ireland, Scotland and Wales.

3. The £3.3 million is available for the scheme only in 1982/83. The question whether extra money could be made available in subsequent years will be decided in the light of other competing demands on the Department's budgets and on public expenditure generally.

4. This consultation paper has three purposes:

- (i) to describe and explain the objectives of the scheme;
- (ii) to canvass views on how these objectives might best be met (see paragraph 49); and
- (iii) to invite organisations interested in taking part in the scheme to consider and suggest in what ways they might do so (see paragraph 51).

B. OBJECTIVES

5. The scheme will have three main objectives:

- (i) to develop opportunities for unemployed people to undertake voluntary action including:
 - working as a volunteer under the auspices of a voluntary or statutory agency

- contributing to neighbourhood care groups, that is groups which reinforce the support of families, friends and neighbours given to the elderly, handicapped and other people in difficulty
- taking part in community groups
- taking part in self-help groups;

(ii) to expand voluntary action in the field of health and personal social services; and

(iii) to spend the money in such ways that benefits will continue to accrue in the longer term.

6. To be considered for funding under the scheme, a project will have to be designed to meet both objective (i) and objective (ii). Priority will be given to those which are also designed to meet objective (iii).

7. Paragraphs 8-16 elaborate on each of the three objectives in turn.

Opportunities for Unemployed People

8. Unemployed people span a wide range of skills, experience and interests, and many are already involved in voluntary action of one kind or another.

9. The development of opportunities for voluntary action by unemployed people should not take place in isolation from the development of voluntary action more generally, and may often be best achieved through projects which are not exclusive to unemployed people but which can be expected to attract substantial participation from among them, for example by concentrating on areas or neighbourhoods - in depressed inner cities, for instance - where the level of unemployment is particularly high.

10. The scheme will encompass the development of voluntary opportunities for people of working age who while desiring to work cannot secure full-time paid employment but who, for one reason or another, are not registered as unemployed. Such people include many who are disabled or prematurely retired, or who are on short-time working.

11. The Manpower Services Commission's Special Programmes will continue to provide valuable scope for temporary employment. The creation of employment - whether permanent or temporary - is not a primary purpose of the scheme discussed in this paper, although a significant proportion of the funds available may in the event be spent on wages or salaries. The Department will not support projects which would more suitably fall for consideration for funding by the MSC.

12. The scheme is not intended to develop opportunities for voluntary work as if such work were a substitute for paid employment. Nor will there be any question of compelling unemployed people to take part.

Opportunities in the Health and Personal Social Services Fields

13. All projects to be funded under the scheme will be expected to make a worthwhile contribution to meeting health needs, or personal social service needs, or both.

14. Some projects, whilst satisfying this criterion, may involve spillover into fields which are not strictly limited, in organisational terms, to the responsibilities of health and social services authorities. Such projects will still be eligible for consideration.

15. It will be important to ensure that the projects funded provide (whether from the scheme's funds or otherwise) for an adequate balance between good opportunities for voluntary action and the recruitment and deployment of those who are going to undertake that action. It would not make for productive use of the funds for the scheme to support only the "supply" of volunteers in circumstances in which no "demand" was established; and vice versa.

Lasting Benefits

16. The Department's intention is that priority under the scheme should be given to expenditure which can be expected to secure lasting benefits in terms of increasing the quantity or quality of volunteer involvement and self-help and neighbourhood groups, especially among unemployed people or in areas of particularly high unemployment.

C. TARGETS FOR EXPENDITURE

Voluntary Action at Local and Neighbourhood Levels

17. The bulk of the Department's expenditure under the scheme will need to go on projects at local and neighbourhood levels. (Possible administrative mechanisms for achieving this are outlined in section D). But whatever the position on the availability of funds for the scheme after 1982/83 (see paragraph 3), no local project will be supported indefinitely from Departmental funds.

18. To be considered for funding under the scheme, local voluntary sector projects should normally have been the subject of consultation with the relevant health authority or social services authority or both. This will be important generally, but especially so where longer-term funding may be needed from the statutory sector or where professional supervision or support is required.

19. Although expenditure under the scheme will be directed mainly towards local projects, voluntary organisations may in some instances need to incur administrative costs at national or regional levels in the course of, for example, developing and supporting such projects. It will be possible to consider using some part of the available funds to help meet such costs.

Possible Kinds of Expenditure

20. The Department is particularly interested to receive comments and suggestions, preferably including specific (even if hypothetical) examples, as to what kinds of expenditure, on what types of project, would best meet the objectives set out in section B.

21. The following are examples of the kinds of cost which might in principle be met, wholly or partly, under the scheme, always provided that the objectives of the scheme were met in each case (paragraphs 5-6):

(i) the costs of administrative, supervisory or developmental capacity, including salary and overhead costs. Such capacity might, for example, be used by:-

- a. service-providing voluntary organisations;
- b. organisations which recruit volunteers or seek to stimulate volunteering;
- c. neighbourhood care or community groups;
- d. self-help groups;
- e. resource centres, or other organisations offering relevant resources;
- f. other bodies, whether established or "ad hoc", which could perform a relevant intermediary function (eg by surveying local needs and the ways in which voluntary action by unemployed people might help to meet them).

(ii) capital payments, for which an upper limit might be prudent. Examples might include:-

- a. equipment;
- b. the building, restoration or maintenance costs of creating more space in, say, centres providing focal points for local community service or self help;
- c. vehicles.

(iii) training, for example:

- a. training for unemployed people who are contributing, or wish to contribute to relevant voluntary action but who do not feel that they have the necessary knowledge;
- b. further training for staff of voluntary or statutory organisations in connection with relevant project work.

22. The Department is not committed to helping with all these activities, and there may in addition be others relevant to the objectives of the scheme. Bearing in mind that a decision has yet to be taken on the availability of extra money after 1982/83 (paragraph 3), those responding to this paper are particularly invited to suggest activities which either are one-off in nature or are likely to be self-sustaining following the initial injection of cash under the scheme.

Expenses and "Pocket Money"

23. Volunteers need to have their expenses met, and volunteers' expenses could be a legitimate demand on the scheme's funds. There may also be scope for the payment of "pocket money"; for example, a properly evaluated project might provide a valuable opportunity to test the effectiveness of such payments in enabling unemployed people to undertake voluntary work. On the other hand, substantial expenditure on expenses or "pocket money" could absorb a large proportion of the funds available without necessarily securing lasting benefits along the lines envisaged by the scheme's third objective (paragraphs 5(iii) and 16), and the Department will need to keep this in mind.

24. Any projects which involved making "pocket money" or similar payments to volunteers would need to take account, as appropriate, of the relevant rules for entitlement to unemployment and supplementary benefit. The rules in this area are to be amended by new regulations which will reduce the difficulties volunteers might meet. The Department will be providing a short guide to the rules, for distribution once the changes have been made.

Statutory Services

25. The Department's intention is that most, if not all, of the money disbursed under the scheme will be spent on projects within the voluntary sector. But there is in principle scope for expenditure within the statutory sector too, for example, to strengthen the capacity to provide administrative, supervisory and developmental support for volunteer involvement in those services.

26. There would be advantages in having as an option the expenditure of some of the funds on volunteer using projects within the statutory sector. But the administrative mechanisms required would have disadvantages (see paragraph 44).

27. Comments are invited on whether or not some provision for expenditure within statutory services should be included within the scheme.

D. CHANNELS OF EXPENDITURE

28. The purpose of this section of the paper is to suggest various ways in one or more of which the funds disbursed under the scheme might be channelled to the local, voluntary sector projects which are likely to attract the bulk of the expenditure. Comments are invited on the relative merits and potential of each from the viewpoint of those who may wish to participate in the scheme. Suggestions as to other possibilities would also be welcome.

29. The options canvassed do not include that of the Department dealing directly and exclusively with the individual local projects themselves. The Department has neither the expertise nor the administrative capacity to mount the scheme on this basis, especially bearing in mind that the scheme may for the most part take the form of a large number of small payments.

Option 1: Payments to National Organisations with Local Branches

30. Where a national voluntary organisation has local branches for whose expenditure that organisation can accept accountability, it would in principle be possible for that organisation to receive a single grant towards the costs of a range of projects to be run by its branches.

31. This approach would have the advantage of being relatively straightforward to administer, and it would minimise the need to establish new channels of communication. But an approach of this kind could cover only a proportion of the kinds of projects which might benefit under the scheme.

Option 2: Payments to Local Projects Identified through National Intermediaries

32. This option would involve making use of national intermediary bodies, whether "specialist" or "generalist", which had local affiliates for whose expenditure they could not accept accountability. Each body would put together a "package" of local projects, but in this case the grant would be paid direct to those projects which were accepted for funding.

33. This approach could usefully supplement option 1 by opening up a wider range of projects which might benefit under the scheme. But, once the "package" had been put together, the Department would have to deal directly with the individual projects concerned.

Option 3: Payments to Local Projects Identified through Local Intermediaries

34. Option 3 would involve essentially the same approach as option 2 except that the intermediary bodies would be local rather than national.

35. Option 3 might be a useful supplement to options 1 and 2, although there would probably be a good deal of overlap. The main advantage would be that the intermediary bodies involved could be expected to have extensive local knowledge and contacts. The main disadvantage would be that the Department would be dealing with a large number of organisations with which it would usually have no established links; and there would still be a need to deal directly with individual projects, except in so far as these were mounted by the intermediary bodies themselves.

Option 4: A "Grant in Aid" to an Independent Fund

36. Under this option, a special fund would be established and independently administered on the basis of groundrules laid down by the Department. The trustees of the fund would be responsible, within the terms of the groundrules, for both the decisions on the projects to be funded and the administration of the payments. The Intermediate Treatment Fund is an example of this kind of approach.

37. There would be a number of advantages to this option. Once the groundrules were established, the Department's involvement would be minimised and there would be a potentially greater flexibility of operation. For example, the fund could if necessary carry some of the money over into the next financial year and it might be better placed to deal with the wide range of organisations and individuals who could be involved and to reach small self-help and neighbourhood groups. Option 4 could in principle subsume any or all of options 1-3, in that the payments under those options could be made by the fund rather than by the Department.

38. But there would also be a number of disadvantages. Option 4 would mean setting up a new body - albeit perhaps attached to an existing charitable trust. It might be difficult to attract the right administrative expertise to run the fund, especially if the scheme's life expectancy were to be relatively short. And it would be difficult to draw up satisfactory groundrules in advance without experience to build on.

Option 5: "Grants in Aid" to Existing National Intermediaries

39. This option would be a variant of options 2 and 4. As under option 2, each national intermediary body which participated would be responsible for putting together a "package" of local projects. As under option 4, that body would itself be responsible for taking funding decisions and administering the payments, within a specified budget and in accordance with groundrules.

40. This approach would have most of the advantages of options 2 and 4. But there would be considerable disadvantages. It could be difficult to achieve a balance which was seen to be fair as between different interests and different kinds of voluntary action, especially bearing in mind that budgets would have to be fixed (though not necessarily immutably) in advance. The greater the number of intermediary bodies participating the more sets of groundrules would have to be drawn up and the more problems of overlap there would be. Also, bearing in mind that a "grant in aid" involves some relinquishment of Departmental accountability, the greater the number of bodies participating the more diffused that accountability would become.

41. The Department's view at this stage is that option 5 could be considered in no more than two or three clearly delimited instances, and should be adopted, if at all, for only a relatively small proportion of the funds available.

Option 6: Payments via Statutory Channels

42. If it were thought desirable arrangements could be made for channelling some part of the available funds to health authorities. Means could doubtless be found whereby a proportion of such funds were in turn put at the disposal of social services authorities through Joint Consultative Committees. The health and local authorities concerned would then be able to make grants to suitable voluntary sector projects.

43. As under option 3, one advantage would be that payments would be made by people with local knowledge and contacts, a considerable advantage where there already existed a strong local partnership between the statutory and voluntary sectors. Also - as against option 3 - the Department would not need to deal directly with the local projects themselves (although it would need to be satisfied that the funds were not being used to substitute for expenditure which would have occurred anyway).

44. But there would be a number of disadvantages. Arrangements would be untimely for many health authorities at a time of NHS restructuring, and this would affect the involvement of social services authorities too, given that money would have to be channelled to them through Joint Consultative Committees. The scheme could be thought too small to justify involving more than a few selected authorities. And the lines of accountability would be long.

45. The Department's view at this stage is that option 6 should not be thought of as a major component in the scheme, and that it should be considered at all only if it is thought desirable for some of the funds to be spent on statutory sector projects (see paragraphs 25-27) - the same funding channels from the Department could then be used for either statutory sector projects, or grants to voluntary sector projects, or both.

Statutory Powers

46. The Department needs no new statutory powers for any of the methods of payments canvassed in this paper. Some payments may be made under the Department's powers to give grants to voluntary bodies under section 64 of the Health Services and Public Health Act 1968; but expenditure on this special scheme will be kept separate from section 64 grant expenditure generally, and the groundrules for the scheme will not affect the Department's general policies on expenditure under section 64.

E. MONITORING

47. Whatever the arrangements for financial accountability under the scheme, the Department will need sufficient information about projects on which money is spent to be able to assess the benefits secured by the expenditure. It will also be desirable to obtain sufficient feedback to be able to identify useful lessons - whether for the Department or for other agencies. The costs of securing the necessary information and feedback will, as necessary, be allowed for in the payments made under the scheme.

48. The Department has no plans to make available any additional funds for the purpose of commissioning independent research to supplement this basic level of monitoring. But it may well be that the features of some of the projects to be funded under the scheme will be such that some independent research input would be worthwhile, for example where a project is designed to develop new approaches to the stimulation of voluntary action. In such cases there is no reason why the projects' sponsors should not seek to secure research funds from other sources.

F. CONCLUSION

49. The Department would welcome comments and suggestions on any aspects of the scheme and on any of the issues raised in this paper. In particular, comments and suggestions are invited on:-

- (i) what kinds of expenditure, on what types of project, would best meet the objectives of the scheme (paragraphs 20-22);
- (ii) whether there should be provision for including statutory sector projects within the scheme (paragraphs 25-27);
- (iii) the relative merits and potential of different channels of expenditure (paragraphs 28-45); and
- (iv) how to derive and share information and experience (whether by formal research or other means) for future application (paragraphs 47-48).

50. Following consideration of the comments received, the Department will announce as soon as possible the groundrules and administrative arrangements for the scheme. No bids for funds will be considered in advance of that announcement.

51. Where appropriate and if they so wish, organisations commenting on this paper are invited to indicate whether they would be able and willing to participate in the administration of the scheme. Those responding in this way should say under which of the various options for channelling expenditure (or under what alternative arrangements) they would be able to take part. They should also be as specific as is possible at this stage about the kinds of expenditure and types of project which would be involved, about the amount of money they could realistically be expected to spend within the terms of the scheme, and about the benefits which could be expected in relation to the scheme's objectives. Responses along these lines will be treated entirely without prejudice to any eventual bids for funds under the scheme.

52. Copies of this paper are being sent to the organisations listed in the appendix to this paper; comments from any other interested organisations or individuals would also be welcome, and additional copies of the paper can be obtained from LASS Branch 2, Department of Health and Social Security, Room B1608, Alexander Fleming House, Elephant and Castle, London SE1. Comments should be sent to the same address, to reach the Department no later than 8 January 1982.

ORGANISATIONS RECEIVING COPIES OF THE PAPER

Advice Services Alliance
 Affor
 Age Concern (England)
 Al-Anon
 Al-Ateen
 Alcohol Education Centre
 Alcoholics Anonymous
 Alcoholism Community Centre for Education, Prevention and Treatment
 Apex Trust
 Association of Charity Officers
 Association to Combat Huntington's Chorea
 Association of County Councils
 Association of Crossroads Care Attendant Schemes
 Association of Directors of Social Services
 Association of District Councils
 Association of Jamaicans UK
 Association of Metropolitan Authorities
 Association of Nurse Administrators
 Association for Researchers into Voluntary Action and Community
 Involvement
 Association of Residential Communities
 Association of Spina Bifida and Hydrocephalus

Barrow and Geraldine S Cadbury Trust
 Board of Deputies of British Jews
 British Association for Counselling
 British Association of the Hard of Hearing
 British Association of Settlements and Social Action Centres
 British Association of Social Workers
 British Council of Churches
 British Deaf Association
 British Epilepsy Association
 British Medical Association
 British Polio Fellowship
 British Red Cross Society

Calouste Gulbenkian Foundation
 Campaign for the Homeless and Rootless
 Campaign for Mentally Handicapped People
 Carnegie United Kingdom Trust
 Carr-Gomm Society Ltd
 Centre on Environment for the Handicapped
 Centre for Policy on Ageing
 Chest, Heart and Stroke Association
 Chinese Action Group
 Church Army
 Church of England Children's Society
 Churches' Council on Alcohol and Drugs
 City Parochial Foundation

Commission for Racial Equality
Community Projects Foundation
Community Service Volunteers
Confederation of British Industry
Confederation of Indian Organisations
Contact
COPE
Counsel and Care for the Elderly
CRUSE (National Organisation for the Widowed and their Children)

Deaf-Blind Helpers League
Disabled Living Foundation
Disablement Income Group
Dr Barnardo's

Employment Fellowship

Family Forum
Family Service Units
Family Welfare Association
Federation of Alcoholic Rehabilitation Establishments
Federation of Bangladeshi Associations
Federation of Community Work Training Groups

General Whitley Council Staff Side
Ghana Union
Gingerbread
Good Neighbour Information Exchange
Greater Manchester Youth Association
Guide Dogs for the Blind Association

Health Visitors' Association
Help the Aged
Hilden Charitable Trust
Holiday Care Service
Home Start
Home-Start Consultancy

Intermediate Treatment Fund
Invalid Children's Aid Association
Invalid at Home Trust

Jewish Blind Society
John Groom's Association for the Disabled
Joint Council for the Welfare of Immigrants
Joseph Rowntree Charitable Trust
Joseph Rowntree Memorial Trust

London Boroughs Training Committee

Manpower Services Commission
Medical Council on Alcoholism Ltd
MENCAP - Royal National Society for Mentally Handicapped
Children and Adults
Mental After Care Association
Mental Health Foundation
MIND - National Association for Mental Health
Multiple Sclerosis Society
Muscular Dystrophy Group of Great Britain

National Association for Asian Youth
National Association of Citizens' Advice Bureaux
National Association for the Care and Resettlement of Offenders
National Association of Community Relations Councils
National Association for Deaf/Blind and Rubella Handicapped
National Association of Health Authorities
National Association of Leagues of Hospital Friends
National Association of Victim Support Schemes
National Association of Voluntary Help Organisers
National Association of Voluntary Hostels
National Association of Women's Clubs
National Bureau for Handicapped Students
National Children's Home
National Council on Alcoholism
National Council of Bangladeshi Organisations
National Council for One Parent Families
National Council for the Single Woman and her Dependents
National Council for Voluntary Child Care Organisations
National Council for Voluntary Organisations
National Council for Voluntary Youth Service
National Council of YMCAs
National Cyrenians
National Deaf Children's Society
National Federation of the Blind
National Federation of Community Organisations
National Federation of Housing Associations
National Federation of Self Help Groups
National Federation of Women's Institutes
National Institute for Social Work
National League of the Blind and Disabled
National Play Bus Association
National Schizophrenia Fellowship
National Society for Autistic Children
National Society for the Prevention of Cruelty to Children
National Union of Townswomen's Guilds
National Working Party of Young Volunteer Organisers
National Youth Bureau
Northern Regional Association for the Blind

Organisation for Parents under Stress
Oshwal Association of UK
OUTSET

Parkinson's Disease Society
Partially Sighted Society
PHAB (Physically Handicapped and Able Bodied)
Pre-Retirement Association
Pre-School Playgroups Association
Project Fullemploy Trust
Psychiatric Rehabilitation Association

Queen Elizabeth's Foundation for the Disabled

Rainer Foundation
Residential Care Association
Richmond Fellowship
Royal Association for Disability and Rehabilitation (RADAR)
Royal College of Midwives
Royal College of Nursing
Royal National Institute for the Blind
Royal National Institute for the Deaf

Sainsbury Family Trusts
Salvation Army
Samaritans
Save the Children Fund
Southern and Western Regional Association for the Blind
Spastics Society
Spinal Injuries Association
St John Ambulance
Standing Conference of Asian Organisations
Standing Conference of Councils for Voluntary Service
Standing Conference on Drug Abuse
Standing Conference of Pakistani Organisations
Standing Conference of Rural Community Councils
Student Community Action Development Unit

Toy Libraries Association
Trades Union Congress
Turning Point

UK Asian Womens Conference
Unemployment Alliance
Unemployment Unit
Union of Muslim Associations
Union of Pakistani Organisations

Volunteer Centre

West Indian Standing Conference
Winged Fellowship Trust
Women's Aid Federation (England)
Women's Royal Voluntary Service
Workers' Educational Association

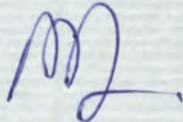


MR. SCHOLAR

WHITE PAPER ON INDUSTRIAL TRAINING

1. Norman Tebbit's minute of 4 December says that the draft White Paper makes it quite clear that the Government is willing to consider schemes to help more unemployed young people into jobs-with-training - transferring resources accordingly.
2. This represents a fall-back position, in case the main proposal for replacing YOP with a one year foundation training year and a very low basic allowance meets with strong opposition. John Hoskyns and David Wolfson are very concerned that these proposals will meet with some hostility and, in the event, prove very difficult to implement on the scale required. Although the draft White Paper does, as Mr. Tebbit says, say that the Government is willing to consider alternatives, it still runs the risk of strong initial hostile reaction. We may appear to be forced to depart from our original proposals.
3. If the Prime Minister shares our concern about this, we will offer some drafting changes which would place rather less emphasis on the foundation training scheme. In particular, we would propose qualifying the suggestion in paragraph 40 that the new scheme will be able to provide for as many as 300,000 young people. We still think it possible that quite large numbers of young people - and employers - might prefer to have a subsidised job, with a training element built into their programme - rather than pure "training". This would mean more emphasis on the Young Workers Scheme, at the expense of the present emphasis on the comprehensive youth training approach.

4 December 1981


ANDREW DUGUID



JV
AD
BN
BT

Prime Minister

Agree, subject to views of
colleagues, to publication of
White Paper on 15/12?

MS

PRIME MINISTER

We now have the
advice of the Policy Unit (at
page A). If you share their misgiving
about the White Paper's
proposals, would you like them to
suggest drafting amendments? MMS 4/12
AH 4xii

WHITE PAPER ON INDUSTRIAL TRAINING

I have now set out the details of our training proposals, as agreed by E on 2 November and confirmed in the public expenditure discussions, in the form of the attached draft White Paper.

2 The background and the main features of the White Paper are summarised in its first four paragraphs. Our decisions accord closely with the recommendations submitted to me by the MSC in their report on the public consultations, of which I attach a copy and which I intend should be published simultaneously with the White Paper. The principles of the approach in that report were discussed in NEDC last Wednesday and received the Council's full support.

3 From that discussion and from my own soundings of industry it is clear that we would be wise to emphasise a certain flexibility in our approach, notably to the training of the young and on the question of funding. There is of course good reason to find ways of using the available public resources to get young people into proper jobs with training rather than to attend to them only when unemployed - provided we can maintain the training guarantee for those who still cannot get jobs. And on funding, while it would be wrong for us at this time to go too hard for a remissible tax - to which the CBI have expressed opposition - there is a welcome perception that we need to sort out respective responsibilities for funding training.



4 Both strains of thought find expression in the MSC's proposals for further urgent study (paragraphs 18 and 41 of their report) and paragraphs 41 and 62 of the draft White Paper endorse these proposals. In particular, while we must present firmly our proposed scheme of training for the young unemployed if it is to be attainable by the autumn of 1983, the draft White Paper makes quite clear that the Government is very willing to consider and develop schemes to help more unemployed young people into employment with proper training, and would be willing to transfer resources proportionately from the scheme which I propose to such other schemes if they can be developed. I think it is very important that we should show ourselves flexible to that degree.

5 I propose to accompany publication of the White Paper with an oral statement to the House on its main features and on our recent decisions on special employment measures. I will circulate the proposed text of my statement later.

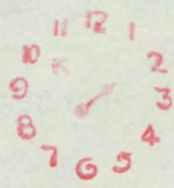
6 It is highly desirable now to make an early announcement following the Chancellor's statement on our overall spending plans in this area and the press speculation. It would be particularly helpful to publish by 15 December when the MSC meet to give further consideration to the drafting of their next Corporate Plan. So if colleagues are broadly content and will let me have any comments on points of detail of the draft White Paper by midday on Wednesday 9 December, I propose, subject to the Lord President's agreement, to arrange publication of the White Paper and to make my statement on Tuesday 15 December.

7 I am copying this minute to E Committee colleagues, the Secretaries of State for Scotland, Wales and Social Services, the Lord President, Sir Robert Armstrong and Mr Ibbs.

NT

N T

4 December 1981



A NEW TRAINING INITIATIVE: AN AGENDA FOR ACTION

Report by the Manpower Services Commission

INTRODUCTION

1. "A New Training Initiative", the Commission's consultative document on training, was published in May. 79,000 copies have been distributed, and almost 1,000 written submissions received.
2. This document summarises the main points emerging and indicates what, in the light of these consultations, we consider to be the key areas for action. We must emphasise two points: first, there are some issues where we can already distinguish clearly the directions in which action should be moving (and the part which the Commission, the Government and others will need to play); whilst on others there is a good deal of further work still to be done before any precise plans can be drawn up. Secondly, progress depends for the most part not on measures taken by the Commission, but on what Government, employers, unions and the education service decide to do. We can hope to point the way, and that is clearly what those responding to the consultative document want and expect us to do. We can also strive to influence attitudes. Action however is largely for others. These considerations are reflected in this document.

SUMMARY OF COMMENTS MADE

3. Our consultative document proposed three major objectives for the nation. These were:

- i. we must develop skill training including apprenticeship in such a way as to enable young people entering at different ages and with different educational attainments to acquire agreed standards of skill appropriate to the jobs available and to provide them with a basis for progression through further learning;
- ii. we must move towards a position where all young people under the age of 18 have the opportunity either of continuing in full time education or of entering a period of planned work experience combined with work-related training and education;
- iii. we must open up widespread opportunities for adults, whether employed, unemployed or returning to work, to acquire, increase or update their skills and knowledge during the course of their working lives.

4. The comments we have had, which are summarised in the Annex show overwhelming support for these three objectives. The need for change is clearly accepted. There is widespread agreement that over the next decade British industry will need to adjust rapidly to continuing technological developments so as to compete effectively in changing and often difficult markets. Employers are anxious to embrace new technologies in order to survive the present world recession and become more competitive and more profitable. They are concerned that they will trail yet further behind their overseas competitors unless those they employ rapidly acquire the skills and knowledge which will be needed for the future. It is generally

accepted, too, that the pattern of skills is changing fast. Fewer unskilled or semi-skilled jobs are and will be available. Many traditional craft skilled jobs will be made obsolete or changed beyond recognition. There is a widespread expectation of continuing and growing demand for technicians and technologists and for a range of other professional and managerial skills. New jobs will be created in service industries and occupations and in commerce; manufacturing employment is unlikely to increase and the skills required by the workforce in manufacturing industry will change.

5. The responses also showed widespread concern about the impact such developments will have on individuals. People without skills, knowledge and experience or those with outmoded skills, will have less and less prospect of obtaining stable employment. Individuals will need to be able to adapt to the changing demands of industry, a process which is not once and for all but continuing. If nothing is done Britain faces the prospect of continuing high levels of unemployment alongside damaging skill shortages.

6. Whilst few challenged the needs defined in the document for priority action, some identified additional priorities. The most frequently mentioned was the need to give high priority to improving the competence of management, and this we accept. Competent managers at all levels are essential to our economic well-being and, indeed, to the achievement of our major objectives and there is undoubtedly a need for action in this area. We see this falling squarely within our third objective. Some thought we should have placed more emphasis on technician and technologist training, which we had always intended should fall within our first objective - to modernise skills training. Some called for special attention to be paid to the training needs of people at a disadvantage in the labour market, in

particular women, disabled people and members of ethnic minorities. We believed that our three basic objectives would bring very large benefits and greatly increased opportunities to such groups. Our fundamental aim is to serve economic recovery by opening up training and career progression opportunities to a far wider section of the population than at present.

7. Perhaps the single most important theme which emerges from the discussion is that Britain needs a flexible, adaptable workforce to cope with the uncertainties which cloud the future. The technological revolution and the need to become more competitive are not once and for all challenges. They will continue for as far ahead as we can see. Markets and prices for products, processes and services will continue to fluctuate. Firms and individuals must either adapt to change or become its victims.

8. Without exception, those who commented on our document saw a comprehensive training strategy as a crucial and integral part of Britain's overall strategy for economic recovery and sustained growth. Employers, unions, local education authorities and many other respondents stated repeatedly that our human resources are Britain's most valuable asset, that we need a new attitude to investment in those resources, that such investment needs to be maintained even when times are hard, and that cost-effectiveness is at least as important in the acquisition and use of skill as it is in the acquisition and use of plant and machinery.

9. Most important of all, there was general agreement that now is the right time to act. The consequences of the recession have been devastating but it is clearly seen also as offering an opportunity for advance. Many firms are finding conventional training practices inappropriate to their needs. Many, because of the recession, are finding it extremely difficult to maintain training intakes. There is therefore spare training capacity

in industry and in many training institutions. Young people and adults are turning to the public education and training services for help in gaining or retaining employment. There is, in short, a greater readiness and a wider scope than for many years to try out innovative approaches.

10. However, there is no such predominant view emerging on how to make progress. We may all be agreeing on the same objectives now - and that, in itself, is a milestone - but major issues remain. We deal with these later in this report. There were, however, some important major points for action on which those who commented did agree. They were:

- i. the need for a coherent approach to the reform of training, including rationalisation of the Commission's own present programmes;
- ii. a call for the Government and MSC to give strong support to industry in securing change;
- iii. the conviction that locally-based bodies must play a greater role in the planning and management of training;
- iv. universal agreement that all young people should receive good quality basic training as a foundation for work and for further training and re-training, and that for all young people this process must begin at school and end in work;
- v. agreement that the education service in all its manifestations needs to play a full part in developments.

11. Those who commented all agreed that it is important to keep in mind the scale and nature of the task we face, because it has major implications for the nature of the training arrangements we develop, their organisation, structure and funding. In particular:

- i. as the economy recovers employers will need to increase recruitment into occupations requiring relatively lengthy training, many of which will involve new skills;
- ii. whilst the numbers of school leavers entering the workforce are likely to decline, from the peak of over 630,000 in 1978/79 to 590,000 in 1984/85, the numbers of such young people becoming unemployed are likely to increase from 350,000 this year to nearly 400,000 by mid-decade, and unless action is taken now the numbers finding jobs but receiving little training in employment will also remain high;
- iii. necessary adaptation of the workforce cannot be achieved simply by training the inflow of new recruits. There will be an urgent need for the training and retraining of adults. In recent periods of economic recovery skill shortages have co-existed with high levels of unemployment amongst trainable adults. Without action now, this will happen again. An immediate concern - and one that is beginning to impinge on public consciousness - is the very large number of people, currently 750,000 and rising, who have been without work for a year or more.

12. In the remainder of this document we set out an agenda for action on the New Training Initiative. But first we describe the general framework which we believe is required if that action is to be effective.

13. We begin by restating three basic requirements we first set out in the Consultative Document itself. First there will have to be a significant increase in the resources devoted - whether by Government or industry or both - to training. Much can certainly be achieved by more efficient training methods; but our total national investment in training is not enough. Secondly, we must look to develop or re-inforce institutional arrangements which are robust and effective and in which all partners in industry can have confidence. We need machinery, for example, to set and monitor appropriate standards of skill achievement; to promote training practices which will ensure that high standards of skill are achieved; and to help the workforce adapt to changing demands. And thirdly we must have the statutory underpinning which is essential to ensure that adequate resources and machinery are available.

14. Following our consultations, there are a number of other provisional judgements we have reached about the right approach to achieve the NTI objectives. They are:

- i. the objectives are closely inter-related, and must be pursued together: advances in one area will only be fruitful if paralleled and re-inforced by progress in the other two;
- ii. market forces alone will not produce training of the quality or quantity required; partly because employers are unable to invest adequately if they cannot be reasonably sure of sufficient returns, and partly because of short-term financial constraints. Moreover, because many of the benefits - particularly of training for young people - are distributed widely across the community, it is neither practicable nor fair to place the total burden or cost on the individual employer, nor on the trainees themselves

(although their remuneration while training is likely to be lower than for fully productive workers). Public action and resources must therefore be brought to bear to re-inforce private initiatives and endeavours;

- iii. it is necessary to devise a means of funding which recognises the public and private benefits of training, and the need for substantial State support (whether by direct vocational education and training provision, by fiscal incentives, or in other ways);
- iv. much greater emphasis needs to be placed on training to standards which provide an objective measure of competence and offer an opportunity subsequently to progress to more demanding and responsible employment.

15. In the paragraphs which follow we comment further on the key questions of resources, standards, machinery and the scope for statutory arrangements; and indicate the action which needs to be set in hand immediately on these issues as well as the action concerned with the three specific objectives of the Initiative.

Resources

16. Those who commented on the consultative document were in no doubt about the need for public intervention (in some areas on a massive scale) if the New Training Initiative is to make headway. Most argued that it is impracticable and unfair to place the whole burden of training costs on individual employers. There were two reasons for this. Training - and in this it is unlike other forms of industrial investment - results in the acquisition of skills by the individual. It does not necessarily benefit the training employer. People are free to leave the firm which trained

them. Many join another firm which may offer more attractive terms precisely because it does less training itself. In these circumstances some employers may avoid investing because of the risks involved and, in the case of ^{the} skilled worker try to recruit an already-trained individual. Thus the actions of individual firms lead to under-investment in training from the point of view of industry nationally. This is especially true of skills which are costly to acquire. It is all the more likely in recession, when cash flow considerations add to the uncertainties.

17. Secondly, it was argued that it may well be in the interests of the community that individuals are trained beyond the needs of a specific job. Indeed, the economic prospect most people foresee leads clearly to the view that in future individuals will need to be prepared through education, training and work experience for a range of jobs. We cannot expect firms or individuals to invest in training to meet needs which they may not recognise or which offer no prospect of early returns. This is particularly true of the basic vocational preparation which young people need as they move from education into jobs.

18. We endorse this view. We believe that although industry's prime responsibility to define and meet its training needs must not be eroded, the obstacles which have prevented the market from achieving sufficient training in the past will prevent the attainment of the Initiative's objectives in the future. This points to an important conclusion: new means of funding must be devised which recognise the public and private benefits of training and the need for substantial State involvement. Perhaps the most urgent resource questions are those raised by movement towards a comprehensive programme of vocational preparation for employed

and unemployed young people. This will be a priority item on the agenda of the Commission's planned task group (see paragraphs ⁴⁰~~41~~ and ⁴¹~~42~~ below). But the issue is wider than that and requires further study urgently. We intend therefore to establish a more general parallel study of the funding of industrial training as a whole and to carry this out in close co-operation with the Government.

Standards

19. At the heart of the Initiative lie standards of a new kind. Such standards are essential for the following reasons:

- i. modernisation of skills training including apprenticeship can only be achieved if we can replace time serving by standards of training achievement and ensure that all those who reach such standards, by whatever route and at whatever age, are recognised and accepted as competent;
- ii. if all young people are to have access to basic training, they and employers will want to have a recognised record of skills, knowledge and experience gained;
- iii. if there is to be wider access to opportunities for adults, there must be a recognised system which allows the individual to build on what he already has and secure recognition for what he has gained to date.

20. Few addressed these issues in responding to the consultative document. Perhaps this was because there is already a large number of experienced standard-setting bodies. But it is quite clear that while a range of educational standards have^s been developed for a broad spectrum of

jobs, far less has been done to develop standards of practical competence and associated terminal tests. In too many occupations it is the form of training and not the level of terminal achievement which determines access to jobs. ^{Also} And standards and syllabuses are in constant need of review because of technological and market changes.

21. In our view, standards need to be based firmly on the skills, knowledge and experience actually required in the performance of a job or range of jobs. This implies a system in which there is much greater flexibility in the way training is done, but greater uniformity in the levels of competence of those completing training. The system must show what an individual can do and not where he has failed. So standards will need to be:

- i. explicit: so that firms and individuals know what they are, and where information about them can be obtained;
- ii. agreed: so that there can be no doubt about them and their standing;
- iii. widely accessible: to young people and to adults, and through a variety of forms of provision (eg education, full-time and part-time training);
- iv. flexible: in response to the changing (and sometimes different needs) of individuals and localities;
- v. progressive: so that people with a "portfolio" of skills, knowledge and experience can build on that as they seek to adapt to technological and market changes, to improve their prospects or to explore their potential;
- vi. testable: so that they embody an agreed, appropriate and common standard of training achievement which can be certified as such.

22. Working through and with existing educational, training and professional institutions, including Industry Training Boards, and in close liaison with employers and unions we intend to examine for key occupations:

- the tasks which the job actually entails;
- the skills, knowledge and experience which will equip people to perform those tasks;
- the structure and content of training programmes available to enable people to enter the occupation;
- the mechanisms for testing the terminal competence of trainees;
- the means by which terminal training achievement is certified and recorded;
- any gaps which need to be filled.

We have more to say on this subject at paragraphs ³⁸~~39~~ and ⁴⁸~~49~~ below.

Machinery

23. An effective framework for delivery is essential to ensure that resources are properly and cost-effectively used. We need means of jointly establishing priority for action; of allocating resources at various levels; of monitoring progress; of setting standards; of designing model schemes; of identifying specific skills need and the most cost-effective way of helping employers meet them; and of organising training opportunities for the unemployed. Machinery is needed at national, sector and local levels. At each level employers and unions, as well as the education and training services, will need to be fully involved if the Initiative is to succeed.

24. Amongst the main instruments for change must be collective agreement and consultation both at industry level and within individual firms. What we are seeking is not simply an improvement in the quantity and quality of training. We need a change in attitude towards investment in training and the acquisition of the skills, knowledge and experience needed at work. We need, for example, greater readiness amongst employers and individuals to invest in training beyond their immediate needs and to continue that investment, as necessary, throughout life rather than rely on a concentrated period of initial training immediately following school. Such changes cannot be imposed from above; we have to proceed by agreement.

25. In general the approach must be to build on existing institutions and secure change where needed as quickly and smoothly as possible. At national level the Commission itself brings together the key interests involved in training and other manpower decisions. The Special Programmes Board advises the Commission on the operation of the Youth Opportunities Programme and the Community Enterprise Programme. There is also the Training and Further Education Consultative Group which has served as a means of bringing practitioners of the worlds of training and education together to discuss developments of mutual interest, including the New Initiative. New institutions may be required to support the Commission. In particular, we shall be discussing with all the interested parties the best arrangements for forging firm links between the education and training services. Both must be deeply involved in developments.

26. At sector level, although a narrow majority of the Commission considered that no Board should be abolished, the Government has announced that statutory Industry Training Boards should be abolished and replaced by voluntary arrangements in 16 sectors. The Commission's main concern now

must be to ensure that in every sector there is an effective body, adequately staffed, and funded, which provides for the support and involvement of employers, unions and educational representatives and which is capable of drawing up and delivering a strategy for implementation of the New Training Initiative in its sector. Where Training Boards exist we shall continue to work through them, as we shall through sector bodies. We shall maintain close links with each sector and shall arrange regularly to review progress with each.

27. There is a widely held view that local machinery must play a key role in the planning of training in the future and that our present arrangements need to be built upon and improved. The Commission's staff are now examining the most effective form which such machinery might take if the objectives of the Initiative are to be achieved. They will be consulting fully about this. Any such machinery must secure maximum involvement and commitment of employers, unions, the education service and other interested parties. In due course, we shall need to consider the relationship of such machinery to existing local bodies notably the Special Programmes Area Boards and District Manpower Committees.

28. We remain keen to encourage the development of informal arrangements at even more local levels. Many such arrangements already exist, notably for promoting help for unemployed people through the special programmes. We already have a number of new proposals as a result of our consultations. We plan to encourage these.

29. An immediate step we are taking is to move towards the early amalgamation of our own Training Services and Special Programmes Divisions. This is a prerequisite if we are to carry out fully our own

responsibilities in the New Initiative. Our aim in the amalgamation will be to create a slim organisation capable of rapid adaptation to changing tasks and a changing environment. This will not be secured without the maximum possible delegation of responsibilities to local levels.

30. We shall aim to announce our proposals for organisational changes at national and local levels not later than July 1982 and between now and then to consult as widely as possible about them.

Scope for Statutory Arrangements

31. Most of our major European competitors have found it necessary to give statutory underpinning to their industrial training arrangements. There are a number of areas in which legislation could conceivably play a part in securing better training provision here. One such area is funding. We have already stated that it would be inequitable to place the entire cost of basic youth training on those employers who recruit school leavers. One possibility is a remissible tax on employers who do not contribute fully to training needs. It would, of course, be necessary to consider the relationship of such a tax to the levies raised by the remaining Industrial Training Boards.

32. A number of countries have gone further than this and adopted a "rights and obligations" approach to training, whereby all employees (or employees meeting certain criteria) have a statutory right to leave for training or further education during the course of their working week, year or career. Provision is also made for supporting employees financially during their training leave. Alternatively rights may be given by requiring the terms of the contract of employment to include an obligation on the part of the employer to provide specific forms of training.

33. We have already stated (para ¹³14) that we must have the statutory underpinning which is essential to ensure that adequate resources and machinery are available. Further examination of all the options is necessary before conclusions can be reached. Our aim is to ensure that early decisions are taken. We intend to make an examination in close co-operation with the Government.

The Three Objectives

34. A great deal can be achieved by building on - and improving - existing programmes and approaches: both within the traditional apprenticeship system and under the publicly provided or supported Youth Opportunities (YOP), Unified Vocational Preparation (UVP), Training for Skills (TSPA) and Training Opportunities (TOPS) programmes. Though some issues need further consideration, it would be wrong to delay advancing towards our objectives until every last detail is worked out. We have sufficient experience to move ahead, and we must capitalise on this experience and on the acceptance of the need for change. We can do this by building on present programmes and by instituting a wide range of development schemes on an experimental basis.

Objective 1: Developing Skill Training

35. There is a serious risk that in an economic upturn recovery might be jeopardised by the re-emergence of skill shortages. We therefore think it right for industry and the Commission working together to aim by 1986 for an annual recruitment of at least 120,000 young people into occupations calling for an extended period of training (including apprenticeships). Such a level of recruitment would be higher than has been achieved in recent years, and around 20 per cent more than the intake into

apprenticeship in 1981/2. It would thus represent both a major contribution to meeting industry's skill needs, and a significant widening of long-term training opportunities for young people.

36. The division of responsibilities between the Commission and employers will depend on decisions not yet taken on this New Training Initiative. But in the short term at least it is realistic to expect that a significant proportion of the intake will need to be sponsored by the Commission under its various youth training programmes. Our immediate intention is to support 35,000 apprentices (including redundant apprentices) in 1982/3. Beyond that, there are uncertainties. We do not have a clear view of the development of the economy; we must encourage employers to bear their responsibilities for training rather than relying on an increasing level of public support to which we could not of course be committed; and we expect progress towards an integrated approach to the training of all young people (see objective 2 below) but in ways which are not yet clear. Our proposals on resources after 1982/3 will be revised in the light of developments in the coming year.

37. At the same time we must devise a strategy for the reform of skill training arrangements. Modernising skill training including apprenticeships and replacing traditional approaches to skill training as rapidly as possible with training to agreed standards of skill appropriate to the jobs available should open up opportunities for adults, particularly those in their late teens or twenties and those who missed their chance or never had one when they left school. The new arrangements will need to include greater commitment from both employers and unions to accept ex-trainees into employment for which they have achieved agreed standards of performance.

38. What we ourselves do is much less important than what others do. Whilst much has been achieved by the education service, by both statutory and voluntary training bodies, by the professional standard-setting institutions and in individual sectors and firms, much remains to be done. We suggest it is right that employers and unions should accept with us the objective that by 1985 training should be to standards without regard to age and that this should be accepted and implemented in both national agreements and local practice by that date. To this end we shall look to Industry Training Boards and other sector training bodies to put forward during 1982 clear plans for progress towards training to standards and the removal of any unnecessary time-serving conditions. Our own support for industry's skill training efforts will be increasingly confined to training which matches the requirements we have specified. By 1985 we expect our financial support to be restricted to schemes of this kind. We shall monitor overall progress carefully, help where we can and aim to report progress annually. More immediately we shall want to be clear how any new funding mechanisms for training (see especially paragraph 42 below) applies to those undergoing an extended period of training, including apprenticeships.

Objective 2: Equipping All Young People for Work

39. For many people this was the objective to which most attention was paid. In our view, one of the most important outcomes of the consultations on "A New Training Initiative" is that for the first time there is agreement amongst employers, unions, the education and training services and other interests that all young people entering employment need good quality basic training as a foundation for work and for further training or retraining, and acknowledgement too that, for the majority of young people, those needs are not currently being met.

40. The Commission very much welcomes this agreement. We believe it to be an important milestone. We believe that as rapid steps as possible should be taken to establish vocational preparation arrangements covering all young people entering the labour market, and not just those without work. We are agreed that the process must begin at school, building on the considerable progress which has already been made. We agree also that for this objective in particular the benefits are widely distributed across the community, and that this must be recognised by some means of State support.

41. We propose as the next step to establish a high level task group to include the CBI, TUC, education interests and others to report by April 1982 on the following:

- i. guidelines for the structure, scope and content of a general scheme of vocational preparation for young people, and the scope within such a scheme for variations;
- ii. the allocation of costs between the employer and the State;
- iii. the timetable for introducing the scheme;
- iv. the nature and level of income of young people participating in the scheme recognising that the wages of employees will usually be determined by collective bargaining.

We hope that this will enable Government to support the implementation of such a comprehensive scheme as soon as possible thereafter, preferably during 1983.

42. There are two immediate major tasks. The first is to develop the Youth Opportunities Programme as soon as practicable into a programme

which, facilities and resources permitting, would provide up to a year of good quality training, for planned work experience combining work-related training and education for all young people not in full-time education or work. This would represent a massive undertaking for the education service and for statutory and voluntary training organisations, but above all for employers and for unions. It is not only massive in scale improving the quality of our offerings to unemployed young people will involve considerable development work and experimentation. We intend to press ahead with model schemes of higher quality training; to create as many "new style" opportunities, as quickly as possible, (our target is 100,000 places during 1982/3); to assist sponsors to convert as many as possible of existing YOP projects to meet the new standards; and to press on with key development work, for example on profiling and basic skills. Our aim is to make it possible for such a programme to be available for all unemployed school leavers no later than September 1983.

43. But we must encourage employers to expand provision for employed young people too. We therefore propose to increase our support for the training of young people in employment, in addition to the support we give specifically for those entering craft and technician occupations. So far the main means of encouraging more and better vocational preparation for such young employees has been the Unified Vocational Preparation programme, but there are other similar and often original developments by industrial firms and organisations and we wish to encourage them too. We propose therefore to expand our help for employers to provide training for young people in jobs between now and the development of a more comprehensive scheme and shall be making provision for that in the Corporate Plan.

44. In these ways YOP and UVP would both serve as major testing grounds for the comprehensive scheme for all young people envisaged as paragraph 42 above.

Objective 3: Widening Opportunities for Adults

45. We have already drawn attention to the widespread agreement on the need for employers to equip and re-equip adults in the course of their working lives if firms are to adjust to the changes they are now facing and will continue to face. In addition, some 7 to 8 million people change jobs each year. In 1980 at least 500,000 people lost jobs through redundancy. For the future, work by the Warwick University Manpower Research Group suggests that the sharp decline in manual jobs will continue. Many of those displaced can be expected to require some form of retraining. The growth of long-term unemployment represents a particularly acute waste of resources as well as a cause of personal deprivation. All these are people who will bear the brunt of the necessity for change, and our economic prospects will be threatened if we do not provide means for them to contribute to Britain's recovery to the maximum possible extent.

46. The achievement of the third NTI objective presents a great challenge for a number of reasons. First, adults have a wide range of diverse training needs which it is not easy to monitor and to which it is not easy to respond. Secondly, in meeting these needs heavy reliance must be placed on employers and unions in the local environment since it is at the level of individual company and establishment that training needs arise and can most effectively be assessed and met. Thirdly, there are complex institutional and pay structure problems to be overcome. Finally, though it seems right for the State to play a major role in this field, programmes of speculative training off the job, such as the Training Opportunities Scheme (TOPS) are bound to achieve low placement results as long as labour market conditions remain difficult.

47. In the medium and long term, the retraining of unemployed people can represent only one strand of policy. Employed individuals must also be able to improve their position by drawing on further training which is not necessarily available to them through their employers. A wide variety of opportunities for training exists through public and private educational institutions and we must capitalise on this as well as removing restrictions on occupational promotion and transfers.

48. We have already described in this agenda action which will directly benefit very large numbers of adults, particularly those in employment. If the action we proposed is carried out they will have access to more and better opportunities than ever before. Training to standards without regard to age (see objective 1) is especially beneficial and far reaching. And what we have said about resources is as relevant to this objective as to all others in the New Initiative (paragraphs 14, 15 and 17 to 19).

49. So far as the Commission's own programmes are concerned there is an immediate question of future provision under TOPS. Because of its concentration on intensive full time off-the-job training, with income support for trainees, TOPS is an expensive form of provision. It has concentrated on the middle range of craft and office occupations, where the mix of practical and theoretical skills enables them to be learned off-the-job, and the level is sufficiently high and general to enable them to be transferable from one job to another. These skills have, in general, been much less in demand during the current recession - with the consequences that the placing rate of TOPS trainees has fallen markedly, and the cost-effectiveness of TOPS training has correspondingly diminished. But the

demand for craft and office skills is likely to recover in the economic upturn - at which point the present severe cutback in training provision by employers may again cause skill bottlenecks in some areas and in certain occupations. It is against this background that the Commission has to make plans for the future.

50. The proper level of provision for the next two years depends partly on the prospects for some degree of recovery in employment (bearing in mind that a turn in the cycle can rapidly produce localised shortages in the skills produced by the TOPS scheme), and partly on the view taken of the need to continue with some kind of credible provision to meet the persistent and currently increasing demand from well-motivated unemployed people even in circumstances where subsequent placing prospects are not good.

51. A further issue is the question of the proper balance between the needs of young first entrants to industry; of those who may be rather older but who have still not settled down; and of mature adults whose employment experience both qualifies and entitles them to upgrading training where this is necessary to enable them to maintain their economic position - and who can often make the best and quickest use of any additional skills or knowledge they receive. In this agenda we have seen the provision of adequate initial training and work preparation for young people as the foundation for later progression. The present balance of our training programmes is governed by the pressing need to give priority to the young at a time of rising unemployment, though there is no certainty that, even with our proposed improvements they will find jobs unless there is a general recovery in employment. In the longer term we believe it would be wrong to neglect the claims of adults and those unemployed people in their early 20s who, in many other countries, receive an equivalent degree of attention.

52. This leads us to the view that, in the immediate future, the Training Opportunities Programme must be maintained at least at the levels currently planned, and that the present progressive shift of opportunities towards training for the skills in greatest demand in the labour market should continue. We believe also that the "Open Tech" approach to distance learning has great potential for widening access to training for adults, whether employed or unemployed.

53. Earlier this year (in May) we issued a consultative document on the idea of an "Open Tech". The replies we had convince us there is widespread support for such a programme. We therefore intend to make a start as soon as possible. We shall shortly establish a Steering Group for the programme, including representatives of key education, industry and training interests as well as of Government. We shall take the first steps towards setting up a central Open Tech Unit early in 1982. The primary task will be to start a range of projects designed to widen the application of distance learning techniques throughout industry and commerce, particularly in managerial and technical occupations. We intend that the first such projects should be started in 1982. We hope that by 1985 significant progress will have been made in developing training provision especially in new skills not currently well served by conventional training approaches, and in improving access to training and retraining particularly for employed adults.

54. There is a range of other potential new developments which could substantially assist employers and individuals in widening opportunities for adult learning. These include Channel 4, with its huge potential audience for vocational programmes; new approaches to access to information and advice to individuals made possible by the new technologies; and computer-based learning techniques. We are exploring these and will publish the results.

55. These developments, taken together with many others of which we are aware in further and adult education, place within reach the potential for

- i. increasing the quantity of training provision for all age groups;
- ii. providing opportunities which vary in style, level and length so that individuals and employers can select what is most appropriate to their needs;
- iii. improving access to training for both the employed and unemployed;
- iv. with the help of standards of performance devising ladders of progression so that firms can develop their manpower resources to the limits of their workers' capacity and their own needs;
- v. keeping access to training and retraining open throughout people's working lives.

56. Most of these developments are, however, very new. They have not been considered together nor has an overall strategy been agreed. It is important that we do this soon as this will be one of the major requirements for the 1980s and the opportunities are considerable, if we can seize them. We therefore plan to submit recommendations to the Government in the first half of 1982. Government decisions will then be reflected in the Commission's programmes and activities in subsequent years.

Other Action: Development Schemes

57. As we have already said, we see the three objectives of the New Initiative as three facets of an integrated training strategy. We have already had a number of approaches from employers, trade unions and others who have developed joint proposals for new types of training in line with

the Initiative which do not fit tidily or neatly into any of the proposals we have set out above. We wish to encourage promising schemes which serve all three objectives. We therefore intend that in addition to everything we have proposed above £6 million should be made available in 1982/3 and £10 million in 1983/4 for such development schemes in particular localities or sectors. These would enable approaches to the Initiative to be tested which could not otherwise be funded. We shall also use our existing budgets wherever possible for experimenting with new training programmes which meet the criteria and objectives of the Initiative.

Conclusion

58. The preceding paragraphs have set out a very full agenda for action. There is a great deal for employers, for unions, for the education and training services and for ourselves to be doing. We regard the agenda as a stepping stone along the way - a start. We shall review and report on progress regularly. Meantime, if the targets we set in this first agenda can be achieved, we shall be well on the way to a fundamental reform of training in this country and a widening of opportunities to very large numbers of people who do not have them now.

MANPOWER SERVICES COMMISSION

December 1981

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DRAFT WHITE PAPER

A NEW TRAINING INITIATIVE: AGENDA FOR ACTION

A NEW TRAINING INITIATIVE

1. Last May the Government endorsed the Manpower Services Commission's consultative document "A New Training Initiative". This set out three major national objectives for the future of industrial training:

- i to develop skill training including apprenticeship in such a way as to enable young people entering at different ages and with different educational attainments to acquire agreed standards of skill appropriate to the jobs available and to provide them with a basis for progress through further learning;
- ii to move towards a position where all young people under the age of 18 have the opportunity either of continuing in full time education or of entering a period of planned work experience combined with work-related training and education;
- iii to open widespread opportunities for adults, whether employed, or returning to work; to acquire, increase or update their skills and knowledge during the course of their working lives.

2. Annexed to this White Paper is the Commission's report on the response. There has been overwhelming support for these three objectives from employers, unions, educational and training bodies - all who have a part to play - and general agreement on the need for urgent action. The time has now come for the Government to give a lead. We therefore set out in this White Paper our decisions on immediate action and proposals for longer term.

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AGENDA FOR ACTION

3. The Government's ten-point agenda for action comprises:

- i a new £1 billion a year programme for young unemployed, offering from September 1983 a full year's foundation training for all those leaving school at the minimum age without jobs;
- ii increased incentives for employers to provide better training for young people in jobs;
- iii development of an "Open Tech" programme to make technical training more accessible to those who have the necessary ability;
- iv a task group to report by April 1982 on ways of developing the scheme of foundation training to cover employed as well as unemployed young people, within available resources;
- v setting a target date of 1985 for recognised standards for all the main craft, technical and professional skills to replace time-serving and age-restricted apprenticeships;
- vi better preparation for working life in the last years of compulsory schooling;
- vii more work-related courses for those staying on in full time education;
- viii closer co-ordination of training and vocational education provision nationally and at local level;
- ix a £16m fund for development schemes in particular localities or sectors;
- x examination of longer-term possibilities for more effective, rational and equitable sharing of the costs of training between trainees themselves, employers of trained people and the general taxpayer.

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4. This agenda is developed in greater detail under the following main headings:

- The need for action
- The transition from school to work
- A new training programme for young unemployed
- Training for craft, technical and professional skills
- Institutions
- Funding

THE NEED FOR ACTION

5. People create wealth. They create machines and equipment as tools of wealth creation. People are our pre-eminent resource and that is why they have to be given the best backing that the nation can afford. New technology offers us the chance to become more productive, and to create new and better jobs selling goods and services to the rest of the world. But we need a better educated, better trained and more adaptable workforce if we are to take that opportunity.

6. Our major competitors lay much greater emphasis on training young people than we do. In France 80%, and in Germany 90%, of young people reaching minimum school leaving age receive further education or training. In Britain in 1979 on the most favourable interpretation the figure was less than two-thirds, of whom most were receiving further general education rather than training.

7. In Britain the training provided is mainly apprenticeship in traditional craft skills, for many of which there is declining demand. Opportunities for day release to Colleges of Further Education are also limited and sometimes lack co-ordination between the college and where young people work. Full time college courses often seem financially unattractive to many young people compared with the immediate rewards of an unskilled job.

8. Training for adults is also inadequate. We have until now assumed that the training given in a person's first job is all he will need for the rest of his working life. Entry to some craft and other occupations is so restricted that there is little point in providing training for adults or for adults to seek it.

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9. Who has the responsibility to train? At the moment the position is muddled. Individual employers, local education authorities, joint negotiating bodies, the Manpower Services Commission and the Education Departments are all involved. The cost of training is basically a matter for the individual employer but a wide variety of grants, subsidies and courses is provided at the taxpayers' expense or from Industrial Training Board levies on particular industries.

10. We must have clearer goals, better means of delivery, a fairer allocation of financial responsibilities and, above all, a will to work together and to get on with it.

THE TRANSITION FROM SCHOOL TO WORK

11. To get a better trained and more flexible workforce we need to start with better preparation for working life in schools, and better opportunities for continuing education and personal development in the early years at work.

The years of compulsory education

12. The last two years of compulsory education are particularly important for forming an approach to the world of work. Every pupil needs to be helped to reach his or her full potential, not only for personal development but to prepare for the whole range of demands which employment will make. The Government is seeking better progress in getting the school curriculum to develop the personal skills and qualities as well as knowledge needed for working life; and to give studies a more practical emphasis. Better links between schools and employment can meet the urgent need to give pupils and teachers a closer understanding of the industrial, commercial and economic base of our society.

Staying in full-time education

13. Nearly one-third of young people between 16 and 19 are still at school or in other full-time education. The Government has made available for 1982-83 additional public expenditure resources, totalling £60 million, to enable more to do so. Larger sums have been included in our plans for later years, and their adequacy will be kept under review in relation to the number of young people choosing this option.

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14. Some employers are critical of the emphasis they see on academic distinction at the expense of practical abilities. Nevertheless good academic results are prized by many who recruit direct from school. They can earn entry to technical and professional courses with appropriate exemptions. They also constitute the principal route to degrees and full professional qualifications.

15. Increasing numbers of students are taking full-time vocational courses, combining the theory and practice of particular occupational skills with general education in subjects which have hitherto been studied mainly part-time.

16. There is also a need for vocationally-orientated courses of a more general kind. The Government intend to secure development of a new pre-vocational examination for young people aged 17+ in schools and colleges in England and Wales. This will be designed particularly for those with modest examination achievements at 16+ who are not looking towards higher education but are not yet ready for specific vocational education or training, perhaps because they have not yet formed a clear idea of the sort of work they might do. In Scotland there are proposals designed to meet the same need for a one year course leading to the award of a "Scottish Certificate in Vocational Studies".

The first year in employment

17. However well schools and colleges prepare young people for working life we must improve their training when they start work. Young people need to be equipped not merely to do the immediate task required by the job, but with a basic competence and flexibility which they can build on as they change jobs.

18. The best way of providing this training is through arrangements made by employers for their own young employees. Yet in 1979 nearly 40% of the 700,000 school-leavers who found jobs received no training at all. About another 20% were receiving training for only 8 weeks or less. Our efforts must therefore be directed ^{not only} to creating jobs for young people but also to ensuring they are properly trained for them.

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19. We announced last July the introduction from 4 January of the Young Workers' Scheme, which provides grants to employers who take on young people under 18 in the first year of employment earning less than £45 a week. That scheme is intended to encourage employers to take on more young people at wage levels they can afford, and could enable them to provide the training required.

20. To encourage proper training we are now expanding the scheme of grants to employers who co-operate in providing integrated training, further education and work experience (the Unified Vocational Preparation scheme) so as to cater for some 50,000 young people by 1984/85. We also intend to extend to the 1982/83 training year the higher level of support for wkill training - some 35,000 places - announced last July for the current year.

21. The Manpower Services Commission has now proposed to establish a high level working group, including representatives of industry and education, to report urgently on the possibilities of a wider and more general scheme of foundation training for all young people, whether employed or unemployed. Priority must be given to the young unemployed. Nonetheless we welcome this proposal and shall be fully prepared to consider re-allocating resources available for young people in any way which may contribute more effectively to their futures.

22. Meanwhile, we must continue to plan on the basis that over the next few years many young people may have difficulty in finding jobs on leaving school. So special provision will continue to be needed for them in order to achieve our major aim of reaching the position where all young people, on leaving school, either move on to further education, find a job or are given the chance of training or community service.

A NEW TRAINING PROGRAMME FOR YOUNG UNEMPLOYED

23. The young unemployed will remain a priority group in terms of new training arrangements. The Youth Opportunities Programme was introduced in 1978 especially to help the minority of young people who were unemployed and quite unprepared or ill equipped for working life by means of a relatively short period of work experience or work preparation. Since then it has become clear

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that we need a full scale training programme that provides for an increasing number and range of unemployed young people, and YOP has begun to develop in this direction. The Government now proposes to ask the MSC to introduce a new and better training programme to cover all unemployed minimum age school-leavers by September 1983.

Training content

24. The new programme will build on the experience gained from the Youth Opportunities Programme and the Unified Vocational Preparation programme. It will aim to equip unemployed young people to adapt successfully to the demands of employment; to have a fuller appreciation of the world of industry, business and technology in which they will be working; and to develop basic and recognised skills which employers will require in the future.

25. These aims require an effective integration of skills, knowledge and experience through planned and supervised work experience and properly designed opportunities for off-the-job training or further education. Young people have different abilities and learning aptitudes and local labour market needs also differ. Both will have to be taken into account in designing and operating the programme, but for young people with no experience of work a training programme of up to a year will generally be needed.

26. There will be five main elements:

Induction and assessment. Individuals will receive a proper induction to the programme and to each element of it. Their skills and attainments will be assessed. This may include opportunities to sample different skills or jobs in order to establish aptitudes.

Basic skills. The programme will aim to ensure that basic skills like numeracy and literacy have been acquired; to develop some practical competence in the use of tools and machinery and in some basic office operations; and to foster skills in communication (in interview for example).

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Occupationally relevant education and training. This will provide opportunity for personal development and use of the basic skills in a variety of working contexts, adapted to the needs of the local labour market. It will be integrated with planned work experience, with young people being given a minimum of three months off-the-job training or relevant further education. Arrangements will be flexible, so that the training can be given in the form of day or block release and can take place in a company training school or at a college.

Guidance and Counselling. Young people will receive advice and support throughout the programme under arrangements agreed with their sponsors.

Record and Review of Progress. Each young person's progress will be recorded, reviewed and assessed as he or she goes through the programme. A document of progress will be given to the young person on leaving the programme and will record standards achieved in a way which is recognisable both to the young person and to potential employers.

27. A programme of this quality and scale will require the whole-hearted co-operation of many sections of the community - employers, trade unions, local authorities, local education authorities, voluntary bodies and not least the trainees themselves. Its success will depend on engaging the assistance of all these interests at the local as well as national level. The Government are therefore asking the MSC to organise the delivery of the programme in such a way as to provide for full local involvement.

28. Large numbers of sponsors will be needed for the different elements within the programme, which must be carried out within industry and commerce if it is to be fully effective. So the full cooperation of employers is vital. Provision will be made within the programme towards assisting sponsors with their overhead costs and they will be able to contribute to the local input to the design of the training programme.

29. Colleges of further education and their maintaining Local Education Authorities will have an important role in the new programme. It will mean for them a major expansion in provision for this age group, the equivalent of perhaps 80,000 full time places a year. They will also be asked increasingly

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to relate what is taught to what the young trainees will be doing at the work place and to arrange courses flexibly through the year.

30. The Careers Service in recent years has had to switch resources from its more traditional roles to help a large number of unemployed young people. It has been very substantially aided in this work by direct Government funding of nearly 1100 additional posts for this purpose. It will now have to meet a new challenge, especially in counselling the trainees who are on the new programme for a year, and in working with people employed on the programme, whether in colleges or in schemes, to see that all young people receive necessary advice and support.

Coverage

31 Under the new training programme, the Government intends to guarantee an early offer of training to all minimum age school leavers who are unemployed during their first year after leaving school. Unemployed school-leavers will be offered a full year's training course; those who become unemployed after some experience of work will be offered shorter courses which may average 6 months.

32. Other young people under 18 who leave school or further education after the minimum age and cannot find a job and others under 18 who have had a job but become unemployed within 12 months of leaving school will be eligible for places. The resources made available for the programme are intended to be sufficient to provide enough places for these two categories on the same basis as for minimum age leavers, ie unemployed school-leavers will be offered a full year's training, and other young people who have had some experience of work will be offered shorter courses. There will not, however, at this stage be an absolute guarantee of such places. Within the resources available it seems right to accord priority to minimum age school leavers who find themselves unemployed during their first year after leaving school.

33. Community Industry at present provides disadvantaged 16 to 18 year olds with temporary employment lasting up to a year. The Government recently welcomed a report which examined the role and objectives of this programme and concluded that it should in future make greater provision for 18 year olds.

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Community Industry will need to consider carefully where its contribution can best be made in a way that is consistent with the new arrangements. One way forward would be for it, while continuing as a temporary employment programme offering additional help to disadvantaged young people, to provide exclusively for young people - mainly for those aged 17 and 18 - who are outside the target group of the new arrangements.

Training allowances and benefit arrangements

34. The new programme is first and last a training programme. This is reflected in its structure, its delivery and the terms and conditions for the young trainees. The young people catered for by the programme will benefit from having a wider range of skills and experience. As trainees, it seems right that they should receive allowances that reflect their learning role. That is how they will make their contribution to the cost of a foundation training which improves their prospects of employment.

35. The level of the training allowance will reflect not only the benefit of training, but also a change in the provision of supplementary benefit to young people. The provision of guaranteed training places on the new programme for those who leave school at the minimum age and cannot find jobs brings them into a situation akin to those who go on at that age to further education. For the latter it is accepted that they should continue to be dependent on their parents and that they should not have access to supplementary benefit in their own right. The same will apply to unemployed minimum aged school leavers from the time in 1983 when they are guaranteed a place on this new programme. Legislation will be introduced accordingly. They will then, in general, cease to be eligible for supplementary benefit in their own right until 1 September in the year after that in which they leave school. For example, those who leave school at the minimum age in the summer of 1983 will not become eligible for benefit in their own right until 1 September 1984. Scottish leavers at Christmas 1983 will become eligible on 1 September 1984.

36. So, from the date when the new training programme is fully introduced in 1983, parents will be expected to provide any necessary financial support to these trainees and child benefit will continue to be paid to parents so long as the young person is neither in work nor on the training programme. In

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addition, parents' entitlement to benefit will take account of their responsibility for young people who will no longer be receiving benefit in their own right.

37. The benefit needs of special groups among young people will continue to be met. The intention will be to follow broadly the categories at present allowed to claim supplementary benefit while still at school, and the new arrangements will not affect existing provision such as mobility allowances and non-contributory invalidity pension. All handicapped young people who are within the coverage of the new training programme and who are able to benefit from participation in it will be encouraged and enabled to take part.

38. Under these new arrangements the training allowance for those who leave school at the minimum age will be set at a level intended mainly to cover travel and other expenses, probably around £16 a week when the new programme is fully introduced in 1983. Those young people who join (or are on) the programme after 1 September in the year following their minimum school leaving age will be paid a higher training allowance which might be around £25 a week when the programme is fully operational in 1983 as, when unemployed, they will be eligible for supplementary benefit. Those who unreasonably refuse a suitable training place would, like adults who unreasonably refuse training offers, have their benefit reduced for 6 weeks.

Progress towards the programme

39. The present youth opportunities programme is already evolving in the direction now planned and will continue to do so in 1982-83. The Government is asking the Manpower Services Commission to develop the Youth Opportunities Programme so as to provide around 100,000 of the new 12 month training places in that year and to be in a position to provide such places for all school leaver entrants after Easter 1983. The new training programme will then replace YOP. Meanwhile, the Government will continue the YOP allowance on its present basis, raising it to £25 a week from January 1982 to maintain a differential above Supplementary Benefit.

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Future development

40. To provide places for 300,000 young people throughout the year, which may be necessary in 1983-84 and 1984-85, is expected to cost around £1 billion in a full year. That is a cost of nearly £70 a week for each trainee. This compares with an estimated cost for YOP in the current financial year of £400m. This immense increase in the resources deployed towards training unemployed young people is some measure of the importance that the Government attaches to replacing the existing programmes by a comprehensive and well founded training programme.

41 Our ultimate objective must of course be to provide proper training on a comprehensive basis, not only for the unemployed but for all young people in employment too; and to do so in a way which gets many more of the young unemployed into jobs with proper training. The study to be undertaken by the Manpower Services Commission working group (referred to in paragraph 21 above) will be particularly helpful in identifying any fresh ways in which to move towards this objective. It is imperative that the scheme outlined above for unemployed young people should go ahead quickly in order to give them a far better start to working life. But the Government is very willing to consider and develop schemes to help more unemployed young people into jobs with proper training and would be prepared to transfer resources proportionately from the above scheme to such other schemes if they can be developed.

TRAINING FOR CRAFT, TECHNICAL AND PROFESSIONAL SKILLS

42. Better vocational preparation in school and in the first year of working life will lay the foundation for a more flexible work force. But urgent reform is also needed of the arrangements for training in craft, technical and professional skills, both of young people and of adults. We must also remove obstacles to the full and efficient use of the skills acquired.

43. No one can predict the precise composition of the skilled labour force which will be needed over the coming years. What is clear is that we will require a higher proportion of people able to handle jobs at technician level and above and that there will be fewer opportunities at semi-skilled level and below. Technological and market changes will impose major demands on firms and individuals, and not least on managers in industry and commerce.

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44. Uncertainty puts a premium on flexibility and mobility within the workforce. The key to this should be a training system embodying a wide range of recognised standards of achievement. Access to skilled work, or training to higher levels, should depend not on the form and structure of previous training but on proven ability.

Standards

45. We already have a number of institutions with considerable experience in defining and testing standards of individual competence in theoretical or practical skills. These include the City and Guilds of London Institute, the Royal Society of Arts, the Councils of Technician Education and Business Education and their Scottish counterparts, the new Engineering Council, some employer organisations and research associations, voluntary training bodies and Industrial Training Boards.

46. Standards of competence have, however, been seen as optional rather than basic equipment. We therefore endorse the commitment by the Manpower Services Commission to 1985 as the date by which relevant standards of competence, with associated courses and certificates, should be available for all significant skilled occupations. We know that many of those engaged in collective bargaining, nationally and locally, want to replace agreements based on time-serving and age restrictions with arrangements based on such standards. We urge them to do so as soon as possible, and by 1985 at the latest.

47. The Government will make financial support for skill training in industry at the enhanced levels referred to in paragraph 20 above increasingly conditional upon steps towards implementation of these necessary reforms.

Adults

48. The skill shortages which have held back our economic progress in the past could reappear when the economy recovers. They cannot be met solely by training the new intake of young people but will require considerable readaptation of the existing labour force. Skill needs will continue to change and require updating. Wider opportunities for training and retraining of people in their twenties, thirties and later in life are bound to be required in the future.

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49. This is primarily a matter for industry. It will, however, in some cases require quite new arrangements and facilities. The Government therefore intends that the resources of the Training Opportunities Programme, currently running at some £250 million a year, should increasingly be directed to encouraging the necessary provision in industry.

Open Tech

50. There are gaps in the availability of training facilities to firms and to individuals seeking training, particularly at technician level. These might be filled by making existing facilities and new courses more accessible through the use of "open learning" and "distance learning" methods, and exploiting the potential of new information technology. The Government is therefore providing resources for an "Open Tech" programme. This is being organised by a Manpower Services Commission Steering Group representing industry, education and training interests. Participants will typically use a range of printed and audio-visual learning materials, work independently, either in college or at home, but with access to tutorial and practical help and facilities. The first project will start in 1982.

INSTITUTIONS

51. The Manpower Services Commission, which includes representatives of employers, unions and local authorities, is (and will remain) the main agency through which the Government initiates action and monitors progress over the whole field of industrial training. The concerns of training and education policy are, increasingly, closely linked. The Government will ensure that the education Departments and other education interests are fully involved in the development of training programmes and that there is effective consultation when new training and educational initiatives are devised. There will be appropriate arrangements for Scotland and Wales.

52. The Government will rely to the fullest possible extent on the voluntary arrangements already existing or being developed in particular industries, and on the statutory Industrial Training Boards which are being retained. In all sectors the Government looks to those concerned to play their part in pressing forward the plans set out in this White Paper in the fullest co-operation with

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Commission. This will mean devising syllabuses and standards of training at all levels to meet the specific needs of their sectors, providing advisory services to individual firms, encouraging the formation of group training schemes where appropriate and providing centralised training facilities where necessary. Industry bodies will also have an important role in encouraging the modernisation and revision through the appropriate negotiating machinery of out-dated agreements and practices which at present impede progress.

53. Success or failure ultimately depends on what happens locally. Many have called for local arrangements to bring industry more closely in touch with the education and training services to identify and meet local training needs. There have been several interesting local initiatives of this kind, as well as the establishment by the Manpower Service Commission of representative Area Boards to oversee local implementation of its special programmes including the YOP. The Government is therefore asking the Commission to encourage the development of suitable local arrangements and to play its full part in them. A first priority will be to ensure that there is effective machinery involving local industry and education interests in the delivery of the new training programme for unemployed young people.

54. There have already been interesting proposals for joint initiatives for new types of training scheme coming forward from employers, unions and others in particular localities or sectors. The Government will be making available to the Commission additional funds of £6m in 1982/83 and £10m in 1983/84 for the assistance of such developments.

FUNDING

55. On a broad estimate the UK has in recent years invested some 2.5% of GDP in vocational education and training. Roughly half was direct expenditure by firms, the biggest single item being trainees' wages. Most of the rest was expenditure by local education authorities, channelled through the Exchequer or the local rating system, the main items being teachers' and instructors' salaries, buildings and equipment. Manpower Services Commission programmes are a smaller but increasing element.

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56. In the current recessions individual firms have cut back on their contribution. In particular the number of apprentices and other long-term trainees taken on by firms fell from around 100,000 a year in the late 1970s to 90,000 in 1980/81 with another sharp fall expected in the current year, despite larger numbers in the relevant age groups.

57. In these circumstances the Government has stepped up the contribution channelled through public funds. Substantial additional sums have already been allocated to increase the numbers continuing in full time education, support apprentice training, vocational preparation schemes, and especially, the YOP. When the proposals in this White Paper are fully implemented in 1984/85 public expenditure on Manpower Services Commission training programmes alone will exceed £1.5 billion, including more than £1 billion for the young unemployed, some £280 million for the Training Opportunities Scheme and £100 million for apprentices and vocational preparation for those in jobs. In addition, some £4 billion will be spent on post-16 year olds through the education system, including about £1 billion on non-advanced further education, a considerable proportion of which will be of a vocational nature.

58. For the immediate future the Government sees an increase of public expenditure on this scale as the only way of plugging the gap in training provision required if we are to be ready to meet the skill needs of the economy as trading conditions improve and to offer adequate opportunities to the current generation of young people. It is applying these extra resources to help secure longer term reforms in the quality of training and bring about a change in the attitudes of young people to the value of training and acceptance of relatively lower wages for trainees.

59. Nevertheless this does nothing to alter fundamentally the present somewhat haphazard and often illogical apportioning of costs between the public and private sectors, and between individual undertakings. In occupations as diverse as medicine and hairdressing virtually the whole cost is borne by the tax and rate payer (with some contribution by the trainee). In others,

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particularly the heavier manual skills, virtually the whole cost is borne by the individual firm. Yet the individual firm has absolutely no guarantee of a return on this investment since, with the breakdown of former systems of indentures, the trainee is under no legal obligation to stay once his training is complete. Attempts to even out costs between employers in particular industries through the ITB levy/grant system foundered under the weight of bureaucracy involved and its inability to deal with the problem in respect of cross-sector skills where much of the difficulty lies.

60. In the longer term the financial responsibility for training must lie mainly with employers, as it does in most other major industrial countries. It is only in this way that we can ensure that training meets industry's real needs. There is however some danger that individual firms may become more and more reluctant to spend money for uncertain return, and a higher and higher proportion of funding will be sought from the public sector. This would be undesirable in principle and inefficient in practice.

61. What would be needed is a mechanism that would not only reflect the national interest in securing an adequate supply of trained manpower but would influence employers' calculations about the relative costs and returns of investing in training. Expenditure on training is currently allowable against Corporation Tax but some financial inducement of wider application would be required.

62. A remissible tax on the lines of the French system has been suggested as one possibility or, if this were too cumbersome, a system of training grants to firms financed out of general taxation. Either would, however, involve some measure of bureaucratic intervention. Yet the alternative of providing more training through the public sector, as is done for education, seems even more objectionable. There are many issues here, which will need to be examined. The Manpower Services Commission have proposed to establish, in co-operation with the Government, a general study of the funding of industrial training as a whole. The Government will give further consideration to the matter in the light of that study.

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CONCLUSION

63. For many years now our system of training has failed to produce the numbers of skilled people required by a modern competitive economy. This paper sets out a framework within which employers, employees, unions, educationists and Government can more clearly see what they need to do for the system to work. Not all the questions are resolved and the Government is setting further work in hand. But lines of needed advance are clear and the Government invites everyone concerned to play their part.



JP (2)

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Switchboard 01-213 3000

Prime Minister

MUS 22/12

The Rt Hon David Howell MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

✓cc AD

4 December 1981

D. David.

Thank you for your letter of 24 November about the Job Release Scheme.

You will, I trust, by now have received my reply to Janet Young's letter of 10 November. I hope you will find this gives an adequate account of my reasons for wishing to withdraw the Civil Service modified undertaking.

I am bound to add that I am very concerned that the Department of Transport should be considering using the Job Release Scheme to "mop up" some of your surplus staff. For if staff are surplus, it is difficult to see how there could be an additional vacancy created by their departure on Job Release. My Department has been concerned, for some time, that some Government Departments were regarding the replacement condition as satisfied provided that there were at least as many recruits taken on as there were applicants for Job Release. As you know, this is not sufficient. We must insist that each job release application is accompanied by an additional consequential and related vacancy.

I can understand that the withdrawal of the modified undertaking would make it very difficult for your Department to participate in the Scheme, but my intention is not to exclude Civil Servants if they can satisfy the general rules of the Scheme. Frankly, I am surprised that there has not been a major row over the way in which the rules of JRS have been bent for the Civil Service to the disadvantage of the private sector.



On the other hand the savings from the withdrawal of the modified rule are, as I have said in my original letter to Janet Young, essential if we are to have a new comprehensive training scheme for the young unemployed.

J. [unclear]
Norris

Manpower (2)*Prime Minister**ms 4/12*

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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MO 2/2/6

3rd December 1981

*[Handwritten mark]**Dear boman*JOB RELEASE SCHEME (JRS)

I have seen your letter of 24th November to Janet Young which clarified intentions for the future application of the JRS in the public service. I understand your desire to ensure that funds for such schemes are spent in the most effective way but my view remains that the current modifications to the Scheme for the Civil Service are essential.

Most MOD civilian staff participating in the JRS are Industrials or non-mobile non-Industrials in the lower paid ranks. In these cases there is usually a direct and demonstrable link between the JRS vacancy and the person taken on in consequence, (although we often cannot, as you know, undertake to recruit exclusively from among the registered unemployed). Many of these lower paid staff going out under the JRS thus still qualify for unemployment benefit should they leave before age 65, other than the Scheme, because their Civil Service pensions are below the statutory minimum. To exclude them from the Scheme would not assist your aim of reducing the numbers of registered unemployed.

The Rt Hon Norman Tebbit MP



The general provisions of the Scheme permit the engagement of a person under notice of redundancy to fill a vacancy. I continue to believe that it would be cost effective to extend that provision to encompass people who would become redundant if they do not pick up a vacancy created by the JRS. This is the case in respect of substantial staff surpluses arising from Defence and other reviews and particularly so as regards our trained apprentices. On this aspect, I mentioned in my previous letter that almost 500 apprentices who completed their training with us this year were surplus to our planned requirements. The release of older craftsmen on JRS terms is proving to be a most useful means of reducing this waste of trained young people. I hope that it will be possible to continue to use the valued facility as there are certain to be large surpluses of youngsters coming out of their apprenticeships in the next two years.

I am copying this letter to the Prime Minister, Members of E Committee and Sir Robert Armstrong.

Yours ever
John

John Nott

[Faint, illegible red markings]

F14 DEC 1961

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8 9 6 5

[Faint, illegible red markings]

Prime Minister

2

rus 4/12
2 MARSHAM STREET
LONDON SW1P 3EB



My ref: H/PSO/19060/81

Your ref:

F 2 DEC 81

JOB RELEASE SCHEME

Janet Young sent me a copy of her letter of 10 November urging a reconsideration of your proposal to withdraw the concession which allows the Civil Service and some other public sector employers to replace people released under the Job Release Scheme (JRS) by recruitment from sources other than the unemployment register.

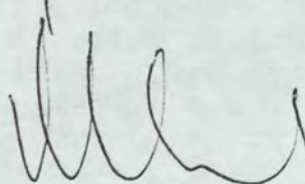
Frankly, so far as the management of DOE is concerned, JRS is of very limited usefulness. We have been able to allow only a handful of releases over the past 2 years and I can offer very little encouragement for Janet's hope that we shall be able to make greater use of it in the future. The problem for DOE, and no doubt for others too, is that we are committed to make substantial manpower savings. I am determined that redundancies here shall be kept to an absolute minimum and I must rely on retirement and other forms of natural wastage to achieve most of my savings. In this respect JRS is not helpful because, although it encourages some over 60s to retire early, we have, even with the present concession, to replace them by a younger person and the effect of that is to slow down the rate of natural wastage. In order to meet my manpower target for 1.4.82, I have had to impose a strict regime of recruiting no more than 1 replacement for every 3 people who leave (by whatever means) and the signs are that the regime will have to be made even stricter if I am to achieve my targets for 1983 and 1984. In this climate, there is not much scope for JRS, and I am personally having to examine every application recommended for support by my Department to ensure that the consequential recruitment which it entails would not jeopardise my capacity to make manpower savings or to reallocate surplus staff. So far as Janet's proposal is concerned, therefore, I would be far more interested in a scheme which would allow the over 60s to retire early without any obligation to replace them. But that is another issue on which I am already in correspondence with her.

My responsibility for other parts of the public sector is mainly confined to local government and the water industry. Although I understand that they are currently allowed some degree of latitude in the way they replace released employees, the operation of JRS is very much a matter for each individual authority and I could not, without launching a major exercise, say to what extent it is used or what the implications of withdrawing the concession might be for them.

For the Department itself, the implications of your proposal might be to lessen even further the extent to which we are able to participate in the Scheme. Given that as yet we have confined our use of JRS primarily to staff in non-mobile grades, the concession does at least enable us to release an older officer from one part of the department, where he might otherwise be made surplus, and to place the consequential recruit in another area where we have an urgent vacancy. Any restriction on this flexibility would present us with considerable problems. Furthermore, DOE (which includes the PSA) employs a wide range of specialist staff in the PTO and scientific grades. Some of those will become eligible for JRS when the age of eligibility for able-bodied men is reduced to 62 next February and I do not think we could expect to be able to replace, for example, a radioactive waste specialist from the ranks of the unemployed. Therefore, unless some concession could continue to be available at least on the replacement of released specialists, we should have to deny them access to the scheme and that would be strongly opposed by our unions.

On the whole I should prefer the concession to be retained. But my department's continued participation in JRS over the next two years must, in any event, be in some doubt.

I am copying this letter to Janet Young and to those who received copies of hers.

Yours ever


MICHAEL HESELTINE

Prime Minister

(2)

Ms 4/12



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Baroness Young
Chancellor of the Duchy of
Lancaster
70 Whitehall
London SW1A 2AS

27 November 1981

2 Jan,

W

Thank you for sending me a copy of your letter of 20 November to Norman Tebbit on the Job Release Scheme. I have also seen John Nott's letter of 12 November, Norman Fowler's of 24 November and Norman Tebbit's reply to you of 26 November.

I very much agree with the view which Norman Tebbit has taken. I do not think that we can continue to justify concessions under the JRS for civil servants at a time of severe financial stringency. Norman is, after all, proposing no more than that the normal rules should apply.

The potential savings from withdrawing the JRS concession are substantial and a necessary offset to the extra expenditure on special employment and training measures which we announced last July and the further provision which we agreed at E on 2 November.

I therefore hope that you will now be able to agree to the proposal. This would avoid the potential need to re-open discussions on the whole of the Employment programme at the eleventh hour. This would otherwise, I am afraid, be inevitable and the consequences generally would be serious and unfortunate.

I am copying this to the Prime Minister, Members of E Committee and Sir Robert Armstrong.

Leon

LEON BRITTAN

CONFIDENTIAL

cc A. Duquid
A. Walters

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

4

Prime Minister

MUS 24/11

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1

24 November 1981

Dear Norman

ms

JOB RELEASE SCHEME

Janet Young sent me a copy of her letter of 10 November about the Job Release Scheme (JRS) and your proposal to withdraw the concession which allows government departments and some other public sector employers to replace released people by open competition instead of from the unemployment register.

My Department makes only a modest use of JRS (71 releases over the past two years) and, although I do not have ready access to precise figures, I suspect that much the same can be said of British Rail and other public sector transport employers. Nevertheless, your proposal could, if implemented, present us with some practical problems which might make it hard for us to continue to participate in the scheme.

DTP has a wide geographical spread. In order to achieve manpower savings, we are withdrawing many of our local services, with the result that there are isolated parcels of surplus staff who have to be redeployed elsewhere in the Department. We have been glad to make use of JRS to help mop up some of that surplus

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but, for obvious reasons, we quite often need to place the consequential recruit in a different part of the Department from the post vacated by the released officer. Any measure which might restrict this flexibility would make life very difficult for us indeed. We also employ a wide range of specialist staff (engineers, scientists, driving examiners etc.) for whom replacements could not, necessarily, be found from the unemployment register. Unless some concession could be available for the replacement of specialist staff by open competition, we should have to deny them access to the scheme altogether and that would undoubtedly provoke adverse reactions from the unions.

I hope therefore, that the concession may be continued. I ought to add, however, that, even in this event, the effect of the consequential recruitment requirement on my ability to make manpower savings may anyway be such that I shall have to restrict the use of JRs quite severely in my Department over the next two years.

I am copying this letter to the Prime Minister and others who received copies of Janet Young's.

Yours
David

DAVID HOWELL

CONFIDENTIAL

11 12 1
2 3 4 5 6 7 8 9 10
2F



Prime Minister

2

Ms 27/11

Caxton House Tothill Street London SW1H 9NAF

Telephone Direct Line 01-213 6400
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The Baroness Young
 Chancellor of the Duchy of
 Lancaster
 Civil Service Department
 Whitehall
 LONDON SW1

24 November 1981

ms

R. Janet,

JOB RELEASE SCHEME (JRS)

Thank you for your letter of 10 November. I have also seen John Nott's letter of 12 November.

I think there may be some misunderstanding since I am merely proposing that the public service should be bound by the normal rules of the Scheme. The aim of the JRS Scheme is to reduce the numbers of registered unemployed and my proposal to withdraw the modified employer's undertaking for JRS is designed to increase its effectiveness for that purpose. The change must primarily affect civil servants, since it was for the Civil Service that the modification was originally devised so that at present replacements in the Civil Service do not have to come from the unemployed. However, the modification can be used by some other parts of the public service and I do, of course, propose to withdraw it from them as well.

We have never kept records of the number of civil servants joining the Scheme, although a recent survey carried out as part of a wider research project into the Scheme suggested that 38% of all applicants were in the public services. However, this is less relevant than the fact that, in future, the Scheme is likely to become more attractive to civil servants and, for reasons which I go into below, applications from them will be less effective in reducing the register. A recent quick survey of applications received showed that 28% used the modified undertaking (all of whom were in fact civil servants) and this is the basis of our estimate of the savings that will result from the withdrawal of the concession.



You will recall that our agreement in E Committee to my proposals for special employment measures for next year and beyond, including the comprehensive training scheme for the young, was conditional on the savings being realised. There is simply no prospect of my finding comparable savings elsewhere.

A recent survey has demonstrated that the public services are least effective in reducing the register, and the modified undertaking is an obvious cause of this. Our aim in running the Scheme is to ensure that one person is taken off the unemployment register to replace each person joining the Scheme; only in this way do we achieve both the savings in benefit which reduce the net cost of the Scheme, and the reduction in the unemployment statistics. Indeed we have been looking for ways to tighten up our procedures to enforce this replacement condition. We are prepared to accept indirect as well as direct replacements, but our leaflet states that there must be a clear and demonstrable link between the job vacated and the vacancy to which the unemployed person is recruited. Our evidence shows that this is not being satisfactorily achieved in the public sector.

In the case of the Civil Service, our efforts to reduce the number of over 60s will mean that many of those who would apply for the expanded Scheme would have retired anyway. Worse still, there are increasing fears amongst Departments that civil servants who would have retired at 60 and 61 will be encouraged actually to defer their retirement in order to qualify at 62. Thus the Scheme will be having the opposite effect to that which is intended.

I am, of course, sympathetic to your desire to ensure that older civil servants should be encouraged to make way for the young unemployed. But, for reasons I have explained, the new expanded Job Release Scheme is not really appropriate for the Civil Service. If you feel an early retirement scheme for civil servants is necessary, it may be that your Department should consider a special scheme. Since it would be designed specifically to meet your objectives, it could avoid the difficulties outlined above and, therefore, be cheaper than Job Release and would meet the industrial relations difficulties to which John Nott refers. I am afraid that I could not offer to meet the cost.

Since I am anxious to make an announcement on the special measures package for next year and beyond very soon now, I hope we can agree that the savings I have identified could be made by withdrawing the modified undertaking and increasing the cost-effectiveness of the Scheme.

I am copying this to the Prime Minister, members of E Committee and Sir Robert Armstrong.

24 NOV 1981



Prime Minister

24 November 1981

✓ P.A.

Agree to X below?

Policy Unit

Done MHS

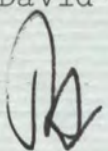
PRIME MINISTER

MHS 24/11

Norman Tebbit is
speeding to lose position
& Norman Fowler's delay should
(Tuesday).
little to
know the
result
of
that meeting
not

BENEFITS FOR 16-YEAR OLDS

1. We understand Norman Tebbit spoke to you briefly today about his concern that the MISC 62 decision to end SB for 16-year olds ten months before the new Youth Training Scheme starts up will torpedo our policies on youth unemployment/training. (He wrote to Leon Brittan on 23 November.)
2. We think Norman Tebbit is right - and we should therefore ignore Leon Brittan's notion that the YOP allowance should also be cut earlier. If we are going to sell the comprehensive Youth Training Scheme with a much reduced allowance (only £12.75) and successfully remove the entitlement of 16-year olds to SB, we need to make these changes at the same time. Criticism and non-cooperation from young people, unions and employers may be so loud and effective that YOP places dry up during the last ten months, and the new training scheme never gets off the ground.
3. It is crucially important electorally that the new regime should be anticipated favourably, and should be seen to be operating effectively in its first six months. Its success could have a major impact on the unemployment figures during the winter of 1983/4.
4. We are in any case already concerned that the Youth Training Scheme will be unable to do all we are asking of it. We think it would be wiser to operate an expanded Walters scheme alongside it. The combined coverage and cost of the schemes could be unchanged. It is still possible to leave room for this outcome in the forthcoming White Paper on Youth Training and we will comment further when the draft is circulated.
5. The immediate issue is whether the Treasury proposal to withdraw SB sooner should go to Cabinet. We think you should act now to stop it, asking Norman Tebbit to find other savings if he can.
6. David's note below provides further important reasons for this.


JOHN HOSKYNs

10 DOWNING STREET

24th November, 1981

PRIME MINISTER

It would appear that MISC 62 made a mistake, an understandable mistake bearing in mind that there was no representative of the Department of Employment present at the meeting. (It is less understandable that there was no representative, in view of the impact on employment and training programmes of any decision on SB).

If you agree that the decision must be reversed, it is very important that it is reversed before Cabinet. Should the matter be discussed at Cabinet and the decision changed, probably after a forceful interjection from Prior, you will achieve the worst of all worlds. Leaks to the effect that you wished to cut off SB before alternative training was in place but that you were overruled. Since you were on MISC 62 (I believe) it will be difficult for you to make clear at Cabinet that you have changed your mind, so even if you say nothing you will appear to be conceding to the weight of opinion, and the leaks will be very damaging to you personally.

If you wish to press this through Cabinet against the advice of Norman Tebbit you might consider whether it would carry through Parliament. M.P's in constituencies with high unemployment might find this measure very unpalatable until a full years training alternative was firmly in place.

D.W.



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GTN 213

Rt Hon Leon Brittan QC MP
 Chief Secretary
 Treasury
 Great George Street
 London SW1

23 November 1981

*D. Leon.*YOP ALLOWANCE FOR 16 YEAR OLDS *with note (sup)*

Thank you for your letter of 16 November.

I am surprised by the MISC 62 decision. The arrangements approved by E assumed that SB would be removed from 16 year olds at the same time as the comprehensive training scheme was introduced, with the benefits of that training being adduced as a trade off for the loss of SB. Jim Prior gave the House the clear impression that we would not withdraw SB before that position was reached, both when he appeared before the Select Committee on Employment on 20 May and in debate on 24 June. He wrote as much to the Director of Youthaid in July.

To withdraw SB from 16 year olds next year before we can offer all of them places under the new training scheme would therefore be a marked change in the Government's position. It would certainly alter the public perception of our motivation in withdrawing SB. It is bound, despite the strength of our case, to be received with hostility by many of those on whom we depend for delivery of YOP and our new scheme - not just unions, but the careers service, those involved in further education, the voluntary organisations and young people themselves. Of course we risk an adverse reaction to the arrangements agreed by E, but they make a much more defensible combination. Implementing the SB decision a year earlier and carrying through the contentious legislation in the next few months rather than a year later would create a particularly unfavourable atmosphere in which to try to achieve our youth training objectives.



When you last made this proposal you will recall that I told E that to attempt to remove the SB entitlement and introduce the new low allowance for 16 year olds before we launch the new scheme in the Autumn of 1983 would be fatal. Not only would we find ourselves unable to build up to the new comprehensive scheme in time, we would risk YOP beginning to collapse on us next year through withdrawal of support. Loss of support for YOP places in industry would mean, of course, that, in order to try to maintain the guarantees, we should have to expand the more expensive forms of YOP provision such as training workshops and community service. So we could well end up worse off on the expenditure side rather than produce savings.

It is essential that colleagues should be aware of these wider implications of withdrawing SB from 16 year olds in 1982. In my view, we should stick to the E decision - with the SB change and the training scheme coming in together in 1983.

I am copying this letter to the recipients of yours.

J Norman

23 NOV 1987



Manpower

AA (4)



Prime Minister

MUS 17/11

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Education
and Science
Elizabeth House
York Road
London SW1 7PH

16 November 1981

E. Kiaz

MR

REVIEW GROUP ON THE YOUTH SERVICE *amples*

Thank you for your letter of 31 October.

I agree that when this group was set up our clear intention was that it should produce realistic recommendations. I hope very much that this will prove to be the case but you will understand my concern at the steady flow of press articles ... like the one enclosed which must be building up rather different expectations.

I am copying this letter, without the enclosure, to the Prime Minister, the Secretary of State for Employment, Social Services, Home Affairs, Scotland and Wales and to Sir Robert Armstrong.

Leon

LEON BRITTAN

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17 NOV 1981

Prime Minister

MCS 12/11



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Tebbit MP
 Secretary of State
 Department of Employment
 Caxton House
 Tothill Street
 London SW1

16 November 1981

YOP ALLOWANCE FOR 16 YEAR OLDS

I have agreed with Norman Fowler that entitlement to supplementary benefit (SB) should be withdrawn from 16 year olds from November 1982. MISC 62 has endorsed this agreement.

It seems to me that this decision has implications for the level of allowances under the Youth Opportunities Programme. We agreed and E Committee accepted, that allowances for 16 year olds under the proposed comprehensive training scheme, to be introduced from September 1983, should be set at a rate of, in current terms, £12.75 a week. This was on the basis that the entitlement of 16 year olds to SB would be withdrawn at the same time.

I am naturally extremely reluctant to raise again any part of the most comprehensive agreement we were able to arrive at. But the development mentioned in the first paragraph of this letter does seem to be a significant new factor. Now that SB is to be withdrawn from a date well before September 1983, it does seem to me inescapable that we should review the position.

As I understand matters, it would not be feasible, even if resources were available, to introduce the comprehensive scheme from a date earlier than September 1983. So we cannot in our presentation link withdrawal of SB to the introduction of the comprehensive scheme. Besides, MISC 62 supported the decision to withdraw SB on its merits. In other words, it is right to expect 16 year olds to look to their parents for financial support if they are unemployed, before providing State support. It follows from that that there is no need to pay 16 year old YOP trainees an allowance sufficient to support economic independence. Moreover, the present situation is that YOP trainees enjoy a lead of about £8 a week over SB; we intend after September 1983 to

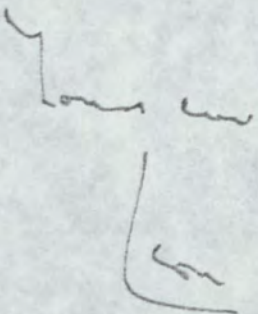
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reproduce the substance of that position; and it would seem very odd to have a short intervening period during which the lead was, in effect, £25 a week (the figure which will apply from this November).

I should be grateful for your views on this situation. But it does seem inevitable to me that we should introduce the allowance regime which we have agreed for the comprehensive youth training scheme from the date of withdrawal from 16 year olds of entitlement to SB. I can well see that it may be necessary to make special arrangements for those already on YOP courses at the date of the change; and I should be very willing to consider sympathetically any proposals you may have in this respect. I estimate that a change on the lines described above would yield savings on your programme of about £70-£80 million in each of 1982-83 and 1983-84, subject to any transitional arrangements; no doubt your officials will be able to provide more refined estimates.

I am sorry to have to raise a new question on your programme at this stage; but, as I say, it seems to me that the logic of the situation makes this inevitable.

I am sending copies of this letter to the Prime Minister, Norman Fowler, other members of E and MISC 62, Sir Robert Armstrong and Mr Ibbs.


LEON BRITTAN

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A. Duguid (4)
A. Walters

Prime Minister

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

Mus 17/11

TELEPHONE 01-218 9000
DIRECT DIALING 01-218 2111/3

MO 21/8/5

12th November 1981

mt

Dear Norman

As a result of our discussion at E Committee on 2nd November Janet Young was asked to think further about Norman Tebbit's proposal to withdraw the present concessions which ease the use of the Job Release Scheme (JRS) by Civil Servants. I have now seen her letter of 10th November, which I support. I feel that I should summarise my strong and direct interests.

As you know the MOD dominates the employment of industrial civil servants and we face severe problems with general contraction in numbers and major closures eg at Chatham and Portsmouth. The JRS offers clear and sensible benefits. For example, in the Portsmouth area we can reduce industrial conflict if we can redeploy surplus dockyard staff to other nearby MOD establishments where some of the older people would welcome JRS. Also, we have a good record in training apprentices but we cannot now find them work when they complete their time. This year alone we were unable to take on 494 apprentices. JRS for older MOD craftsmen could help.

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The Rt Hon Norman Tebbit MP

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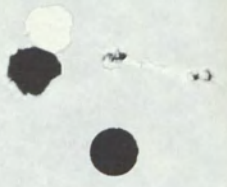


The reduction of JRS to the 62 year olds next February seemed to offer further useful help. I hope you can now support arrangements which will enable us to take advantage of this. We have always been most careful to abide by the "replacement" condition but it helps us greatly in practical arrangements if we do not have to match the individual JRS with the individual new recruit. A more restrictive arrangement would cut across our flexibility and harm our industrial relations. I doubt whether the extra costs can be as great as has been suggested. And to cut the scheme altogether for the Civil Service now would cause serious difficulties.

I am copying this to the Prime Minister, members of E Committee and Sir Robert Armstrong.

*Some even
John*

John Nott



11 6 NOV 1981



10 DOWNING STREET

From the Private Secretary

12 November 1981

I wrote to John Kerr yesterday about the MSC estimate of the cost of unemployment.

I think that we will need a form of words for the Prime Minister to use today. In line with the points she was making on Tuesday I have drafted the following:

"This figure (i.e. £12.4 billion) is made up of a number of components. Direct public expenditure on the unemployed is estimated in 1981/82 at around £4 billion. To get from that figure to a total cost of £12 billion - and, still more, to an estimate that each extra unemployed person costs the Exchequer £4,380 a year - involves making a range of assumptions, including an assumption that the previous employment of each person joining the register would itself have involved no cost to the Exchequer."

I would be grateful for your comments before Question Time this afternoon on this form of words.

I am sending a copy of this letter to Richard Dykes (Department of Employment).

M. C. SCHOLAR

Miss Jill Rutter,
HM Treasury.

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RH



10 DOWNING STREET

From the Private Secretary

11 November, 1981

B F ?

MSC Estimate of Cost of Unemployment

You kindly provided a note for the Prime Minister's use at Question Time yesterday on the Financial Times report of 9 November about the costs of unemployment.

The Prime Minister was yesterday enquiring about the reasons why currency had been given to an estimate on this basis. The estimate of a cost of £4,380 per person a year, as I understand it, rests on the assumption that each unemployed person would, if they re-entered employment, do so in the private sector so that their payments of income tax, national insurance contributions and indirect taxes would all be sourced other than from the Exchequer.

The Prime Minister would like consideration to be given to an alternative method of presenting this figure in future; and to an alternative way of commenting on the published figure. Would not the cost of unemployment be better expressed purely in public expenditure terms in the first instance (i.e. unemployment benefit plus ERS plus rent and rate rebates)? The answer could then go on to give several different estimates of the revenue foregone on different bases - including the basis of the present estimate that all the unemployed if employed would pay their taxes from non-publicly financed incomes.

I am sending a copy of this letter to Richard Dykes (Department of Employment).

M. C. SCHOLAR

John Kerr, Esq,
HM Treasury

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NEW MSC ESTIMATE OF COST OF UNEMPLOYMENT - REPORT IN FINANCIAL
TIMES, 9 NOVEMBER 1981

1. The Financial Times report arose from the answer to a written Parliamentary Question from Sir David Price. A copy of the question and answer is attached.
2. MSC's Review of Services to the Unemployed was published in March 1981. It gave a figure, quoted in the question, of a cost of about £300m at 1979/80 prices for each additional 100,000 unemployed. It also explained in some detail how the figure was arrived at. A copy of the relevant extract is attached.
3. In February 1981, the Treasury published in its Economic Progress Report a figure of £3,400 (at 1980/81 prices) for the average annual cost of one unemployed person. The Treasury's current estimate of the average annual cost of unemployment for 1 person is £4,300 at 1981/82 prices - very close to the MSC figure quoted in the answer.
4. The Treasury and the MSC use essentially the same method to arrive at their estimates (although there are some relatively minor differences in approach) and the Treasury were consulted over the figure now published.
5. Max Wilkinson, the author of the article, contacted the MSC Press Office on Friday. He asked for the figures given in the table in the article, to update a similar table which was published with the original estimate. The figures of some £2bn each for the cost of unemployment and supplementary benefit in 1981/82 have already been given in answer to a PQ to DHSS. (Monday 19 October, Hansard Volume 10, Col 65, Answer by Mrs Chalker).
6. The increase between this latest MSC estimate and the estimate given in March is 46%, compared to an increase of some 30% in retail prices between the periods of the

two estimates. The higher increase than in retail prices partly reflects the increase in the proportion of better paid people and people with dependants becoming unemployed as unemployment rises.

2.20 Table 2.1 quantifies each of the main costs incurred in 1979/80, when the average unemployment level was 1.335 million. Total sums paid out to the unemployed are based on accounting records, and revenues forgone have been estimated using a weighted sum of the losses associated with particular categories of unemployed persons.

Table 2.1
Financial costs of unemployment

	£ million (1979/80 prices)
(a) flat rate unemployment benefit	570
(b) earnings related supplement	90
(c) supplementary allowances	725
(d) rent and rate rebates (supplementary allowances recipients only)	45
<hr/>	
(e) SUB-TOTAL: TRANSFER PAYMENTS [(a) to (d)]	1430
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(f) income tax	1,330
(g) national insurance contributions	920
(h) indirect tax	275
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(i) SUB-TOTAL: REVENUES FORGONE [(f) to (h)]	2525
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NET FINANCIAL COST [(e) plus (i)]	3955

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2.21 The estimated net financial cost in 1979/80 of unemployment of 1.335 million is nearly £4,000 million, or some two-fifths of the 1979/80 Public Sector Borrowing Requirement (PSBR). These costs could not be fully eliminated, but reducing unemployment to the assumed minimum sustainable registered unemployment level of 700,000 would almost halve these financial costs down to £2,075 million. (This makes no allowances for changes in national insurance contribution rates at lower unemployment levels). Taking these estimates as a broad indication of the costs associated with further rises in unemployment would imply that each additional 100,000 registered unemployed would cost about £300 million per annum at 1979-80 prices in transfer payments and revenues forgone. Unemployment at 2 million costs about £3,850 million per annum above the "minimum sustainable" cost of £2,075 million or £5,925 million in all. At 2½ million unemployed the total costs would be £7,405 million.

forced up

at BP accept 8.1% rise

By Philip Bassett, Labour Staff

TANKER DRIVERS at BP have voted decisively to accept the company's 8.1 per cent pay offer in a move which throws into confusion the prospect of what would effectively be an all-out national drivers' strike from next Monday.

Full results of voting by the company's 2,000 manual distribution workers — the first of the 20,000 in the major companies to vote — will not be disclosed until BP shop stewards meet negotiators from the Transport and General Workers' Union in London today.

However, unofficial shop stewards calculations over the weekend estimate that the vote to accept the offer, depot by depot, has gone about 18-6 in favour.

Neither the company nor senior TGWU officials were able to confirm the decision last night. The drivers and distribution workers at BP are considered to be traditionally more moderate than those employed by other major oil companies.

The BP vote will cause division in the drivers' ranks. It will throw the strike called for by the TGWU from next Monday by drivers in all the companies into considerable doubt, since negotiations, including acceptances of offers, tend to follow each other in the industry.

However, some shop stewards are convinced that more militant regions, particularly London, may well take action despite such votes as the BP decision.

They feel this could create further confusion. Since the strike has official TGWU support, the union might well bring considerable pressure to bear on any drivers who had voted to accept the deal to strike.

The firmness of the union's resolve over the dispute, following the collapse last week of the BL pay strike, was emphasised yesterday by Mr Alex Kitson, the TGWU acting general secretary. He was reported in a newspaper interview as saying that he wanted to bring out the tanker drivers to try to force an economic U-turn, or even a General Election, on the Government.

The Government has pre-Continued on Back Page
Pay talks this week, Page 6

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making regional nationalism an overriding issue in the French-speaking South.

Under Belgium's complex proportional representation system the final results apportioned on a provincial basis, will not be known until later today.

All the big Belgian political families — the Christian Democrats, Socialists and Liberals — were this morning heading for roughly equal representation in parliament, with about 60 seats each. This could make the task of forming a government even more difficult than usual.

While a combination of any two of the three main parties would give them a majority, a coalition of the Flemish

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person costs £4,380 a year

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

EVERY EXTRA unemployed person costs the Exchequer £4,380 a year, an increase of 46 per cent compared with the cost two years ago, says the latest official estimate.

It shows that unemployment costs have risen at one and a half times the rate of inflation for the period, and suggests that on the basis of present tax and national insurance rates total cost of unemployment this year will be £12.45bn.

The figure, from the Manpower Services Commission, includes direct cost of benefits and lost tax which would have been paid by the unemployed had they stayed in jobs.

8 per cent of men and 47 per cent of women earn less than the latest estimate of what it would cost the State to keep them on the dole.

The main reason for the steep increase in the costs of unemployment is that a larger proportion of skilled and better-paid workers have been thrown on to the dole in the last two years.

Consequently, direct cost of earnings-related benefits has gone up, and so has loss from the taxes and national insurance contributions which the chequer has foregone.

In 1979-80 the MSC put the total cost to the Exchequer of

MSC ESTIMATE OF COSTS OF UNEMPLOYMENT 1981/82
(Assuming average 2.84m unemployed)

	£bn
Unemployment benefit	2.004
Supplementary benefit	2.000
Loss of income tax	4.257
Loss of NI contributions	3.280
Loss of indirect taxes including VAT	0.906
TOTAL	12.447

The new estimate will be important ammunition for those economists and Conservative Party dissidents who have been urging the Government to start a programme of reflation. For it indicates that every new job created would result in an average saving of £4,380 a year for the Exchequer, much more than was previously thought.

This saving could be set against cost to the taxpayer of any job-creating programme.

The calculation applies, however, only to jobs created in the private sector. For new jobs in the public sector, the saving would be somewhat less.

The new estimate has taken many officials in Whitehall by surprise because it is much higher than the most recent calculation of the Treasury, in February, which put the cost of additional unemployment last year at £3,400 per person.

Both estimates are made on a similar basis, but on slightly different assumptions. Last night the Treasury said it was not ready to release its own estimate, for unemployment costs this year.

It seems likely that when it does so, a sharp increase will be shown over its previous figure, for 1980-81.

The MSC's estimate, which puts total cost of keeping an extra person unemployed at £84 a week, is about 70 per cent of the average wage of men in manual work. According to the Government's most recent earnings survey, about

each additional 100,000 registered unemployed at £300m. The latest estimate of £438m per 100,000 this year, given in a Department of Employment written Parliamentary answer, is a 46 per cent increase.

In the same period the retail price index has gone up by only 30 per cent.

The Treasury's estimate that the cost of an extra 100,000 unemployed was £340m last year leaves out loss of indirect taxes such as Value-added Tax, as a result of the fact that people on the dole have less spending power than if they had remained in work.

This loss of indirect taxes amounts to about £320 a year per person this year, according to the MSC's estimate.

The Treasury says it would be theoretically incorrect to calculate total cost of unemployment by multiplying the cost to the Treasury for each extra unemployed person by the total number on the dole.

If all the present unemployed were back at work, the whole economy would be transformed so that tax rates and insurance contribution rates would probably be different, it adds.

However, the MSC has in fact made a rough estimate of the total cost, assuming present tax and contribution rates.

This comes to a total of £12.45bn on the basis that the average number of registered unemployed this year will be 2.84m. Clare plan for recovery, Page 3

DEPARTMENT OF EMPLOYMENT

WRITTEN REPLY

MONDAY 19 OCTOBER 1981
WEDNESDAY 28 OCTOBER 1981

319 SIR DAVID PRICE (Eastleigh): To ask the Secretary of State for Employment, if he will bring up to date the figures quoted by the MSC in their report entitled "Review of Service for the Unemployed" that each additional 100,000 registered unemployed cost about £300 million per annum at 1979-80 prices in transfer payments and revenues foregone.

MR MICHAEL ALISON REPLIED:

Pursuant to his reply /Official Report 22 October 1981 Vol 10 Col 147 gave the following information:

The Manpower Services Commission estimate that each additional 100,000 registered unemployed cost £438 million per annum, at 1981-82 prices, in transfer payments and revenues foregone.

Background Notes

1. The Exchequer cost figure given in this draft reply is based on two main assumptions:

(a) In the period 1981/82 the average level of registered unemployment (including school leavers and temporarily stopped workers) will average 2.84 million.

(b) In this period the minimum sustainable level of unemployment will be 0.7 million.

2. The Exchequer costs of 2.84 million persons registered as unemployed in 1981/82 are estimate to be as follows:

A TRANSFER PAYMENTS:

1. Unemployment benefit (including ERS)	£2,004 mill
2. Supplementary benefit	£2,000 mill
SUB-TOTAL	£4,004 mill

B REVENUE FOREGONE:

3. Income tax	£4,257 mill
4. National Insurance contributions	£3,280 mill
5. Indirect taxes	£ 906 mill
SUB-TOTAL	£8,443 mill
GRAND TOTAL	£12,447 mill

3. The total cost to the Exchequer of 2.84 million registered unemployed persons in 1981/82 is therefore estimated to be £12,447 mill. Lowering this level of unemployment to the minimum sustainable level of 0.7 million would reduce total Exchequer costs to about £3,068 million pa. This implies that each additional 100,000 registered unemployed would cost about £438 million per annum in transfer payments and revenue foregone.

4. Data on the level of transfer payments relating to 2.84 million unemployed have been obtained from DHSS. The associated level of revenues foregone has been estimated on the basis of the following assumptions:

(a) Persons entering unemployment earn 80% of national average gross weekly earnings for all workers. In July 1981 this national average is estimated to have been £108 (ie on the basis of the April 1981 New Earnings Survey, updated by the Department of Employment's index of average earnings).

(b) The average rate at which income tax would have been payable is assumed to be 25%

(c) 70% of the newly unemployed would have been contracted into the State pension scheme for National Insurance purposes. 30% would have been contracted out of the scheme.

(d) Indirect taxes would have been payable at the rate of 20% of net disposable income. 25% of the newly unemployed are assumed to avoid any reduction in their disposable income by dissaving and/or borrowing.

The marginal propensity to consume is assumed to be 0.9.

(e) 75% of persons entering unemployment register as unemployed.

5. Independent estimates of the Exchequer cost of unemployment have been made, and are being refined, both by the Department of Employment and H.M. Treasury. Although the approach used by MSC and these Departments in estimating the Exchequer cost of unemployment is broadly similar, Departmental estimates vary due to differences in the detailed assumptions adopted and in the coverage of Exchequer costs estimated.

6. MSC current estimates of the Exchequer cost of unemployment are 46% above those shown in the "Review of Services to the Unemployed". This exceeds the 30% rise in the Department of Employment's index of retail prices in the period July 1979 to July 1981 due to changes in assumptions which have now been made on the basis of more recent data. These changes in part reflect the tendency for the characteristics of the unemployed to more closely match those of the working population as a whole as unemployment rises to relatively high levels.

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A. A. Douglas

A. Walters



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Margaret

The Rt Hon Norman Tebbit MP
Department of Employment
Caxton House
Tothill Street
SW1H 9NF

NBPM

// November 1981

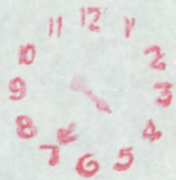
EDUCATION AND TRAINING

When we discussed your proposals in E Committee on 2 November you undertook to discuss with Keith Joseph his suggestion that some of the additional money to be made available to the MSC might, if necessary, be transferred to the education service. I share Keith's concern that we should do everything possible to encourage young people to stay on in full-time education; and like him I am taking steps to ensure that the additional funds which have already been earmarked for this purpose as part of our measures to alleviate youth unemployment are put to good use by the education authorities. Our objectives, however, in the schools and in further education could be achieved more quickly if additional resources were available; and the purpose of this letter is simply to confirm my support for Keith's approach to this problem and to say that I should like to be involved in any further discussions about it.

I am copying this letter to Keith Joseph, the Prime Minister and other members of E Committee, to Francis Pym, Nicholas Edwards, Michael Jopling, Norman Fowler and Sir Robert Armstrong.

GEORGE YOUNGER

711 NOV 1981



J A Ouguid



Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 4400

Chancellor of the Duchy of Lancaster

10 November 1981

The Rt Hon Norman Tebbit, MP
Secretary of State for Employment
Caxton House
Tothill Street
LONDON SW1H 9NA

? Wm Minister

This is very unclear to me: civil servants ought to be able to use the JRS only if their posts are filled from the unemployment register. Yet X is woolly on the point. Shall I record your unease, on these lines?

Dear Norman,

JOB RELEASE SCHEME

The Job Release Scheme (JRS) was mentioned briefly at E Committee last week. As I understand Leon Brittan's letter of 30 October, you are proposing to withdraw the concession whereby civil servants can use the JRS even though their post is not filled directly from the unemployment register and that by doing so, you expect to save £40m in 1982/83 and £70m in each of the following years.

I believe, however, that these figures must relate to other parts of the public sector as well as the Civil Service since I understand the number of JRS releases in the Service has so far been very few, and no doubt Michael Heseltine and Norman Fowler and possibly other colleagues will also want to comment. But for my part I would urge you not to proceed with this.

I have had it in mind to recommend to colleagues that far from withdrawing the facilities we should make greater use of the JRS in the Civil Service as a means of encouraging many more of the over-60s to retire and make room for some of the young unemployed. It seems to me that this is the one option which is open to us which ensures that there is a net reduction in the unemployment register because those released are not allowed to register as unemployed. Any of the other options which I have considered and which involve compulsory retirement would not lead to a net reduction in the register and because of the low pensions of those concerned could incur further additional expenditure on the social security side.

I should be grateful therefore if this particular item in your expenditure programme could be put in abeyance for the time being until our officials have had a chance to consider the implications further. It may be that some tightening up of the "concession" would be feasible and I would like this to be looked at.

I am copying this to the Prime Minister, Members of E Committee and Sir Robert Armstrong.

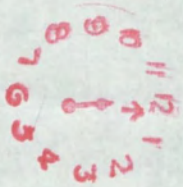
Yours sincerely

Janet

BARONESS YOUNG

It seems to me that X is the Job Release scheme in its normal form what the C.S. was trying to do

plus was the release scheme being the job from the register



10 NOV 1981

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Manpower
6 November 1981

MR HOSKYNS

cc Mr Wolfson
Mr Walters
Mr Vereker
Mr Scholar

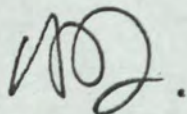
REDUCING UNEMPLOYMENT

1. You probably saw the attached article in today's Economist containing seven suggestions for measures to reduce unemployment. Here they are with a very brief note on my understanding of the current position:
 - (1) Abolish Wage Councils. PM gave Norman Tebbit a remit to look again at this on 22 September and bring it back to E. He appeared unenthusiastic about abolition then, and does not plan to bring it to E before December. We could try to accelerate the process - after all, all the arguments have been rehearsed several times at E(EA) and E over the last year or more.
 - (2) Raise EP exemptions from firms under 20 to under 50. The... 1980 changes were not exactly exemptions - merely extended qualifying periods. Mr Prior convinced MISC 14 in July that all that was needed in this field was better publicity for the changes already made. However, the Chancellor has since raised it again. He did not press the case for complete exemptions - which would create two classes of employee. Nor did he suggest raising the threshold to firms employing under 50. But he did raise the idea that redundancy payments for employees of small firms (under 20) should comprise only the Government contribution (see (5) below). Alan Walters has floated exemptions, and I intend to write again to the Treasury about this, so that the issue is raised at the MISC 14 discussion on 27 November.
 - (3) Phase out rent controls. H Committee considered some very limited steps in this direction earlier this year. I believe the Prime Minister was among those who felt no further action should be taken in this field during the lifetime of this Parliament - on political grounds. The Chancellor, Sir Keith and Mr Heseltine succeeded in putting it to Cabinet on 30 July, but the decision went against any action in this Parliament ("purist nonsense"). I doubt if we can reopen it. You will need to consider how such a sensitive issue can be handled in Manifesto and pre-Election commitment terms.

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- (4) Optional early retirement for the long-term unemployed. This would reclassify a large group from "unemployed" to "retired". It would mean they received higher benefits. Norman Tebbit did not put this forward among his special employment measures. When the July package was constructed, I think the Prime Minister felt that the extension of the Job Release Scheme was as far as we should go on early retirement. It's cosmetics, but we could reconsider whether it's politically advantageous.
- (5) All redundancy payments for under 23 year olds to be borne by Government. Unlike the Treasury proposal discussed at (2) above, this would increase Government spending, but maintain workers' redundancy rights. It might be argued that it would make companies more likely to sack young people than others, because it costs them less to do so. We could write to the Treasury to get their reactions.
- (6) Cut NIS. There has been correspondence on this. The Chancellor has made it clear that he can only judge this in the light of the rest of the Budget. He will almost certainly make no move before the Budget, but has acted to keep his options open for an announcement then which would take effect in mid-summer.
- (7) Tapering tax rates at the bottom of the income tax range. This is very expensive. People start paying tax at such a low level at present that it could be better to spend any available money (and there isn't any) on raising the threshold rather than tapering. I have always been sceptical about the incentive impact of a rate as low as 30%, but Alan may have views on whether this is worth drawing to the Chancellor's attention.

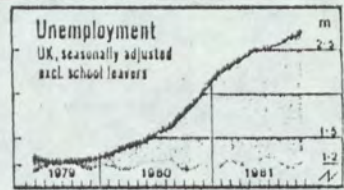
2. I believe the Prime Minister does not read the Economist. Do you think we should draw this article to her attention? Whether we do or not, do you think we should take action to hasten any of the suggestions it contains?



ANDREW DUGUID

Seven winter suggestions

Measures that the Thatcher government could sensibly introduce, in order to bring unemployment down



Headlines screaming "three million unemployed" will greet the halfway stage of Mrs Thatcher's government later this month. There is worse to come. The London Business School, fount of moderate monetarism, thinks that adult unemployment will go on rising in Britain for the next nine months or so, and then only start inching down. It thinks the misery index—inflation plus unemployment rates—could be 22% at the next general election in 1984. It was 15% when Mrs Thatcher rode purposefully into Downing Street in 1979.

Today, a shade less purposeful, a lot more defiant, she is right to say that Heath-style reflation would boost the misery index by adding much more to inflation than would come off unemployment. She is wrong to think that the government can do nothing to shorten the dole queue.

Three things to abolish

Three bits of legislation need scrapping or amending in the search for jobs. First to go should be the 34 wages councils, which set minimum wages and conditions for 2.3m British workers. They are a hangover from the 1920s, when officialdom needed to act as referee between unscrupulous employers and sweated workers. Today officialdom has better, less paternalistic ways of intervening, like health and safety laws. Wages councils

hit the newly vulnerable members of society: those who are not worth employing at the prescribed minimum wage, often because they lack experience.

This vicious circle—no experience, no job, but no job, no experience—is drawn more tightly around today's school leavers than anybody else. The way out is via lower wages. Trade unionists argue that cheaper school leavers will simply displace older workers, producing no net gain in jobs. There are now piles of recent academic research to show that they are wrong. One of the most careful studies, from the National Bureau of Economic Research in America, concludes "that a subminimum wage for youths would have increased their employment with at most a small loss of jobs among adults". And a subminimum wage at 16 is a small price to pay for the experience that could earn you average wages at 26, especially if the alternative is 10 years of drifting between dole queues and half-jobs.

The second piece of job-destroying legislation is the Employment Protection Act, the last Labour government's danegeld for wage restraint that the unions never delivered. Among other things, it means that redundancies in Britain are now expensive, time-consuming and full of litigious potential. Nice, if you are already employed. Nasty if you are not, because employers think many times before taking on new staff.

The Thatcher government has already exempted firms with fewer than 20 employees from the act. It should now raise that limit to 50. Firms with fewer than 50 workers have created almost all the net new jobs in industrial economies over the past 15 years.

The third legislative broom is needed in housing. Mrs Thatcher's government has made it easier for people to get somewhere to live if they have to move for their jobs. Rules about security-of-tenure for short lets have been relaxed. Most councils now operate a scheme that gives priority to newcomers taking up a job who have given up houses elsewhere. The government should now go further and phase out the rent controls that for 65 years have discouraged landlords and squeezed the most flexible way for people to find a roof.

Like redundancy protection and minimum wages, rent controls are loudly defended by their beneficiaries. Their victims, often only dimly aware of why they cannot get a job or a house, are not rampant abolitionists. The government would therefore run a political risk in thus legislating people back into jobs—especially as these three ideas would, at most, cross 200,000 off the unemployment register in the next few years. Small beer, when the official total of 2.7m adults itself excludes those who have simply dropped out of the hunt. The changes that seem advisable in the budget would be more popular.

Four changes for the budget

Try these four ideas, in order of probable cheapness.

(1) Allow the long-term unemployed to take early retirement—say, men at 60, women at 55. This would cut the jobless total by perhaps 100,000 and its benefits would be more than cosmetic. Those who chose to retire would be eligible for various pensioners' perks (eg, cheaper rail travel); they would not be barred from taking a job should any come up; and their pensions would be higher than their existing unemployment pay. Cost: about £60m a year.

(2) Whenever a company recruits someone under 23, shift the liability for redundancy pay from firms to the government for a period of three years or so. This would remove one big reason why companies are reluctant to take on young workers. Cost: guessing, £70m a year.

(3) Cut the employers' national insurance surcharge, which now stands at 3½% (and harvests almost £4 billion a year for the treasury). This week Sir Geoffrey Howe was lukewarm about cutting it. In 1978, however, he correctly described the surcharge as "a tax on jobs, a tax on profits and a tax on investment". Reducing the surcharge would be the quickest way to cut industry's costs and improve its ability to employ more people. Cost: roughly £1 billion for every percentage point cut.

(4) Taper the tax rates at the bottom of the income tax range. British workers start paying tax at a marginal rate of 30%; in Japan the lowest rate is 10%, in America 14%, in Holland 17%. That 30% is an uncomfortable jolt for anyone. For many low-paid people in Britain, it turns a job into a financial sacrifice, because they simultaneously lose various benefits. In theory, tax rates could be rejigged without any loss of revenue; in practical terms that would be difficult to achieve, so the tax-cutting should be done in steps. Cost: allow a maximum of £1 billion a year.

All of these seven steps would reduce unemployment very directly. None would operate by creating lame-duck jobs. Four of the measures would put government borrowing up, but four would bring industry's costs down. None of the measures needs to conflict with the path forward that Mrs Thatcher has chosen—to boost productivity and hence ensure more competitive and durable jobs than would have existed if the hand-to-mouth policies of the past 30 years had been continued. That path was never going to be smooth or short. Without deliberate job-creating policies, however, it will start to look suicidal.

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✓ Derek Howe

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

3 November 1981

Michael Scholar, Esq.,
Private Secretary,
10, Downing Street

Prime Minister

You may like to
glance at this note I
commissioned on the SDP proposals.
Plus 4/11

Dear Michael

SDP JOB CREATION PROGRAMME

In your letter of 29 October you requested a note for the Prime Minister on the SDP's "carefully costed package of £2-3 billion to create jobs in the short and medium term" (Hansard Col. 908 28 October).

.... The package was outlined by Mr. Roy Jenkins in a speech at Warrington on 7 July. I attach a note analysing the main points in the programme. As you will ^{see} our view is that Mr. Jenkins' costings were on the optimistic side and that many of his proposals were not described sufficiently clearly for us to be able to offer sensible comments.

Yours ever
Peter

P.S. JENKINS

MR JENKINS' PROPOSALS TO HELP UNEMPLOYMENT

Mr Jenkins outlined a six-point programme to "turn the tide of our national economic decline and start to get the jobless back to work" on 7 July in Warrington. Comments on the main points of the programme are as follows:

(i) Layard-type schemes

2. Professor Richard Layard has suggested that the Government should offer a subsidy to firms giving jobs to the "long term unemployed" (ie those who have been unemployed for more than a few months). The size of the subsidy, which is assumed to be topped ^{up} by the employer to the going wage, would be related to the resulting improvement in the PSBR - payments of unemployment benefit would be reduced and tax receipts increased - with the aim of limiting the cost to the PSBR. The scheme would apply to net additions to the workforce only, and would have limited duration; it would apply to the private sector only.

3. A marginal subsidy of this kind would encourage some firms to take on extra employees and would certainly be more cost-effective than a general subsidy on all employment. However, all schemes of this kind suffer to some degree from "deadweight", "substitution" and "displacement" effects, so that the net reduction in unemployment tends to be much smaller than the total number of subsidies paid. If allowed to run for long periods, employment subsidies can also have undesirable side effects on the efficiency of the labour market.

4. A marginal labour subsidy of the Layard-type could increase the number of jobs offered to the long term unemployed, and could probably reduce the overall level of unemployment. How cost-effective it would be is for further examination. It is understood that Mr Prior proposes that such an examination should be put in hand.

The unit cost implicit in Mr Jenkins' figure (£1,600 per person off the register) is in line with the DE estimate of the net cost of additional plans on the Community Enterprise Programme. That estimate, of course, takes credit for "first round" effects (reductions in social security benefits, higher tax receipts, etc). Both the gross cost, and the cost after taking of "second round" effects would be higher.

(ii) £1 billion expansion of public sector investment

6. How many jobs are created by such an investment programme will depend on which projects are selected: the kind of project mentioned by Mr Jenkins - investment in telecommunications, railway modernisation etc - are unlikely to be very attractive in this respect. Treasury model ready-reckoners suggest that for a £500 million expansion of average public investment, some 25,000 new jobs might be created, only half the figure quoted by Mr Jenkins.

(iii) Programme of housing renovation and environmental improvement

7. Local authorities already spend substantial sums on housing/environmental projects. Of their gross capital allocation of £2,300 million for 1981-82, it is estimated that local authorities in England and Wales will spend some £790 million to finance their own improvement schemes, some £100 million to finance housing association improvement, some £150 million for improvement grants to the public sector and £30 million for grant-aided private sector home insulation schemes (these figures are illustrative: local authorities have discretion in how they use their allocations). In addition some £500 million has been allocated to the Housing Corporation, of which about half will be used for housing association improvements in addition to that financed by local authorities.

8. There is of course always scope to spend more money on improvements as proposed by Mr Jenkins. However, the present totals (reflecting Cmnd 8175 totals) are a consequence of the degree of priority the Government has felt itself able to give to housing, faced

with the need to reduce public expenditure and borrowing.

(iv) Part-time jobs for home helps, etc

9. There is insufficient detail to provide useful comment on this. However, a high proportion of those interested in part-time work of this kind would be married women who would not usually bother to register as unemployed if they were without a job. Thus the effect on registered unemployment might be quite low.

(v) Package of measures on youth unemployment

10. Again, insufficient detail is provided to carry out a full analysis. In particular:

a. How big would the proposed educational maintenance allowances be? Would they be means-tested (as the reference to "poor families")?

b. How large would the grants to employers be?

c. What would be the content of the programme to extend and improve training? How large is the proposed expansion in Work Experience (ie YOP)?

11. The following gives some indication of the sort of numbers we might be dealing with:

a. There are about 800,000 16-18 year olds at school. So an EMA of, say, £10 a week would cost around £400 million a year. The effect on youth unemployment would be marginal since "deadweight" would be very high. Perhaps 50,000 young people?

b. The net unit cost of some current MSC proposals to subsidise apprentice training and the like is put at £4,900 per person off the register per year. If, say, 20,000 young people

a year were affected, this would give a cost of some £40 million.

c. Thus we might be talking of another 100,000 or so YOP places. The cost might be £100 million if the courses lasted six months; and about double that if the courses lasted a year.

12. In total, a programme to create 150-200,000 new jobs for young people might have a first round cost of some £550 million. This compares with Mr Jenkins' claim that a package of £300 million "should aim to bring down the dismal tally of youth unemployed by 200,000".

(vi) Measures to improve competitiveness

13. Mr Jenkins argues that action to "hold the pound at a fair rate on the foreign exchange" and other measures to improve competitiveness would "create 250,000 jobs quite quickly, and over a million if sustained for five years". Mr Jenkins does not say how large a devaluation would be necessary to achieve such increases in employment, but it would have to be very large indeed. Treasury model simulations suggest that a 20 per cent devaluation might raise employment by only 100,000 after 1 year and perhaps 400,000 after 4 years. Thus Mr Jenkins might be thinking of a devaluation of the order of 50 per cent. The impact effect on prices might be 15 per cent after one year and there would be strong upward pressure on interest rates if money supply targets were to be maintained. Mr Jenkins, however, appears to believe that interest rates could be brought down. We would agree with his view that there must be moderate wage settlements but would see this, and not devaluation, as the main instrument for achieving improvements in competitiveness.

General Comment

14. So far as it is possible to put figures on Mr Jenkins' proposals, it looks as though his costings are optimistic even if they are based on net costs. And he takes no account of "second round" effects, which we would argue are adverse. There can be no

& guarantee that Mr Jenkins' proposals would be "substantially self-financing in terms of the extra activity and tax revenue they will generate". The danger is that the extra expenditure would be dissipated in higher inflation, or that interest rates would rise and choke off the extra activity. A table summarising his proposals is attached.

Summary of Mr Jenkins' Proposals

	Jenkins' estimates		Treasury comment
	PSBR cost (£m)*	Impact on employment	
(i) Layard-type scheme	400	250,000	PSBR cost higher after allowing for "second round" effects
(ii) £½ billion public investment	500	50,000	Employment effect overstated; perhaps only 25,000
(iii) Housing/environmental improvement	200	250,000	Unit cost looks very low
(iv) Part-time jobs for women	200	60,000	Impact on <u>registered</u> unemployment might be quite low
(v) Youth employment programme	300	200,000	Costs too low: £½ billion programme might create 150-200,000 new jobs
(vi) Lower exchange rate	?	250,000	Very large devaluation needed; possibly 50%. Might add up to 15% to RPI after one year
 Total programme	 £2-3 bn	 1,060,000	

* First-round costs; take no account of adverse "second round" effects.

PART 5 ends:-

S/S Education to C.S.T.

31. 10. 81

PART 6 begins:-

E(81) 31st mtg minutes Item 3

2. 11. 81

