

PREM 19/838

PART

7

ends:-

Dr Pickard to Bwns 20/8

PART

8

begins:-

ps/Emp to mcs 6/9

~~AW to PM 2/9~~

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,

21 June 1982, columns 22-30

"Youth Training Scheme"

2. Manpower Services Commission Youth Task
Group Report, April 1982

Signed Wayland Date 23 October 2012

PREM Records Team

PERSONAL AND CONFIDENTIAL

Mr. Robin Butler.

on a personal basis.

Thanks.

[Handwritten initials]



CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7290

[Handwritten 'D' in a circle]

Qg 0889

20 August 1982

T Burns Esq
Chief Economic Adviser
Her Majesty's Treasury
Parliament Street
LONDON SW1

[Handwritten signature: Dick Terry]

CPRS UNEMPLOYMENT REPORT

I attach a copy of the latest draft of our report. Chapter 1 (the Introduction) and Chapter 10 (the Strategy) will be written next week in the light of the further discussions we have planned. Mr Sparrow (with Messrs Bailey, Martin and myself) is due to see you on Tuesday morning. We shall welcome your observations on the report as a whole but in particular on the balance of recommendations for the final chapter.

I am sending a copy of this letter and attachments to Barry Potter (Treasury) and Nick Gardner (Department of Employment).

[Handwritten signature: J. Rickard]

[Handwritten signature: J. Rickard]

DR JOHN RICKARD

PERSONAL + CONFIDENTIAL

CONFIDENTIAL

UNEMPLOYMENT STUDY: FINAL REPORT

Chapters

1. Introduction
2. Origins of Unemployment
3. The Outlook for Unemployment
4. Approach to Remedies
5. Improving the Economy's Supply-side Performance
6. Encouraging Efficient Ways of Generating More Employment
7. The Tax and Benefit Systems
8. New Patterns of Working Time
9. Other Measures to Cope with Unemployment
10. A Strategy

Annexes

- A Categories of the Unemployed
- B The Social Security System and Unemployment
- C Labour Intensive Public Works

CONFIDENTIAL

CONFIDENTIAL

CHAPTER 2: ORIGINS OF UNEMPLOYMENT

Unemployment Trends

2.1 In the boom year of 1955, nearly 240,000 people (excluding school leavers) were registered as unemployed in the United Kingdom. By 1973, also a year of peak demand with a high level of job vacancies, unemployment stood at over 600,000. Subsequently, the trend rate of increase in unemployment rose. By 1979, the next cyclical peak in activity, unemployment had reached 1.3 mn. Since 1979, unemployment has more than doubled (figure 1): in July 1982, it reached 2.9 mn, 12.3 per cent of all employees (3.2 mn if school leavers are included). Unemployment statistics are, of course, subject to various errors of measurement; for example, some of the "unemployed" work in the black economy (see Annex A and the CPRS report on the black economy). But these measurement errors do not obscure the overall trends.

2.2 Unemployment in the OECD area as a whole also rose sharply from around 1973, increasing from a rate of just over 3 per cent in 1973 to 5 per cent in 1979 and about 8 per cent in early 1982. In the European Community, the increase was from 3 per cent to over 9 per cent during the same period. Of the major EC economies, West Germany had the lowest levels but suffered a faster rate of increase in unemployment (figure 2). The United Kingdom continued to experience rates of unemployment higher than in France and Germany after 1973, and, since 1979, its relative position has deteriorated sharply against all major economies. In the 1960s the United States and Canada had higher rates of unemployment than Europe but in the 1970s the pace of increase was less marked: unemployment in the United States, in particular, was only slightly higher in 1979 than in 1973. Japan experienced consistently low levels of unemployment: the rate rose from around 1½ per cent in 1973 to 2¼ per cent in early 1982.

2.3 Labour force growth increased in the OECD area as a whole between 1973 and 1979. Employment growth slackened a little, though less than would have been expected on the basis of past experience: the near halving of the OECD rate of output growth after 1973 was associated with a reduced growth

CONFIDENTIAL

of productivity. Across economies, there was no general relationship between rising unemployment and labour supply growth. Sharp increases in unemployment were recorded in France and Belgium where there was no marked shift in the growth in the labour force after 1973; in Germany, the labour force fell as "guest-workers" were made redundant and returned home. The United States was notable for the strong growth in both its labour force and employment after 1973.

2.4 In the United Kingdom, between 1973 and 1979, the rise in unemployment was associated with a somewhat faster increase in the labour force (figure 3), reflecting the high but subsequently declining birth rates of the early 1960s. These led to an influx of young people in the mid 1970s and gave a fillip to the rise in the participation rate of women in the labour force. Total employment remained flat between 1973 and 1979, though manufacturing employment continued to fall (figure 4).

2.5 Since 1979, OECD employment growth has fallen, particularly sharply in Europe, with the onset of recession. At the same time, the labour force has continued to grow in most economies. In the United Kingdom, however, both employment and the labour force fell after 1979, the latter by 600,000 between early 1979 and early 1982. As a result of recession, there was a sharp decline in the participation rate of men in the labour force (particularly for those in the 60-65 age group) and an end to the rise in female participation. Participation rates, which were relatively high in the United Kingdom, consequently fell back towards the levels experienced overseas. Had this not happened, the rise in unemployment here would have been even steeper.

Unemployment in the Industrial World: Some Common Causes

2.6 Immediately after the first oil price rise and the severe inflationary problems which followed, slower industrial world growth and poorer job prospects were due largely to a deficiency of demand. The build up of unspent OPEC oil revenues had a deflationary effect on the rest of the world. This effect came on top of a normal reversal of the previous boom conditions and attempts by governments to squeeze out inflation by fiscal and monetary

CONFIDENTIAL

policies. The United Kingdom response was slower with the result that the economy went into recession later and inflation was higher. The deflationary effects in individual countries were transmitted to others through reductions in imports and a general slackening of international trade.

2.7 The general expectation at the time was for a medium term recovery. OPEC would, after a while, spend more of its swollen revenues. Even if it did not, the revenues re-cycled in the world's capital markets would provide a source of cheap money which could sustain higher activity in the industrial world. The problem of squeezing out inflation would cause a temporary, if substantial, fall in real demand and output. But once inflation had been conquered, it would be possible for industrial world growth to return to previous levels.

2.8 It did not. Trend rates of growth were lower even in economies (like Japan and Germany) which succeeded in squeezing out inflation after 1973/74. In several economies, at different times, attempts at domestic reflation were prejudiced by a resurgence of inflationary pressures.

2.9 Furthermore, despite slower growth, the amount of spare productive capacity in several economies by the later 1970s was surprisingly small. In 1979, the proportion of United Kingdom firms in manufacturing experiencing below capacity working or facing skilled labour constraints was at about the average level recorded in the 1960s and early 1970s. Recent estimates by the OECD Secretariat also suggest that, like the United Kingdom, the United States, Germany and Japan (though not France or Canada) were getting back to levels of capacity utilization enjoyed in the early 1970s.

2.10 These observations imply that the slowdown and persistence of slower industrial world growth reflect growing supply-side deficiencies in industrial economies. In many cases, the main constraints on expansion and creation of new jobs appear to turn on a lack of suitable productive capacity which is profitable at prevailing levels of real wages and a fear that renewed growth would stimulate a resurgence of inflation.

CONFIDENTIAL

2.11 The reasons for these developments are undoubtedly complex and not fully understood, but it is possible to identify some of the more obvious causes.

Supply Shocks

2.12 A variety of "supply shocks" in the 1970s rendered economically obsolete certain industrial plant and the jobs which went with it. Such obsolescence occurs quite naturally as a result of technical progress but, in the 1970s, the rate of obsolescence and thus scrapping of existing industrial capacity and jobs in the advanced economies probably accelerated on two counts -

a. There were increasingly strong pressures from newly industrialising countries as suppliers of competitive manufactured goods. The share of OECD imports of manufactured goods supplied by the NICs rose from 4½ per cent in 1970 to 8 per cent in 1977. The impact was concentrated in particular sectors: not only traditional ones like clothing but also newer activities like consumer electronics. The associated scrapping of plant and jobs (particularly unskilled jobs) probably added to structural unemployment, given the difficulties of re-allocating the labour thereby released to new product areas, often requiring higher skills.

b. the rise in the oil price, which quadrupled in 1973/74 and nearly trebled 5 years later, and the associated rise in real energy prices will also have rendered prematurely obsolete some proportion of existing industrial capacity and jobs. In some cases, plant which had been installed and operated profitably in an era of cheap energy was scrapped immediately; in other cases, the scrapping of energy-intensive capacity occurred more slowly as the investments concerned ceased to make any worthwhile contribution to overhead costs. These adjustment problems, which are continuing, are illustrated in the United Kingdom by the decline of the energy-intensive, basic industries like aluminium smelting.

Unrealistic Pay Demands

2.13 Some jobs and productive capacity were also lost in the 1970s as a result of an unwillingness of labour unions in a number of economies to accept a lower rate of advance of real wages, despite the reduced ability of economies to deliver such advances.

2.14 The attainable real growth in personal incomes, particularly of tax payers, declined after 1973 for a number of reasons -

a. A fall in productivity growth. This fall was partly induced by recession, but its origins also go back to the late 1960s. At that time, there were signs of weakening in the forces which had nurtured the historically unprecedented growth rates of the 1950s and 1960s. For example, there was an abatement to the prolonged post-war investment boom and reduced scope for productivity improvement by shifting labour off the land or, in Europe and Japan, by catching up with United States technology.

b. The continued rise in public expenditure. Long term commitments on public provision had been undertaken by Western governments in prosperous years when demands for better and more health care, education and support for the needy and disadvantaged seemed affordable as well as socially desirable. But when growth fell after 1973, the public expenditure share of GDP rose rapidly throughout OECD. By 1980, total outlays of governments represented nearly two-fifths of the GDP of OECD economies; this compares with a figure of a third in 1973. The rise in public spending created severe public finance problems and further increased the tax burden. Taxes in the OECD area rose from 32½ per cent of GDP in 1973 to 36½ per cent in 1980. Higher taxes probably reduced work incentives and, by frustrating the desire of workers for increasing personal living standards, reinforced the pressure for higher wages.

c. The rise in real oil prices. More goods in real terms had to be traded to pay for a given quantity of oil, leaving less for personal consumption. This "terms of trade" deterioration reduced OECD real income by about 2 per cent in both 1973 and 1979 though the United Kingdom was to some extent cushioned from this effect.

2.15 Generally, expectations for growth in real living standards did not attune quickly to what was feasible after 1973. The reasons include: the sheer complexity of modern industrial economies and the associated difficulties of understanding the economic implications of major changes; the belief that post-war growth rates would continue indefinitely and therefore that growth in the 1970s would return to previous levels; the unwillingness of leaders in political life and in industry to spell out the unpalatable message that real living standards had to adjust and grow more slowly; the (by then) established practice of effectively indexing pay to the rise in consumer prices in many economies; and deeply ingrained aspirations, befitting affluent societies, to own a home, at least one car, a TV and the latest luxury gadget. In short, aspirations for a fast rise in real incomes made possible by the growth in productivity in the 1950s and 1960s were generally extrapolated into a period when such aspirations were no longer realistic.

2.16 Our assessment is that unrealistic real income aspirations adversely affected capacity growth and jobs, if not immediately, then over a period of time. Experience differed between countries -

a. Pressure for higher real wages in excess of underlying productivity growth, or when oil prices had risen, in some cases succeeded but only at the expense of profits and jobs. A number of economies - notably, but not exclusively, in Europe - experienced sustained reductions in profit shares during the 1970s. A fall in actual and prospective profitability probably led, in turn, to accelerated scrapping of capacity and therefore jobs and a gradual substitution of machines for too expensive labour.

b. In addition, in some economies such as the United Kingdom, producers granted high nominal wage increases but attempted to pass them on in price increases in order to preserve profit margins. This

frustrated the desire for higher real wages. In principle, this process, repeated, would have led to hyperinflation. Government attempts to contain inflation, even at some stable level, led in the face of wage claims out of line with reality to an increase in spare capacity and labour market slack. In cases where pay aspirations adjusted very slowly, the end result may have been a scrapping of capital equipment and an atrophy of human skills and work attitudes.

Experience Across Economies

2.17 While the importance of these mechanisms remains a matter of debate amongst the experts, the flexibility or lack of it in the evolution of real wages helps to explain some of the differences between economies after 1973. The following examples illustrate this with particular reference to the different extent and pace of adjustment to the rise in oil prices:

a. The comparative buoyancy of employment in the United States may be partly ascribed to its real wage moderation in the face of the oil prices rises and a depreciating dollar, the latter partly reflecting reflationary policies. Real wages fell following both oil price rises and profit share in the United States remained reasonably stable. This moderation in real wages might be put down to union weakness and the rather low rate of unionization in the United States but also to its wage contract system which typically fixes cash wages 3 years in advance, with limited scope for cost of living adjustment. Hence, an upward movement in prices immediately reduces real wages.

b. Despite its oil import dependence, the Japanese economy absorbed the second oil price rise comparatively smoothly because of moderation in nominal and real wage demands. This contrasts strongly with behaviour after the first oil price increase: GDP in Japan fell (by 1 per cent) in 1974 (following 9 per cent growth in 1972/73) and inflation rose to nearly 25 per cent. Nominal wages also rose very rapidly and although real wage growth began to moderate, there was nevertheless a severe squeeze on profits. Continued moderation in real wage growth thereafter and the more favourable adjustment to the second oil shock may be partly ascribed to monetary restraint but also to the underlying

CONFIDENTIAL

flexibility of labour costs in Japan. This reflects the high degree of social consensus and commitment of workers to the long term viability of their companies, themselves subject to considerable competition, Japan's bonus payments system, and the extensive use of sub-contractors and small firms (which act as a buffer during economic downturns).

c. The absorption of the oil price increases by the German economy provides an example of more serious problems of real wage adjustment. After the first oil shock, there was a strong wage push in the face of a slowdown of economic activity. Unions - despite early warnings - appeared to disregard the fact that the rise in consumer prices resulting from the worsening of the terms of trade as oil prices rose represented a real income loss for which compensation could not be demanded from domestic firms without employment losses. Unlike in Japan, precisely the same kind of adjustment problem appears to have occurred in 1980. Professor Giersch (of the Kiel Institute), in particular, ascribes much of the heavy loss of jobs in Germany precisely to the pressure from unions for advances in real wages.

United Kingdom Experience

2.18 In the United Kingdom, there is evidence (notably in the very low rates of return on capital) of sluggish adjustment of aspirations. One estimate is that the effect of the fall in sustainable real income growth and the rise in the tax burden in the face of inflexible real wage aspirations increased permanently the unemployment rate consistent with merely stable inflation by 1½ percentage points in the mid 1970s. A number of factors (some of which apply with equal force in other economies) explain sluggish adjustment of pay aspirations in the United Kingdom despite heavy unemployment:

a. Unions

Unions have placed much more emphasis on improving wages than on maintaining or increasing the number of jobs, possibly as a result of the experience of full employment in the prosperous post war years and the commitment of governments at that time to manage demand in order to secure jobs. Old attitudes and objectives take time to change and

CONFIDENTIAL

unions have found it easier to accept redundancies than to relax pressure for higher pay. Thus for most of the last ten years, for every stoppage caused by redundancy questions, there have been 20 stoppages over wages. Old attitudes and objectives have been reinforced by increased industrial muscle. The bargaining power of unions has been strengthened over the years by extensive legal immunities, by developments of modern technology which have increased the potential disruptive power of key groups of workers and by increases in membership. Union membership rose from 44 per cent of the labour force in 1960 to 55 per cent in 1979, one of the highest levels of union density by the standards of the major industrial economies. Some estimates suggest also that the "union mark-up" (ie the wage differential between union and non-union workers) rose significantly between 1968 and 1973 though it has since remained fairly constant.

b. Less Competitive Product Markets

Some product markets may have become less competitive as the result of the increased concentration of output in the hands of fewer large firms (discussed further in chapter 6). In addition, some industries, particularly in the public sector, are monopolies. The resistance of employers to pay claims may have weakened since they were able to pass on higher pay in the form of higher prices. This point is allied to a. in the sense that unions often have the greatest market power in companies/industries where competitive forces are weak.

c. Internal Labour Markets

In the United Kingdom, and in other major economies, a number of people have long term job security in the public sector and within large companies. These employers often have highly developed "internal labour markets" where most jobs are filled by the promotion or transfer of existing staff and not by new entrants. The purpose of these arrangements is to motivate and to encourage loyalty amongst experienced and well-trained employees. The extent of internal labour markets is reflected in the length of job tenure enjoyed by many in

employment. A recent estimate is that, in the mid-1970s, men in employment in the United Kingdom could expect to spend an average of 20 years (and women 12 years) with the same employer. At that time, the average length of job tenure in manufacturing appeared to be as high as in public administration. The effect of these developments is to shield substantial numbers of those in jobs from the direct influence of competitive forces in the labour market. Unless accompanied by specific agreements to promote pay flexibility (like profit sharing as in Japan), the growth of internal labour markets will therefore have reduced the responsiveness of wage increases to changes in economic conditions.

d. Employment Protection Legislation

In the United Kingdom and elsewhere, the general effect of the development of internal labour markets on wage responsiveness was reinforced by employment protection legislation.

e. Employers' Attitudes

There are strongly entrenched notions of "fairness" which make employers reluctant to push down the pay of the employees and cut their living standards, and to pay below the local "going rate". Employers are also averse to sacking people in order to take on, at a lower wage, someone formerly unemployed and willing to work for lower pay. This partly explains the difficulty of the unemployed pricing themselves into jobs.

f. Wages Councils

Wages councils probably made it difficult to adjust the wages of the lower-paid and largely unskilled workers.

g. Benefit levels

Figure 5 shows how social security benefits rose sharply in relation to earnings in the late 1960s before gradually falling in the 1970s. The increase in benefit in the late 1960s probably caused people to take up existing vacancies more slowly, adding to registered unemployment. A

CONFIDENTIAL

more powerful effect on employment may have come through the influence of benefits on the "wage floor". Employers may be keen to be seen to be paying at least the "family wage" (eg supplementary benefit level payable to a family man with two children). Hence benefit may hold up the going level of low pay, though the effect on the total range of pay rates is not clear. Further details are given in Chapter 7 and Annex B.

The United Kingdom's Industrial Weakness

2.19 In the United Kingdom the problems just described come on top of domestic supply weaknesses and generally poor industrial performance. This has created additional problems for jobs.

2.20 The most obvious symptom of industrial weakness in the United Kingdom is its low productivity growth, although labour productivity is only one aspect of industry's overall competitiveness. Productivity growth has been persistently worse in the United Kingdom than abroad, with the inevitable result that there has emerged an ever-widening gap in levels of productivity. The National Institute, for example, estimated that, even in 1955, manufacturing output per man-hour was higher (by a margin of 8-18 per cent) in some major European countries. By 1980, estimates on a similar basis put the level of productivity in the United Kingdom at less than half that in the United States, the Netherlands and Japan; little more than half that of France, Belgium and West Germany, and around two-thirds of that of Italy.

2.21 The long-standing malaise in British industry is only partly explained by economic factors. Relative to the level of output, productive investment in the United Kingdom does not compare too unfavourably with abroad; studies have shown that capital productivity - the increment to output achieved from investment - is, like labour productivity, a major weakness. Misdirected R and D expenditure, over-diversified product ranges, high marginal tax rates, excessive capital subsidies and uncertainty created by stop-go macro-economic policies have all contributed something to the explanation, but not the whole story.

CONFIDENTIAL

CONFIDENTIAL

2.22 A pervasive factor, which has been identified by commentators for over a century, is the lack of adaptability of British 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, has often been said to derive from management weakness - an "entrepreneurial failure". British managers have often been found to be less well educated or trained and lacking the animal spirits evident in their peers overseas. Part of the problem here may stem from "institutional factors" such as Britain's failure to develop a comprehensive technical education system.

2.23 Another pernicious influence has been the United Kingdom's system of collective bargaining and industrial relations. Labour militancy in the United Kingdom probably reflects not only union intransigence and greed but also the weakness of management in handling industrial relations and underlying class conflict. As a result, industrial performance and productivity have suffered. In a comprehensive study, Prais (of the National Institute) notes the greater frequency of short, small, "wildcat" strikes in Britain compared to abroad. Whilst harming the workers little in the short run, these are particularly disruptive to production. Moreover, the increased incidence of strikes with increasing sizes of plants is much more marked in Britain than in Germany or the United States. The result is a "comparative disadvantage for Britain in this respect in those industries in which production is required for technical reasons to be carried out on a very large scale". The highly decentralized, locally-based nature of collective bargaining, combined with the defensive strength of unions, inhibits long term planning and co-ordinated decision making, delays the adoption of new techniques and militates against quick responses to changes in the organisation of work. This disadvantage, allied to the degree to which trade unionism has penetrated the workplace, appears to be particularly pronounced in the United Kingdom.

2.24 A further effect of unions which represent the great masses of unskilled workers in the United Kingdom has probably been to reduce pay differentials between the skilled and unskilled. For example, the differential between pay for skilled workers and labourers in engineering narrowed by 10 per cent between 1970 and 1980. Apart from undermining the job prospects of the unskilled, an important effect has been to reduce the rewards to investment in labour skills by individuals and companies, adding to the skill shortages which have plagued British industry.

CONFIDENTIAL

CONFIDENTIAL

2.25 Such fundamental industrial deficiencies prejudiced trading performance in terms of non-price as well as price competitiveness. In fact, (imperfect) measures of price/cost competitiveness indicate broad stability if not improvement between 1960 and 1978. It is the quality and reliability of British goods which have proved particularly deficient. As a result, there has been a tendency, noted in several studies, for imports of manufactures to rise disproportionately to increases in domestic output while exports fail to tap the strongest growing overseas markets. In short, not only do foreigners not want our goods, neither do we.

2.26 The general impact of these weaknesses has been two-fold:

a. The inability to compete effectively in international markets has undermined the manufacturing sector's ability to generate jobs directly. Figures 6 and 7 reveal a close correlation between jobs (especially male jobs) lost in manufacturing and the rise in United Kingdom unemployment. This fall in manufacturing employment also appears to be unique by international standards. It preceded by a substantial margin the decline in manufacturing jobs in Europe and Japan seen in the 1970s. In the United States, manufacturing employment continued to expand until the latest recession. Moreover, while in other major economies manufacturing output rose between 1973 and 1979, the United Kingdom was unique in experiencing an absolute fall. (Part of this can be attributed to the diversion of resources into the development of the North Sea.)

b. The high import propensity of the economy has meant that it fails to respond adequately when domestic demand increases. Extra spending often simply leaks into imports, creating balance of payments and exchange rate difficulties, and ultimately higher inflation. More generally, the United Kingdom, by its industrial weakness, has been constrained to grow at a margin below that achieved by competitors abroad. This, in turn, has reduced the achievable growth of employment in all sectors of the economy.

CONFIDENTIAL

CONFIDENTIAL

United Kingdom Experience Since 1979

2.27 After 1979, the last peak year of the cycle, a downturn in activity, here and abroad, added a cyclical component to the trend rise in unemployment caused by the various supply weaknesses described above.

2.28 Between the second quarters of 1979 and 1981 - the peak and trough of economic activity in the present cycle - GDP in the United Kingdom fell by 7 per cent and manufacturing output fell by 18 per cent. Of the 1.7 mn decline in employment, two-thirds was accounted for by falling jobs in manufacturing. Since early 1981, output has stabilized but employment has continued to fall.

2.29 Some of the output and employment difficulties reflect those experienced in the rest of the world in the wake of the second oil price increase, though a rise in the oil price itself should have affected the United Kingdom much less harshly than others who are not oil self-sufficient. The United Kingdom's real income would not have been reduced directly by the rise in oil prices, although the "oil effect" may have, nevertheless, caused some problems of adjustment and consequential loss of jobs in the trading sector. On balance, however the possession of oil was a substantial advantage for the United Kingdom.

2.30 Nevertheless, the gap in growth performance between the United Kingdom and the OECD economies widened. Annual average United Kingdom GDP growth had been $1\frac{1}{2}$ percentage points below the OECD average between 1973 and 1979. In the subsequent two years, this "gap" doubled: OECD economies grew at about 1 per cent per annum while United Kingdom output fell by over 2 per cent per annum. As already noted, United Kingdom unemployment also rose relative to that in other main economies. Between 1973 and 1979, United Kingdom unemployment represented typically just over 30 per cent of total unemployment in the rest of the EC (according to national definitions). By 1982, this ratio had jumped to over 40 per cent. Had United Kingdom unemployment moved in line with the rest of the EC (maintaining the 1973-79 average relationship) unemployment would have been around 700,000 less in 1982. The increase in unemployment in the United Kingdom relative to abroad would have been considerably greater but for the fall in numbers in the labour force.

CONFIDENTIAL

The need to counter inflation

2.31 Part of the sharp rise in unemployment can be ascribed to the temporary costs of bringing down inflation which was on a rising trend in 1979 due to the previous strong growth in the money supply and in earnings. It was always recognised by the Government that the side effect of squeezing inflation out of the system by containing the growth of the money supply would be a transitory fall in output and loss of jobs. The size and duration of these temporary costs depend on the speed with which inflation adapts to lower monetary growth. This in turn depends in part on how quickly expectations of inflation adapt. If the mere announcement of a declining path for the money supply caused employers and employees immediately to mark down their price increases and wage demands, the output costs of counter inflation policy would be small. But, if inflation expectations are sticky - as seems to be the case - the speed of adaptation to lower inflation will be slow and the output/job cost of counter-inflation policies high.

2.32 Overseas perceptions of the counter-inflation policies embraced in the Medium Term Financial Strategy caused a strengthening of the exchange rate. Despite the fact that the broad measure of the money supply overshoot its target, confidence in sterling was boosted by the commitment to bring inflation down and by the relatively high interest rates of the period. These monetary influences on sterling were reinforced by its petro-currency status and the sudden rise in real oil prices.

2.33 The shift in the behaviour of sterling was quite outside past experience: previously, and over broad periods, the exchange rate had moved downwards maintaining the United Kingdom's price and cost competitiveness. This failed to happen after 1979. Inflation of earnings rose between 1978/79 and 1979/80. Combined with the appreciation of the exchange rate, the surge in domestic wages and prices led to an unprecedented loss of labour cost competitiveness - over 50 per cent between end 1978 and end 1980.

2.34 The initial major impact of the deterioration in competitiveness operated directly on domestic demand and output rather than through a worsening trade balance. In order to retain hard-won export markets, manufacturers cut back on their export prices and attempted to compete at home by containing

CONFIDENTIAL

the rise in prices of import-competing products. In both 1979 and especially 1980, export prices of manufactured products rose much less fast than domestic prices. Generally manufactured product prices rose less fast than retail prices or earnings. Added to the rise in real oil prices, the effect was to produce a severe squeeze on manufacturers' profitability and cash flow. Firms reacted by cutting back on stocks, investment and employment. This reaction initially had the tendency of reinforcing the cash squeeze as suppliers' stocks of finished goods rose and productivity fell (because output fell more quickly than employment), adding to the rise in real unit labour costs.

2.35 The severity of the recession in the United Kingdom and consequential sharp loss of jobs therefore occurred in part because pay expectations in all parts of the economy did not adjust quickly enough to the new environment, including an unexpectedly strong exchange rate. Employment may not, however, respond sufficiently when output recovers from the cycle to secure a fall in unemployment in the short run. The reversal of previously accommodating monetary policies and the sharp squeeze on industry forced management to take hard decisions to rationalise and cut jobs, decisions which had been deferred over the years partly because of the fear of opposition to closure and redundancy. Moreover people will not as a rule return to the actual jobs they have left. Prospects for unemployment to the end of the decade are considered in the next chapter.

CONFIDENTIAL

FIGURE 1

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

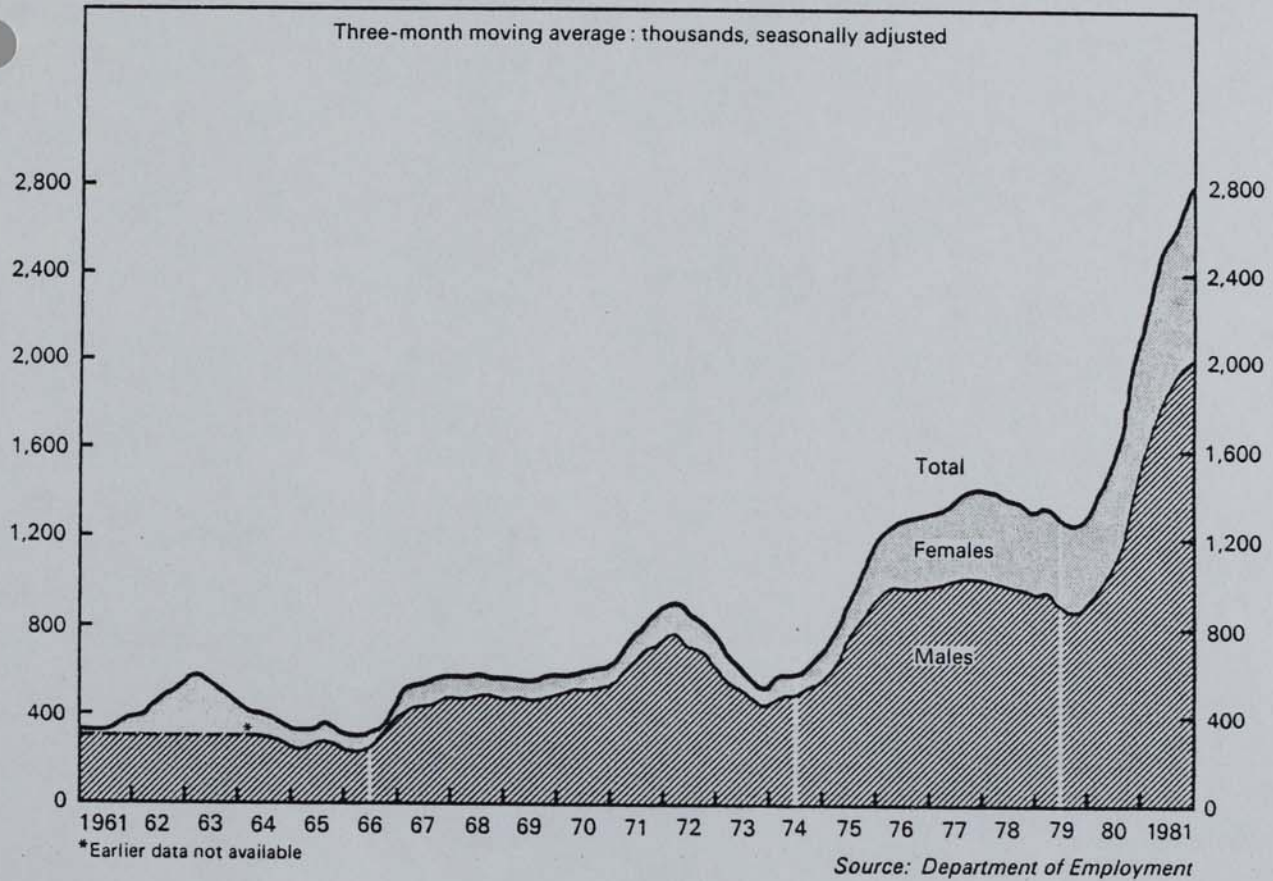
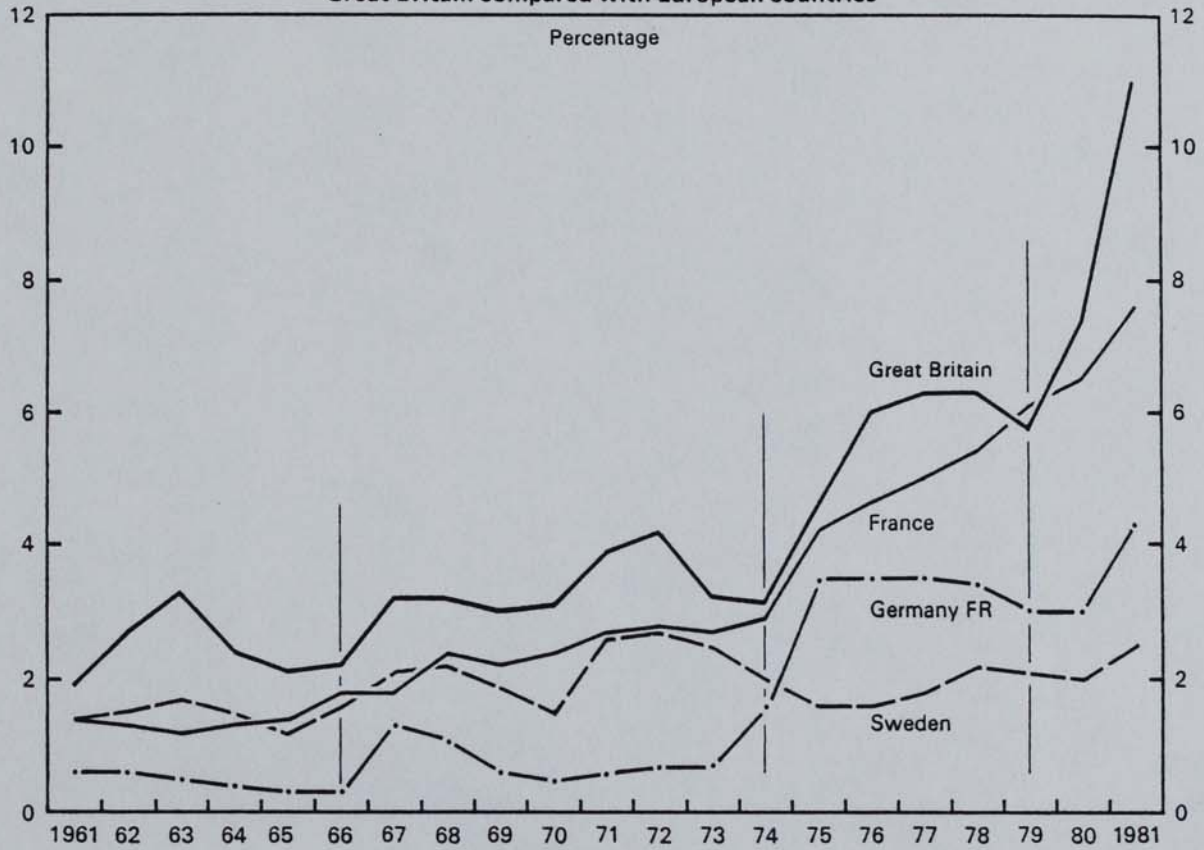


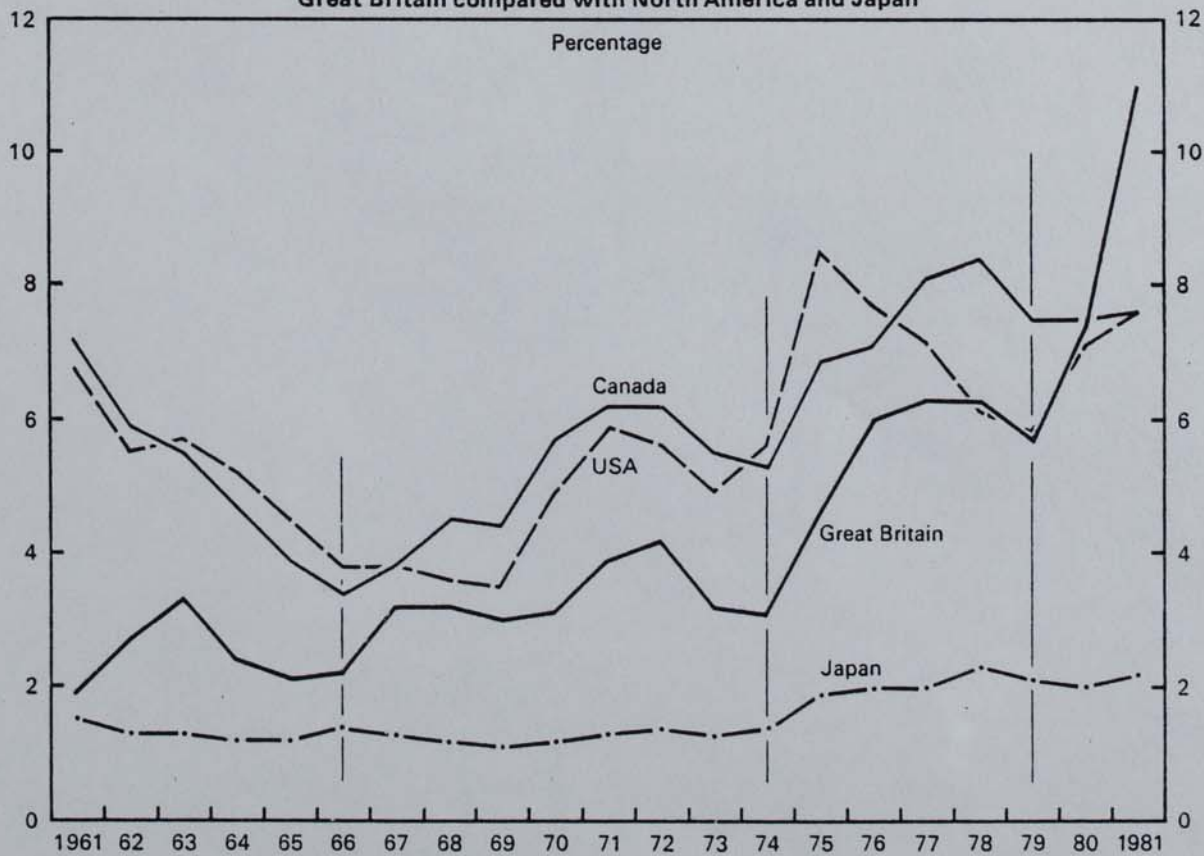
FIGURE 2

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

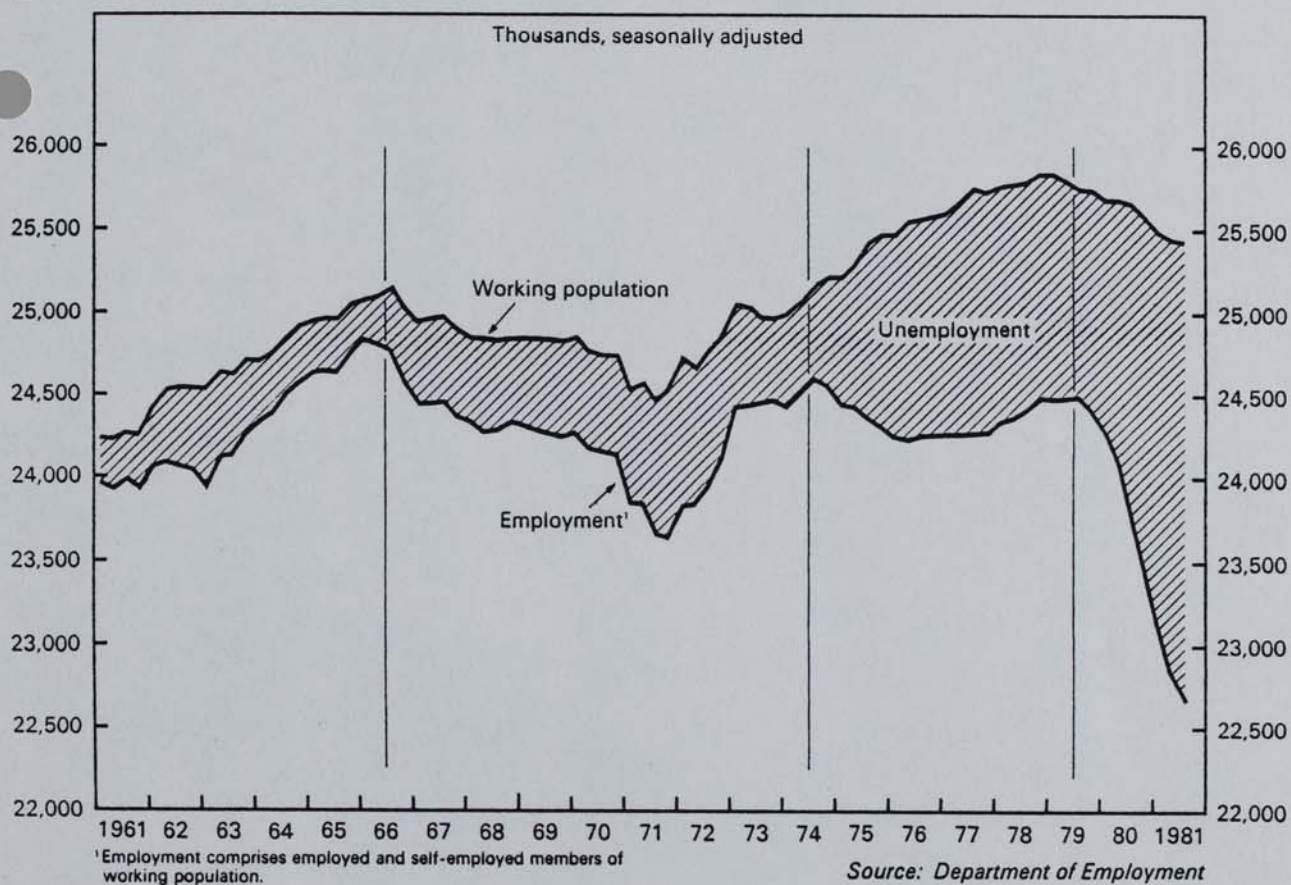


FIGURE 4
Manufacturing and non-manufacturing employment, Great Britain, 1961–1981

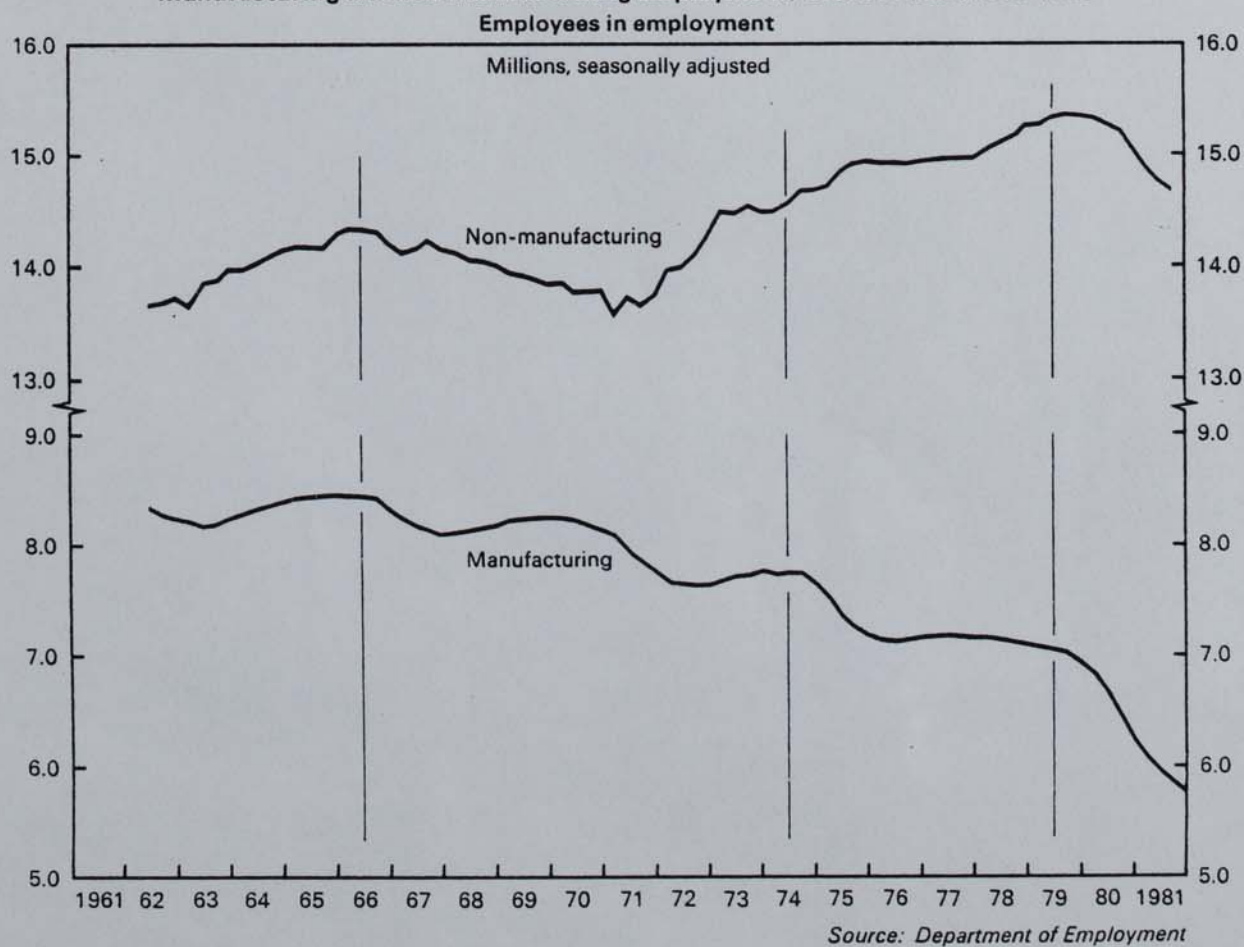


FIGURE 5

Replacement rates for unemployed, Great Britain

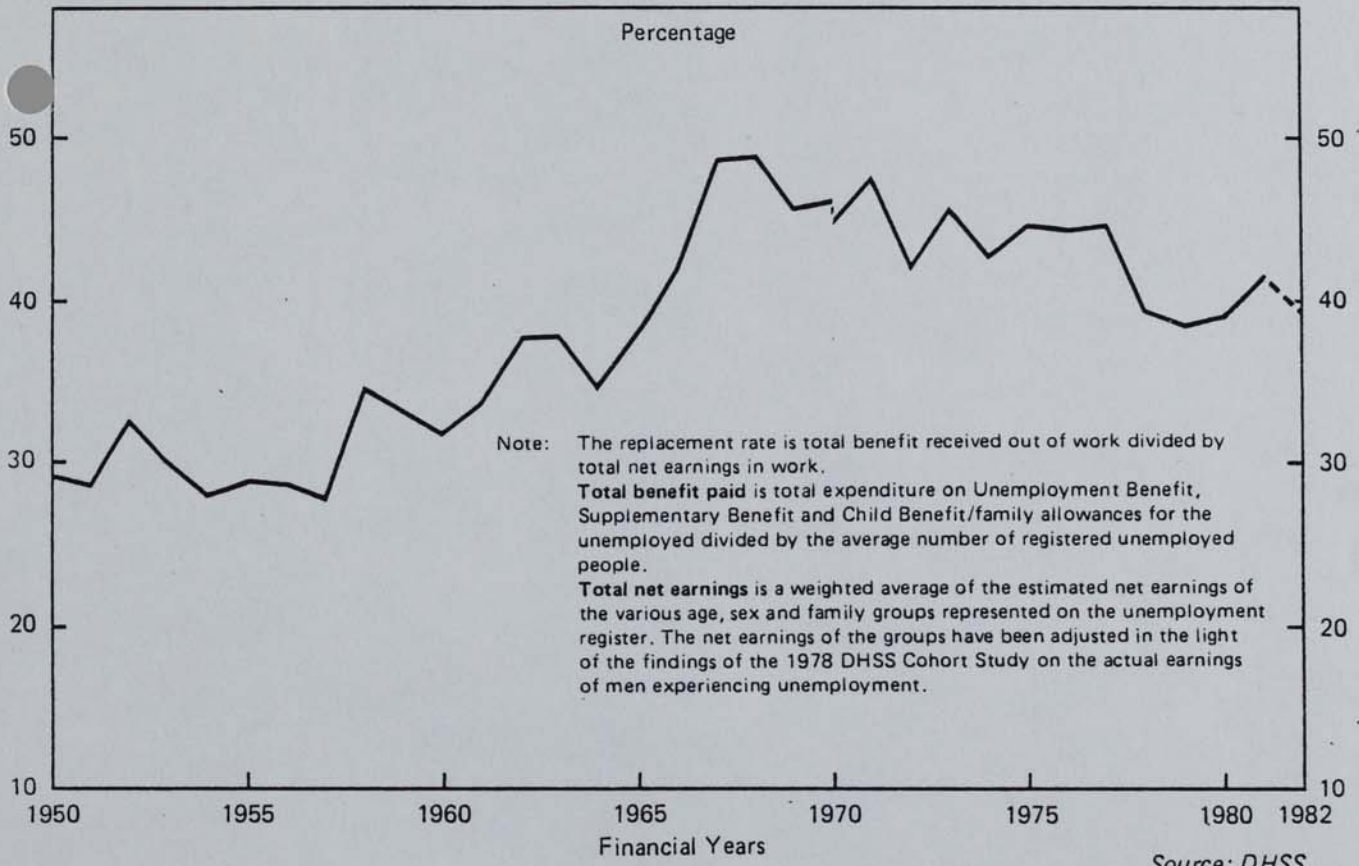
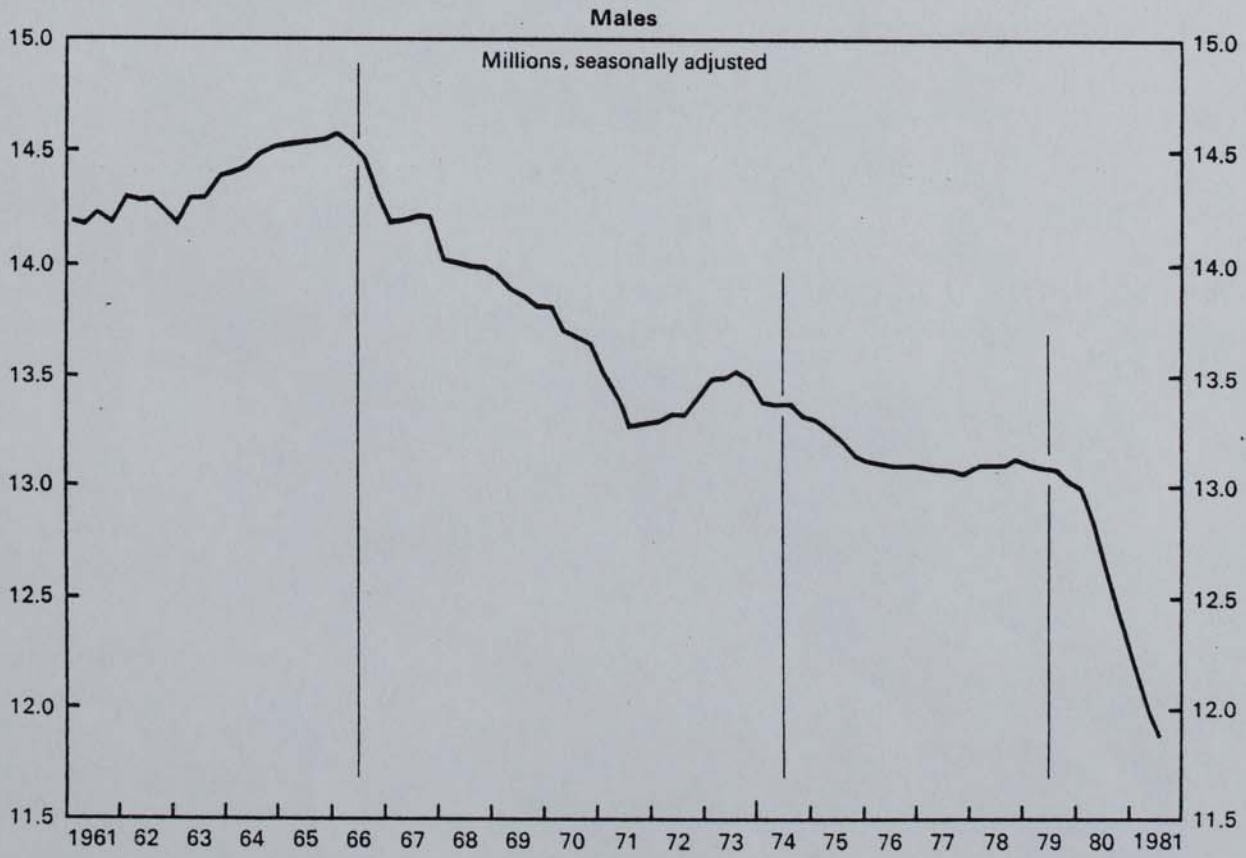
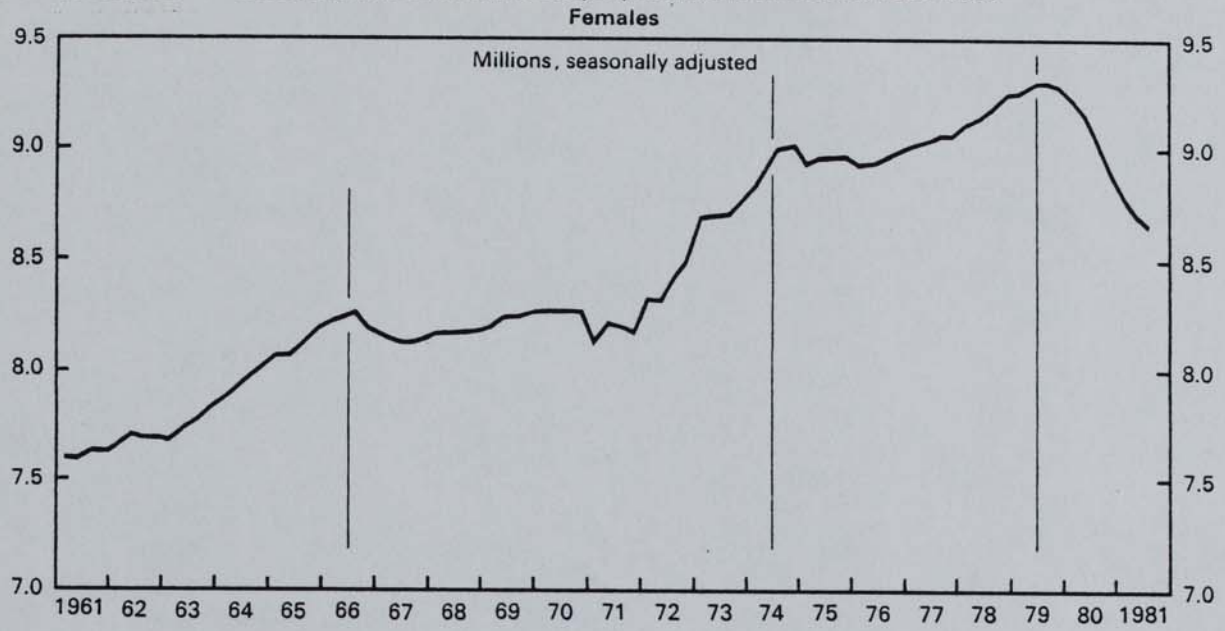


FIGURE 6 Trends in male and female employment, Great Britain, 1961–1981



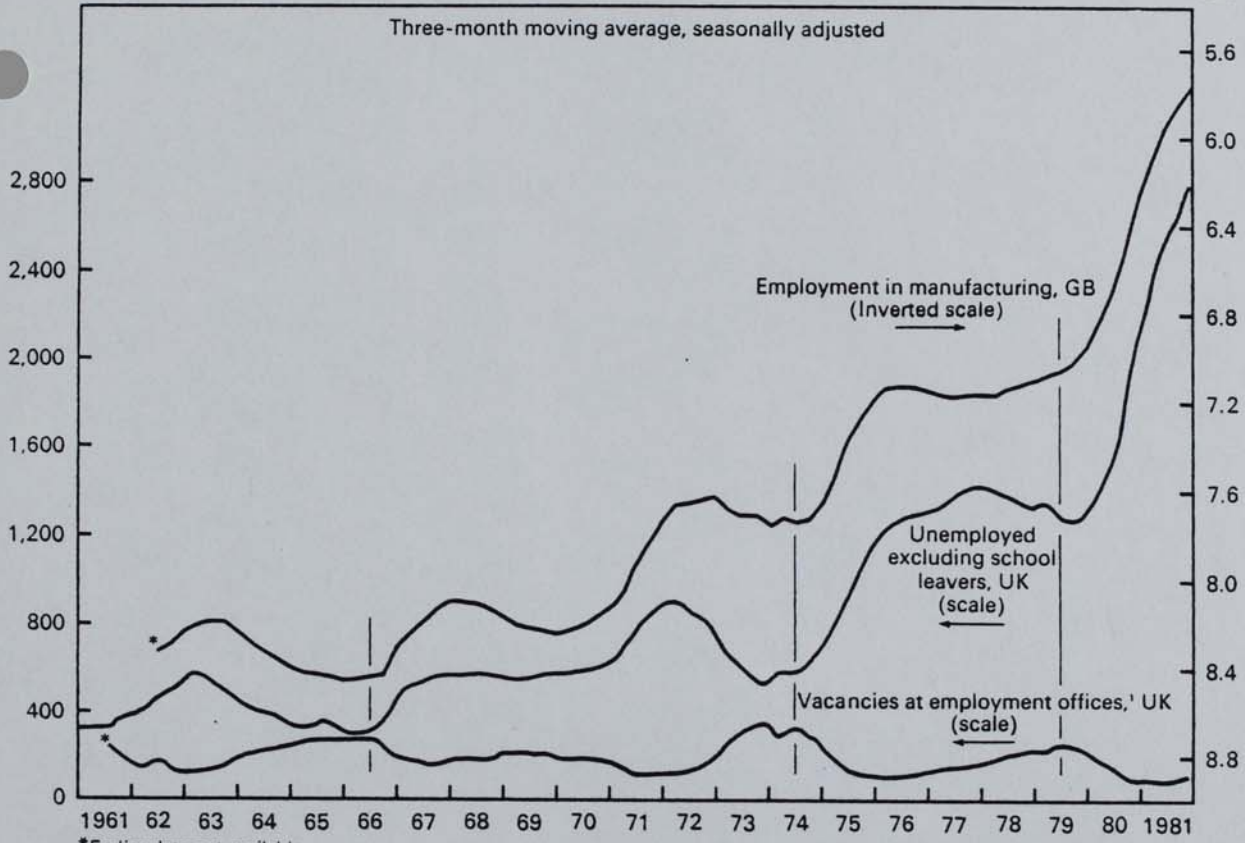
Source: Department of Employment

FIGURE 7

Trends in unemployment, vacancies and manufacturing employment, 1961-1981

Thousands

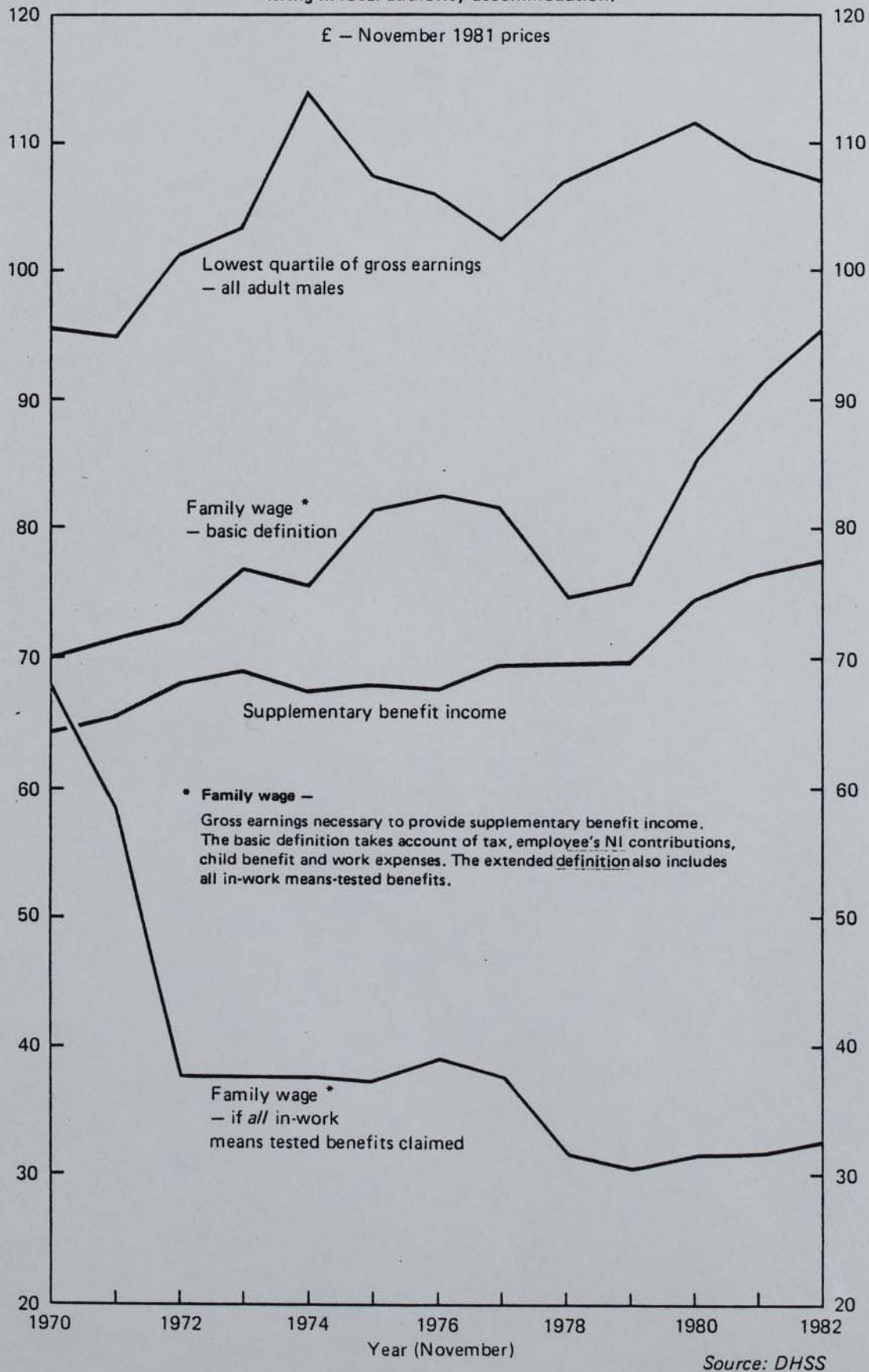
Millions



Source: Department of Employment

FIGURE 8

Comparison of lowest quartile of gross earnings with 'family wage'*
 (For married man with non-earning wife and two children,
 living in local authority accommodation)



CONFIDENTIAL

CHAPTER 3: THE OUTLOOK FOR UNEMPLOYMENT

1. It is widely accepted that unemployment is a major problem and there are two reasons why it must attract the Government attention in formulating policy at this time. First, the chances of unemployment returning to 'normal' post-war levels in the foreseeable future are low, particularly if action is not taken to free the workings of the market. Secondly, if unemployment continues at a high level, or indeed rises further, there will be harmful social and economic consequences both for the individuals concerned and for communities at local and national levels. This chapter assesses the extent of these problems by describing the prospects for employment and unemployment and some of the major consequences of unemployment for individuals and for society.

Prospects for unemployment

2. An economy with zero unemployment is neither feasible nor desirable. For example, some degree of "frictional" unemployment is a necessary component of a dynamic economy: that is people are changing jobs and switching from declining to growing activities. Changes in technology and market structures can make some workers "structurally" unemployed. There are some workers who for personal reasons are only marginally employable even when labour demand is high. Finally there are cyclical fluctuations in unemployment caused by variations in world trade. Allowing for these factors Beveridge recommended an average of 3 per cent unemployment as a desirable target for post war Britain. In practice in the 1950s and 1960s, unemployment stayed well below this figure and overheating often resulted. Also the greater rate of structural change today requires a higher level of frictional unemployment so that a figure of 3 per cent is probably too low. Getting down to levels of 4 per cent - 5 per cent that is 1 million to 1.25 million could be regarded as a satisfactory outcome. But to attempt to achieve such a level quickly would involve serious inflation problems. At best the transition must be gradual and the figure considered as a long term goal.

CONFIDENTIAL

CONFIDENTIAL

3. To attain an unemployment level of 1 million an additional 2-2½ million jobs would be needed. As explained in Annex A (where the composition of unemployment figures is discussed in greater detail), a significant minority of the existing register of 3 million are not genuinely unemployed and would withdraw from the register if obliged to accept jobs. The numbers cannot be quantified with any certainty but our guess is that the number is around 500,000 (perhaps 300,000 of whom work in the black economy). On the other hand there are probably a greater number of people who do not at present register but who would do so if jobs were available. Thus to reduce unemployment from 3 million to 1 million requires more than an extra 2 million jobs.

4. Looking ahead, the working population will change too so that the chances of achieving this outcome over the rest of the decade depend upon -

- the rate of growth of the economy;
- changes in the size of the potential labour force;
- the participation rate, (that is the proportion of the population of working age who will be actively seeking full time work);
- changes in the level of productivity and the effect of technological change.

5. Unless there is a further intensification of the world recession during 1982 the United Kingdom economy should begin to expand and attain growth of GDP of around 2 per cent from 1983 onwards. By the end of 1984 or early 1985 GDP should have returned to the level of 1979. Given a continuing recovery in competitiveness, there is then the prospect of steady growth for the rest of the decade of about 2-3 per cent per annum. However because of the changes in population and participation rates the return to 1979 levels of GDP is unlikely to bring about a return to the 1979 unemployment level of 1.3 million. Nor will growth of 2-3 per cent necessarily bring about a significant decrease in unemployment.

CONFIDENTIAL

CONFIDENTIAL

6. First between 1981 and 1991 the total population of the United Kingdom is projected to grow by around 2 per cent. The population of working age between 16 and 65 will rise more rapidly by 4 per cent, or 1.1m, and the largest increase will be in the 20-44 age groups. The numbers in the younger group (16-19) and the group (60-64) nearing retirement will actually be falling during this time.

7. Secondly participation rates may change. By 1980 they had become higher in the United Kingdom than in most developed countries except Scandinavia but continued high unemployment has since discouraged some people from seeking jobs. For example, more men have chosen earlier retirement and fewer married women try to get jobs: these trends may now continue.

8. Because of the uncertainties it is difficult to derive precise figures for the overall increase in the numbers of people who will be actively seeking work by 1990. But taking the increase in the population of working age and allowing for the 'discouraged worker' effect it is likely that by 1990 the number of people actively seeking work will be 500,000 greater than now. If the economic situation improves, this in itself could encourage more people actively to seek work and so increase this number.

9. Thirdly, there is the problem of predicting productivity trends. Labour productivity in the 1960s and early 1970s increased at around $2\frac{1}{2}$ per cent per annum for the economy as a whole, higher for manufacturing. There was a marked slowdown in the mid 1970s associated with lower levels of output growth and changes in relative prices. Then in 1979 productivity fell back as output was reduced and, despite the significant shake-out of labour, employers failed to adjust their labour force immediately to the same extent. The re-adjustment between labour and output followed from 1980 onwards and by 1981 labour productivity began to rise again quite sharply, especially in manufacturing. The question now is whether this trend in productivity is a temporary phenomenon or can be considered a more permanent change.

CONFIDENTIAL

CONFIDENTIAL

10. An improvement in United Kingdom competitiveness is an essential condition for economic growth and a rise in labour productivity an important element of that. The recent shake-out of labour and improvement in working practices mean that the same output is being achieved with a reduced labour force. This trend may continue: anecdotal evidence from some businessmen is that some further labour shedding may take place, particularly in sectors hitherto protected. Also, having gone through the 'trauma' of laying-off workers on a large scale (which was more acceptable to trade unions when output was falling fast and bankruptcy threatened) firms may be reluctant to increase their labour force to former levels: instead it is both cheaper and easier to reduce short time working, increase overtime and also install labour saving investment.

11. The other determinant of improved productivity and a further unknown is the pace and dissemination of technological development, (especially the wider use of micro-electronics). Historically technical progress has been associated with improved economic growth and higher living standards. Initial job losses have been offset by the effects of greater efficiency as the lower costs and prices have led to an increase for the demand of products generally and improved market opportunities overseas. It is not clear whether that current technical changes are of an entirely different order of magnitude from those historically. However a number of commentators have raised this as a possibility, in particular questioning how far increased jobs in the service sector can offset the loss of jobs elsewhere.

12. Micro-technology will probably result in job displacement in some sectors. For example, further computerisation and the more extensive use of word processors may cause job losses in routine clerical and typing work. Further use in financial services such as insurance and banking could result in lower need for labour there. And the greater use of computer controlled manufacturing processes and robotics will have a continuing effect on some manufacturing activities. However there is certainly no case for slowing up the introduction of these techniques because of the employment consequences: this could only lead in the longer term to a less efficient and less competitive economy.

CONFIDENTIAL

CONFIDENTIAL

13. Our general expectation is that new technologies will be introduced fairly slowly because of the high initial costs involved, the need to train staff and supervisors and probably because of some continued resistance. In the immediate outlook, the job displacement effects are not likely to be significant in relation to the current level of unemployment. The importance of these developments lies in the consequences in the pattern of employment, and in particular the further decline of routine, unskilled work; the implications for education and training are considerable. The major growth of employment in the service sector is likely to arise where human care and attention cannot be replaced by mechanisation for example in health and welfare services (in both the private and public sectors) and in other areas such as tourism, leisure and personal services where demand can be expected to grow with increasing prosperity.

14. If, as seems likely, productivity growth continues at 2 per cent or more, as it did in the 1960s, an average growth of GDP from now to 1990 of 2 per cent will succeed only in keeping employment at around current levels. Combined with the expected growth in the labour force and loss of jobs from new technology, and - an important reservation - other things being equal, this could lead to unemployment rising rather than falling for the rest of the decade. Again other things being equal, there is the dilemma that a lower growth rate will lead to further increases in unemployment: whilst also of some concern a higher growth rate combined with a higher participation rate among the population of working age also could lead to higher figures of registered unemployed.

15. Other things must therefore not remain equal. The prospect referred to above is based on a continuation of former economic relationships and it is possible to conceive and necessary to achieve a more optimistic scenario. A restoration of business confidence could significantly change the outlook. There are already some signs of this in terms of greater realism on pay, and a reassertion of the will of management to manage (and sweep away inefficient practices). There is also the possibility of a further upturn of world trade as inflation falls and interest rates follows suit. Throughout the industrial world, the adjustment of the capital stock to a regime of higher

CONFIDENTIAL

CONFIDENTIAL

energy prices may be complete and this could now be followed by a new wave of investment to take advantage of technological improvements (this is a period potentially of very rapid innovation). Rigidities to the operation of market forces should weaken. A further stimulus should follow in the United Kingdom from a reduction in tax burdens in general as we reach the stage of fiscal headroom always anticipated in the MTF5. All these factors could gel to provide a period of sustained recovery and rates of economic growth much higher than those of the 1970s.

16. The rate of growth would still be constrained by two key factors - the level of productive capacity available, including a labour force with the right skills, and the inflation proneness in the economy. It is not known how much capacity has been lost over recent years and how much has become technically obsolete (particularly at current wage levels). The longer the recession lasts the further the capacity base will be whittled away. Various estimates of excess capacity in the United Kingdom economy have been derived but these vary widely from 6 per cent to around 27 per cent (depending on different definitions and methods of estimating). If it is at the lower end of the range, a rapid expansion of demand would cause shortages and lead to a significant increase in imports.

17. Also to be sure that higher growth is not accompanied by higher inflation and, also, leads to more jobs, it is important that wage increases are contained. Lower wage increases from now on would further improve international competitiveness so increasing export opportunities and displacing some imports. Lower rates of inflation would permit a higher level of real growth within a given money supply, though the lags in the process are such that this improvement may take some time to come through unless Government responds promptly to the need to ensure that any headroom available is used to boost economic activity: this aspect is discussed in Chapter 10. Further, in the longer term, a substantial reduction in the cost of labour in relation to capital would result in the substitution of labour for capital and an increased demand for labour intensive activities, opening up the prospect for a new range of jobs (though, of course, at wages lower than those currently obtaining).

CONFIDENTIAL

CONFIDENTIAL

18. The question is how great is the overall effect on unemployment of a lower rate of wage inflation? It is difficult to give precise estimates but on the basis of some simulation work by the Treasury a rough guide is that if, over the next two or three years wage settlements could be held at zero and earnings overall allowed to rise by no more than 2-3 per cent, the level of unemployment should fall by about 500,000, possibly more. This would entail an initial fall in real wage rates which could be offset by fiscal relaxation. As employment then rose, so total employment income would rise too.

Consequences

19. The prospect of unemployment continuing at or around its present level has profound consequences. In economic terms the cost of paying benefits to the unemployed (million for each extra million unemployed) has been one of the main causes of the continuing growth in public spending. In addition there is a substantial but unquantifiable loss of output from leaving human resources idle, together with a longer term loss of productive potential. There is evidence that long spells of unemployment, regardless of age, set workers on a downward trail: they drop down the occupational ladder and are more likely to become unemployed again in future. And it is plausible though unproven that widespread experience of unemployment will weaken the 'work ethic' among young people.

20. The depressed state - which unemployment symptomises - of the labour market and the economy entails other efficiency costs. Employers' cutbacks in skill training and in recruitment foreshadow (despite the general training being given to the young unemployed) a new generation whose employment potential has not adequately been developed. Labour mobility is depressed because workers with jobs lack the confidence to move. Similarly as previously discussed, businessmen may become more risk averse and useable capacity may decline.

21. The social consequences arise not only from the level of unemployment but also from its concentrated incidence. Although 300,000 people join and leave the unemployment register every month, well over 1 million have been

CONFIDENTIAL

CONFIDENTIAL

without work for at least a year* and many others face recurrent unemployment. One in every 5 young workers under the age of 25 is unemployed at any time, and ,000 of them have been continuously on the register for a year. One in every 3 unskilled or semi-skilled male workers is unemployed. The picture for these groups is worse outside Southern England.

22. The financial consequences of being unemployed are particularly severe for people with children, who however make up under 20 per cent** (ie under 600,000) of the unemployed. Cash benefits and free services ensure that unemployment need no longer cause abject poverty. But families with an unemployed father are much poorer than families with a father in work (partly because unemployed men are much less likely to have working wives). Households containing single unemployed people are significantly less well off, (relative to their needs) than the average working household, but significantly better off than households where the main breadwinner is unemployed. Under a fifth of single unemployed people live in household whose aggregate income is at or below the supplementary benefit level.

* Over 1 million have been continuously registered for a year (including 375,000 for 2 years). Others have had their spell of unemployment broken only by sickness, or a training course

** This estimate relates to February 1982.

CONFIDENTIAL

CONFIDENTIAL

TABLE 1. INCOMES OF HOUSEHOLDS AFFECTED BY UNEMPLOYMENT* - 1980

Family Type of Unemployed Person	Distribution of Incomes Relative to Supplementary Benefit Levels** (%S)			
	(% of total*** unemployed)	Incomes at or below SB levels	Incomes up to 40 per cent SB levels	Incomes more than 40 per cent above SB levels
Single Person	(55)	16	20	64
Married Women	(10)	4	4	92
Married Man with children	(19)	40	37	23
Married Man without children	(16)	26	26	48
All Households with Unemployed member	(100)	23	20	57

Source: 1980 Family Expenditure Survey

Notes:

(*) One or more member seeking employment, not necessarily registered unemployed.

(**) The current SB levels for a married man with non-working wife and two children aged 4 and 6 are £55 plus an average of £20 for housing costs. For married couples without children they are £38 plus an average of £17 for housing. For single non-householders over 18 they are £21 (figures rounded to nearest £)

(***) Estimates composition of registered unemployed at February 1982.

23. Although they are the poorest of the unemployed those family men who become unemployed tend to have been poor even when in work. The drop in income on becoming unemployed is greatest for those without dependents. The young unemployed tend to feel financially deprived compared with others who have decent jobs and compared with the high material standards of previous post-war generations of young people.

CONFIDENTIAL

CONFIDENTIAL

24. Probably the most worrying effect of modern unemployment on living standards is the long term impoverishing effect of prolonged dependency on benefit. Supplementary benefit rules encourage people to reduce what little savings they have. On benefit people have no prospect of bettering their financial position or saving in preparation for setting up a home of their own, or for their retirement. Because prolonged unemployed sets people on a downward path it risks locking them into life time poverty with increased dependence on the state at every stage in the life cycle.

25. Financial considerations aside, there is evidence that most unemployed people understandable feel deprived by the loss of interest and activity which employment provides and become depressed and frustrated by their inability to find work. Though individuals differ people who have been accustomed to regular employment, together with young people expecting to make their way in life, appear in general to be more seriously affected than people with an irregular employment history. Other things being equal, men seem to suffer these feelings more than women, presumably because it is easier for women to fall back on a housekeeping role. There is some limited evidence that prolonged unemployment also adversely affects the physical health of unemployed people, particularly men from stable employment backgrounds, but for the majority of the unemployed a link between unemployment and ill-health has not been firmly established.

26. The consequences of high unemployment for local communities are highly variable. Because of the pattern of industrial decline, the incidence of unemployment is nearly twice as high in the old industrial regions as in the South. Moreover, in large urban areas, the unemployed tend to be heavily concentrated in inner city areas and council housing estates where rates of unemployment among the resident working population can exceed 50 per cent. Concern about the social effect of such concentrations of unemployment currently tends to centre on the potential effects on crime and socially disruptive behaviour. While the link between youth unemployment and socially disruptive behaviour is complex and little understood, common sense suggests that it is dangerous for society to have a young generation which feels it has little stake in the future.

CONFIDENTIAL

CONFIDENTIAL

27. The social effects of unemployment can only properly be understood within the context of particular communities, taking into account their social cohesiveness, notably the strength of family ties, relations between majority and minority groups, the quality of leadership in the community and police community relations. Our 1981 report on Merseyside identified the spiral of decline which characterizes communities whose economic main spring has gone. The most able people leave; people in authority despair of restoring prosperity; local people, including school children, resign themselves to a future of chronic unemployment. The welfare safety net ensures that the communities remain in existence but cannot make them thrive. Such problems have increased in severity and extent because of high unemployment but existed in some areas when unemployment nationally was at a tolerable level. Though it is beyond the scope of this report, working out how to cope with such areas should be a major part of a strategy of living with high unemployment.

CONFIDENTIAL

CONFIDENTIAL

CHAPTER 4: REMEDIES FOR UNEMPLOYMENT - GENERAL APPROACH

1. A strategy for tackling unemployment needs to meet two basic requirements. First, it must recognise the complexity of the overall objectives: what society wants is not just high employment but worthwhile paid employment which leads to high living standards in a stable society with low and stable inflation. The first part of this chapter discusses the kind of economic structure which could reconcile this mixture of objectives in the long run. Secondly, it is necessary to recognise the length of time which it will take to cure the fundamental causes of unemployment; the strategy must therefore balance longer term cures with measures of relief which do not subvert the longer term objectives. The general approach to coping with unemployment is discussed in the second part of this chapter.

The Future Shape of the Economy

2. The earlier analysis showed that the achievement of high employment, high growth and low and stable inflation depends fundamentally on improving the general competitive performance of Britain's internationally traded sector and on introducing a much greater degree of flexibility into the operation of product and labour markets, so that the economy can become more resilient in the face of recession and other shocks.

3. Trading competitiveness depends on the wide range of factors which make up supply side performance. There is for example a need to improve profitability and to use profits to achieve the investment in both human and physical capital which will secure new markets and products; to develop and apply innovative ideas effectively; and to improve the quality of management and the level of risk taking. A detailed appraisal of all these issues would be out of place in this report though some are covered in Chapter 5.

4. Our analysis of the need for greater flexibility is primarily in terms of the labour market, though there is also a need in product markets for greater flexibility of response to market opportunities (see paragraph below). In present circumstances the particular need is for real wages to fall relative to productivity in order to restore profits. Also wage differentials need to reflect and thereby correct imbalances in demand and supply for different categories of labour.

CONFIDENTIAL

CONFIDENTIAL

5. The aim of increasing real wage flexibility (at a time when the initial flexibility must be downwards) is likely to run into conflict with trade unions and often with the public's sense of fairness. In addition, in important parts of the labour market the idea of lowering wages meets opposition from some employers. Although there are signs of favourable changes in some of these attitudes, they remain strong enough to hinder progress to higher levels of employment, by delaying the process of change. It needs to be made clear that the goal is not a low wage economy but an abatement in living standards today so that the seeds can be sown for future prosperity.

6. In considering how change can best be brought about it is useful to distinguish between what for the purpose of this report we call the primary and secondary sectors of the economy. Though the boundary between these two is not precise, the primary sector comprises the large, well established, more stable employers in both private and public sectors. The secondary sector includes the smaller enterprises where risks and opportunities are higher and where changes in market conditions have a more immediate impact.

7. In general, firms in the primary sector find it efficient to have highly-trained, well-motivated staff in secure career jobs. To achieve this they would rather have few relatively well-paid people than more people on lower pay. In particular, firms in the trading sector consider that survival in world markets will depend at least as much on having the right products of the right quality as on cost. These quality factors in turn depend on having highly trained staff with low turnover and co-operative working relationships between workforce and management. Managements take the view that their task is to improve efficiency, not to maximise employment. There is considerable justification for these views.

8. Some trading organisations are consequently reluctant to support radical labour market reforms, designed to free up employment. They fear that these would disrupt working relations and hence undermine other management initiatives to improve efficiency and competitiveness. Moreover, even if statutory employment protection and union power could be wished away and the "wage floor" reduced, providing wage flexibility, many organisations would, for reasons of long run efficiency as well as fairness, be slow to reduce wages.

CONFIDENTIAL

CONFIDENTIAL

9. Lessons from abroad, notably Japan, show that a high wage career job sector operates far more successfully if it has internal and external mechanisms of wage flexibility and adaptability to give it the necessary resilience. Big Japanese firms have a large bonus element in wages and obtain flexible use of labour (eg no demarcation disputes) and consensus about company aims in return for job security. They are also underpinned by a flexible sector of small businesses and sub-contractors and the self-employed. Comparatively few British firms have managed to secure comparable adaptability and wage flexibility from career employees, or developed similar consensus between, workforce and management about company aims. There is an external margin of flexibility in the use of sub-contractors and short contract labour but our secondary sector of small businesses and self employed is very small by international standards.

10. We must increase the degree of flexibility and competition in our economy if we are to generate growth and employment in a non-inflationary way. It is essential in particular to persist with efforts to import more flexibility into wage setting arrangements of organisations in the primary sector in a way which recognises the requirements for efficiency of the trading sector. Moreover, in order for the income earned by the trading sector to be effective in generating service jobs there needs to be sufficient flexibility and enterprise in the secondary sector, notably in services and construction, to identify and exploit opportunities offered by current market needs and available labour. Several service sectors (e.g. construction, distribution, catering) do have a greater margin of flexibility in that they have a comparatively high proportion of small businesses, or else part-time or casual employment. But many service industry markets are dominated by public monopolies or by private organisations (e.g. banking) in the primary sector.

11. The most promising way of achieving a more flexible labour market and a competitive economy may be to enlarge the secondary sector and allow it to operate in a less regulated environment. Even within the present framework of regulation an expansion of small businesses and self-employed would

CONFIDENTIAL

CONFIDENTIAL

increase the overall amount of flexibility in the economy because there would be more entrepreneurs, more competition in product and service markets and more people whose wages and working conditions are set by individual rather than collective bargaining. If, in addition, measures are taken to make people cheaper and easier to employ, they are likely to have their principal effect in this sector. The expansion of the secondary sector could be assisted by encouraging de-mergers and greater decentralisation of control in the private sector and by contracting out and privatisation in the public sector.

12. This strategy for encouraging the secondary sector offers scope for efficiency gains. But the increasing concentration in United Kingdom product markets, facilitated by too many mergers, (as well as too much public ownership) has not brought about the hoped for gains in efficiency. Instead there have been diseconomies of scale, with poor industrial relations and the general inertia which comes with large managerial bureaucracies. In product markets, large scale will still remain important for certain activities eg those requiring heavy pre-production expenditure or research and development. But to meet the rapidly changing patterns of demand in the 1980s there is a need for some shift from large to small scale points of production.

13. Moreover expanding the secondary sector offers the best scope for introducing labour market flexibility into the operations of the primary sector while minimising the risks of efficiency losses brought about by disruption and confrontation. Through the supply of sub-contracted services the secondary sector would provide increased flexibility. Also increased competition would pose a challenging effect so that existing constraints are broken down and the efficiency of the primary sector increased. We discuss in Chapter 5 how individual areas of policy (such as policy towards trade unions) can contribute to these ends.

CONFIDENTIAL

CONFIDENTIAL

14. In one sense the approach suggested here is a restatement of existing Government policy ie to encourage entrepreneurship and small scale business. In another it is a radical reversal of the trends of the past operation towards the extension throughout the labour market of job security, stable wages (at worst) and increased control by employees over their working environment. The message to be got across is that the mixture of employees' rights which appeared attainable in a historically unprecedented period of steady economic growth is no longer apt for an age which is likely to be prone to economic shocks. In these less certain circumstances working people at all levels will need to be prepared to trade something, whether it is their employment security, or the stability of their pay and adherence in their accustomed tasks. The primary and secondary sectors offer the opportunity for these trade offs to be made in difference ways.

15. The more the primary sector adapts, the more secure employment there will be and the less concern there need be about the prospect of secondary sector workers being poor and exploited. Low paid or irregular work will usually be a lesser evil than having no jobs at all. But this is a problem which must be acknowledged and resolved if the approach is to be accepted as compatible with social stability. It can be addressed in several ways eg through income transfers to prevent family poverty, safeguards against outright exploitation, flexible patterns of working time which allow careers to be split between primary and secondary sectors, and an education system which provides effective ladders to upward mobility.

Cures and Palliatives

16. The approach discussed above aims to achieve both high employment and lasting growth in the longer run. But this will not cure unemployment in the shorter term. At present, economic policies are supplemented by a variety of Special Employment Measures. These are designed and presented as temporary measures whose common feature and overriding aim is to reduce the level of registered unemployment in the short term. They work in a variety of ways. Some promote training and/or lower wages and hence make a positive contribution to the economic strategy. Others, involving such things as labour intensive work outside the normal market, early retirement and job-

CONFIDENTIAL

CONFIDENTIAL

sharing, tend rather to be seen and presented as temporary deviations from the main thrust of economic policy. Labour intensive activities, reduction in the labour force and work-sharing are not at present regarded as desirable objectives in themselves, because of fears that they may be inconsistent with efficiency and hence with long term growth. We do not accept that they need have these undesirable effects.

17. The need is for a broader view of economic strategy which incorporates measures to reduce and alleviate unemployment for as long as they are needed. Because they will be more than temporary, it will be even more important to minimise any efficiency costs. Palliatives ie measures designed to relieve the pain of unemployment do not necessarily entail an efficiency cost and wherever possible, measures which have no such cost should be preferred. It is also desirable to design measures so that if possible they further the aims of market flexibility discussed earlier.

18. There is considerable scope for measures which would alleviate unemployment by removing market rigidities. For example, the level of employment is affected by the higher taxation of labour, relative to capital and by the institutional factors which hold up the wage floor. Labour force participation is affected by tax incentives for working wives, and by the rigid pattern which pension schemes impose on the pattern of working life. The incidence of unemployment on given groups is influenced by the job security afforded to existing employees which leads the "market" to discriminate against new entrants, and by the rigidity of collectively bargained wage structures which prevents disadvantaged job seekers from pricing themselves below other candidates. Measures which remove such distortions can be both cure and palliatives.

19. Measures which attempt to offset the adverse employment effects of rigidities which cannot be removed can be a good "second best" if the outcome corresponds more closely to what would happen in a free market for labour and - an important proviso - provided the underlying rigidity is not made worse. The danger of subsidies to employers is that they can reduce the downward pressure on wages and hence delay the market's adjustment. But

CONFIDENTIAL

CONFIDENTIAL

wage subsidies can be designed which work with the grain of the market, notably by incorporating a wage ceiling. In this form they need not entail an efficiency cost. Wage supplements for heads of families in low wage jobs will be an important part of the strategy approach. Only by breaking the linkage in the public mind between low pay and family poverty will the public be brought to accept a substantially larger low wage sector.

20. Measures which enable people to cope with being unemployed (by providing income, useful occupation and status), currently barely figures at all among the explicit aims of employment measures. Yet they could be very important in enabling society to live through a period of high unemployment and thus retaining public confidence in tackling the long term problems.

21. The policy proposals which follow reflect range of objectives and the longer term economic framework discussed in this chapter. Chapter 5 discusses measures to help improve economic performance. Chapter 6 discusses efficient ways of generating more employment. Chapter 7 considers possible changes to the tax benefit system which would provide a greater inducement to create and take employment, while preserving a welfare safety net. Chapter 8 deals with the development of more flexible patterns of working time. Chapter 9 considers other possible measures to reduce, and alleviate the incidence of unemployment particularly long term unemployment.

CONFIDENTIAL

CHAPTER 5: IMPROVING THE ECONOMY'S SUPPLY SIDE PERFORMANCE

1. The analysis in Chapter 2 confirmed the view that supply side deficiencies have been a major limitation to growth of output and employment in the United Kingdom, most evident in the lower level of productivity compared to that of other advanced industrialised countries and in our greater susceptibility to inflation. The Government has already undertaken a number of policy initiatives to reduce the constraints imposed by, for example, the monopoly power of trade unions, excessive taxation and bureaucratic regulations. The purpose of this chapter is to review what scope there is for further action in a number of key areas. In doing so, the chapter adopts the approach of Chapter 4 in reflecting the distinctive roles of the primary and secondary sectors and the different scope which they offer in practice for achieving and exploiting labour market reform to generate employment. Thus, for each of the policy areas considered, we look for further ways to improve the competitiveness of the primary part of the trading sector and to improve wage flexibility while also recognising the constraints imposed by the essentially bureaucratic nature of such organisations. We also look for ways of expanding the flexible secondary sector and encouraging greater employment there.

2. The policy areas considered are -

- a. education and training;
- b. trades unions
- c. labour mobility
- d. competition policy
- e. small firms
- f. innovation

CONFIDENTIAL

A. EDUCATION AND TRAINING

3. It is something of a paradox that while Britain's record of scientific and creative achievement is internationally renowned, weaknesses in education and training are an important cause of our poor industrial performance. Basically this is because we give too little attention and status to technical education and to the education of the least academically able. (Also, some problems blamed on education and training arise more fundamentally from social attitudes, including an anti industry culture.)

4. In the unemployment context, the role of schools has particular relevance. The 11 years of compulsory schooling should give all young people the basic equipment to cope with adult and working life. At present it does not. The deficiencies are reflected in the fact that the Youth Training Scheme (YTS) for school leavers will include instruction in basic literary, numeracy and spoken English, work discipline and skills in dealing with people, things which should be learnt in school. In 1980 nearly 25 per cent of workers aged under 25 with no educational qualifications were unemployed and the present rate will be considerably higher. The younger the age group, the more the employment prospects of the qualified and the unqualified diverge. The problems of the unqualified partly reflect the use of qualifications as a screening device in recruitment.

5. It is vitally important both for economic performance and for social mobility that ladders should exist for young people, including those from less privileged backgrounds, to progress upward through the educational system. It is a deficiency of the British system that there is no effective ladder through vocational education, partly because of craft and professional barriers and because of weak links between further education on the one hand and school and higher education in the other. At present the proportion of young people continuing their education beyond 18 is lower in Britain than in several newly industrialised countries, for example Hong Kong and Korea.

CONFIDENTIAL

CONFIDENTIAL

6. Within industry the low output of technicians and craftsmen (half the German level), the low percentage of managers with formal qualifications, and the small percentage of the workforce with any vocational qualifications (one third, counting all degrees and A levels, compared with two thirds in Germany), together with the restrictive practices which surround our apprenticeship system, have all contributed to the overmanning, inflexibility, and inefficiency of British industry. For years there has been a conflict of objectives in Britain between keeping up the number of apprentices trained and reforming the system or replacing it by something more flexible. Apprentice numbers are on a downward trend and the new Youth Training Scheme (YTS) may hasten the demise or reform of the present system. This will ultimately be a good thing so long as YTS achieves its objectives on quality as well as quantity. The Government have said that companies should eventually take over responsibility for financing YTS, but the unlikelihood of recovering an adequate return on training which equips people with very general skills are such that, as with apprenticeships, companies are unlikely to accept the responsibility without a clear financial inducement.

7. The highly specialised nature of many jobs, together with geographical immobility and rigidities affecting access to training and skilled employment, create the risk that skill bottlenecks will emerge as economic recovery gets under way, despite the high level of unemployment and the very slack market for skilled workers at present. Difficulties are more likely at technician and higher levels than in manual grades.

8. Some of the training problems outlined here have been addressed by the Government's new training initiative. Others were covered in the CPRS report on Education, Training and Industrial Performance and we are to do further work in this area at Ministers' request. This is not the place for a comprehensive set of policy recommendations. From the particular viewpoint of unemployment, however, the following specific points are worth consideration -

CONFIDENTIAL

CONFIDENTIAL

- a. a determined effort to introduce a school leaver certificate for all children, (preferably comprising a profile of achievements relevant to employers) would help stop discrimination against the unqualified. This would also pull the curriculum into line with what children need to learn;
- b. the experience obtained in the Youth Training Scheme is of considerable relevance to schools and DES could take on responsibility for disseminating this;
- c. despite the high cost of educational maintenance allowances, it might be possible to devise a selective scheme of means tested allowances for areas of high unemployment which would be cost effective in tackling the problems discussed here and reducing unemployment, though resources would need to be shifting from other areas;
- d. the education deficiencies of the existing unemployed need to be seriously addressed and we suggest an approach in Chapter 9.

CONFIDENTIAL

CONFIDENTIAL

B. POLICIES TOWARDS TRADES UNIONS

9. Chapter 2 showed that the action and attitudes of trades unions, and the growth and wide extent of unionisation in the British economy are important contributory factors to our historically poor industrial performance and, in particular, to the lack of flexible wage adjustment. Equally important in the analysis are the factors which have permitted the growth of union power - the legislative framework, weak management, lack of competition in product markets, public notions of "fairness" in pay matters, together with the now diminishing role accorded to the TUC in the conduct of public affairs.

10. The message of Chapter 4 is that the existence of unions has to be accepted as a fact of life in the primary sector. Here policies should aim to get management and the labour force working together more effectively. This can be done not only through measures to restore the balance in bargaining power but also by making the unions more responsible for the true long term interests of their members and increasing their commitment to the future of their employer's business. In the secondary sector the direct influence of trades unions should be much less and policies should aim to minimise their indirect influence by preventing the attitudes of organised labour from spilling over into the non-unionised sector and by reducing unions' power to inhibit the sector's expansion.

The primary sector

11. Policies to reduce trades union power in the primary sector, and to swing the bargaining balance back in favour of management, can follow two complementary approaches. Some measures can be taken to restrict the activities of trades unions and to limit the damage they inflict through industrial action: other measures can be used to change the internal structures of unions to make them more responsive to the realities of the competitive markets in which their members' employers operate.

12. The 1980 Employment Act incorporated measures to reduce trade union power through reducing the immunity of individuals. Subsequently, the 1981 Green Paper extensively discussed the question of union immunities and as a

CONFIDENTIAL

CONFIDENTIAL

result the 1982 Employment Bill incorporates further measures to reduce union power. Should this legislation prove inadequate, it may be useful to introduce legislation, eg requiring secret balloting before strike action or imposing cooling off periods, to further reduce unions' abilities to disrupt employers' business through industrial action.

13. In parallel with moves to reduce trades unions' immunities, the Department of Employment has been considering measures to make unions more democratic and as a result reflect their memberships views more accurately. Such measures as the election of union officials by secret ballot will be comprehensively discussed in a forthcoming Green Paper, and subsequent legislation considered.

The secondary sector

14. The power of unions to inhibit the growth of the secondary sector arises first from the power to take industrial action to prevent the use of non-union contract labour and to delay the contracting out and privatisation of public sector functions to the private sector. The 1982 Employment Bill takes some first steps to reduce the problems by outlawing trade union labour only contracts and by removing immunities from unions and individuals taking industrial action against the use of non-union labour.

15. Unions can also use their influence to extend the concepts of job security and collectively bargained wage rates throughout the labour market. This has been much reduced recently, although the vein of thinking still influences some European initiatives, the most recent examples being the proposals to regulate part-time and temporary work. The TUC's presence on the MSC also imposes a constraint on the development and implementation of coherent employment opportunities through labour market reform.

Employee awareness

16. In parallel with moves to reduce trade union power, measures to increase individual employees awareness of and commitment to their employers' business should be encouraged. There is a need for greater understanding of the effects on the business of excessive wage claims, restrictive practices

CONFIDENTIAL

CONFIDENTIAL

etc. This can be brought about by better, effective, and more regular communication between management and workforce, and not only through established trades unions channels. Encouraging moves to link pay more closely to performance will also help.

17. Action the Government could take includes -

- a. if they prove necessary, further legislative measures to reduce trade union immunities;
- b. measures, including legislative changes, to make unions more responsive to their membership's views;
- c. encouraging firms to increase their employees' sense of commitment to the business through moves to increase employee understanding of financial results and factors affecting the business as well as linking pay more closely to performance.

CONFIDENTIAL

C. LABOUR MOBILITY

18. The amount of job changing in the British labour market has declined considerably over the past decade. This appears to reflect the growth in company labour markets and job security, together with the reduced growth and dynamism in the economy. Voluntarily job changing is particularly sluggish at present.

19. Geographical mobility in Britain is generally regarded as low, especially by North American standards, but there is no firm international evidence to support this. The obstacles are well known. These relate to the cost and ease of finding housing, the standard and continuity of children's education, the availability of a job for the other partner in two-job households and also the general reluctance of people to leave familiar surroundings - the rest of their family and friends - to live elsewhere.

20. The CPRS studied ways of overcoming the obstacles to geographical mobility in a report for MISC 14 in 1980. The main area which is amenable to Government action is housing and the Government have taken a number of steps to encourage mobility in all housing sectors. The remaining options mostly entail major financial or political costs and these seem hard to justify at present when the demand for housing to attract mobile workers is comparatively low. Some unsatisfied demand exists, however, in a few local labour markets in southern England and more local problems could quickly emerge in an upturn. Given the large supply of unemployed unskilled workers in most areas, it appears improbable that the expansion of the secondary sector advocated in Chapter 4 would be unduly constrained by geographical immobility, though ultimately the limited supply of, and problems of access to, low-cost housing in more affluent parts of the country could become a problem.

21. The following are some of the main measures (most of them already considered and rejected) which could be taken to free up the housing market for mobile workers:

CONFIDENTIAL

- a. Remove the power of local authorities to deny non-residents access to council houses.
- b. Allocate more investment funds to housing associations to build houses and hostels for mobile workers in areas of buoyant labour demand, and induce associations to give a higher priority to mobile workers when reletting existing dwellings.
- c. Outside London, remove Rent Act controls from new private lettings of existing dwellings, substituting an arbitration arrangement in cases of dispute about rent increases but allowing the initial rent to be arrived at by agreement between landlord and tenant.
- d. Simplify the legal arrangements for house purchase and remove the solicitors' conveyancing monopoly, so as to reduce transaction costs and delays.

CONFIDENTIAL

D. COMPETITION POLICY

22. In the United Kingdom concentration of production in the hands of a few large firms has increased significantly in the post-war period and is generally reckoned to be greater than in other countries, for example compared to the United States and West Germany. Greater concentration does not necessarily mean less competition, especially where there is freedom to import. However many mergers have reduced competition without bringing any return in the shape of greater efficiency or higher employment. In addition trade policy has in general become more restrictive in recent years (for example, the proportion of trade of manufactured goods subject to one of a number of non-tariff barriers or "voluntary" agreements has increased). The effect of these developments on employment is not clear but they have probably contributed to a generally lower level of efficiency, greater proneness to inflation (because costs can be passed on in higher prices) and a bad distribution and utilisation of resources, especially of investment. The most pernicious effect on productivity growth is in situations where lack of competition in product markets is associated with a lack of management incentives, with strong trade union power and restrictive labour practices. These have been most evident in the sheltered part of the public trading sector (eg energy industries, railways and water) though it also exists in some parts of the private sector.

23. Actions the Government could take include -

a. a more rigorous mergers policy by requiring the OFT to impose tighter criteria and, perhaps by re-considering the former proposal to require a "neutral" presumption";

b. further encouragement to large firms to de-merge to form more flexible units: the formation of new firms and the ability to spot profitable activities would also be encouraged by requiring conglomerates to publish details of the profitability of their separate trading activities;

CONFIDENTIAL

c. more references of abuse of monopoly power to the MMC (under the Fair Trading Act): each year since 1979 there have been two such references and there is scope for increasing the number of these;

d. further steps to weaken the monopoly position of parts of the public trading sector by decentralisation, privatisation of subsidiaries and liberalisation of private sector competition.

CONFIDENTIAL

E. SMALL FIRMS

24. One of the main themes of this report is the importance of the secondary sector: this will benefit from expanding the role small firms play in the economy. The significance of the Black Economy is covered in a separate CPRS report. In this section we consider the legitimate small firms sector and the scope for further action, covering -

- enterprise zones
- enterprise allowances
- public purchasing, contracting out and privatisation
- enterprise agencies.

Enterprise zones

25. The Government has decided that enterprise zones have been sufficiently successful to justify creating eleven more. Much of the success of the existing zones stems from the preferential tax reliefs which have been marketed by public development bodies as an additional locational inducement to mobile enterprise. However, in general enterprise zones have not been used specifically to promote the secondary sector as originally envisaged in the Chancellor's "Isle of Dogs" Speech. Incentives should be concentrated to provide help for smaller, indigenous enterprises especially where the zones are located in run down urban areas. Such areas with a high proportion of vacant housing and dereliction could offer a minimal regime of environmental regulation with guidance from a local enterprise trust and financial support by the enterprise allowance scheme to enable the local, unemployed people to develop new activities.

Enterprise allowance

26. The pilot enterprise allowance scheme, currently being run by MSC in 4 areas, provides £40 a week (taxable) for a year to people wanting to start their own small business, provided that they have been unemployed for at least 13 weeks and can show that they can lay their hands on £1,000 business capital. The scheme is a special employment measure, designed to reduce registered unemployment as well as expand the supply fo successful

3

CONFIDENTIAL

entrepreneurs. Provisional assessments of the register effect of the pilot schemes have been disappointing because most participants say they already intended to go into business. But no account has yet been taken of the scheme's effect in transferring people from the black to the white economy, nor of the effect on the success of the enterprises. There must be some positive effect of both kinds and these should be taken into account when the future of the scheme is decided.

27. No doubt the pilot studies will reveal a number of deficiencies and opportunities for abuse which will need to be ironed out before the scheme could be adopted on a national basis. None the less this autumn's review should include the development of a workable and effective national enterprise scheme. We suggest in particular that consideration be given to extending the scheme to people already in employment, perhaps as a variant of the existing Job Release Scheme. Thus, people would be eligible for a year's enterprise allowance if they gave up their full time job and were replaced by someone from the unemployment register.

Public purchasing, contracting out and privatisation

28. It remains extremely difficult for a small business to become eligible to tender for work for large public and private bodies. Often centralised purchasing results in substantial discounts and so saves public money. But where this is not so the purchasing authority should be decentralised.

29. The Government are committed to extend the area of public purchasing by contracting out the provision of goods and services currently provided in-house by Government bodies. Until now, contracting out has been seen primarily as a way of exposing the public sector to competitive pressures and thus eliminating waste. When it fulfils these conditions, it can also be seen as a tool for encouraging the secondary sector. The work contracted out would provide a regular income for small businesses, which would then have a sounder basis on which to identify and meet further market opportunities in the private sector. In some cases, management and the employment of labour could be contracted out ahead of the transfer of premises and plant, which could be sold to the contractor when established. Where private sector

CONFIDENTIAL

CONFIDENTIAL

capacity is unavailable, because there is currently no demand for it, the problem would be reduced if encouragement were given to the equivalent of "management buy-outs" whereby the public employees currently providing a service were given an incentive to move into the private sector and contract for their previous work.

30. The breakdown of public monopolies and/or exposing them to private competition is viewed primarily as a way of improving efficiency, extending choice and reducing public expenditure. Ministers are interested in extending privatisation into the public services eg health and education. Privatisation could also increase the scope for expansion of the secondary sector, where the activities transferred to the market sector were capable of being picked up by entrepreneurs operating in a competitive environment. In time, this would generate extra job opportunities by enabling demands to be met which are currently suppressed by public spending s and the high cost of public provision, and (like contracting out) by providing a launching pad from which the entrepreneurs concerned would develop new market opportunities, including wider opportunities for international trade.

Enterprise agencies

31. A distinguishing feature of small firms is the desire for independence - the black economy is the extreme example of this. However, lack of expertise in every aspect of business means that small business owners can often benefit from the large number of agencies which are available to offer advice, both at national and local levels. Government help from a number of agencies is further supplemented by local authorities and also a number of private sector organisations. This multiplicity of agencies can become counter-productive and it is not necessarily in the national interest to have a large number of organisation "competing" to give finance and other facilities on subsidised terms. Thought should be given to rationalise the support for small businesses, without dampening initiative.

32. Local organisations, particularly enterprise trusts drawn from the local business community, are probably better suited than national bodies to provide help to small businesses. In particular these have the flexibility to provide informed help covering such matters as form filling, planning and fire regulations, tax and national insurance. Such informal help is often more useful than formalised training and other forms of assistance.

CONFIDENTIAL

CONFIDENTIAL

33. The Government is already doing a great deal to help the growth and viability of small firms. When considering further action, the following should be taken into account -

- a. enterprise zones should be organised to give special encouragement to the secondary sector, especially by the development of indigenous small firms in urban derelict areas;
- b. the aim of this autumn's review of the pilot enterprise allowance scheme should be to develop a cost-effective national scheme;
- c. problem purchasing, contracting out and privatisation proposals should include an objective of increasing the opportunities of small firms to increase their share of the business where it is cost-effective;
- d. the system of providing help for small firms needs to be rationalised: preference should be given to local enterprise trusts which are the most effective help at the local level.

CONFIDENTIAL

F. INNOVATION

34. Innovation to provide new products and increased productivity in the manufacture of existing products is vital if industry in the United Kingdom is to improve its competitive performance, halt the decline in our share of world trade and resist imports in our home market. A poor record of innovation has cost us dearly in a number of sectors, for example electronic equipment and consumer durables. We have also failed to develop a significant sector of new technology-based companies which has been one of the most dynamic areas of new employment opportunities in other countries, especially the USA.

35. Our scientific excellence and inventive capacity is recognised world wide (many highly innovative companies, especially in the USA and Canada, have British scientists and engineers in key positions). Our failure has been to translate these qualities into successful innovation in the market place. It is unlikely that this failure is due to insufficient total spending on R & D which, at least as a proportion of GDP, is at roughly the same level as in other countries. However, much of our R & D is in non-traded areas such as defence and contributes little to industrial performance. There is often a 'development gap' between R & D and commercialisation where typical R & D funding levels are inadequate but project financing is too risky. Financial assistance has too often been given to prop up older declining industries rather than speed the growth of newer industries.

36. Government action is best taken to lubricate the role of market forces in stimulating natural innovation rather than attempting to force innovation where the will or incentive does not exist. Action the Government could take includes:

- a. Increased tax relief for pre-production expenditure and the initial profits from an innovative product thus enhancing cash flow at a point where cash injection is critical in determining market share for the product.

CONFIDENTIAL

- b. Enhancement of the industrial effectiveness of the large Government expenditure on R & D, particularly in defence, by promoting commercial awareness and incentives in Government R & D establishments.

- c. Greater financial assistance to industry and independent R & D organisations for technology transfer (including 'demonstrator' projects) especially for technology originating from abroad and for new high growth/high risk technologies such as robotics, microelectronics, fibre optics and opto-electronics, and biotechnology.

- d. Reassessment of the role of the British Technology Group as an agent for technology transfer, especially its performance as a monopoly holder of the right of first refusal to inventions made through public expenditure on R & D.

- e. Improved protection for intellectual property through a reformed system for patents, design copyright and trademarks.

- f. Direction to the UGC and NAB to identify future shortages of skills for innovation in areas of new technology and to divert resources to selectively increase the output of our education and training system to meet these shortages.

CONFIDENTIAL

CHAPTER 6: ENCOURAGING EFFICIENT WAYS OF GENERATING MORE EMPLOYMENT

1. The level of employment in the economy depends not only on the economy's efficiency and trading performance. It also depends among other things on the responsiveness of wage levels to labour supply and demand; the indirect costs of employing people, relative to other factors of production; and the availability of adequate market mechanisms for matching available labour and unmet market needs.

2. In this Chapter we consider ways of increasing the economy's potential to offer employment, without sacrificing efficiency. We cover ways of:

- a. lowering the wage floor;
- b. reducing or compensating for the administrative burdens of employing labour, especially for small employers;
- c. reducing the taxation of labour relative to capital;
- d. providing incentives to domestic households to provide employment;
- e. providing public goods and services in a more labour intensive, but efficient, way.

a. Lowering the Wage Floor

3. It is easier for small firms than for larger organisations to vary their wage rates according to the state of the labour market. However, this freedom is curtailed, in the industrial sectors in which small businesses chiefly predominate, by the existence of statutory minimum wages set by wages councils. At present, there is widespread public suspicion that the abolition of wages councils would lead to the impoverishment of low-paid workers without any appreciable compensatory increase in employment. Public unwillingness to believe that "a good thing like high wages can cause a bad thing like unemployment" (Beveridge, 1931) or the corollary, is a long standing phenomenon. We believe it will be desirable to abolish wages

CONFIDENTIAL

councils when international obligations permit but this will not be politically acceptable unless it is accompanied by complementary measures. These should aim to expand the market opportunities available to the secondary sector and to remove other obstacles to the provision of employment (see below) together with changes to the tax and benefit systems so as to provide an effective and acceptable safety net for people with families in low-paid employment, and alternative arrangements to prevent exploitation.

4. It would be best to precede the introduction of such measures by a campaign of public education, directed not least at employers, which would address people's genuine fears about the consequences of low wages. An immediate purpose of this campaign would be to seek to persuade members of wages councils (while they still exist) to set more realistic minima. The campaign would emphasise the fact the most people in low paid jobs do not come from poor households; that the great majority (80 per cent) of the unemployed do not have children to support, and a considerable proportion are single with other earners in the household; and that only a minority (X per cent) of all jobs are filled by people with children to support on a single wage. It would point out that family income supplement (FIS) is available to support the wages of breadwinners whose responsibilities are large relative to the wage their skills command. It would argue that, if society insists that all jobs must carry a family wage then the effect is to prevent jobs from arising which would meet the needs for income and occupation of very many of the unemployed.

5. The State system of unemployment benefits can exercise an upward influence on wages in the secondary sector, while benefit rules affect people's preparedness to take secondary jobs. Chapter 7 discusses the extent of these problems and how they might be dealt with.

b. Reducing or Compensating for Administrative Burdens

6. On top of the intrinsic difficulties of employing people the state imposes a series of administrative burdens on employers. These responsibilities are particularly burdensome for small firms. There are in principle two complementary ways of reducing these:

CONFIDENTIAL

CONFIDENTIAL

- a. make the obligations on employers lighter for small businesses than for larger ones;
- b. give small businesses special help in meeting their obligations.

The Government has made progress on both these fronts. For example, employees of small firms (ie with fewer than x employees) have to be employed longer (2 years) before unfair dismissal legislation bites and there are various schemes of training and advice to help small employers to cope with their administrative burdens.

7. So far there has been a reluctance to go much further down the first road, for fear of appearing to create a second class of employee with inferior conditions of employment. However, a secondary market of irregular less attractive jobs already exists and indeed it forms the employment background of many of the unemployed. If the minimum standards for employment set in the primary market are applied across the full economy, then the effect is to squeeze secondary employment out of the system altogether or into the black economy. It may be a lesser evil to provide (at least for small firms) lower minimum standards for conditions of employment than emerge from the shared values and interests of managers and organised labour in the primary sector. If Ministers agree with this conclusion they might want to reconsider options which have previously been rejected eg to relieve small firms of statutory obligations to provide redundancy payments, to permit employees to opt for non-protected employment contracts and to relax small firms' obligations under equal opportunity legislation. In addition, it will be essential to continue resisting EC initiatives to regulate part-time and casual employment in the same way as full-time jobs.

c. Capital subsidies and labour taxes

8. The present system of taxation in the United Kingdom provides substantial inducements to capital investment combined with various taxes on the employment of labour. Examples of investment incentives include the 100 per cent first year tax allowances for expenditure on plant and machinery, the deductibility for tax purposes of interest payments and, in regions of high

CONFIDENTIAL

unemployment, the payment of grants for capital expenditure. Employers' contributions to national insurance and the national insurance surcharge are measures which have the effect of labour taxes by adding directly to labour costs though, in principle, a case can be made for so regarding all taxes (direct and indirect) which have the effect of raising the wage at which people are willing to work.

9. A characterisation of the tax system as one which simply subsidises capital and taxes labour is of course an over-simplification. A variety of reliefs on personal incomes mitigate the full effect of direct taxation on the supply of effort. And, to a certain extent, capital allowances (and stock relief) can be seen as a way of confining taxation of the corporate sector to "real profits" as distinct from the "paper profits" which result from inflation. Nevertheless, despite these and other complications, there is little doubt that present tax arrangements are biased in favour of capital: making it more worthwhile, at the margin, for a company to invest in machines rather than men.

10. The rationale for this bias in tax arrangements was, in our view, poorly founded and it is even less compelling in today's conditions of high unemployment. Various grants and incentives were introduced over the years in the belief that this would stimulate investment, particularly in manufacturing industry. The underlying reasoning was that Britain's problems stemmed from inadequate investment. Even at its best, this argument was weak. More investment, embodying the latest technology, to develop new products and processes is certainly desirable but unlikely to be achieved in a cost-effective manner by indiscriminate capital subsidy. Moreover, the same incentives made it easier to live with, and may have encouraged, low rates of return and an inefficient use of capital, which, as noted in Chapter 2 is a feature of the United Kingdom's productivity record. Jobs, especially unskilled jobs, may well have been prejudiced as a result of excessive labour-saving investment and by the encouragement of capital-intensive rather than labour-intensive activities.

11. For these reasons, the CPRS believes there is a good case for reconsidering the balance of present taxes and incentives. The general approach would be to reduce capital subsidies and labour taxes together in a way that leaves industry no worse off overall but nevertheless helps to arrest and reverse any tendencies towards an excessive substitution of machines for labour. The juxtaposition of higher-than-average levels of high unemployment and of rates of subsidisation for capital investment in depressed regions makes this change particularly desirable in the context of regional policy.

d. Encouraging Private Households to Offer Employment

12. Notwithstanding the mechanisation of many household tasks there ought in principle to be a considerable unmet demand for domestic households (notably among two income couples and single working householders) for labour to carry out work (including child minding) in and around the house. There are many constraints which prevent this demand from being fully translated into jobs for the unemployed. These include the level of wage rates in the regular economy, competition from the black economy, difficulty of arranging the supervision of work during normal working hours, of finding suitable workers and checking their reliability.

13. We favour the introduction of a programme to overcome these obstacles and encourage private households to offer work opportunities to the unemployed. This could include a tax allowance for accredited expenditure on household services (a system of spot checks would be required) together with exemption from employer national insurance contributions. (Domestic households are at present the only economic units, liable to tax, which do not receive tax relief on the costs of employing labour.) Since many of the jobs would be for odd hours, this might lead to the development of a network of agencies (perhaps provided by the private sector on a franchising basis) to package odd jobs into worthwhile part or full-time job opportunities, to arrange back-up facilities such as transport and to act as a trouble shooter. Already, firms like Dynorod franchise individual entrepreneurs and centrally provide a well-known name, advertising promotion, a telephone number to ring, and assurance of quality. We believe that a study should be made of ways of which the private sector could be encouraged to do more in this area.

14. Support for employment by the domestic household sector might be a cost-effective alternative to some existing special employment measures. Bearing in mind the substantial resources that are to be consumed in running the new Youth Training Scheme and the Community Work Scheme, it might be cost-effective to shift some of these resources of manpower and publicity into marketing the services of the unemployed, particularly those who do not need a family wage, among small firms and the domestic household sector. We understand that the Secretary of State for Employment is considering whether to extend the scope of the Young Workers' Scheme, by making it available for jobs in domestic households. We support this. We would see merit in repackaging the Young Workers' Scheme to cover young people up to the age of 25 with a wage limit of perhaps £60 for the over 18s. In any event we recommend that the scheme should be marketed with something approaching the vigour and administrative budget that characterise other special employment measures.

e. Labour Intensive Patterns of Public Spending

15. A large part of the nation's income is recycled through the tax system in the form of central and local government spending. Public spending priorities and the mix of inputs to individual spending programmes thus have a considerable influence on the level of employment in the economy at any given level of national income. Given the necessary information about the employment effects of different spending options, government can therefore in principle adjust the pattern of public spending so as to increase employment. This is already done to some extent on an ad hoc basis and we cover the scope for doing so more systematically in the discussion of palliative measures in Chapter 9.

16. The difficult question is to decide what scope, if any, there is for increasing the employment generating capacity of the public sector without loss of efficiency. We see the following opportunities:

- a. The ranking of public spending priorities is always arbitrary to some degree: where options appear equally worthwhile in other respects, preference could be given to the option generating most employment.

CONFIDENTIAL

b. It has been a feature of public expenditure planning over the last decade that capital programmes have been found easier to cut back, in practical and political terms, than current expenditure has been. The fact that many capital programmes generate more jobs than the same expenditure on transfer payments is an important plus factor in favour of an increased share of spending for capital programmes. In selecting options priority should be given to projects with a high degree of labour intensity. We suggest examples in Annex C.

c. Sometimes there is a choice of ways of meeting the same public need and one is more labour intensive but no more expensive than the other. The House of Lords Select Committee quoted examples relating to the choice between conservation of energy and water on the one hand and the construction of new supply capacity on the other.

d. Departmental manpower targets and local government head counts are a convenient way of keeping up the pressure to eliminate unnecessary Government functions and to reduce bureaucracy and waste. However, they may also have an effect (similar to labour taxation) of unduly depressing the balance between labour and capital inputs. They also prevent staff from being offered a direct trade off between pay moderation and jobs. Targets expressed in terms of annual running costs ought to be equally effective in securing efficiency and would avoid the risk of harmful effects on employment.

Conclusions

17. This chapter discusses a number of ways of increasing the supply of jobs in the economy by encouraging, without loss of efficiency, the development of more labour intensive activities.--The main points are:

a. The Government should decide in principle to abolish wage councils and should prepare for this by introducing other measures to increase the supply of jobs in the secondary sector and by mounting a campaign of public education to address public fears about low pay.

CONFIDENTIAL

CONFIDENTIAL

b. Allowing small firms to provide lower minimum standards of employment conditions and job security is a lesser evil than mass unemployment; previous decisions eg to retain statutory redundancy payment obligations for small firms should be reconsidered.

c. Present tax arrangements, which subsidise capital extensively and tax labour, are a hangover from a time of labour shortage. They have accommodated the inefficient use of capital and probably led to excessive labour saving investment. It is desirable to correct the imbalances without making industry worse off overall, by reducing capital subsidies and labour taxes together. There is a particular need to achieve this in the regional context.

d. It seems probable that there is a considerable unmet demand for labour to carry out household tasks. Ways should be found of translating these unmet demands into jobs for the unemployed. We make a number of suggestions, including a tax allowance for expenditure on household services, and development and promotion of the Young Workers Scheme.

e. The share of labour intensive activities in national output is considerably influenced by the pattern of public expenditure. Systematic account should be taken of employment effects when priorities are decided. Where other factors are equal there should be a preference for options which generate more jobs. We favour the use of limits on annual running costs, rather than manpower targets, as a means of eliminating bureaucracy.

CONFIDENTIAL

CHAPTER 7: THE TAX AND BENEFIT SYSTEMS

1. In Chapter 2 of this report we identified ways by which the personal tax and benefit systems affect the efficiency of the economy in general and unemployment in particular. As a broad generalisation, the higher the rate of taxation of work income at the margin, and the higher the level of benefits paid to those out-of-work, the less the incentive to seek work and the higher the wages that have to be paid to attract workers. One way of reducing these effects is to change the levels of direct personal taxation and benefit payments: the other possibility is to change the structure of the tax and benefit systems.

2. In this chapter we consider three particular ways in which the present system is detrimental to employment -

- a. the effect on the "wage floor";
- b. lack of incentives to seek and take work;
- c. the disincentives, once unemployed, to take part-time work.

3. The disincentives and complexity of the present system argue strongly for radical reform. However, radical proposals run into difficulties either on grounds of cost and because their introduction is judged not to be administratively feasible before income tax is fully computerised. While both arguments are reasons for delaying the implementation of major changes, neither should be a barrier to the planning of a reform strategy. In particular we note that computerisation is well under way.

4. The details of a radical strategy would take us well beyond our terms of reference. But we would offer three observations. First, history and the experience of other more prosperous countries suggest that to wait for economic growth alone to reduce marginal tax levels and to end unemployment and poverty "traps" will be to wait a very long time. The time could be

shortened if there was a deliberate plan to reduce tax allowances and reliefs and introduce instead lower tax rates which rose in small steps over narrower income bands. Secondly, because of the high cost, it is unrealistic to expect to be able to "buy out" the main means tested benefits for those in work through the development of universal benefit such as child benefit. Income tested benefits for the employed have grown significantly in the last few years, in terms both of cost and of their contribution to work incentives. If there is to be greater readiness to accept low and variable wages and work sharing, in-work benefits will have to become more effective. The key question is how to use the income tax system to improve the receipt and visibility of income related in-work benefits. Finally, a smooth transition from benefit recipient to taxpayer is not dependent on the introduction of tax credits or a negative income tax system: if the Government decided upon the desired pattern of transition (for example no marginal tax rates over 90 per cent) it could then adjust the various elements of the present tax and benefit system to conform to such a pattern.

5. For the short term, we consider various piece-meal changes.

The "Wage Floor"

6. One way by which the tax and benefit systems could diminish the supply of low paid jobs is by raising the "wage floor". Because some employees expect, and some employers feel obliged to pay, a wage rate which covers the 'family wage' (interpreted as the gross wage necessary to match the basic benefits a married man with two children would receive out of work) the benefit levels put upward pressure on wage negotiations. In so far as this keeps wages higher than they would otherwise be, this in turn limits the number of low paid jobs - even for single people who might be willing to work for less than the 'family wage'.

7. There is no strong evidence of this effect, but as can be seen in figure 8, for a man with two children (and a wife who is not in work and lives in a council house) there has been a marked narrowing of the gap between the 'family wage' and earnings in a typical low paid job (ie earnings at the bottom quartile of the earnings distribution).

CONFIDENTIAL

8. The simplest solutions are to adjust the levels of taxes and out-of-work benefits. For example -

a. the uprating of the supplementary benefit scale rate could be held back. Apart from a once-and-for-all increase for most families with children in 1980 (following the Supplementary Benefit Review) there has been no significant increase in the scale rate in recent years. One way of achieving a real reduction if wages are expected to fall in real terms, would be to link benefit changes to charges or earnings whichever rose the slower (or fell more) or, more equitable to earnings alone;

b. the unemployed could be given less generous help with housing costs. The main increase in the level of benefits has resulted from the automatic increase given for housing costs (which have risen substantially as the result of the move towards economic pricing for council rents). If rents are expected to continue to rise faster than earnings, there is a case for offering benefit recipients less than 100 per cent of housing costs;

c. the tax burden on the low paid could be lessened. Increases in the burden imposed on the low paid by income tax and national insurance contributions caused a third of the rise in the gross 'family wage' in the last three years. The British married man now faces a marginal income tax rate of 30 per cent at one-third of average earnings. His peers in France, Germany and the USA do not enter such a rate until their earnings are between 120 per cent and 260 per cent of average earnings. The re-introduction of a lower rate band would help to reverse the trend, though it is strongly opposed by Inland Revenue for administrative reasons. Increasing the tax threshold for everyone or ending national insurance contributions for earnings below the floor (or the first £29 earned) for everyone would be expensive.

9. Because it is selective, a cheaper alternative is to raise the value of in-work benefits. The above analysis of the 'family wage' ignored the effect on in-work means tested benefits (primarily Family Income Supplement and housing benefits). If these are counted as an earnings subsidy, the gross 'family

CONFIDENTIAL

wage' employers would be expected to pay is reduced to a level below earnings in even the lowest paid jobs. There is, however, a low take-up of such benefits and under the present method of delivery it is not clear how to raise this substantially. Moreover because they do not impinge directly on take-home pay their influence on pay negotiations appears to be limited and sometimes counter-productive.

10. Forty years ago the forerunners of Child Benefit, "Family Allowances" were introduced because they were seen as an effective means of reducing wage pressures for family men. An increase in Child Benefits would help the families with low incomes in work, but the universality of the benefit makes such an increase expensive: a 10p increase costs about £55 million (net of savings on other social security benefits). To concentrate assistance just on low paid families in work would require an income tested second tier child benefit similar to the Canadian Refundable Child Tax Credit.

Incentive to work

11. As described in Annex B evidence from the 1978 DHSS Cohort Study of the Unemployed shows that about 5 per cent of men becoming unemployed received benefits as high as their previous earnings and so had no financial incentive to return to work and a further 10 per cent had only a limited incentive. Since then benefits have been made subject to tax and with the other changes to taxes and benefit levels, there has probably been a reduction in the proportion of the unemployed with no or little financial incentive to re-enter employment, though with 3 million now unemployed the absolute numbers have increased. The main explanation for the minority of unemployed with such high "replacement ratios" is that benefits for those in work (particularly benefits for children and housing benefits) are less generous and less frequently claimed than the social security benefits for those out of work.

12. A general reduction in the level of supplementary benefit designed to reduce the disincentive effect for the minority would also have the effect of making the majority (for whom the disincentive effect does not apply) worse off. Moreover the most recent research findings on the impact of benefit levels on unemployment suggest that, in a time of slack labour markets as at present, the effect of reducing benefits may be smaller than previously

CONFIDENTIAL

thought. The more direct way of ensuring that no one is better off out of work is to reintroduce the 'wage stop' on supplementary benefits at a level equal to say, 90 per cent of the claimants' net income when previously employed. The wage stop was abolished in 1975 mainly because it was administratively expensive and reduced the benefits of so few people (8,000 in 1974). These arguments still apply but the re-introduction of a wage stop would offer those in work the assurance that they would not be better off unemployed.

13. An alternative approach is to improve the take-up and the value of in-work benefits. For example the value of FIS could be increased by raising the limit on eligibility or by relating the benefit to children's age (at present there is a fixed sum regardless of age), and housing benefits could be improved by increasing the "needs allowance".

14. In addition, the terms on which unemployment benefits are available can influence people's incentive to work. So long as benefit is available to meet basic needs, many people may prefer to remain unemployed and search the market for a decent "primary" job rather than accept a less attractive vacancy. Under the present benefit rules nobody can be penalised for declining an "unsuitable" job ie one which offers pay and conditions which are inferior to those provided by collective agreement or which are typically provided by "good employers" (sic) in the area concerned. These rules have their origin in the contributory national insurance scheme which was initially designed to cope with transitional unemployment among workers with an established trade. It seems wrong that the same principle should apply to the non-contributory means-tested supplementary benefit scheme. A better approach would be to expect people after a specified reasonable period of job search to accept any job offered to them which was not unsafe or unhealthy and which avoided exploitation by providing a net income (allowing for in-work benefits) no worse than their income from benefits when unemployed.

15. In present labour market circumstances, the introduction of this new rule would not lead to the offer of jobs to patently unenthusiastic applicants. However, it could have a useful psychological effect, and could guard against the danger that young people who now have extensive experience of claiming benefit since leaving school, may be less likely than previous generations to take unattractive jobs.

CONFIDENTIAL

Part-time work

16. At present an unemployed man on supplementary benefit (and/or his spouse) may work 2 or 3 hours a week without loss of benefit. But if he commands a low wage rate (eg £2 an hour) he enjoys no further net gain unless he can work for more than 20 hours (if he is a single householder) or 30 hours (if married with two children). Thus there is no incentive to take part-time work (except in the black economy). The impact of this disincentive on the behaviour of unemployed people is difficult to assess but it is hardly consistent with attempts to encourage part-time work. Furthermore there is now good evidence that present benefit rules discourage the wives of the unemployed from working.

17. The danger, however, is that if changes are made to significantly improve incentives to work part-time, this may create dis-incentives to move from part-time to full-time work. If this risk is accepted (as seems reasonable at present levels of unemployment), there are various possibilities for increasing the incentive to take part-time work -

- a. supplementary benefit recipients (and their spouses) could be allowed to earn more before their benefits are reduced;
- b. supplementary benefit levels could also be reduced overall (though unless a way could be found of ensuring that all benefit recipients had access to part-time jobs, very large numbers of claimants would suffer a loss of income);
- c. eligibility for in-work benefits (eg FIS) could be extended to those in part-time work (for example by a limit of 16 hours instead of the present 30). To avoid eliminating the incentive to move from part-time to full-time work this would have to be accompanied by a reduction in the marginal tax rate for FIS recipients already in full-time work. The major advantage of such a combined measure is that it not only provides an incentive to take part-time work but also removes the most severe aspect of the "poverty trap" where, at present people are not able to raise their own living standards by working harder. The cost could be less than £100 million per annum.

Conclusions

18. Through their impact on incentives and wage levels the tax and benefit systems affect the scope for reducing unemployment. There are broadly three ways out of this problem -

- a. reduce benefits for the unemployed;
- b. raise net incomes of people in work through reducing income tax or increasing child benefits;
- c. improve selective benefits aimed at lower income families in work.

19. A general reduction of benefits would reduce living standards of many for whom benefits do not act as a disincentive. We recommend consideration of more narrowly targeted measures -

- a. re-introduction of a wage stop (or benefit limit) so as to ensure that benefits out of work could not exceed, say 90 per cent of income in work;
- b. on the assumption that wages are expected to fall in real terms, the linking of benefit increases to prices or earnings, whichever rose the slower, or (and more equitable) to earnings alone;
- c. a change in the "job availability rule" to require people on supplementary benefit to accept any job offered which pays (with in-work benefits) no less than income from benefits when unemployed.

20. General measures to raise net incomes in work by increasing tax allowances or increasing Child Benefit are very expensive and extremely slow to make much impact. Instead, selective benefits for lower-income families in work are a more cost effective way forward. An effective mechanism for subsidising the earnings of low income families could encourage the provision of low paid jobs, reduce upward wage pressures for family men, increase incentives to seek work and facilitate the growth of part-time employment. The present income tested in-work benefits (particularly Family Income

CONFIDENTIAL

Supplement and housing benefits) fill these role inadequately, if at all. We recommend a new way be sought of subsidising the earnings of low-income families that is more effective than FIS and less expensive than universal child benefit or raising tax floors. In the meantime the take up of part-time work can be encouraged by allowing people to earn more before benefits are reduced.

CONFIDENTIAL

CHAPTER 8: NEW PATTERNS OF WORKING TIME

1. It is a paradox that, while the United Kingdom has one of the highest rates of unemployment among OECD countries, British workers also work one of the longest working weeks. In addition, the number of hours of overtime worked in British manufacturing industry has increased by a fifth in the last year, while employers' ability to increase pay remains tightly constrained and unemployment continues to rise. Less paradoxically, part-time employment in the United Kingdom has fallen considerably less steeply than full-time employment in the present recession. This represents a somewhat faltering move in the direction of job-sharing, away from the often excessive costs and rigidities of the standard week plus overtime. This chapter examines ways of widening and accelerating this trend, while maintaining the efficiency of British industry. We do not here consider shortening working life, which is dealt with in Chapter 9.

Cutting Working Time

2. This approach would be unfruitful if the length of the working week, or the number of hours worked in a year, were already set by considerations of efficiency. But there is a good deal of evidence that this is not so. We first considered a mandatory increase in the length of annual holidays. They appear to be shorter here in the United Kingdom than in all other Western European countries except Ireland. We believe, however, that the seasonal character of holidays makes it unlikely that lengthening them would create many new jobs.

3. Another measure to be considered is an acceleration of the present trend to a shorter standard working week, not counting overtime. The fundamental objection to the moves that have already been made, from the point of view of unemployment, is that they have been based on the premise that a worker should be paid as much, say, for a 39 hour week as for a 40 hour week. In favourable circumstances the potential loss in competitiveness that this entails has been offset by a gain in productivity. But the consequence of this approach, as studies show, has been that there has been very little extra employment, or even reduction in job cuts. In principle, this could be

CONFIDENTIAL

circumvented by gaining management and union acceptance of the principle that, in present circumstances, there must be a fall in weekly earnings commensurate with the shortening of the working week. Even if this could be achieved for basic wage rates, the likely result, especially for companies dependent on intensive machinery use or customer demand, would be an increase in overtime at premium rates. This would not help unemployment or international competitiveness.

Cutting Overtime

4. The case is clearer with overtime, that is, hours worked above the covenanted week, usually at higher hourly rates of pay. Some overtime is economically justified, to meet peaks of demand or emergencies. But since 1945, high levels of regularly worked overtime have developed and persisted in the United Kingdom to a greater extent than in most other countries. Overtime is especially prevalent among low-paid manual workers, and among those with family responsibilities. The evidence of the twenty years after 1945, summarised in a research paper for the Donovan Commission, was that "much of British overtime now seems to arise out of a desire to waste time at work in order to obtain a living wage". Nothing that has happened since 1967, when this judgement was made, leads us to suppose that the situation has changed for the better.

5. We believe, therefore, that the exceptional length of the British working week reflects, not the most efficient pattern of work, but rather a deep-rooted tradition of inefficiency. In the 1950s and 1960s a partial justification was the need to hold on to staff against labour shortages. With high and continuing unemployment, it is now the unemployed who suffer when employers increase overtime instead of taking on more workers. Yet the unemployed are in no position to undermine the long-established behaviour of management and unions. Both of them react badly to proposals for change, such as the efforts by the European Commission to obtain agreement on a limitation of overtime. (Such limitation is already legally enforced in the Federal Republic of Germany, France, Italy, Belgium, Netherlands, Luxembourg, as well as in other countries outside the Community.)

CONFIDENTIAL

CONFIDENTIAL

6. The effects of cutting overtime would be twofold: an efficiency gain and an employment gain. On one hand there would, in many cases, be an increase in productivity per hour worked, and, subject to negotiation, a decrease in the average wage per hour, as the proportion of total wages paid at overtime rates declined. This would increase efficiency and reduce costs. In the longer run, lower wage rates and costs should feed through into increased production and more jobs through the gain in competitiveness. The extent to which employment increased would depend, in the shorter term, on whether the existing work-force needed to be supplemented in a particular plant in order to keep up the level of production. There would be an employment gain which cannot be predicted accurately for the country as a whole; the recent House of Lords Select Committee on Unemployment estimated (Paragraph 10.48 and Appendix 8) that conversion of current overtime working directly into full time jobs, which neither the committee nor we regard as a realistic assumption, would create over 200,000 jobs.

7. One point would have to be clearly emphasised: that both the productivity and employment gains would be sacrificed if basic rates of pay were permitted to rise faster than would otherwise have been the case. In the present climate, employers stand a better chance of resisting such pressure, except when no one would accept a job at the lower rate.

8. There would undoubtedly be resentment among workers at the loss of earnings involved, they would also gain from increased leisure. We believe that it would be facile to assume that feelings of resentment would necessarily predominate. A recent Policy Studies Institute report gives an example of a British firm where the union, asked to choose how to divide up a total package of wages and other benefits, went for shorter hours and the preservation of jobs that would otherwise be axed. It would be important to present a limitation of overtime as part of a general campaign to increase employment.

9. Regrettably, mere exhortation is unlikely to be enough to persuade management and unions, so consideration needs to be given, despite the problems, to the introduction of a statutory limit on overtime working, as already exists in many European countries. The simplest form of limitation

CONFIDENTIAL

CONFIDENTIAL

would probably be an annual limit on overtime hours per worker, but a number of variations are possible, eg a weekly limit, or a total per factory rather than per worker, or a tax rather than a ban on overtime above the limit. In any case, the details of a scheme would need to be worked out in detail by officials before a final judgement could be taken.

More shifts

10. Another possible advance would be a greater use of shifts, and a shorter length of shift at an appropriately reduced earnings level. For continuous processes needing 168 hour operation a week, there could be five groups of workers doing 34 hours a shift, rather than four groups doing 42 hours. This would raise shift-worker employment by 25 per cent and probably also increase productivity, though there would also be extra costs on administration, etc. We believe that the possibility of an initial subsidy to meet the employers' extra costs, perhaps as part of a work sharing programme discussed later, should be examined. For less than continuous operation, similar principles could be applied.

Encouraging part-time work

11. The Government have recently announced a job splitting scheme (JSS) to encourage employers to split existing full time jobs into half time jobs. A subsidy will be paid to employers for each additional half time job to which an unemployed person, receiving benefit, is recruited. The scheme will include cases where existing full time workers switch to half time and release the other half to a registered unemployed person. The immediate purpose of the scheme is to get unemployed people into jobs for no net increase in public expenditure. In addition, the Community Enterprise Programme is being replaced by a Community Work Programme with part time as well as full time options.

12. We welcome these developments, not only because they are cost effective ways of getting unemployed people back to work but because they may have wider economic benefits in breaking down the rigidities of the standard working week. Compared with full time part time work often has the following advantages -

CONFIDENTIAL

CONFIDENTIAL

- a. Lower wage rates per hour, lower contributions to pensions, if any, and less employment protection.
- b. More flexibility: two part-timers can work simultaneously during peak demand, and neither need be paid when there is not work to be done. Hours can be increased as needed without paying premium overtime rates;
- c. Less absenteeism and sickness, and lower labour turnover.

13. But part-time work also has disadvantages for the employer -

- a. High recruitment, training and administration costs. (The first two occur once, and a subsidy to cover them, if needed, could be paid as a lump sum rather than over a period.)
- b. Part-time employees are often not highly regarded, and may not be promoted. This may harm the firm by lowering the quality of staff who are promoted.

14. The advantages of part-time work may well outweigh the disadvantages more often than employers realise; sometimes they do not consider the possibility, because it is not how work has been organised in the past. In this case, drawing attention to it may lead to not only the splitting of existing jobs but the creation of quite new part-time jobs. The crucial step is to remove the rigidity of thinking only in terms of the standard working week.

15. At present there is a tendency for people to believe that part time work must be a poor second best to full time work, except for parents with young children and people nearing retirement age who do not want to stop all work at a stroke but would like gradually to work less. These are certainly the groups most likely to want part time work, but there are others who might see positive attractions in it, eg people with second jobs, (including budding entrepreneurs), shift workers, and two career couples who would be prepared to trade some income for leisure.

CONFIDENTIAL

CONFIDENTIAL

16. It is likely that more people would be prepared to switch from full time to part time work if they could choose their own pattern of reduced working hours. There seems no reason in principle why the job splitting scheme should not subsidise extra jobs created by converting 2 jobs into 3, or 3 jobs into 4 and this might be considered as a refinement of the scheme if it proves a success in its initial form. Another development might be the changes in shift working suggested in paragraph 11. Some employers and employees might find it eventually more convenient to arrange other types of job split eg 'week about' or split years. The Government might attempt to pioneer such arrangements in the public sector.

17. In the shorter run, the scope for helping the unemployed through part time work lies in the fact that part time work at prevailing wages is likely to offer a better income than benefit for the single workers and people without dependents who make up the majority of the unemployed. Moreover the income is being earned and there is access to the other benefits of work: a sense of personal worth, the discipline of regular timekeeping, and companionship. Under present benefit arrangements, however, there is no incentive for unemployed family men or their wives to take part time work. The proposals in Chapter 7 to improve benefit disregards and to extend in-work benefits to part timers would enable JSS and similar schemes to provide jobs for the unemployed with families.

18. It has yet to be decided whether JSS will apply to jobs of at least 15, or 16 hours per week. The choice has great significance since jobs of 15 hours do not qualify for redundancy payments and employment protection measures, but jobs of 16 hours do. A lower limit of 15 hours should therefore encourage a much bigger take up, because the burden of employing part timers will be significantly reduced. There could be safeguards for full time workers whose jobs are split; they should participate voluntarily and they should be warned of the loss of job security which dropping to 15 hours might involve.

19. It is equally important to continue resisting the EEC proposals for Directives on part-time work and temporary work. There can be no doubt that these proposals, particularly those requiring proportional rights, will inhibit employers from recruiting or retaining part-timers as well as making them more reluctant to use temporary labour, instead of, say overtime working.

CONFIDENTIAL

CONFIDENTIAL

CONCLUSIONS

20. This chapter has examined the possibility of increasing the number of people in employment by changing the conventional patterns of working time. We conclude that there is unlikely to be much benefit in employment terms from increasing holidays or reducing the standard working week. However we note that excessive overtime working is far more prevalent in the United Kingdom than in many other developed economies. A reduction in overtime working is likely to create more jobs and we recommend consideration of a statutory limit. Changes in the pattern of working and the introduction of more part time working also offer the prospect of more jobs. We welcome the introduction of the scheme proposed by Department of Employment to create more part time jobs through job splitting and feel that it should be developed to encourage other, different, patterns of working, eg shorter shift working, which will create more jobs. If applied to part time jobs involving less than 16 hours per week, for which employment protection measures need not apply, such schemes may prove more popular because the burdens of employing part timers will be reduced.

CONFIDENTIAL

CHAPTER 9: OTHER MEASURES TO COPE WITH UNEMPLOYMENT

1. The measures proposed in Chapters 5 to 8 should in time help to reduce substantially the number of people unemployed. Results will not, however, be achieved quickly. Some of our more radical ideas would take a considerable time to be implemented and many rely on the slow and uncertain workings of the market. Labour intensive public spending and certain forms of work sharing offer scope for useful results within a shorter time scale. Nevertheless, this still leaves a large residual problem of unemployment to be dealt with.

2. This Chapter considers the scope for further measures to ease the distress of unemployment, for people and for society. As discussed in Chapter 4 such measures need to form part of the strategy for tackling unemployment, for if society cannot accept the pain it may reject the treatment.

3. The Chapter starts with a general discussion of employment measures (paragraphs 4-9) and then considers three types of measures in more detail -

- measures to reduce the size of the labour force (paragraph 10-17);
- measures to reduce the concentrated incidence of unemployment (paragraphs 18-21)
- measures to help the unemployed use their time productively (paragraphs 22-24).

Employment measures

4. Special Employment Measures (SEMs) are a collection of measures undertaken with the primary aim of reducing the number of registered unemployed in the short run. We have not conducted a detailed study of the existing Special Employment Measures for the purpose of this report. We looked in detail at the principal measures - the Youth Opportunities Programme and the Community Enterprise Programme - in our 1981 report on "Unemployment and Young People" and several initiatives since taken, notably the introduction of the Youth Training Scheme and the new Community Work Scheme, are broadly in keeping with the recommendations of that report.

CONFIDENTIAL

5. On this occasion we have looked more generally at the part which employment measures play in the Government's approach to unemployment. Table 1 provides a list of existing SEMs, classified according to the labour market mechanisms by which they reduce registered unemployment. These mechanisms include safeguarding and inducing jobs in the private sector, training, temporary work of value to the community and early retirement. As Table 1 shows, nearly all SEMs have counterparts in other Government spending programmes and instruments, which also have an effect on employment or unemployment. The overlap arises particularly with measures which create, induce or preserve employment and output. SEMs which have this effect (for example the Community Enterprise Programme, parts of the Youth Opportunity Programme, the Temporary Short Time Working Compensation Scheme) are paralleled by a large number of conventional instruments of Government policy which influence employment.

6. What chiefly distinguishes SEMs is that they are directly targeted on the registered unemployed - often on particular priority groups. It is the reduction of the number of unemployed that has priority rather than the amount and quality of work (of other output) which accompanies it. For this reason SEMs are more cost effective in reducing registered unemployment, per unit PSBR cost, than conventional instruments. "Cost per job" considerations also feature in the design or appraisal of several other instruments, notably selective aids for industrial projects, but in these cases the primary criterion is usually the expected long run viability of the project. In other activities such as public investment programmes the employment effect is recognised only in a general way and it is rare for projects to be designed so as to maximise employment impact, far less their impact on the registered unemployed. The aim, naturally enough, is to choose the projects which offer the highest return to the objectives of the particular programme, and to design them in the most economical way. Similar observations apply to the other classes of instruments in Table 1 eg training and education measures.

CONFIDENTIAL

CONFIDENTIAL

7. This "ring fencing" of SEMs has some practical benefits. It is a simple way of putting a limit on the extent to which the Government is prepared to skew its public spending priorities and abate its drive for efficiency, in the interests of increasing employment and reducing unemployment. But it also has disadvantages. It would be an oversimplification to say that within the ring fence only cutting unemployment matters and outside the ring fence only efficiency matters. But the present arrangements will tend to rule out intermediate options which would perhaps offer a better trade off between employment and other output objectives, especially if attempts were made to increase the benefit to the register. The idea has been floated in the past of offering some construction contracts on condition that a high percentage of unemployed labour is engaged and labour intensive methods used. At present such ideas tend to be viewed as a source of inefficiency because they are not judged by the same yardsticks as, for example, community work. What is needed is a consistent basis of comparison, taking account of the relative value of output, the contribution which could be made to unemployment, and other factors such as effects on wage levels and opportunities offered to the secondary sector. A comparison of output value might not necessarily be disadvantageous to community work which, despite allegations of "make work" produces, according to some assessments, highly valued output. This needs to be explored more thoroughly as a basis for future decisions on priorities when the scheme comes up for review in 1984.

8. In view of the large number of programmes which could affect employment and because there is no prospect that unemployment is a short term problem, there is a case for reviewing public expenditure procedures to see how effects on employment and unemployment could more systematically be taken into account. A simple way would be to document the job (and labour supply) consequences of spending bids and options for cuts. A ceiling could still be kept on the amount of public spending which would be used positively to reduce unemployment, if it were felt undesirable to do this across the board.

CONFIDENTIAL

CONFIDENTIAL

9. In addition, more could in principle be done to implement existing public spending programmes and policy objectives in ways which would be more helpful for employment and unemployment. One example is more labour intensive ways of carrying out given public needs (as mentioned above and in Chapter 6). Another would be a review of the scope for relaxing the rules governing recruitment to the civil service to allow some preference to unemployed recruits. In practice, such an initiative would come up against the familiar problem of mobilising the spending power and influence of many Government departments, with their disparate aims and priorities, towards a cross-departmental Government objective. The "bending" of main programmes towards a particular objective has been tried, not with outstanding success, in the case of the urban policy. Nevertheless our diagnosis can be seen as pointing to the need for machinery for reviewing systematically the scope for each Department's activities to do more to increase employment and reduce unemployment. If such an exercise were not to run into the sand it would need firm Ministerial leadership.

Reducing the labour force

10. Measures to reduce the labour force do not currently have a high priority among employment measures. (The main example is the Job Release Scheme). Nevertheless the Government plays a part in setting the balance of financial incentives and opportunities affecting labour market participation. In the light of the prospects for unemployment there is a case for reviewing that balance, as it affects young people, two income couples and older people's retirement.

(i) More further and higher education

11. The proportion of young people staying on in full time education beyond 16 is very low in Britain. The employment outlook reinforces the educational case, discussed in Chapter 5, for encouraging more young people to stay on, particularly in areas of very high unemployment. An increase in the proportion of young people obtaining academic or vocational qualifications would make them more mobile, both socially and geographically, and hence improve productive potential. In present circumstances making places available may be more important than providing financial inducements, but both might be provided on a selective basis (see Chapter 5), if resources could be diverted to this.

CONFIDENTIAL

CONFIDENTIAL

(ii) Two job couples

12. Whereas a married man with a non-working wife receives $1\frac{1}{2}$ times the single person's tax allowance, his counterpart with a working wife receives $2\frac{1}{2}$ times this. We continue to take the view, expressed in our report on "Unemployment and Young People" and subsequently endorsed by the Manpower Group, that this fiscal bias in favour of two income couples promotes a higher level of participation in the labour market than would be found under a more neutral system. We repeat our recommendation that full weight should be given to the implications for unemployment when decisions on the taxation of married couples are taken. A minor additional suggestion is that the MSC might (without discriminating against women) adopt more selective objectives for positively attracting women into training and hence employment. We have in mind that instead of regarding women (of all kinds) as a disadvantaged group on a par with the disabled and ethnic minorities, MSC might concentrate on assisting women with the potential to acquire scarce skills and women from low income families.

(iii) Retirement

13. The Government are committed to the abolition of the earnings rule for State pensioners, when this can be afforded. While recognising the considerations of equity which underlie this, we do feel that at present unemployment levels it would undesirably increase competition for jobs and that there are thus better uses for the resources which implementation of the commitment would entail.

14. The main questions in this area are whether early retirement should play a bigger part in Government policy, and if so in what form. Quite apart from the major costs involved there is a view that early retirement is undesirable, because it creates no extra output, may create income problems for the elderly, and may reduce productive potential by substituting green labour for skill and experience. The last of these fears is often exaggerated: while circumstances vary, it is very often the case that older workers hold on to their jobs at the expense of new entrants because of rigidities in the labour market rather than because of higher productivity. Moreover early retirement

CONFIDENTIAL

CONFIDENTIAL

could be a lesser evil than the present level of unemployment among young people, which is likely to damage productive potential in the long run, and which may entail bigger individual and social costs than bringing forward retirement by a few years. For all those reasons early retirement is worth considering as part of the strategy for tackling unemployment.

15. One solution would be to introduce a common pension age of 60 (which would incidentally respond to EC pressure for removal of the discrimination inherent in allowing women to retire 5 years earlier than men). However, this would be extremely costly and would permanently transfer over 1,300,000 men from the working to the dependent population. A change of this magnitude could be contemplated only if it was certain that unemployment would remain at present levels, or if the nation felt rich enough to offer retirement at 60 so as to increase the leisure of the elderly. On our view neither of these applies.

16. A more flexible approach, which we recommended for consideration in "Unemployment and Young People", would be to reduce the male pension age to 63 combined with flexible retirement provisions from 60 to 65, with reduced pension for those retiring early and enhanced pension for those retiring later up to 65. This would combine some of the benefits of earlier retirement for men with the flexibility to cope with uncertain labour market conditions. However, because a great deal of early retirement is occurring voluntarily only about half the workers receiving an earlier pension would release jobs. The scheme would thus be cost ineffective, costing at least £800 million a year net to take a quarter of a million people out of the labour force.

17. In present circumstances the more cost-effective approach, if Ministers accept the general argument in favour of flexible early retirement, is to develop the Job Release Scheme, which targets on people who release their jobs to the unemployed. Options which might be considered, if resources were available, include lowering the minimum age for Job Release from 62 to 60 and the introduction of a part-time option. Another option would be to enforce retirement at 60 more widely in the public sector.

CONFIDENTIAL

CONFIDENTIAL

Reducing the concentrated incidence of unemployment

18. Chapter 3 mentioned the particular social and economic problems which result from long duration unemployment, from heavy geographical concentrations and the high incidence among the young and unskilled. Regional disparities are being addressed in the current inter-departmental review of regional policy.

19. In the past, unemployed job seekers as a group were often discriminated against; many employers preferred to recruit people who already had jobs or new entrants to the labour market. Such attitudes are less prevalent in present circumstances. Instead employers are now said to discriminate against the long term unemployed, assuming that they must be poor candidates. In view of the large number of unemployed relative to the resources available to help them, we believe that special measures for the unemployed should concentrate in future on finding work for the long term unemployed in the "12 months plus" group. This should become a formal criterion of effectiveness.

20. There are a number of options for giving further help to the long term unemployed which should be considered:

a. Employers and unions could be encouraged to negotiate "starters' rates" whereby adult recruits would start below the rate for the job and progress to the full rate over a period of perhaps 18 months. (There are recent precedents for this in the USA.).

b. Unemployed workers could be given vouchers, cashable as a wage subsidy by employers engaging them for a minimum period. To ensure that the subsidy encouraged rather than impeded wage flexibility, there could be a wage ceiling or a requirement to pay starters' rates. This would be a convenient way of marketing a recruitment subsidy, which could overcome employers' resistance to the idea of taking on the long term unemployed.

CONFIDENTIAL

CONFIDENTIAL

c. A work preparation programme on the lines described in paragraph 28 could improve the employability and job getting skills of many of the unemployed.

d. Spells of work experience "on employers' premises", if incorporated towards the end of training and community work attachments could help adults establish a track record with a real employer, as young people do on YOP.

e. The new job splitting scheme might incorporate a higher subsidy (perhaps in voucher form) for recruiting the long term unemployed.

f. Private employment agencies would be paid a fee for finding jobs for the long term unemployed.

21. In addition there are a couple of options which would help the unemployed as a group:

a. The public employment service could increase its knowledge of vacancies in the secondary market, including part-time and casual work, and bring them to the attention of the unemployed.

b. Employers using the employment service to select job candidates could be charged for the service, except where the successful candidate is unemployed.

Helping the unemployed to use their time productively

22. It is useful to try and distinguish how far particular groups of the unemployed need employment as such, as distinct from the benefits obtained from work which might be provided in other ways. For most of the unemployed, a regular job will be the best solution and this is particularly likely to be true for young adults, both from the viewpoint of society and that of the individual. But others might be readier to accept substitutes. Workers with family responsibilities seem primarily in need of extra income and the choice whether to provide this through extra benefits, through created work

CONFIDENTIAL

CONFIDENTIAL

projects or through more generous rules for supplementing benefit by part-time earnings rests primarily on what society finds most acceptable. Among older people, whose chances of getting jobs are particularly poor, the most useful approach may be to provide alternative forms of useful activity, status and companionship.

23. These questions are rarely addressed in the context of special employment measures, because the emphasis there is on reducing the numbers actually unemployed and on the needs of the unemployed as workers, not as individuals within families. We understand the importance of reducing the numbers of unemployed. But the prospect that these numbers will remain high for some years makes it all the more important to ensure that effective ways of meeting the needs of unemployed people are not overlooked.

24. There are several ways in which more people might be helped more effectively if a broader approach were adopted -

a. The need of family men for work to raise their household income could be met by applying to them and their wives the more generous rules about income disregarded for benefit purposes which currently apply to single parents. The employment service could give special help to long term unemployed family men to find them (or their wives) part time jobs.

b. The educational standards of the unemployed and their general employability could be improved in a variety of informal ways, using voluntary tutors and counsellors wherever possible, and including mutual help arrangements among the unemployed themselves. Use could be made of educational, sporting and recreational activities to develop and sustain many of the qualities needed in work (eg concentration, stamina, fitness, discipline, working in a team). Existing full time courses in education and training institutions are not suited to provide this range of needs; new courses would be expensive to set up and would further extend the role of the state. The only benefit of meeting the need via full time courses is that it would enable people to come off the register. The price for achieving this gain would be too high. Hence, instead of an expanded

CONFIDENTIAL

CONFIDENTIAL

role for the adult work preparation courses currently run by the MSC, we would prefer consideration to be given to ways of stimulating informal and voluntary provision. On the face of it, this is more a task for the informal education departments of LEAs than for the MSC, though the Job Centres could play their part in publicising the kind of help locally available. LEAs might be invited to find ways of helping unemployed people without formal qualifications to compile a profile of their achievements gained through voluntary work and other activities, for use in job applications.

c. The new community work programme, comprising full time and part time systems, could progressively be developed so as to organise a few hours of work, most weeks, for those who cannot find any for themselves. This may be a more cost-effective way of reducing human misery than to providing a part time or full time job for a full year for a small minority of the long-term unemployed. This would be particularly appropriate for the many workers among the long term unemployed who have rarely had (and therefore may not miss) a steady job but who are depressed by the enforced inactivity of continuous unemployment.

d. The role of voluntarism both in meeting the needs of the unemployed and engaging their energies is the subject of the research project currently being sponsored by the MSC. Voluntary work could be particularly important for middle aged and older people, particularly those made redundant from steady jobs who feel the loss of a settled role in life, satisfaction and status. The Health Departments run schemes to promote the use of unemployed volunteers. The MSC's new Community Programme will seek to organise paid and voluntary opportunities within a single programme. Given the different values which surround market work and voluntary work we have some doubts whether this is the approach best calculated to engender the growth of genuine volunteering but we have not studied the subject closely.

CONFIDENTIAL

CONFIDENTIAL

e. Finally, there are the people whose age and/or unfitness put them well below the margin of employability in their local labour market for the foreseeable future. Such people are unlikely to be in demand for casual work (even on the black economy). Requiring them to keep up the fiction of looking for work, and denying them the somewhat higher level of supplementary benefit available to invalids or retired people serves no economic purpose and is difficult to justify. Unemployed men over the age of 60 are already permitted to claim the long-term rate of benefit and stop registering as unemployed. But the problem extends further down the age range. An option for consideration when resources permit would be to extend the arrangement to workers in their fifties who have been unemployed for two years.

Conclusions

25. The need for measures to reduce and relieve unemployment is likely to be sufficiently enduring to make it sensible to mobilise a wider range of government spending programmes and instruments in support of employment objectives, rather than, as at present, relying so heavily on special employment measures. There is a need to find a more systematic way of choosing options which meet employment objectives efficiently while striking the desired balance between these and other objectives. To achieve this, the effects on employment and labour supply of all significant spending options should be systematically documented as part of the public expenditure planning process, as should the real outputs of special employment measures. There is also a case for creating machinery within Government for identifying ways of improving each Department's contribution to employment and unemployment objectives.

26. Within the overall policy for tackling unemployment it is right to give top priority to options which increase employment and output. Employment in the regular labour market is best because it will do more to restore confidence. To assist longer term objectives the emphasis should be on the private sector and in particularly the secondary sector.

CONFIDENTIAL

CONFIDENTIAL

27. Among options for reducing labour supply, early retirement helps offset the effect of company labour markets in concentrating unemployment on the young. An extension of the Job Release Scheme will be considerably more cost-effective than a general reduction in the male pension age.

28. In view of the large numbers of long term unemployed and the particularly damaging consequences of prolonged unemployment, employment measures targeted on the unemployment should now concentrate on getting jobs for those who have been without work for over a year. Those who cannot be found regular jobs might be helped more cheaply and effectively if there was more emphasis on enabling them to use their time constructively (for example through informal training and education, casual and voluntary work) and less emphasis on getting the maximum numbers off the register. The chapter suggests a number of ways in which such help might be given.

CONFIDENTIAL

CONFIDENTIAL

Special Employment Measures: a classification according to the mechanism used to reduce registered unemployment, listing the secondary outputs of the programmes and other public programmes or instruments with similar (or potentially similar) effects*

Special Employment Measures	Secondary outputs	Similar programmes
1. Publicly organised temporary work of community value		
Community Enterprise Programme(CEP)** Community Industry; Youth Opportunities Programme (YOP)** Community projects [Voluntary service scheme]***	Value of work done; occupation for young; improve individual employability.	Labour intensive construction and maintenance (housing, energy conservation etc). Health and social services. Support for voluntary social services and amenity groups. [DHSS scheme for unemployed volunteers]***
2. Extra employment in the private sector		
a. Extra trainers		
YOP employer attachments	Better stock of skills <u>plus</u> 'real job' experience and (unintentionally) output.	a. Public sector recruitment and training policy (including HM Forces). Skill training grants
b. Other jobs		
Young workers scheme; Enterprise allowance (pilot);	More output. Lower wages; more entrepreneurship. More people in "real" jobs.	Construction contracts; selective financial assistance; regional and urban aids; public purchasing; tax options; Enterprise packages; employment transfer scheme [benefit disregards for casual work]
3. Avoid or defer job losses		
Temporary short-time working scheme	Prevents skill wastage. Perhaps more output	Public and private sector 'rescues'; tariffs; subsidised export contracts
4. Work-sharing		
Job splitting scheme	Higher productivity. More in real jobs. Labour reserve for firms against future expansion of demand: may produce net expenditure saving.	Public sector recruitment policy

CONFIDENTIAL

CONFIDENTIAL

5. Early retirement (see also 7)

- | | | |
|------------------------|---|--|
| a. Job release scheme; | More younger workers into real jobs; perhaps productivity gains | a. Public sector retirement and recruitment policies |
|------------------------|---|--|

6. Increase training, outside employment

- | | | |
|--------------------------------------|--|---|
| YOP (education and training modules) | Better stock of skills; improved individual employability, worthwhile occupation | Training opportunities scheme; Post-compulsory school, further, higher and continuing education. [Benefit rules re availability for work] |
|--------------------------------------|--|---|

7. Remove inactive or marginal job seekers for register

- | | | |
|---|--------------------------|--|
| Option for "60+" age group to withdraw and claim higher benefit | More income; less stigma | DHSS policing of benefit fraud; rules re dividing line between invalids and unemployed |
|---|--------------------------|--|

Notes

- * The list of other similar programmes is not comprehensive
- ** CEP will shortly become the Community Work Programme and YOP will be replaced by the Youth Training Scheme (YTS) which will continue to provide community work and training modules as well as employee attachments. It appears that output may be permitted on YTS and should therefore increase.
- *** Entries in square brackets can produce the secondary outputs but do not reduce the register.

CONFIDENTIAL

CATEGORIES OF THE UNEMPLOYED

Measuring unemployment

1. This annex focuses on how successfully the unemployment register measures the level and trend of unused labour resources in the economy. For this purpose, unemployment figures need to count people who are capable of work, without work, available for work and looking for work.

2. These concepts pose difficult problems of measurement, whatever the method used. "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 about the work they want, how wide a range of work they are capable of performing and how hard they try to find a job. The answers to all these questions depend on subjective judgments. Hence the concept of a completely accurate and objective measure of unemployment is not obtainable in practice. The most that can be aimed for is a consistent measure which enables patterns and trends of unemployment to be identified.

3. There are two ways of measuring unemployment. The first, used by Britain and most European countries, is linked to an administrative process, either claims for unemployment benefits and/or registration with state employment services. The second, used for example in North America and Japan, relies on regular household surveys which question people about their employment status. Both methods have their advantages and disadvantages and there is much to be said for making use of both. Administratively derived figures provide a complete count, free from the sources of error associated with sample surveys, and a particularly convenient way of obtaining up to date figures for small geographical area. Their main disadvantage is that they are prone to "benefit distortions"; ie they may include people who are not available for work but register in order to obtain benefits, and exclude people who are available for work but have no benefit entitlement. (Non claimants of

benefits currently count in British unemployment figures if they register for full time work with the employment service but from October 1982 only benefit claimants will be counted as unemployed.) Also, the coverage of job seekers may change over time or differ among countries because of changes in roles or differences in coverage of benefits, thus obscuring trends and international comparisons.

4. Survey based figures have the advantage that they are free from "benefit" distortions, can be designed to facilitate international comparisons and can obtain more detailed qualitative information eg about the intensity of people's search for work, which can shed extra light on the administration-based figures.

5. Britain has in fact collected a limited amount of survey information about unemployment since 1970, in the annual general household survey (GHS). The GHS confirms the existence of a rising trend and a high level of unemployment in 1980 but the rise is less steep than the register and the level in 1980 not so high. The difference may largely arise from the fact that the GHS only counts people who actively looked for work in the previous week, thereby excluding people who were seeking work but not intensively. This is thought to be a common pattern of behaviour for long term unemployed people who have already searched the local market. Many in this position rely on friends to tell them about new job openings. It would be necessary to cross check the GHS findings with other surveys and investigate in more detail the differences between them and the register before conclusions could be drawn which source gives the better measure.

Over and under counting on the register

6. Subject to the preceding caveats the following paragraphs set out rough estimates of the main sources of over and under counting on the unemployment register. Where figures are given they are designed solely to suggest rough orders of magnitude. Their high degree of uncertainty must be stressed.

7. The register may overstate unemployment because it includes the following categories which are dubiously part of a labour supply.

A. "Hard to employ"

8. People who are completely unable to produce useful work for reasons of health, or physical or mental disability should not appear in the unemployment figures because they ought to be classified as long term sick, a group which is outside the labour force. However, the dividing line between the unemployed with health problems and the long term sick is bound to be arbitrary. It was estimated in the mid-1970s that about 150,000 of the unemployed were virtually unemployable for reasons mainly of health, disability, poor mental capacity or personal difficulties. There is no reason to believe that this group has grown. Indeed, the number of long term sick of working age has increased by over 100,000 since the mid-1970s and it is plausible that some of these would previously have been classed as unemployables among the unemployed.

9. Employability is not an absolute concept. Indeed, of the 150,000 subjectively placed in the category in the mid-1970s, a proportion subsequently did find work. Employability depends on a range of factors, notably the state of employment depend, the pattern of jobs available, the hiring criteria adopted by employers as well as the personal characteristics of the unemployed. Thus, a physically fit unskilled manual worker may be highly employable despite being illiterate or having a prison record, so long as there is a strong demand for building labourers. But the same man may be virtually unemployable in a labour market where vacancies are scarce and limited to non-manual or service occupations. Similarly, a man in his fifties who gave satisfactory service to a previous employer may become unemployable on becoming redundant if employers put an upper age limite of 50 on new recruits.

10. Thus for various reasons, considerable numbers of the unemployed may be hard to place in any kind of unemployment except in a tight labour market, while larger numbers will have very restricted chances of employment if (as at present) jobs for unskilled manual workers are largely unavailable. There is no way of quantifying either of these categories, although the following are pointers to the scale of the problem. Nearly 1 million of the current register are unskilled labourers and even larger numbers lack minimum educational qualifications. In the late 1970s this applied to 60 per cent of unemployed

males under the age of 40 and 75 per cent of older workers. There is no information about their level of literacy, numeracy or spoken language skills so that we cannot quantify the number who would be difficult to place in non-manual or service jobs. However, this could be considerable.

B. Unavailable because working

11. 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.) Information about the black economy among the unemployed has improved recently as a result of the work of DHSS's newly formed Specialist Claims Control (SCC) teams. These teams visit local offices and typically investigate perhaps the most suspicious 5 per cent of the unemployed who are receiving benefit in that area. Typically between 30 and 70 per cent of the people investigated withdraw their claims or have their benefit stopped or reduced. In the majority of cases the amount of revealed earnings exceeds the total amount of benefit entitlement. A minimum estimate of the registered unemployed who are secretly working is thus around 2½ per cent of the total. The full extent of working is unknown but it is likely to be larger than this minimum, and probably much larger, due to activities among the 95 per cent of unemployed benefit recipients who are not investigated by the SCC teams. It is quite plausible that, say, 10 per cent of these receiving benefit as unemployed are not entitled to it. In this case the unemployment register would be inflated by some 300,000.

C. Not available for work

12. This group are not working but 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 ground 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, but the opportunity to behave in this way is greater when vacancies are scarce.

D. Not looking for work

13. 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 more accurately defined as discouraged workers. 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.

E. Selective job seekers

14. There are probably considerable but unquantifiable numbers of people who are genuinely 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. It is plausible that the proportion of selective job seekers who register as unemployed has increased with high unemployment since there is less risk of their selectivity being put to the test by a job offer. Most job seekers are selective to some extent however and the rules for unemployment benefit and the aims of the employment service, with their emphasis on "suitable employment", sanction a considerable degree of selectivity.

15. Lower benefits and stricter rules on refusal of job offers would probably lead to faster job filling. In present circumstances however getting some people back to work more quickly would, to a considerable extent, displace others into unemployment. Econometric studies suggest that in present circumstances a 10 per cent cut in benefits would reduce the register by perhaps 100,000.

Summary of "overcounting"

16. There is considerable overlap among the above categories. Our best estimate is that, there are at least half a million on the register who do not meet the definition in paragraph 1 of being without work, available for and capable of work and seeking work. But the uncertainties surrounding this figure are great.

Sources of under estimates of register

A. Uncounted registrants

17. Students registering for vacation work (up to 200,000 at the seasonal peak), and people laid off temporarily (10-20,000) are excluded from the regular count. None of these is in the market for regular full time jobs and their exclusion is consistent with a view of the register being primarily a measure of people seeking permanent full time jobs. But the register does include claimants seeking only part time work (numbering a few tens of thousands).

B. Non-claimants

18. At present the count excludes about 45,000 registrants for part-time work (mostly married women) who have no claim to benefits. Non-claimants seeking full time work (some ,000) are currently included but will be excluded from October 1982).

C. Unregistered job seekers

19. The Department of Employment estimate (from household surveys up to 1980) that about 300-350 people are looking for work but not registered with the employment service. 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. Some increase will have occurred during the recession but unregistered unemployment tends not to rise as rapidly in a down-turn as the register does. This category probably includes some of the ,000 single parents who receive supplementary benefit but are not required to register for work.

D. Special measures

20. An estimated 300,000 people 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 reflection of underemployment, not an uncounted category of unemployed.

E. Discouraged workers

21. The recession has led to increased staying on in school, a fall in married women's participation rates and a sharp increase in early retirement. Those who have withdrawn from the labour force or have been discouraged from entering it probably number some ,000. They are not currently unemployed, as defined in paragraph 1, but they represent a hidden labour reserve which is likely to re-emerge as and when job prospects improve. In past periods of recovery every extra four jobs generated has brought one extra workers into the labour force.

Summary of undercounting

22. 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, partly because it excludes the categories at a-e above but also because benefits claimants have little incentive at present to take part time work (legally). Also large numbers of retired people, housewives, students, school children and those already in work at 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 supply of labour for part time work. So far as we know this has not yet been attempted.]

CONFIDENTIAL

Net effect of under and overcounting

23. The great majority of the current register are unemployed as defined in paragraph 1. However the register probably exaggerates the unemployment level. Our guess is that over half a million of the present register are not available for work 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 supply of labour for part time jobs. Moreover there is a shortfall of 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).

Implications for the trend of unemployment

24. The register also exaggerates to some extent the rise in the number of people unemployed and actively seeking work. Higher benefits probably induced about 50,000 extra frictional unemployed by the early 1970s. 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. Laxer administration coupled with shortage of notified vacancies may have allowed perhaps 100 thousand or so more to participate in the black economy. It is impossible to determine a trend in the number incapable of work, but at a constant pressure of demand the decline of traditional male manual employment may have added a hundred thousand or so to the ranks of "hard to employ".

25. 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. On balance therefore, the deficiencies in the register do not appear to obscure the general underlying trends in unemployment.

CONFIDENTIAL

THE SOCIAL SECURITY SYSTEM AND UNEMPLOYMENT

1. This annex considers whether the tax and social security system 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 the unemployed: 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 employees and employers. Even with very large declines in demand employers may be 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. At the same time employees may resist reductions in real wages on the grounds that they would be better off unemployed. Both these mechanisms may operate together. Below we review the evidence in relation to each.

2. 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 B1 and B2 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 B1 uses the best information on the actual previous earnings of the unemployed to show the position in November 1981 of the average man 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 B2 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.

3. 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 and assistance with dental and optician bills but their value is likely to be highly variable and generally small. 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 B2 and national average costs for Table B1. 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

* 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.

CONFIDENTIAL

TABLE B1 ILLUSTRATIVE INCOME REPLACEMENT RATIOS FOR THE MALE UNEMPLOYED:
NOVEMBER 1981

FAMILY TYPE	% of male unemployed (Nov 1981) (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, under 20(5)	14	66	44.6	21.2	47
Single man, 20+ (5)	39	107	70.1	38.1	54
Married man, 0 children	23	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.

CONFIDENTIAL

TABLE B2 ACTUAL INCOME REPLACEMENT RATIOS* FOR MEN BECOMING UNEMPLOYED IN 1978 - EARLY PART OF SPELL**

	% of male unemployed stock (Nov 81)	Income Replacement Ratios				Total
		Up to - 50%	50% - 80%	80% - 100%	100%+	
Single men	53	67	28	3	2	100
Married couple no children	23	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.

appear to have claimed tax refunds before they returned to work, suggesting that the majority were not fully aware of the tax advantages of the past position. Under the new regime 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 obtains since benefits were brought into taxation.

4. 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. (Family men with children have been a steadily declining proportion of the register for the last ten years);
- 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 B1). For the great bulk of the unemployed without children the "typical" ratio is 60% or lower;
- the actual family 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 B2). 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.

5. 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

CONFIDENTIAL

earnings. The presence of working wives or occupational pensions serves to raise replacement ratios, particularly for married couples without children. In such 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 high replacement ratios did not stop most of the men returning to work fairly rapidly: a year after becoming unemployed the proportion with replacement ratios of 80 per cent or more who had returned to work was very similar to the proportion among men with lower ratios.

6. 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 and on the basis of their earnings prior to unemployment, the proportion of men becoming unemployed for whom a return to work involves an implicit marginal tax rate of 80 per cent or more is now probably less than 15 per cent. However, it can be argued that at a time of deep recession past earnings are not a good guide to current choices; wages in the small firm non-unionized sector may be well below the previous earnings of the unemployed who have lost jobs in the large unionized establishments. This will certainly be true for some of the unemployed. But the DHSS cohort study and the more recent (May 1980) MSC cohort study both suggest that the unemployed come predominantly from low wage employment in small establishments. Nearly half the DHSS sample reported fewer than 25 employees at their usual place of work and although the MSC cohort was selected at a time when redundancies were beginning to rise rapidly, only 40 per cent of the men reported union membership in their last employment. For many, and possibly most, of those currently becoming unemployed, earnings in their last employment may therefore not be a bad guide to the earnings opportunities they face once unemployed.

CONFIDENTIAL

7. 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 1978 survey of men who had been on the unemployment register for about one month, half reported a willingness to accept a significant drop in their real pay. About a third, mainly men with previous very low wages, appeared to require an increase in their pay. In practice most of these returned to work within a year, at least half of them for a wage below their original "reservation wage";
- 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.

8. At the same time information on vacancies does not indicate that many low paying jobs remain unfilled for an 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. A small scale exercise earlier this year indicated there were only about [2,000] vacancies on the Employment Services books that were proving difficult to fill for reasons of low pay. Studies of the residue of jobs that remain unfilled or are difficult to keep filled (for example, traffic wardens in London), 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.

9. It seems reasonable to conclude that although a small minority of the register show little active interest in finding work and a rather larger number are selective about the kinds of work sought, 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. More recent work supports this estimate.

10. The second mechanism through which benefits might act as a wage "floor" - by influencing the behaviour of employees and 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. Similar questions could be put to employee representatives about the determination of wage demands. 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.

11. 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. Social Security benefit levels have also featured in the wage claims of low paid workers in the public sector for many years. For example, Family Income Supplement prescribed amounts have been treated as defining "poverty wages" in recent claims by both civil servants and National Health Service auxiliary workers. There are also regular references to some workers, usually family men, being better off out of work. While benefit levels obviously make good if misleading bargaining points (very few workers in the lowest wage grades are family men) it is not clear that their role in wage negotiations has become any larger over the last ten years.

12. 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 wage settlements and 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). The numbers of full-time employees with incomes that provide only a small margin over their benefit entitlement will have risen since 1979, reflecting the developments discussed in Chapter 7 (see particularly, Figure 8). But the overall numbers will still be very small. Therefore if benefit levels do significantly influence wage offers and wage settlements 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'.

LABOUR INTENSIVE PUBLIC WORKS

1. In recent years there has been a significant cut-back in all public sector capital programmes, partly because it is much easier to postpone a decision to carry out investment than to reduce current expenditure. Furthermore, the effects of such cuts are not felt immediately. However this decline in public sector capital programmes, coupled with the effects of the recession on private sector capital works, has now worked its way through, and is giving rise to very high levels of unemployment among building and construction workers - not least among the unskilled labourers.

2. A boost to the construction industry could be made to provide more real jobs (at least in the short term) while at the same time it would provide useful and productive output. These are major advantages over 'make work' schemes. Furthermore -

- the sector can respond quickly to stimulus
- there is little import penetration (about half that of manufacturing industry)
- it is relatively labour intensive,
- a high proportion of the labour is unskilled (about one third) for whom there is often no alternative employment
- wage rates are not dominated by national agreements, but are more responsive to local market conditions (about 90 per cent of the firms employ less than 25 people).

3. Some types of construction work are more labour intensive than others. The table below gives estimates of the number of man-days of site labour per £1000 worth of contract (1970 prices) for various types of new construction

CONFIDENTIAL

	Public Housing	Private Housing	Education	Hospital	Other	Industrial	Commercial	Roads	Water	Sewerage
Skilled and Semi-skilled	41.2	39.8	42.8	40.3	38.3	34.8	28.8	14.3	16.0	14.2
General Labourer	14.5	16.8	15.5	12.6	16.3	15.5	9.7	13.2	8.1	14.3
Total	55.7	56.6	58.3	52.9	54.6	50.3	38.5	27.5	24.1	28.5

Employment of site operatives: site man-days per £1000 contract value at 1970 prices
(Source: How flexible is construction, HMSO 1978)

CONFIDENTIAL

work. This shows that the labour content of building work is about twice (£ for £) that of civil engineering work, although the latter requires a higher proportion of site supervisory staff. Within building, there is little to choose between the types as far as labour intensity is concerned. There is also evidence that the labour content of building (or at least of house building) has been declining by an average of about 3 per cent per annum over the last 20 years or so. This is due partly to design changes, but partly to methods of construction and in particular the greater use of prefabricated materials. Although there is little hard evidence, it is believed a similar fall has taken place in civil engineering works primarily due to the increased sophistication of plant.

4. For house improvement work the labour content is very similar to that for new house building (£ for £ but not per dwelling unit). This somewhat surprising fact is due to the high value of materials used in improvement work (eg fitted kitchens) compared with the bulk of materials used in new construction (eg bricks). However the skilled component of the labour is about 25 per cent higher for improvement work than for new building.

5. For repair and maintenance work, in both building and civil engineering the labour content is significantly higher than for new work, and the difference between building and civil engineering is narrowed.

6. For all types of construction work there is of course an indirect employment effect associated with the materials used. Only about a quarter of the total materials used are imported (mainly timber), about half the proportion for manufacturing industry. One estimate suggests that the figures may be as high as an additional 30 per cent employment for housing work and 50 per cent for civil engineering.

7. To increase employment in the construction industry, there are three possible approaches. First the Government could seek to increase demand from the private sector for the products of the construction industry; the budget measures on housing were examples of this. Secondly improvement grants for private housing have for some time been designed to increase

rehabilitation: it would be possible to extend these, by for example relaxing the conditions on which they are given, or increasing the grant percentage. A similar grant system could be developed to encourage renovation and/or conversion of industrial premises.

8. Thirdly, the public sector nature of much of the work offers a very direct way of increasing employment while improving some of the physical infrastructure. There are a number of advantages -

- there is no shortage of valuable work which needs to be done
- much of the output is infrastructure which can increase the effectiveness of industry in an economic recovery
- any boost can be targeted at geographical areas of high unemployment
- even though the expenditure would be public sector, the employment would, on the whole, not be (only around 10 per cent of public sector work is done by direct labour).

9. The simplest and most direct way of doing this would be to expand selected public sector capital programmes. We consider four examples. Public sector housing is mainly the responsibility of local authorities. Because of the block allocation of capital to local authorities, there is no guarantee that any increase would in fact be used for housing. Furthermore the local authorities have underspent their capital allowances for housing for last year.

10. Government capital funds for the Housing Corporation are better able to be steered than those for local authorities; they cannot leak through to revenue spending and the Housing Corporation could be advised to allocate funds only to those housing associations with a proven track record. Because of the heterogeneous nature of housing associations there would be policing problems requiring some extra administrative staff in the DOE and in the Corporation. The capital budget of the Corporation is around £600 million now, and it might prove possible to increase it by, say, £100 million per annum over each of the next three years. There would, of course, be presentational problems associated with extra money for housing associations and not for local authority housing.

CONFIDENTIAL

11. As this would be new money it could, with little difficulty, be channelled to those associations that were prepared to give a degree of priority to applicants seeking to move home for employment reasons. In the CPRS study on labour mobility, we recommended that Ministers should consider using housing associations to provide the flexibility of allocation so manifestly lacking in most local authority allocation schemes.

12. For roads the very long lead time for new construction means that attention should be concentrated on ways of increasing repairs and structural maintenance. Not only is there a large backlog of such work anyway, but as noted above it is more labour intensive. Some roads come directly under Government control, but even for those that are the responsibility of local authorities, the Transport Supplement Grant system offers a more powerful lever to direct spending.

13. For sewers, again there is a very large backlog of repairs and maintenance in many areas. Here Government has powers of direction under the Water Act 1973, to make funds available to water authorities for specific purposes.

14. In health there is a massive backlog of maintenance repairs and redecoration. The financial allocation mechanism would allow funds to be earmarked for such purposes: the health authorities could be invited to draw up programmes for the work and put in bids for money through the normal channels.

15. We have not sought to estimate the scope for increases in labour intensive capital programmes in the immediate future: this will depend upon the amount of fiscal headroom available and other measures which are allowed to have priority. The merit of these schemes is that they lead to an increase in real jobs in a cost effective way and constitute replacement or refurbishment tasks which are going to have to be done anyway at some point in the near future.

CONFIDENTIAL

Bf to Mrs on
6/9 Wm
Mr Rickett

CONFIDENTIAL



SV
SW
FM

~~Mr Walters~~ AS

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

Does this reassure
you?

Yes - but the very existence
of more part time jobs
would serve to advertise
these opportunities to housewives
etc & so increase the labour supply.
August 1982
We should therefore keep an eye
on this job splitting scheme as
it develops.

AS 6/8

M Scholar Esq
Private Secretary
10 Downing Street
LONDON
SW1

Dear Michael

EMPLOYMENT MEASURES

You wrote to me on 26 July about the new employment measures, which were of course announced in the debate on 27 July.

As was agreed, a number of employers and employers' organisations were approached in advance of the announcement for assurances of public support for the job splitting scheme. You will probably have seen that both the CBI and the EEF put out press notices welcoming the scheme and indicating that they would be commending it to their members for consideration. The individual industrialists approached also mostly welcomed the scheme and said that they would give it serious consideration when full details were available. On that basis my Secretary of State had no hesitation in going ahead.

Your letter also suggested that a period of registration - perhaps a minimum of three months - might be needed in order to avoid the scheme attracting back into the labour force people currently outside it. We did, in fact, consider such a condition but had come to the conclusion that it would be unnecessary for this purpose. The main point to note is that for unemployed recruits to the jobs split under the scheme registration alone is not enough; they must also have been receiving unemployment benefit or supplementary benefit, on the grounds of unemployment. The only people who can satisfy this condition will be those with a sufficient work and contributions record during the previous year, or those entitled to supplementary benefit in their own right. Married women currently outside the

CONFIDENTIAL



labour market would be very unlikely to fall into these categories.

However, in presenting the scheme we did not make any commitment on this point and we will consider the issues involved further in working up the details of the scheme.

I am sending copies of this letter to the recipients of yours.

Yours sincerely

Barnaby Shaw

J B SHAW
Principal Private Secretary

*Manpower Emp Means
Pt 1*



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

Mr Wolfson

I believe you were asking for these details.

*WR
2/8*

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON
SW1

2 August 1982

Dear Michael

JOB RELEASE SCHEME : COSTS

You asked if we could supply a few lines explaining the calculation of the cost figures given by my Secretary of State for reducing the qualifying age under JRS to 60 for men. I am sorry to have taken so long to reply.

... The attached note sets out briefly how the figures were arrived at. Please let me know if you need further details.

Yours ever

Rosalind McCarthy-Ward

ROSALIND McCARTHY-WARD
Private Secretary

ESTIMATES OF COVERAGE AND GROSS COST OF JRS

Coverage

Population forecasts give the total population in the relevant age ranges (59 for women, 62, 63 and 64 for men). From this can be derived an estimate of the economically active population in each age range.

Experience of JRS provides the basis of an estimate of the proportion of the economically active population who are likely to opt for Job Release (7% of men aged 64, women aged 59, 15% of men aged 62 and 63). It is assumed (we have no experience of this) that men aged 60 and 61 will join in the same proportions as men aged 62 and 63.

No estimate is available of economically active disabled men. It is assumed they will continue to apply in the same proportion as in the past, relative to all economically active men.

This estimate provides the total new joiners each year. To this it is necessary to add the numbers still on the scheme from previous years and subtract the numbers who leave the scheme (on reaching retirement age, through death or any other reason for termination) each year.

The coverage at the end of each financial year can then be obtained, and from this the mid year figure (which approximates to an average number supported through the year). When multiplied by the allowances, this gives the gross cost.

The attached table gives the estimated position in 1982/83 for the current JR scheme (eligibility for able bodied men aged 62, women aged 59 and disabled men aged 60) and comparative figures if the qualifying age for men was reduced to 60 from November 1982.

A comparison of the estimates shows that reducing the qualifying age to 60 will increase the cost in 1982/83 by £37.8 million and increase the register effect by 19,300 (the numbers of unemployed taken from the unemployment register).

The gross costs and register effect will increase in subsequent years as the numbers on the scheme build up.

JOB RELEASE SCHEME

GROSS COSTS AND COVERAGE ESTIMATES FOR 1982/83

ALL NUMBERS IN THOUSANDS EXCEPT GROSS COSTS

	Current Scheme	Reduce qualifying age to 60 from November '82
COVERAGE (BEGINNING OF YEAR)	65,800	65,800
NEW JOINERS	66,700	90,700
DEATHS	2,900	2,900
NUMBERS REACHING RETIREMENT AND OTHER TERMINATIONS	36,900	37,100
COVERAGE (END - YEAR)	92,700	116,500
COVERAGE (MID - YEAR)	62,900 79,500	91,200
GROSS COSTS (£, Million)	231.1	268.9
REGISTER EFFECT (END YEAR)	75,100	94,400

Prime minister

2

Manpower

MR. SCHOLAR

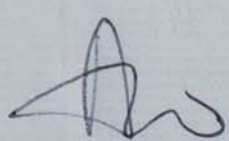
wh 2/8

STUDY ON UNEMPLOYMENT

I understand the CPRS study is expected to be submitted to No 10 around the end of August; I would then anticipate being able to comment upon it for the Prime Minister in early September on my return from the IMF meetings. The parallel study, which I am supervising, by Patrick Minford is also scheduled to be ready in early September.

The Prime Minister could therefore expect to have both reports with her prior to her departure for her Far East trip on 16 September. Discussions could then take place after her return which would be well before the next critical economic policy decision date, namely that of benefits uprating due to be announced in November.

mf



2 August 1982

ALAN WALTERS



Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213.....

Switchboard 01-213 3000

cc Joybotilwood
Prime Minister (2)
Manpower

MUS 29/7

Rt Hon Margaret Thatcher MP
House of Commons
London SW1

29 July 1982

D Margaret,

As you know the new Youth Training Scheme has had unanimous support from all sides of the House as well as industry, and will be launched next year.

Any help you can give during the summer Recess to encourage people to play a part would be immensely valuable. The Government has set aside a large amount of taxpayers' money and the Manpower Services Commission has put in hand the organisation required. But we really do need to work through organisations - companies, local authorities and others - who can sponsor training places under the scheme if we are to make certain that all the youngsters have a real chance to participate.

The sort of people to look out for are medium and small businessmen whom you might meet at a constituency social or business function; or a representative - official or Councillor - of a local authority whom you might meet at a school prize-giving or civic function; or somebody connected with the Church or a well known local voluntary organisation.

I am enclosing a short note of the key points relating to the Youth Training Scheme which you may find useful to pass on to any of your constituents who are interested.

Together with the other Members here, I am writing a personally addressed and signed letter to every Member asking their help on Y.T.S. - I thought you would be interested to see this. N

THE YOUTH TRAINING SCHEME

WHAT IT IS

The Youth Opportunities Programme will be replaced next year by a new Youth Training Scheme. The Manpower Services Commission will run the scheme. The Government will provide very substantial funds - £1 billion when the scheme is fully operational in 1984/85. It also has the wholehearted support of the CBI and the TUC.

WHO WILL BENEFIT

The Scheme will give one year foundation training courses to over 400,000 16 and 17 year olds, including all unemployed 16 year old school leavers. But this can only be achieved if individual organisations come forward - as so many have done under the Youth Opportunities Programme - as SPONSORS of training courses.

WHAT HELP IS NEEDED FROM SPONSORS

Sponsors will provide all or part of a 12 month programme of training, education and supervised work experience, including off-the-job training and relevant further education. They will also give young people advice and support throughout the programme and a record of achievement on leaving.

WHAT SPONSORS RECEIVE

£1,850 per trainee for providing a year of training and work experience - whether entirely on their own premises or using others' facilities. There is an extra fee of £100 for each training place provided by those who manage an entire programme.

EMPLOYED AND UNEMPLOYED YOUNGSTERS COVERED

In general, as long as employers train three additional trainees for every two they would normally recruit, they will get a grant of £1,850 for each of the five. The training allowance will be £25 a week (payable from the training grant) if the young people are classed as trainees.

WHEN WILL IT START

The scheme will start in September 1983.

LOCAL MANAGEMENT

The new scheme will be locally managed by new area manpower boards, representative, inter alia, of local employers. They will be encouraged to play a full part in running the scheme - the key contribution must come from employers and others who will actually provide the training.

WHO TO CONTACT

Help and advice on the content of training courses qualifying for support is available locally from area offices of the Manpower Services Commission or from Mr Joe Millington, at MSC Headquarters (01 836 1213 Extension 287).

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

26 July 1982

Dear Barnaby,

EMPLOYMENT MEASURES

Your Secretary of State minuted the Prime Minister on 21 July, and attached a draft statement about further measures to help the unemployed.

The Prime Minister agrees to your Secretary of State making a statement on these lines. She notes that, as E Committee requested, he is looking for some assurances for public support for a Job Splitting Scheme from employers before announcing it.

BF We had a word on the telephone earlier today about one aspect of the Job Splitting Scheme. There is clearly some risk of the Scheme revealing a labour reserve, hitherto hidden, by attracting some people, for example, housewives, back into employment and onto the unemployment register. I understand that, to guard against this, appearance on the register for a period of some weeks or months will be a criterion of eligibility for subsidy. You undertook to let me have your reflections on this point; and in particular on the view that a period of at least three months' receipt of unemployment benefit will be the minimum criterion, since anything less might render the Scheme open to malpractice.

I am sending a copy of this letter to John Kerr (HM Treasury), Jonathan Spencer (Department of Industry), David Clark (Department of Health and Social Security), Terry Mathews (HM Treasury) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholer

J.B. Shaw, Esq.,
Department of Employment.

AS

file TMP
cc Verker
Mount
Walter

SECRET

4

File
JWP

MR. MOUNT
MR. WALTERS

EMPLOYMENT MEASURES

Thank you for your minute of 23 July about the Job Splitting Scheme.

I have discussed the points you raise with Mr. Tebbit's Private Secretary (Mr. Shaw). Mr. Shaw acknowledged the force of the point that the Scheme might reveal a labour reserve, hitherto hidden, by attracting some people, e.g. housewives, back into employment and onto the unemployment register. The Scheme will have a safeguard built into it against this possibility, but my impression is that the criterion of eligibility will be a number of weeks' appearance on the register rather than a number of months'. This seems to me and seemed to Mr. Shaw to be insufficient to deal with the point, in sub-paragraph 2(f) of your minute, about possible malpractice. Mr. Shaw will discuss with Employment officials and let me know their conclusions.

The Department of Employment sees the attraction of a ceiling on wage rises as a further criterion of eligibility for the Scheme. They point out, however, that since the Scheme will be announced for one year only, it seems unlikely that employers would be induced by the Scheme to take a weak line on pay.

On your point that the Scheme will amount simply to a work-sharing scheme, since it will apply to existing full-time jobs being converted into part-time jobs, all I can say is that E Committee adopted the Scheme with their eyes wide open. Their discussion fully recognised that the Scheme will result not in a net real increase in equivalent full-time jobs, notwithstanding that there will be a reduction in the total register.

You asked whether the £500 subsidy applied to one or two part-timers. The answer is that it would apply whether there were one or two part-timers taken from the unemployment register. The Department of Employment will make this fully explicit.

SECRET /I hope

SECRET

- 2 -

I hope this answers the point you put to me. May I suggest that, if on points of detail it does not, you take them up directly with Mr. Tebbit's office or the Department of Employment?

Mcs

26 July 1982

SECRET

CONFIDENTIAL

cc Mr. Vereker

MR. SCHOLAR

Prime Minister

①

EMPLOYMENT MEASURES

This has arrived too late.

1. There are some aspects of the Job Splitting Scheme due to be announced by the Employment Secretary next week that cause us concern.

Shall I
some of
put these

2. These are:

points to

Mr Tebbit, as

points to consider

in drawing up the

scheme in

detail?

MLs 23/7

(a) The Job Splitting Scheme could reveal a labour reserve, hitherto hidden, by attracting some people, eg housewives, back into employment and on to the register. Whilst this may not be adequately reflected in the unemployment statistics on the new basis (from November 1982 counted as UB recipients rather than registrations), there is little doubt that there is a risk of augmenting the working population.

not if appearance on the register for x months was a criterion of eligibility.

MLs

(b) Similarly, many of our other employment measures have been geared towards reducing increases in real wages. With this scheme, the wages offered to employees could be increased and an employer's resistance to wage demands reduced because of the subsidy. It might be a good idea to consider a ceiling on wage rises as a criterion of eligibility for the scheme.

1 year only with resistance

(c) One of the attractions of the scheme is the additionality criterion, that is to say, the scheme would apply only if the firm increased its "employment". But in practice since the scheme applies to existing full-time jobs being converted into part-time jobs, the scheme will amount to simply work-sharing rather than result in a net real increase in equivalent full-time jobs, although there will be a reduction in the total register. One would expect that a firm experiencing its normal wastage rate of 7-10% per annum would be able to convert those full-time jobs into two part-time jobs, and collect the £500 subsidy. It would have the advantage of requiring the two part-timers to

CONFIDENTIAL

/come from

CONFIDENTIAL

- 2 -

come from the unemployment register, (and to have been on that register for some three months or so). In that sense it would discriminate against those who have been unemployed for a short period. But apart from that, it is important to see that it is primarily a work sharing scheme and will not generate any additional real equivalent full-time jobs, except in so far as the £500 subsidy works through into a reduction in real wage costs.

(d) It is not clear if the £500 subsidy applies to the one or two part-timers. We presume that if a firm employs 1,000 and turns 100 full-time jobs into 100 part-time jobs then it would not be eligible for a subsidy. Is this correct?

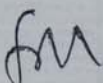
*Where a job
is split
whether 2 or 1*

(e) The cost savings envisaged therefore need to be treated with extreme caution with the above doubts in addition to the question of the employers' reactions - as yet unknown - and any notion of overall public expenditure savings must have a question-mark by it.

(f) We would judge a period of at least three months' receipt of UB as necessary for qualification for subsidy; anything less could render the scheme open to malpractice.

3. We would recommend continuing our endorsement of the scheme in principle, but we, and the House, would need to ensure that the details as developed are subject to rigorous appraisal with the above points in mind.

23 July 1982


FERDINAND MOUNT


ALAN WALTERS

CONFIDENTIAL

C. J.V.
W.R.

281



Prime Minister

①

Agree, subject to colleagues,
and to a satisfactory outcome on
X, to this oral statement on Tuesday
or Wednesday next week?

MS 21/7

PRIME MINISTER

EMPLOYMENT MEASURES

Now that E Committee has approved the proposal in my paper (E(82)58) I need to make an announcement to the House about the Job Splitting Subsidy and the Community Programme. I cannot do this before the Manpower Services Commission has agreed the details of the Programme, which I hope they will do at their meeting on 27 July, and I therefore propose to make my statement on Wednesday 28 July, if you and the Leader of the House are content - either after Questions or in the employment debate if it takes place that day.

... On the assumption that the MSC's meeting goes as I expect, I attach a draft of what I propose to say. If you or any of our colleagues have any comments on this I should be glad to have them by Monday 26 July.

x / As E Committee asked, I am seeking some assurances of public support for the Job Splitting scheme from employers before we announce it.

In accordance with the outcome of the meeting of E yesterday I propose in consultation with the Chief Secretary to fix a level of subsidy between £500 and £1,000 in the light of the evidence I am now collecting. In the draft statement, therefore, I have used the figure of £500 and its associated figures of gross costs purely for illustrative purposes. Of course, if we had to go up to £1,000, or somewhere in between, the gross costs would have to be adjusted.

I am copying this minute to all other members of E, to the Lord President of the Council, the Chief Whip, the Leader of the House of Lords and Sir Robert Armstrong.

N T

21 July 1982

EMPLOYMENT MEASURES

With permission, Mr Speaker, I should like to make a statement about further measures to help the unemployed.

In his Budget speech my rhf the Chancellor of the Exchequer announced an initiative designed to enable those who have been on the unemployment register for some time to work for the benefit of their own community, while still getting broadly the equivalent of their benefit entitlement plus an addition for expenses and the like. After consultation with major sponsors the Manpower Services Commission have now put to me recommendations for the operation of such a scheme, which I am glad to announce that the Government accept.

The Commission will accordingly introduce on 1 October a new Community Programme providing opportunities for community work and voluntary service for those who have been unemployed for some time. The Community Work part of this programme will bring together the Budget initiative and the Community Enterprise Programme and, if the demand is there, will provide up to 130,000 places for the long-term unemployed. Most of the places will be part-time and assistance will be given with training if required.

The new Community Programme will also encompass the scheme for voluntary service announced in May, and the whole Programme

CONFIDENTIAL

will continue for at least two years at a gross cost in 1983-84 of over £550 million. The net additional expenditure will however be nearer to £170 million when account is taken of the savings in benefit that would otherwise be paid.

The Government has also decided to encourage the extension of part-time work more generally in the economy. The object will be to provide additional opportunities for productive jobs for unemployed people. We propose from 1 January next year until 31 March 1984 to offer grants to employers who split full-time jobs into part-time jobs. These grants will be pitched at a level designed to cover employers' costs and to offer them an incentive to take part in the scheme. They will be paid in cases where the splitting of a job results directly or indirectly in a reduction in the number of unemployed people claiming benefit. This proposal is similar in principle to a suggestion made in the recent report on unemployment from a Select Committee in Another Place. The idea has also been under examination by the Manpower Services Commission, in a study to be published shortly.

The full details of the scheme will be announced in the early autumn. It is not possible to forecast how many jobs will be split as a result. But if, for example, a payment of £500 were made and 100,000 jobs were split, the gross cost would be of the order of £55 million over the life of the scheme. However, because of the large savings in benefit payments the scheme should lead to a net saving in public expenditure, and the staff

CONFIDENTIAL

needed to administer it will be more than counter-balanced by reductions in the staff needed to pay benefit.

In accordance with the usual procedures we are notifying the European Commission of these proposals and shall be investigating the possibility of European Social Fund assistance towards their costs.

These two measures respond to the calls made by many to provide ways in which money that would otherwise be paid in benefit can constructively help unemployed people to find their way back into work or useful community activity. I hope that the House will fully support these new measures in the assistance they give in particular to the long-term unemployed.

ms.



Manpower.

CONFIDENTIAL

P.0811

PRIME MINISTER

Annual Review of Special Employment Measures

E(82)58

BACKGROUND

Special employment measures (schemes designed essentially to support employment, or reduce the numbers on the unemployment register, though also providing useful output as a by-product) have been operated for several years by successive governments. The main special employment measures now in operation are as follows.

- (a) Youth Opportunities Programme: this is to be subsumed in the new Youth Training Scheme from September 1983.
- (b) Community Enterprise Programme: this provides work of social value for young people and the long-term unemployed. At present it is running at about 30,000 places a year.
- (c) Temporary Short-Time Working Compensation Scheme: this subsidises short-time working in firms experiencing a temporary reduction in demand but with reasonable prospects of long-term viability. It was agreed in last year's Public Expenditure Survey that it should be closed in March, 1984.
- (d) Job Release Scheme: this provides an allowance for older workers who retire prematurely if their jobs are filled by people from the unemployment register. You announced changes in the qualifying ages in July 1981: the present lower age limit is 62 for men. Its future after March 1984 is subject to review.
- (e) Young Workers Scheme: you also announced the introduction of this scheme, which came into effect from January 1982. It provides subsidies to employers who employ young people at less than £45 a week.



CONFIDENTIAL

2. There is also the fairly small Community Industry programme, which provides employment for a few thousand disadvantaged young people; and the Enterprise Allowance scheme, which helps unemployed people to start up small businesses (this exists so far only as a small number of pilot schemes: it is not intended to expand it until the results of the pilot schemes are available).

3. Finally, the Chancellor of the Exchequer announced in his Budget speech that the Government was willing to make available up to £150 million a year to finance a scheme under which the unemployed would do useful work in return for an allowance equivalent to social security benefit plus a modest premium. We understand that agreement has very recently been reached bilaterally between the Secretary of State for Employment and Treasury Ministers on the details, but these have yet to be announced.

4. The special employment measures have always been regarded as temporary and subject to regular review. Hence the title of the Secretary of State for Employment's memorandum E(82)58. However, the main current measures either have a limited life, or are subject to review by a stated date, or are the results of recent political initiatives and are bound to continue in being for some time. The Secretary of State therefore does not propose major changes; we understand that Treasury Ministers take a similar view.

5. Instead, the Secretary of State proposes the introduction of a new measure: a job-splitting scheme, under which a subsidy would be offered to any employer who split one full-time job into two part-time jobs, provided that the vacancies for part-time workers were filled by recruits from those who were on the unemployment register and drawing benefit. He suggests that the scheme could be introduced from 1 January 1983 and run until 31 March, 1984. The rate of subsidy would be decided in the light of employer's costs and reactions, but would probably lie between £500 and £1,000 (presumably these are annual figures). Because of the effect on social security benefits the scheme would produce a net reduction in public expenditure and manpower. The scheme would be announced towards the end of this month.

CONFIDENTIAL



CONFIDENTIAL

FLA4A2B

6. You have already held a preliminary discussion of possibilities in the area with the Ministers most directly concerned. Mr Scholar's letters of 2 and 6 July (not copied to all members of the Committee) record your view that the job-splitting subsidy is the only one worth pursuing.

MAIN ISSUES

7. The main issues appear to be as follows:

- (i) Is the proposal adequate, or should other measures be introduced or existing measures expanded?
- (ii) Is the broad outline of the proposed scheme satisfactory?
- (iii) How should it be announced, if it is approved?

Adequacy of Proposal

8. It might be argued that with unemployment standing at over 3 million, and likely to increase for some time, action on a much larger scale is required: the Lords' Committee on Unemployment has suggested additional gross expenditure of £5 billion a year. However, the Secretary of State for Employment strongly discourages any such suggestion; and in the light of the discussion of public expenditure in Cabinet on 15 July it seems unlikely that any other Minister would wish to pursue it. If he did, the appropriate forum would be this year's Public Expenditure Survey; and he would no doubt be expected to find from his own programme any additional financial provision that was required.

The Proposed Scheme

9. The proposed scheme clearly has attraction since, if successful, it would substantially reduce the numbers on the unemployment register and drawing benefit; the size of likely takeup must be a matter for speculation at this stage. The main objection is that it could be regarded as coming too close to the ideas advocated by the TUC and others for job-sharing and reductions in working hours in order to create new jobs. Ministers have

CONFIDENTIAL



CONFIDENTIAL

attacked these ideas as likely to reduce industrial efficiency and inflate unit costs. It may be hard to refute the argument that the present proposal will have a similar effect: if it does not, why should a subsidy, which might be as high as £1,000 a year, be required in order to persuade employers to join the scheme?

10. You may wish to explore this aspect, and whether there is any way of strengthening the Government's defence against potential criticism. Is it, for example, a reason for trying to keep the amount of the subsidy low?

11. On the amount of the subsidy, the Secretary of State for Employment suggests that he should choose a figure between £500 and £1,000 in the light of further information. Unless any of your colleagues shows a strong departmental interest you may feel that it is reasonable to let the Secretary of State have discretion, subject to clearance with the Chief Secretary, Treasury.

Implications for Public Expenditure

12. The Secretary of State for Employment claims that his proposal will produce a saving in public expenditure and manpower. We understand that the Treasury accept this analysis. However, the Chief Secretary is likely to insist that savings, which will accrue to the social security programme, should be identified and surrendered. The Secretary of State for Social Services will need to confirm that he is willing to do this.

CONFIDENTIAL



CONFIDENTIAL

Community Implications

13. The proposed scheme may well be notifiable to the Commission. However, no great difficulties are expected; and it should be necessary to do no more than ask the Secretary of State for Employment to arrange for officials to consider the Community implications of the proposals and to ensure that any announcement reflects the outcome of that consideration.

Announcement

14. If the Committee approves the principle of the proposals, there seems to be no reason why the Secretary of State for Employment should not announce them before the Summer Recess. No doubt an early announcement will be helpful in allowing preparations and consultations to go ahead. However, since the scheme is fairly modest, you may well feel that a low-key announcement would be appropriate.

HANDLING

15. You will wish to ask the Secretary of State for Employment to introduce his memorandum. The Chief Secretary, Treasury will wish to comment from the standpoint of public expenditure, and perhaps the effects on the labour market. The Secretary of State for Social Services (or his representative) will need to deal with the implications for his expenditure programme.

CONCLUSIONS

16. You will wish the Committee to reach conclusions on the following:

- (i) Whether the proposed job-splitting scheme is acceptable.
- (ii) If it is, whether the details, particularly the size of the subsidy, can be left to be settled bilaterally between the Secretary of State for Employment and the Chief Secretary, Treasury.
- (iii) Any consequential effects for other public expenditure programmes.

CONFIDENTIAL



CONFIDENTIAL

- (iv) Consideration of Community implications.
- (v) The timing and nature of any announcement.

PLG

P L GREGSON
Cabinet Office.
19 July, 1982

CONFIDENTIAL

270



Prime Minister

ANNUAL REVIEW OF SPECIAL EMPLOYMENT MEASURES

Unfortunately I shall not be able to attend tomorrow's 'E' meeting and should like you to be aware of my views on this issue.

As you know I share your deep concern at the present level of unemployment but remain very concerned about the outlook. With the prospects for the economic recovery now looking worse than at the time of the Budget, it seems most improbable that we shall see any sustained fall in the unemployment total during 1983. At best the total may stabilise around 3½ million, but we could well face a continuing steady increase. The political consequences are worrying and the social consequences are clearly appalling.

The position in Northern Ireland is grave, with unemployment already over 20 per cent, which is equivalent in UK terms to an overall total of about 5 million unemployed. In some parts of the Province the male unemployment rate is now about 40 per cent. There is every prospect of further job losses, while the prospects of attracting inward investment on a significant scale could scarcely be described as encouraging. We also have to contend with a growing labour force which is making an uphill struggle all the more difficult.

Because of the scale of the unemployment problem nationally, and because of its severity in Northern Ireland, I am disappointed that Norman has not felt able to propose a more ambitious approach in his annual review of the special employment measures. I appreciate, of course, the very large sums already committed to the existing programmes and to the new Youth Training Scheme, but an expansion of such measures is a more cost-effective, selective and quicker way of helping alleviate the worst problems of unemployment than general tax cuts or reducing the national insurance surcharge.

CONFIDENTIAL

/...

CONFIDENTIAL



I have some doubts about the proposed initiative on part-time working. Employers are unlikely to take advantage of it unless the unions are content, and also in view of some of the practical problems likely to be involved, wonder if criticism which the scheme may encounter could outweigh the potential benefits.

I note also that there should soon be agreement on the details of the scheme for the long-term unemployed announced in the Budget, and I hope that Norman will be able to give colleagues an idea of the numbers likely to be helped and how this will operate compared, say, with the existing CEP.

I feel that we should be considering whether there are any other possible new initiatives which could help the long-term unemployed. And I would certainly favour an expansion of the Job Release Scheme by reducing the age limit to 60 for men. I believe this is the most sociably and economically acceptable of all our schemes. There could also be an urgent examination of the ways in which initiatives in other policy areas (eg inner city programmes, training measures, industrial and regional policies) might be targetted to help those, whatever their age, who have experienced a long spell without any work.

James Prior

PP JAMES PRIOR
(Signed on behalf of the
Secretary of State in
his absence)

19 July 1982

SECRET



Manpower 3
bcc: Alan Walker
John Verkar

10 DOWNING STREET

From the Private Secretary

6 July, 1982

Unemployment

Thank you for your letter of today's date about my record of last Thursday's discussion on unemployment.

referred in 82/28
I have checked these points with the Prime Minister. She has a clear recollection that the conclusion of the meeting was that Job Splitting was the only one of the new proposals worth pursuing; and that this was to be discussed with the Chief Secretary. She reiterates that her preference is for genuine schemes with an end product like new drains or new roads; or for tax cuts.

I am sending copies of this letter to John Kerr (Treasury), Jonathan Spencer (Department of Industry), Terry Mathews (Chief Secretary's Office) and to David Wright (Cabinet Office).

M. C. SCHOLAR

J. B. Shaw, Esq.,
Department of Employment

SECRET



10 DOWNING STREET

(1)

Prime Minister

I am astonished by Mr's
Dep Employment letter.

Mr Tebbit's memory does not
accord with mine, or with my notes.

I have checked with Alan Walters
and the Chief Secretary, both of
whom strongly support my version
of events and disagree with
Mr Tebbit's.

May I gently but firmly say I
have checked with you, and you
agree with my recollection?
MCS 6/8

Memorandum 127



Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

Michael Scholar Esq
Private Secretary
Home Affairs
10 Downing Street
LONDON SW1

I have a very clear
recollection. Job splitting is the
only one of the new proposals
with promise. 6 July 1982

Dear Michael
UNEMPLOYMENT

Otherwise I prefer flexible
schemes with an end product
like new drains, new roads etc

Thank you for your letter of 2 July recording the main
conclusions of last Thursday's discussion.

late ends

The Secretary of State has asked me to say that your report
does not accord exactly with his recollection. He formed
the impression that it was the Prime Minister's view that
Job Splitting was a good runner and since it had very low
costs should be pursued; that the modification of JRS,
though less promising should not be entirely ruled out; and
that whilst the Enterprise Allowance Scheme should not at
present be extended this possibility should be reviewed later
in the light of the pilot scheme.

etc.

Incidentally, I understand that Mr John Sparrow was present.

- True; an

I am copying this to the recipients of your letter.

error on
my part.

Yours ever

MCS

Barnaby Shaw

J B SHAW
Principal Private Secretary

SUBJECT

SECRET



B/F

bc JV
AW
P. Kemp (HMS)

a master

10 DOWNING STREET

From the Private Secretary

2 July 1982

Dear Barnaby,

UNEMPLOYMENT

The Prime Minister held a meeting, at the suggestion of your Secretary of State, with the Chancellor of the Exchequer, the Secretary of State for Industry, the Chief Secretary and your Secretary of State yesterday evening. Mr. Alan Walters and Mr. Michael Dobbs were also present.

There was some discussion of the forecasts for unemployment, output, real personal disposable income, and consumer prices summarised in one of the confidential charts circulated at the meeting by your Secretary of State. Mr Tebbit pointed out how the present unemployment total was affected by existing measures for dealing with the problem of unemployment - youth training, job release, community enterprise, young workers, short-time working, community industry and training industry. He then drew the meeting's attention to the estimates, contained in chart 5 circulated at the meeting, of the register impact and costs of four other possible measures - Enterprise Allowance, Job Splitting Subsidy, JRS Extension and Part-time Layard.

It was agreed that none of these possibilities was worth pursuing, except perhaps the Job Splitting Subsidy. Your Secretary of State would discuss this with the Chief Secretary, to ascertain whether it was worth pursuing, and to assess the validity of the relevant figures given in chart 5. The Prime Minister said that it was not clear whether the political impact of such a scheme would be wholly favourable; on economic grounds, it should probably not be pursued. But it might well have useful social effects, and on this ground alone was worth looking into further. The Prime Minister enquired as to whether it could be launched under the existing financial provision for the Chancellor's Budget £150 million initiative.

The Prime Minister, concluding the discussion, said that it was agreed that, if the necessary resources were available consistently with the Government's economic strategy, the best measures for a reduction in unemployment were either job-creating public expenditure schemes with an output of intrinsic value - say, in the construction industry; or the implementation of cuts in taxation.

/ I am sending

SECRET

-2-

I am sending copies of this letter to John Kerr (HM Treasury), Jonathan Spencer (Department of Industry), Terry Mathews (Chief Secretary's Office) and to David Wright (Cabinet Office).

Yours sincerely,

Michael Scholer



Barnaby Shaw, Esq.,
Department of Employment.

CONFIDENTIAL



MS

Munpower

PA

10 DOWNING STREET

Secretary of State
for Employment,
Department of Employment,
Caxton House,
Tothill Street,
London, SW1.

2 July 1982

Dear Secretary of State,

YOUNG WORKERS SCHEME

As you will recall, when the Young Workers Scheme was being developed in your Department, it was decided to exclude domestic servants from the list of those eligible. It was thought that the Government would be vulnerable to the accusation that we were subsidising the servants of the rich.

I think, however, there are good reasons for reconsidering. First, the unemployment prospects are somewhat more bleak than they appeared a year ago, and the urgency to improve them has increased. Secondly, I think it is possible to show that the vast majority of domestic servants are not employed by the rich at all; there are helps for working mothers, assistants to handicapped and aged people, and perhaps, among youths, gardeners, drivers and general handymen. Thirdly, I suspect there would be little dead weight in domestic servants, and I think it is likely that there would be little substitution, except for "black economy workers", and Philipinos etc. I suspect there are very few young people at present employed as domestic servants, but no doubt your Department could provide the appropriate statistics so we could make a judgement.

If, as you suggested yesterday, you are considering applying the YWS to post-YOP youths and girls, it may be politically possible to extend the YWS at the same time to domestic servants. The amendment extending to domestic servants would then have its maximum impact in 1984.

Best wishes.

Your sincerely

Alan Walker

CONFIDENTIAL

PRIME MINISTER

manpower

✓

Statement on Youth Training

Mr. Tebbit's Statement received a rather snide welcome from the Opposition. Eric Varley said he was pleased that Mr. Tebbit had been persuaded to increase the level of allowance, and to postpone the withdrawal of supplementary benefit from ~~trainees~~ on the scheme. He welcomed Mr. Tebbit's "flexibility", but he caricatured the proposals as an expedient to cover up the problem of youth unemployment, and called for "policies of economic and industrial expansion". He said that the recent indicators had shown the failure of the Government's economic policy. Mr. Tebbit responded to this by saying that the real problem was the long term unemployed, on which the Chancellor had announced proposals in his Budget, that on any forecast the economic situation would be brighter when those entering the scheme came on to the labour market, and that a visit to France would soon change Mr. Varley's mind about reflation.

those who refuse a place

These themes were followed up in the subsequent questioning. Greville Janner portrayed the scheme as a year's postponement of unemployment. Alan Beith, Derek Foster, and Alex Lyon all called for an increase in educational maintenance allowances to match the youth training allowance. Mr. Tebbit pointed out that this would cost approximately £1 billion, and that there had always been a distinction between trainees and students. This prompted Alex Lyon to ask why the Government was willing to spend £1 billion on the Falkland Islands campaign, but not £1 billion on the unemployed. Mr. Tebbit retorted that £1 billion meant 1p on the standard rate of income tax.

In general, the mood was one of grudging welcome for the proposals, but so grudging that an exasperated Norman Tebbit at one point said "when I bring an olive branch to this House, I don't expect to be beaten around the head with it".

21 June 1982

PARLIAMENTARY STATEMENT

BY THE

SECRETARY OF STATE FOR EMPLOYMENT

THE RT HON NORMAN TEBBIT MP

ON

MONDAY 21 JUNE 1982

YOUTH TRAINING SCHEME

With permission, Mr Speaker, I should like to make a statement on youth training. Last December I told the House of the Government's plans to introduce from September 1983 a new Youth Training Scheme which would guarantee up to a full year's foundation training for all 16 year old school-leavers who find themselves without a job. This would remove from them the threat of unemployment during their first year on the labour market and help them to acquire the skills they need to obtain and keep jobs.

At the same time I announced increased expenditure for the training of young workers and said that, if the Manpower Services Commission could make other proposals to bring more young unemployed people into paid jobs with proper training, the Government would be willing to consider the transfer of resources proportionately from the new scheme to such proposals.

In response to this invitation the MSC published on 4 May a comprehensive scheme proposed by its Youth Task Group, on which representatives of the CBI and TUC sat. The scheme was unanimously recommended to me by the MSC, supported by the CBI and the TUC and has generally been endorsed by the Select Committee on Employment.

/The scheme is

The scheme is fully in line with the Government's ultimate objective for training young people. It meets the Government's requirements on the guarantee to all unemployed 16 year olds, on the September 1983 date of introduction, on the content and length of the training programme, on involvement of the local community in delivery and on the need to keep within the resources made available in last December's White Paper. // However, the MSC scheme extends beyond last December's proposals by covering also many young people in employment, including apprentices, and it proposes a higher level of training allowance.

In this wider scheme employers share in the training costs and the Government accept that in these circumstances the training allowance can be increased without more cost to the taxpayer or any loss of training standards. A training allowance of £1300 a year seems appropriate for the launch of the scheme in 1983, though this and the question of excessive travel costs will be reviewed in the summer of 1983 when the MSC will offer their advice to me.

The Government generally accept the revised scheme and delivery arrangements as set out in Parts IV and V of the Youth Task Group report, on the basis that its costs will be kept within resources already made available for 1983-84 and 1984-85. Although we believe the resources will be

/ sufficient to

sufficient to cover all unemployed 17 year old school-leavers when the scheme begins, it is not yet possible to give a guarantee to this group nor to say when we might extend the scheme to cover all other unemployed 17 year olds. In deciding the resources required, we have assumed substantial assistance from the European Social Fund and this is essential.

We accept the need for large initial Government funding of the new scheme while youth unemployment is still high, but we intend before 1985 to review the future distribution of the training costs between employers and Government. The MSC intend to undertake, in co-operation with the Government, a study of funding of industrial training generally which should help us decide the level of public funding in the longer term.

We already undertake that all unemployed school leavers will be offered a place on the Youth Opportunities Programme. My predecessor as Secretary of State for Employment made clear that, when the Government was in the position to guarantee that no 16 year old need be unemployed, it would be time to withdraw supplementary benefit from 16 year olds in their own right. Last December we also stated our belief that it would be right for young people, whether in education, the new training scheme or unemployed, to be regarded in general as dependent on their parents for the first year after reaching the minimum school leaving age.

We still believe that these young people should not be entitled to supplementary benefit in their own right. Nonetheless, the Government have noted the firmly held and clearly expressed

/ views of those

views of those on whom the operation of the scheme depends that its launch could be seriously impaired by the withdrawal of supplementary benefit from 16 year olds. We have therefore decided that withdrawal of supplementary benefit will not take place in September 1983 and that there will be a further review after a year's operation of the scheme.

This will, I believe, also meet the views of the Select Committee and the Social Security Advisory Committee, who were similarly concerned. Meanwhile, in line with their views, we shall provide that those who unreasonably refuse a suitable training place will, like adults, have their benefit reduced for six weeks.

This scheme is an immense step forward towards setting standards and systems of training for our young people as good as those anywhere overseas. Its success now depends above all on the efforts made by employers and other sponsors, supported by unions, all of whom have fashioned its shape, to provide enough good quality training places. We shall certainly expect commercial and industrial establishments in the public sector to contribute and I hope that all in this House and outside will give this imaginative new scheme the wholehearted support needed to ensure its successful operation from September 1983.

CONFIDENTIAL



10 DOWNING STREET

Manpower

CM

B/C: MR WALTERS

From the Private Secretary

21 June, 1982

e

YOUTH TRAINING SCHEME

I am writing to record the Prime Minister's agreement to the inclusion of the following passage in your Secretary of State's statement this afternoon:-

"In the public sector it is expected that a number of places will be provided in commercial and industrial establishments."

The Prime Minister has commented that her agreement to this inclusion is on the basis that the number of places to be provided within the Civil Service is to be very limited.

M.C. SCHOLAR

Barnaby Shaw, Esq
Department of the Employment

CONFIDENTIAL

CONFIDENTIAL

Prime Minister ①

PRIME MINISTER

YOUTH TRAINING SCHEME

I have refused to have these "houses" in the C.S. for the

Agree to this addition?

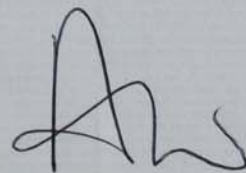
(Mr. Tebbit would not object.) MS 15/6

1. You will recall that we objected to the original MSC proposal that youth training scheme places be made available in Government departments and agencies. We argued that the purpose of the training was to provide them with instruction and experience in industry and trade, not Government administration.
2. There were objections from MSC and Department of Employment (although I gather the Secretary of State does not want to be associated with them) that this would inhibit the "selling" of the Youth Training Scheme to private sector employers. It was alleged that private sector employers will participate only "if Government does its share". I remain unconvinced by this line of argument. But they continue to press.
3. I suggest that we deal with this by allowing the inclusion of the following passage in the statement.

"In the public sector it is expected that a number of places will be provided in commercial and industrial establishments."

4. This will restrict the trainees to working in jobs that have very close analogues in the private sector, such as naval shipyards, ordinance factories, etc. They will not be allowed in the administrative echelons of the bureaucracy. This restriction will mean that only a very small fraction of trainees will be absorbed into the commercial and industrial establishments of the public sector - probably only about 5,000.
5. I recommend, therefore, that you allow the statement to include the sentence in para 3 above. This has been agreed with David Young.

More very limited no. as in para 3.



ALAN WALTERS

18 June 1982

CONFIDENTIAL

The Unemployment Crisis among Young People

It is hoped that Members will find this brief useful in the debate to be held on Monday 21st June 1982.

<u>Contents</u>	<u>Page</u>
Causes of Youth Unemployment	1
Youth Wages	2
The New Training Initiative (NTI) & Young People	3
The Youth Training Scheme	3
More Flexible Apprenticeships	4
Young People at School or Work	5
Special Measures to Help the Young	5
Labour's Record	7
Labour's Plans	7
SDP Policy	9
Appendix: International Comparisons of Youth Unemployment/ Youth Unemployment by Age Group	

YOUTH UNEMPLOYMENT

Youth unemployment is running at around twice the adult rate in the OECD countries as a whole and in Britain over a third of people unemployed are under 25. At April 15th 1982 there were 1,104,090 young people under 25 registered as unemployed (for international comparisons see appendix).

CAUSES OF YOUTH UNEMPLOYMENT

The plight of young people reflects our general economic problems but also a number of special factors:-

- a) Their comparative lack of skills and work experience at a time when many older people with skills are out of work. A Manpower Services Commission study in 1978 ("Young people and Work"), MSC Study 1978) found that 75 per cent of employers preferred to recruit experienced workers when there was an upturn in business. The high cost of redundancy payments encourages firms to retain older workers, at the expense of young people who are usually the first victims of the "last in, first out" principle when a downturn comes. In a recession employers curtail recruitment and rely on natural wastage to cut back the labour force.
- b) The position of young people in the labour market has also been affected by demographic factors. In fact the number of young people seeking work has been rising at the same time as the numbers retiring have been falling. This reflects the "baby boom" of the mid-1960s and the low birth rate during the First World War. Thus, whilst in 1971 there were 1,978,000 young people of both sexes in the 16-19 age group there were only 1,742,000 in the age group 60-64. This year (1982) the comparable figures are 2,464,000 and only 1,225,000. This problem peaks during the lifetime of this Government and tails off thereafter, as the birth rate fell in the late 1960s and early 1970s and the "baby boom" of the 1920s increases the numbers retiring.
- c) The increasing number of women coming onto the labour market during the 1970s also diminished job opportunities for young people. Between 1971 and 1979 an extra 1,148,000 women came onto the labour market, of which 938,000 were married and 210,000 unmarried. This increased competition for semi- and unskilled jobs, to the detriment of young people. Employers have perhaps preferred "reliable" married women to young people. The female labour force is expected to increase by another 385,000 between 1979 and 1986.
- d) Britain is the only European country without compulsory military service for most teenagers.

YOUTH WAGES

However, the biggest single factor in the increase of youth unemployment is the rising relative cost of employing young people. Young workers in Britain are paid - by international standards - an unusually high proportion of the earnings of adult workers. Between 1970 and 1981 British industrial production did not rise at all, but the hourly earnings of adult male workers rose by 398 per cent; those of young workers rose 446 per cent (The Economist, May 1st 1982).

Trade unions have demanded that young people be paid high and unrealistic wages which bear no relation to their reliability, skills or experience. Where trade unions have not operated - largely in small businesses, shops and pubs where labour costs are crucial - Wages Councils have had a similar effect. The National Federation of Self-Employed and Small Business reckoned that for every 10 per cent Wages Councils pushed up pay, employment dropped about 10 per cent.

In Britain in April 1981 a young man aged between 18 and 20 earned an average £84 a week, which was 70 per cent of the earnings of male manual workers aged 21 and over (New Earnings Survey). This was a higher proportion of adult wages than in any other western country (The Economist, 12th December 1981).

Britain also pays far higher trainee allowances. Apprentices undergoing training for skilled work in British firms are paid 60-75 per cent of the wages of skilled adults - £70 a week and more. In Germany first-year apprentices get about 20 per cent of adult wages, rising to just over 30 per cent in their third year. (The Economist, May 1st 1982). Apprentices produce little, and may actually reduce the production of the older workers supervising them. Their cost is a strong disincentive to taking them on, which may explain why German industry takes half of all school leavers into apprenticeships whilst British industry takes only about 15 per cent.

The allowances to be paid under the Youth Training Scheme and the new Young Workers Scheme (see below) are intended to offset these effects. The Government has also requested Wages Councils which cover 2¾ million employees to take employment prospects into account when setting their youth rates. Employers have been encouraged to make their views known and the Wages Council system is being streamlined.

The Labour Party, in its proposals on training (see below) insists that young people should "continue to receive wages negotiated by trade unions". It may be noted that in Germany apprentice wages are agreed in collective bargaining, but the rates are less than half those of skilled workers.

Reports that agreement has been reached in the engineering construction industry to regard apprentices as trainees and pay them on allowance accordingly are to be welcomed. This can help take trainee rates out of the arena of direct pay bargaining. (Financial Times, 25th March 1982)

THE NEW TRAINING INITIATIVE (NTI) AND YOUNG PEOPLE

In December 1981 the Government launched the NTI with a White Paper entitled "A New Training Initiative : A Programme for Action" (cmdn 8755, December 1981). The major element was the proposed Youth Training Scheme (see below), but it also contained fresh proposals for flexible apprenticeships and the training of young people in jobs and at school.

THE YOUTH TRAINING SCHEME

Around 35 per cent of 16 year olds entering jobs in Britain receive no training at all, and a further 18 per cent hardly any training. (New Entrants to Employment Survey 1980). In West Germany perhaps 90 per cent receive some training, and in France 80 per cent.

To put this right the Government is developing a £1 billion a year Youth Training Scheme (YTS), to guarantee all unemployed 16 year old school leavers a year's foundation training course from Autumn 1983. It is hoped to extend the scheme to unemployed 17 year old school leavers too.

The Government welcomed the Manpower Services Commission's (MSC) proposal to set up a 'Youth Task Group' to report on the structure, scope and content of the Youth Training Scheme. The report was published in April (Youth Task Group Report, MSC, April 1982), and was unanimously endorsed by the Commission, which includes employers, trade unionists and educationalists. The Select Committee on Employment has considered the report and Mr Tebbit is expected to announce his decisions very shortly.

The basic elements of the scheme are not in doubt:

a) Content

Mr Tebbit has stressed that YTS will not be a "revamped YOP scheme with a bit of icing". It is a new and better scheme, providing each school leaver with a carefully worked out 12 month traineeship; including:-

- Proper induction to the scheme, and assessment of existing skills and attainments;
- ensuring youngsters have basic skills like literacy and numeracy and practical competence in the use of tools and office work and communications;
- individual guidance and counselling throughout the programme;
- a record of the trainee's progress, including review and assessment during training and a certificate of progress and attainments at the end of the training;
- 'off the job' training and/or further education (the Youth Task Group suggested a minimum of 3 months).

Most of the places are expected to be provided by private and public sector employers. Both the Government White Paper and the Youth Task Group Report recognise the importance of local promotion and local support, because it is at the local level that manpower requirements are known and skill shortages can be identified and dealt with.

b) Allowances

Both the Youth Task Group and the Government White Paper accept that trainees should receive an allowance (which is not the same thing as a wage).

Its level has not yet been settled, but an announcement is expected shortly. What should be emphasised is that YTS cannot be compared with YOP in this connection. YTS is primarily a training programme; YOP is not. Each place on YTS will cost over £3,000 a year, and the bulk of the available money will be spent on training.

c) Timetable

YTS will replace YOP from September 1983. Work begins this year with 100,000 YTS-style places on YOP in 1982-83. YTS is expected to cover 300,000 youngsters at a time.

MORE FLEXIBLE APPRENTICESHIPS

The NTI set 1985 as the year in which recognised standards will have been established for all the main craft, technician and professional skills, replacing age-restricted "time-serving" Government funds to firms providing apprenticeships will be made increasingly conditional upon steps taken towards those reforms.

The trade unions have, historically, opposed flexible apprenticeships. This attitude was typified by the reaction of Mr George Butler, an AUEW divisional organiser, to earlier proposals for standards-related apprenticeships:

"if the employers' shortage of skilled men is eased, then the value of the skilled wage will fall".

(Guardian, August 4th 1978)

There are some signs now that these attitudes are changing. Agreement has been reached, for example, between the British Printing Industries Federation and the National Graphical Association on the abolition of time-served apprenticeships in the printing industry. New trainees are expected to complete their training in two years - half the length of existing apprenticeships. (Financial Times, 24th May 1982)

But the cost of apprenticeships must come down: the MSC estimates that the annual cost of a first year apprentice will soon exceed £5000 (see 'Youth Wages' above). The cost of apprenticeships is

one reason why they have shrunk so fast in Britain, from a peak of 236,000 in 1968 to under 150,000 in 1980 and now perhaps only 100,000. (MSC, Youth Task Group Report).

YOUNG PEOPLE AT SCHOOL OR WORK

The NTI aims to:-

- ensure that the school curriculum helps to develop the skills and knowledge needed for working life, and to improve the links between schools and employers so that pupils gain a closer understanding of industry and commerce.
- secure development for a new pre-vocational examination for young people aged 17 plus. On May 20th the Secretary of State for Education, Sir Keith Joseph, launched a new national qualification for 17 year olds. It is designed to help young people who stay at school or college but did not meet with examination success at 16. Courses will have a practical bent and certificates will be awarded at the end. It is expected to attract 80,000 young people and starts in 1984-85. It demonstrates the Government's concern for the non-academic as well as the academic.
- expand the grants available to employers who co-operate in providing integrated training, further education and work experience under the Unified Vocational Preparation (UVP) scheme to cover some 50,000 young people by 1984-85 at a cost of £100 million (see below). 35,000 first year apprentices are being supported under the Training For Skills Programme (TSP) - (see below).

SPECIAL MEASURES TO HELP THE YOUNG

A number of special measures are being operated by the Government to help ease the burden of unemployment carried by young people.

- The Youth Opportunities Programme (YOP). 553,000 youngsters entered this scheme in 1981-82, compared to only 162,000 in 1978-79. The Government is spending seven times as much (£414 million) on it as Labour did. 630,000 entrants are planned for next year, at a cost of £735 million. YOP will be replaced by the new Youth Training Scheme (YTS) from September 1983, starting with 100,000 "enhanced quality places" on YOP this year (1982-83). 190,000 youngsters were on YOP at the end of April.
- The Young Workers Scheme (YWS). 51,000 young people were on this scheme at the end of April. It offers a subsidy of £15 a week to any employer paying less than £40 a week to a 16-18 year old; employers paying between £40 and £45 get half the subsidy. It will encourage the employment of more young people at realistic wage rates.

- Community Industry (CI) is run by the National Association of Youth Clubs, and provides temporary work for young unemployed. 7,100 people were on the scheme at the end of April. It cost £22 million last year, and £35 million has been set aside for this year.
- Training for Skills Programme (TSP) Under this scheme grants are made to employers taking on apprentices additional to their own needs. 35,000 were on it at the end of April, costing some £50 million.
- Unified Vocational Preparation (UVP) 15,400 places are being provided on this pilot-scheme in 1982-83, at a cost of £11.8 million. The aim is 30,000 places by 1983-84, and 50,000 by 1984-85. Its budget is £15m in 1982-83, building up to £47 million by 1984-85.
- Extra Education Support. An extra £60 million has been made available to enable an extra 50,000 youngsters to stay on at school this year.
- Information Technology Centres. 30 IT centres will be opened in towns and inner cities, as part of a planned total of 100. They will train the young unemployed in computing and electronic assembly skills.
- The Community Enterprise Programme (CEP) Unlike its predecessor, (STEP), this scheme, launched in April 1981, is open to 18 year olds. 25,000 places were provided in 1981-82, at a cost of £99.4 million. 30,000 places are being provided this year at a cost of £152 million. 28,500 were on the scheme at the end of April

LABOUR'S RECORD

At a conference on youth unemployment on 1st February 1977 Mrs Shirley Williams, then Labour's Education Secretary, admitted:

"We are seeing the increase of unemployment throughout the industrial world, and it is a problem for which we have no real answer".

She was quite right. The Labour Government made no progress in tackling the causes, as opposed to the symptoms, of youth unemployment. They introduced the Youth Opportunities Programme (YOP) as an ambulance service for the least able among the young unemployed and devised the pilot programme of Unified Vocational Preparation (UVP). The causes, however, were untouched: a) the level of youth wages and b) young peoples' lack of skills and experience.

Labour got no further than consultative papers on the subject of training when in office. One of them, "A Better Start in Working Life", agreed that

"if this neglected group do not receive the vocational preparation they need, many workers in Britain will continue to be substantially less well trained than their counterparts abroad, and the industries in which they work will continue to suffer in consequence" (1978)

No concrete steps were taken, however. Two more consultative papers were issued instead.

LABOUR'S PLANS

In January 1982 the Labour Party published a policy document, "Learning for Life", on education and training. Mr. Neil Kinnock, who chaired the working group on the proposals, had already described them as

"the most authoratative, most systematic policy Labour have ever produced on the subject".

(Sunday Times, December 20th 1981)

By this he means they have all the usual characteristics of Socialist proposals: centralisation, bureaucracy, compulsion and vast expense. They would almost certainly lower standards in schools.

The key elements of the document are:

- a scrapping of traditional sixth forms, to be replaced by a comprehensive system of education and training for the 16-19 age groups. All 16-19 year olds would be "student-trainees", entitled by law to an integrated programme of education and training.

- The curriculum will include basic literacy and numeracy, basic skills, science and technology, recreation and arts. It would also include "political and economic literacy in order to understand the social environment and to develop a critical awareness of society" (Learning for Life, p 64). Mr Kinnock has argued, in the left wing magazine "Teaching London Kids", that every secondary school should have a teacher responsible for "peace studies". When asked if this amounted to political indoctrination Mr Kinnock replied:

"No head, as far as I know, has stormed into a history classroom and upbraided the teacher for teaching war".
(Daily Mail, 24th March 1982)
- A statutory obligation on employers to provide young employees with systematic education and training, in the workplace and at college.
- Educational Maintenance Allowances (EMAs) for all young people staying in education after 16. Parents on higher incomes would "contribute to the cost through the tax system". (Labour Weekly, January 8th 1982)
- Employment/training "premiums" to encourage employers to recruit young workers.
- Lump sum grants to local authorities and others to use as 'Wages Funds' for 18-19 year olds.
- An end to the 'A' level examination in favour of a system of course assessment, on a "modular" basis.
- A special Minister for the 16-19 age group and, eventually, a new Department of Education and Training. The Department of Employment would gain a "careers and youth employment board".
- Other pieces of bureaucracy would include refurbished Industrial Training Boards, a "curriculum unit" and local boards, consisting of educationalists, MSC representatives, trade unionists, employers, Industrial Training Board representatives, teachers and careers officers to "co-ordinate" the scheme.

"Learning for Life" did not cost the proposals, saying only that it would require "enormous" resources. The cost was initially understood to be, at its most expensive, £2,636 million, and at its cheapest, £1,000 million (Guardian, 11th December 1981). Mr. Kinnock's latest estimate, at a rally in Hyde Park, is £1,600 million (Guardian, 6th March 1982). When asked where he would get the money he replied:

"Labour Party policy is committed to a policy of reflation. It's not a choice between spending on this and not spending on something else. It's a choice between spending on this, which creates, and spending on other schemes simply to mop up or disguise youth unemployment".

(Guardian, 11th December 1981)

Fortunately, he also recognised that Labour's internal feuding made the plans merely academic:

"It's tragic that the row (within the Labour Party) sabotages our chances of ever putting those things into practice".

(Sunday Times, 20th December 1981)

SDP POLICY

The SDP's youth policy was outlined by Mrs Shirley Williams in the "Guardian" (15th December 1981).

- A basic 2 year traineeship with third and fourth years for the higher skills. The first year in every case would consist of integrated work and study. In her time as Education Secretary she did not even organise a one year scheme (see below).
- Trainee allowances, including those who stay at school. The level she could not decide on: "The dilemma...is that the allowance is either too little to motivate trainees... or is sufficient but impossibly expensive".
- Training "contracts" between trainees and the employer. The Government would subsidise all training places surplus to a company's own needs. Such contracts are entirely feasible under the Government's Youth Training Scheme (see above).
- A team of training inspectors and officers.

Despite the similarity of most of these ideas to the Youth Training Scheme Mrs Williams called the YTS "cheap and cosmetic" before the details were even published. It is clearly a case of sour grapes. As a prominent member of the last Labour Government Mrs Williams was not able to organise a training scheme of any kind; in fact she was associated with no less than three consultative documents on the matter instead, all of which came to nothing. By her own admission, her achievements in office were limited to:

"Co-operative industrial awards, teaching companies and engineering scholarships".

(Hansard, January 27th 1982 Col 922)

Those involved numbered only hundreds; the Youth Training Scheme will be providing 300,000 places at an overall cost of £1 billion.

APPENDIX

International Comparisons of Youth Unemployment (at end April 1982)

Unemployed under 25 (x1,000)

<u>Country</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
France	328.1	438.5	766.7
Italy	522.5	602.7	1,127.9 *
Netherlands	116.8	85.9	202.7
Belgium	76.9	110.6	187.5
Luxembourg	0.355	0.411	0.826
United Kingdom	687.7	427.0	1,117.7
Ireland	27.9	14.2	42.1
Denmark	36.0	35.0	76.0 (p)

Source: Eurostat

*In Italy the under 25s make up nearly half of all registered unemployed.

APPENDIX II

Youth Unemployment, by Age Group (unadjusted, April 15 1982)

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
Under 18	110,315	83,039	193,354
18	88,059	63,346	152,405
19	98,477	65,077	163,554
20-24	386,853	207,924	594,777
			<u>1,104,090</u>

(Source: Department of Employment Gazette)

CONFIDENTIAL



10 DOWNING STREET

Manpower

J-1

*bc. hqham
Rickett*

From the Private Secretary

18 June 1982

YOUTH TRAINING: PARLIAMENTARY STATEMENT

The Prime Minister discussed with your Secretary of State yesterday afternoon the draft statement which was attached to your letter to me of 15 June.

The Prime Minister suggested that in the bottom paragraph of page 2 the argument might take credit for the fact that the Government can now guarantee that no 16-year old need be unemployed. On the second paragraph on page 3, the Prime Minister agreed that the final sentence should read as follows:-

"My rt. hon. Friend the Secretary of State for Social Services has therefore announced today that withdrawal of supplementary benefit will not take place in September 1983 and that there will be a further review after a year's operation of the scheme."

Subject to these points, the Prime Minister is content with the draft statement; and content that it should be made on Monday, 21 June.

I am sending copies of this letter to the Private Secretaries to other Members of E Committee and to the Secretaries of State for Scotland, Wales and Social Services, the Lord President, the Chief Whip and Sir Robert Armstrong.

MS.

Barnaby Shaw, Esq.,
Department of Employment.

CONFIDENTIAL

9

From: THE PRIVATE SECRETARY

CC BI
WR



NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

NBPM

MUS 18/6

17 June 1982

J B Shaw Esq
PS/Secretary of State for Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

Dear Banasz,

YOUTH TRAINING: PARLIAMENTARY STATEMENT

My Secretary of State has suggested an amendment to the draft of the statement with your letter of 15 June.

He feels that as presently drafted the opening words to the second sentence of the paragraph at the foot of page 2 do not make it sufficiently clear that the Government's intention to regard all 16 year olds, including the unemployed, as dependent on their parents was in fact announced in the White Paper published last December. He therefore suggests that this sentence should now begin as follows:

"In the White Paper which the Government published last December, we stated our belief that" it would be right
..... etc/.

I am copying this letter to the recipients of yours.

Yours sincerely
Mike Hopkins

M W HOPKINS

BB

JO

see
lec BT
WR

CONFIDENTIAL



Caxton House Tothill Street London SW1H 9NA F

Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

Prime Minister (1)

The statement

doesn't make it plain

(see x in the antepenultimate

para) that the SB decision

will be reviewed after 12 months.

Do you wish it to?

15 June 1982

otherwise content?

MCS 15/6

Michael Scholar Esq
(Home Affairs)
Prime Minister's Office
10 Downing Street
LONDON
SW1

Have checked the wording
re wording
and

Dear Michael

YOUTH TRAINING: PARLIAMENTARY STATEMENT

The Committee reached decisions this morning on the Government's reaction to the report of the Manpower Services Commission's Youth Task Group. I attach the text of the statement my Secretary of State would propose, subject to the Lord President's agreement, to make to the House ^{on} Monday 21 June.

I should be grateful if I could have any comments by close of play on Thursday 17 June.

I am copying this to Private Secretaries of members of E Committee, the Secretaries of State for Scotland, Wales and Social Services, the Lord President, the Chief Whip and Sir Robert Armstrong.

Yours ever
Brendy Shaw

J B SHAW
Principal Private Secretary



PARLIAMENTARY STATEMENT BY THE SECRETARY OF STATE FOR EMPLOYMENT

YOUTH TRAINING SCHEME

With permission, Mr Speaker, I should like to make a statement on youth training.

Last December I told the House of the Government's plans to introduce from September 1983 a new Youth Training Scheme which would guarantee a full year's foundation training for all 16 year old school-leavers who find themselves without a job. This would remove from them the threat of unemployment during their first year on the labour market.

At the same time I announced increased financial incentives to employers for the training of young workers. In that statement I also said that, if the Manpower Services Commission could make other proposals to bring more young unemployed people into paid jobs with proper training, the Government would be willing to consider the transfer of resources proportionately from the new scheme to such proposals.

In response to this invitation the MSC Youth Task Group published on 4 May a more comprehensive scheme, copies of which have been placed in the Library. The scheme was unanimously recommended to me by the MSC, supported by the CBI and the TUC and has generally been endorsed by the Select Committee on Employment.

The MSC scheme is fully in line with the Government's ultimate objective for training young people, although it extends beyond last December's scheme by covering also young people in employment, including apprentices, and proposes a higher level of training allowance. It meets the Government's fundamental requirements of the training scheme - on the guarantee to all unemployed 16 year olds, on the September 1983 date of introduction, on the content and length

of the training programme and on the need to keep within the level of resources made available for 1983-84 and 1984-85 in last December's White Paper on the New Training Initiative.

In this wider scheme employers meet a larger share of the training costs and the Government accept that in these circumstances the training allowance can be increased without increasing the cost of the scheme to the taxpayer or entailing any loss of training standards. A training allowance of £1300 a year for travel and other expenses now seems adequate for the launch of the scheme in 1983, though this will be reviewed in the light of MSC advice in the summer of 1983.

The Government therefore generally accept the revised scheme as set out in Parts IV and V of the Youth Task Group report, on the basis that its costs will be kept within the resources already made available for 1983-84 and 1984-85. Although we believe the resources provided to be sufficient to provide for all 17 year old unemployed school-leavers when the scheme begins, it is not yet possible to say when we might extend a guarantee of places for all unemployed 17 year olds. In deciding the resources required, we have assumed substantial assistance from the European Social Fund and this is essential.

The need for large initial Government funding of the new scheme while youth unemployment is still high has been accepted, but we intend before 1985 to review the future distribution of training costs between employers and Government. The MSC intend to undertake, in co-operation with the Government, a study of funding of industrial training generally which should help us decide the level of public funding in the longer term.

My predecessor as Secretary of State for Employment made clear that, when the Government was in the position to guarantee that no 16 year old need be unemployed, it would be time to withdraw supplementary benefit from 16 year olds in their own right. The Government still believe that it would be right for all 16 year olds, whether in

*Welan
Guarantee
that now*



education, the new training scheme or unemployed, to be regarded as dependent on their parents for the first year after leaving school at the minimum age.

Nonetheless the Government have noted the firmly held and clearly expressed views of those who will have the responsibility for operating the scheme that its launch could be seriously impaired by the withdrawal of supplementary benefit. Mr rt hon Friend the Secretary of State for Social Services has therefore announced today that withdrawal of supplementary benefit will not take place in September 1983 but ~~there will be a review in the light of the operation of the scheme.~~ *will be deferred while the scheme is launched.*

This will I believe satisfy also the view of the Select Committee who were similarly concerned. In the meantime, we accept the recommendation by the Select Committee and the advice of the Social Security Advisory Committee that those who unreasonably refuse a suitable training place should, like adults, have their benefit reduced for six weeks.

This scheme is an immense step forward towards setting standards and systems of training in Britain as good as those anywhere overseas. Its success now depends above all on the efforts made by employers and unions, who have fashioned its shape, to provide enough good quality training places. I hope that they and all in this House and outside will give this imaginative new scheme the wholehearted support needed to ensure its succesful operation from September 1983.

Manpower
Special Employment

Mr. Tebbitts amendments
to E(82) 15th mtg 15/6

CONFIDENTIAL

would be made clear in public that the Government could not indefinitely accept responsibility for the financing of training; and that expenditure on the new training scheme would be cash-limited so that, for example, any increase in unit costs as a result of variances in the division of places between the Manpower Services Commission and employers would have to be offset by appropriate economies. Although any immediate public announcement should be on the lines proposed by the Secretary of State for Employment, this was on the clear understanding, which was fully accepted by the Secretaries of State for Employment and for Social Services, that it remained the

Government's ^{view} ~~intention~~ that Supplementary Benefit should be withdrawn from 16 year olds, and that the matter should be reviewed ^{one year after the new training scheme} ~~with a view to giving effect to this intention one year after the new training scheme had come into~~ operation.

The Committee -

1. Approved the proposals in E(82) 50, subject to the points made in the Prime Minister's summing up.
2. Invited the Secretary of State for Employment to circulate to the Committee the draft of a Parliamentary Statement announcing the Committee's decisions regarding the proposed new training scheme.
3. Agreed that the Government's intention that entitlement to Supplementary Benefit should be withdrawn from 16 year olds should be reviewed in due course with a view to giving effect to it one year after the new training scheme for young people had come into operation.

Cabinet Office
16 June 1982

CONFIDENTIAL



CONFIDENTIAL

Manpower

P.0774

PRIME MINISTER

Youth Training Scheme

(E(82)50)

INTRODUCTION

This paper by the Secretary of State for Employment seeks the Committee's endorsement to proposals for a system of youth training drawn up by the Manpower Services Commission (MSC) following the publication last December of the Government's White Paper on Training (Cmnd 8455).

2. The Government's proposals in Cmnd 8455 envisaged a youth training scheme (YTS) focussed mainly on unemployed school leavers aged 16 and 17. The scheme would last for 12 months (6 months for those who had previous work experience) and would offer broadly-based training, consisting of a mixture of work with approved sponsors (firms, local authorities, etc), further education, guidance and assessment. The White Paper also proposed that 16 year olds should no longer receive Supplementary Benefit (SB) in their own right (£15.80 per week from next April); they would be regarded as being dependent on their parents and thus, except where parents were already on SB, the only payment in respect of them would be Child Benefit (£5.85 per week). For the YTS an expenses allowance of £15 per week for 16 year olds was proposed and £25 per week for 17 year olds (who, when unemployed, would remain eligible for SB). Finally, young people who unreasonably refused a place on a training course would, where relevant, lose SB for 6 weeks.

3. The MSC's proposals differ from the Government's in the following respects:

i. They recommend that by 1984-85 all young people aged 16 and 17 should be within the scope of the YTS ie that it should subsume the first year of an apprenticeship. This implies a rather greater level of Government financial support beyond 1985 than did the White Paper scheme, because a drop in youth unemployment would not necessarily be fully reflected in the costs of the YTS. There is also the danger that the Government might be drawn permanently into supporting some of the training in employment which should be an employer's responsibility.



CONFIDENTIAL

ii. The MSC argues that unemployed young people on the YTS should be paid the equivalent of the Youth Opportunities Programme allowance - £25 per week - revalued to 1983-84 prices, plus travel costs in excess of £4 per week; those in employment would be paid their normal rates of pay.

iii. The MSC proposes that the SB arrangements should not be changed, and there should be no compulsion, through the temporary withdrawal of benefit, to join the YTS.

MAIN ISSUES

4. The main issues for Ministers are:

i. whether the MSC's proposals are in general an acceptable variant of the Government's original proposals;

ii. what should be the level of the YTS allowance;

iii. what should be the policy on withdrawal of SB;

iv. what should be said about the policy from 1985 onwards.

General acceptability of the proposals

5. The Secretary of State for Employment argues that, because of the unanimous support for the MSC's proposals from both sides of industry and the Select Committee on Employment, the Government has in practice no alternative but to accept them subject to minor modifications. The Government cannot say that the resources are not available because the costs are broadly the same. Moreover the Government must rely on the cooperation of employers in particular to implement the new scheme. In his minute of 11 June to you (not copied to the Committee) Mr Sparrow endorses the Secretary of State for Employment's view that a slightly modified version of the MSC's proposals should be accepted and argues that this will help to achieve the Government's objectives for reducing unemployment, lower youth pay, reform of apprenticeships and a more coherent approach to youth training.

CONFIDENTIAL



CONFIDENTIAL

The level of the YTS allowance

6. On the level of the YTS allowance the Secretary of State for Employment proposes two modifications of the MSC's proposals: an allowance of £25 (ie the present YOP allowance not revalued); and that the Government's opening position should be a refusal to meet travel expenses over £4 per week, although he expects to have to give way on this. Treasury Ministers are, I understand, being briefed to endorse this.

7. This implies some shift in the Government's view that 16 year olds should be dependent on their parents. The original proposal of a £15 allowance was designed to cover expenses not maintenance, which is the clear purpose of the allowance proposed by the MSC. But anything less than the Secretary of State's compromise proposal is likely to be rejected by both the CBI and the TUC. In order to provide the resources for the increase the employers will meet more of the training costs. As Mr Sparrow has argued, the £25 allowance will apply to normal trainees as well as extra unemployed recruits and may help in this way to reduce youth wages. The Secretary of State for Education and Science will no doubt argue that such a high YTS allowance is bound to affect adversely the rate of staying on at school. But beyond the introduction of a general Youth Benefit - which has previously been rejected - there seems no easy way in which his point could be met.

The withdrawal of SB

8. The Secretary of State for Employment proposes that the withdrawal of SB from 16 year olds should be delayed for a year from the start of the YTS in September 1983 and reviewed again in August 1984. However, as envisaged under the original scheme in respect of 17 year olds, 16 year olds who unreasonably refuse a training place would have their benefit reduced for 6 weeks.

9. The Secretary of State for Social Services endorses this approach; the delay is not expected to jeopardise the planned public expenditure savings on his programmes. I understand, however, that Treasury Ministers are being briefed to argue in favour of withdrawal as planned, as a quid pro quo for agreeing to the other aspects of the proposals. They may, however, suggest the variant that where a 16 year old leaves the YTS for some good reason his SB should be immediately restored, thereby ameliorating the degree of compulsion involved. This amounts to insisting that young people should give the YTS a reasonably good try.

CONFIDENTIAL



CONFIDENTIAL

10. Since immediate public expenditure savings are not at issue, the question for Ministers is whether the principle that 16 year olds should be regarded as dependent on their parents overrides the employers' objection that compulsion to join the YTS is highly undesirable and the importance of launching the YTS with the widest possible support; the TUC, in particular, would not support a scheme involving compulsion.

11. The proposal to withdraw SB from 16 year olds is one of the two purposes of the short (but highly controversial) Social Security Bill which the Cabinet have approved for inclusion in the Legislative Programme for 1982-83. If the Committee endorses the Secretary of State for Employment's proposal for a year's deferment, the question arises whether legislation should also be deferred or whether it should proceed to timetable. The Secretary of State is apparently of the view that it should be postponed, by implication to the 1984-85 Session.

12. Mr Sparrow has argued in his minute (not circulated) that it would be better to drop the withdrawal of SB from 16 year olds altogether on the grounds that deferment of the decision would jeopardise support for the YTS and that the prospect of a review in Autumn 1984 could make this an issue in the General Election.

Resources beyond 1985

13. The Secretary of State for Employment proposes that the Government should offer no commitment at this stage about the level of public expenditure support for the YTS beyond 1985. It should be made clear when the Government announces its reaction to the MSC proposals that this and the distribution of training costs between Government and industry will need to be looked at again. The implication of this is that there is no commitment to bring all 17 year olds within the YTS by 1984-85 as the MSC proposed. This will no doubt provoke complaint but seems unlikely to give rise to a major dispute.

HANDLING

14. You will want to invite the Secretary of State for Employment to introduce his paper. I suggest that you might then focus the discussion under the following headings:

- i. Is the content of the MSC scheme broadly acceptable?

The Secretaries of State for Employment, Education and Science and Industry, the Chief Secretary, Treasury and Mr Bailey (if you agree

CONFIDENTIAL



CONFIDENTIAL

that he should attend in Mr Sparrow's absence) will probably wish to contribute to this part of the discussion.

- ii. Should the YTS allowance be £15, £25 or higher as the MSC proposed?

The Secretary of State for Employment and the Chief Secretary, Treasury will wish to comment. The Secretary of State for Education and Science may wish to make his point about the implications for the rate of staying on at school; and the Secretary of State for Industry may have points to make about the implications for the general level of wages for young people.

- iii. Should the withdrawal of SB from 16 year olds be deferred?

The Secretaries of State for Employment and Social Services will want to argue in favour of this, and the Chief Secretary, Treasury will argue against. The Secretaries of State for Industry and the Environment and, if present, Mr Bailey will also wish to contribute to this part of the discussion.

- iv. The resources to be devoted to training beyond 1985.

There may be no need to discuss this but if it is pursued the Secretaries of State for Employment, Industry and Education and Science and the Chief Secretary, Treasury may wish to comment.

CONCLUSIONS

15. You will want to reach conclusions on:

- i. whether or not the MSC scheme is broadly acceptable;
- ii. the level of the YTS allowance, and whether travelling expenses in excess of £4 per week should also be met;
- iii. whether the decision to withdraw SB from 16 year olds should be deferred pending a further review in August 1984; and, if so, whether the legislation on this, proposed for the 1982-83 Session, should be similarly deferred.



CONFIDENTIAL

iv. if the decision is to defer, whether 16 year olds who unreasonably refuse a YTS place should lose benefit for 6 weeks, as is the case for 17 year olds;

v. whether, as the Secretary of State for Employment proposes, the resources to be devoted to training beyond 1985 and the split between the Government and employers should be the subject of a further review;

vi. the timing of the announcement of the Government's decisions.
(The Secretary of State for Employment proposes an announcement towards the end of June. You may wish to ask him to circulate the text of his proposed announcement to the Committee for clearance in correspondence.)

PLG

P L GREGSON

14 June 1982

CONFIDENTIAL



Naupaul

10 DOWNING STREET

of Mr Wolfson.

Note

David Wolfson and the
Policy Unit will have a
meeting with David Jay
to explain the Prime Minister's
concerns.

I have named the Lord Privy
Seal's office.

Wm

14/6



Prime Minister CONFIDENTIAL

Qa 05956

To: MR SCHOLAR
From: JOHN SPARROW

11 June 1982

Youth Training Scheme: E(82)50

1. The Government are publicly committed to introduce by 1983 a comprehensive training scheme for unemployed 16 year olds. The Secretary of State for Employment recommends that the Government accept (with minor modifications) the version of the scheme put forward by the Manpower Services Commission (MSC). He believes that this is the only basis on which a scheme can be obtained, because no other approach would command the necessary support. I agree with this assessment.

2. The Secretary of State also recommends postponing the withdrawal of supplementary benefit (SB) for 16 year olds for one year, with a review in Autumn 1984, because to proceed with abolition could jeopardise support for the training scheme. However, a year's postponement could result in abolition becoming an election issue, damaging the impact of the training scheme itself.

3. I believe the Government must choose between two courses. Either it should proceed to abolish SB for 16 year olds, replacing it by a special allowance for those who for good reason are not on the scheme. Or it should concede that it has changed its mind, and retain SB. There are good reasons of principle for the former course, which could also mean that no 16 year olds need figure in the unemployment count. But the deciding factor must be what is necessary to enable the training scheme to get off the ground.

4. In considering this difficult choice, the Prime Minister may like to know how the training scheme will contribute towards the various aims for young people's employment and training which were reflected in the discussions which culminated in last December's White Paper.

5. There were four main aims:

- (a) to eliminate unemployment for 16 year olds and to reduce unemployment overall;



CONFIDENTIAL

(b) to achieve lower pay levels for young people (including trainees and apprentices) in particular and for employees in general;

(c) to reform the apprenticeship system;

(d) to establish a coherent system of foundation training for young people entering employment, on lines similar to the German model, but without actually compelling employers to train the young people they employ.

6. The new scheme offers the opportunity to make useful progress on all four fronts. It does not set out overtly to reduce wage levels or to reform apprenticeships. To have done so would have risked alienating the TUC and hence could have jeopardised the scheme which the MSC have to run. Rather, the argument is that the scheme will be able to achieve the same results by stealth. The processes involved are rather complicated. The following brief account may be helpful. The Prime Minister will note that much will depend on how intelligently employers use the scheme.

(a) Unemployment

7. The scheme will not entirely eliminate 16 year old unemployment. There will be enough money to train the expected 300,000 unemployed 16 year olds. But it will not be possible to organise the full complement of places immediately, so some (an unknown number) will have to wait. And there will be some frictional unemployment among those who find work and then lose or change jobs. If Ministers decide to retain SB this will mean that the young people concerned will appear in the unemployment count.

8. Any scheme of this kind is likely to displace some older workers (including 17 year olds) into unemployment. The amount of displacement is difficult to predict. It depends on how much extra work employers get out of their trainees. Displacement is not necessarily a bad thing, since it puts downward pressure on wage rates. This was part of the original rationale for the Young Workers Scheme.

(b) Lower youth pay

9. At first sight the new proposals look soft on youth pay. The training allowance is to be increased from £15 to £25; and employers can pay young



CONFIDENTIAL

people a negotiated wage, rather than the allowance, and still get the same Government support. However, the scheme offers the opportunity to put downward pressure on wages by blurring the distinction between trainee and employee. 'Normal' recruits, including apprentices, and extra 'unemployed' recruits can be covered by the same scheme. Employers may be able to persuade unions that they cannot afford to maintain existing wage levels and take on enough trainees (more than double their normal intake) to qualify for Government aid. Some may be able to get away with paying all their 16 year olds the £25 training allowance, or a specially negotiated low training wage. They will have a particular incentive to force wages down in the case of apprentices, since the existing generous grant scheme for first year apprentice training will be abolished. These opportunities would be lost if the scheme were confined to the unemployed.

(c) Reform of apprenticeships

10. Similarly, the MSC scheme offers an opportunity to reform apprenticeship indirectly, by blurring the distinction between first year apprentice training and other youth training. This could lead to more young people being given a cheaper and more broadly based first year on a low training wage or allowance. How the scheme fits in to the overall structure of apprenticeships will have to be established in collective bargaining and in conjunction with the Industrial Training Boards. Employers have a lot still to play for in this, but at least the new scheme will ensure that the process of negotiation has to start.

(d) A coherent approach to youth training

11. Perhaps the most obvious achievement of the MSC scheme is that it unifies three previously separate components of youth training policy, i.e. for apprentices, for young people previously recruited without training and for the unemployed. There is one respect in which the proposals still fall short of a single coherent strategy for 16 year olds. They do not incorporate the Young Workers Scheme (YWS), which seeks overtly to reduce youth wages but does not insist on training. As is hinted in paragraph 10 of the Annex to E(82)50, the two schemes could be made compatible by retaining YWS to encourage the recruitment of young people by employers outside the



CONFIDENTIAL

Youth Training Scheme, with some training requirements appropriate to the needs of small employers being linked to the subsidy. If Ministers saw advantage in this, there would be some logic in announcing it as part of their response to the MSC's proposals, in order to demonstrate the coherent nature of the Government's approach. However, it may be better tactics to delay a decision on the future of YWS until later in the year, as proposed in the Annex to the Secretary of State's paper.

Conclusions

12. In all the circumstances the training scheme in E(82)50 offers a promising opportunity to achieve the Government's objectives for youth unemployment and training, provided that employers make intelligent use of the scheme. It also achieves a major political objective. It is therefore worth modifying the present policy stance on SB for 16 year olds in order to get the scheme off the ground. There is nothing to be gained by simply postponing the abolition of benefit for a year. The choice is between the two courses in paragraph 3 above.

13. I am sending a copy of this minute to Alan Walters and to Sir Robert Armstrong.

P.

CONFIDENTIAL

for E folder
MSC 11/6

PRIME MINISTER

cc Mr. Mount
Mr. Vereker
Mr. Smith

E(82)50: YOUTH TRAINING SCHEME (YTS)

1. As the Secretary of State says, the critical change in the YTS proposal is that the original plan to withdraw Supplementary Benefit from 16 year olds be delayed until after the next election. I understand from David Young that the trades union representatives on MSC insisted on this as their pound of flesh. It is, of course, not out of their professed benevolence towards the young that they insisted on continuing SB; on the contrary, what they wished to do was to reduce competition by the young for what they regard as union jobs.
2. The original argument for withdrawing SB was that since parents support their children at school until 18, it is undesirable that parents should increase family income by their children quitting school early and joining the dole. Alas SB of £15.25 a week and getting out of such disciplines as remain in our schools may be attractive to a substantial fraction of our youth; casual evidence of interviews suggest that the feckless minority will take such advantage.
3. Obviously the perpetuation of SB for 16 year olds will continue to promote some unemployment, albeit partly of a voluntary kind. Similarly it will to some extent inhibit attempts to reduce wage costs and increase employment.
4. You may well feel that the price extracted by the TUC for the YTS, the continuation of SB, is worth paying. If you do, then it may be a good idea to ensure that the MSC (TUC) support for the YTS will extend to the Secretary of State's proposal that SB be continued only for the first year. In particular when we withdraw SB in the second year, it would be quite intolerable if the TUC, through the MSC, then withdrew their support. If legislation is required, then the date of withdrawal should be specified in the Bill.
5. It would be best if we were quite unequivocal about our opposition to indexation of the allowances. There should be no room for disagreement on this score.
6. Ferdinand Mount agrees with this approach.

11 June 1982

CONFIDENTIAL

AW
ALAN WALTERS



1982

Prime Minister 1

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

Given the very strong views expressed by David Jany and Norman Telford in favour of the Civil Service participating in the Youth Training Scheme, do you wish to press your arguments against Civil Service participation?

Baroness Young
Lord Privy Seal
Management and Personnel Office
Whitehall
LONDON SW1

Yes - especially on 11 June 1982

The day that I have received one of the Reser reports which shows that up our lack of managerial ability. When 11/6 we have our own knowledge and skills in position to give good training to others.

THE YOUTH TRAINING SCHEME AND THE CIVIL SERVICE
I have seen your minute of 5 May to the Prime Minister and her Private Secretary's reply. I have also just received a letter on the same subject from the Chairman of the Manpower Services Commission, David Young, and because of its relevance I attach a copy of the full text.

I share his view that the Government as employer should participate in the new youth training scheme. Major employers in the private sector expect the Civil Service to provide the same sort of help for unemployed young people as we are expecting from them, and they make the point that they too are trying to reduce staff numbers. The MSC's Youth Task Group also pointed to the need for the Government itself to set a good example by developing provision in our establishments.

The aim of the new training scheme is to give unemployed young people basic skills which will make them more useful to employers with vacancies to fill and to improve the quality of our workforce. Many parts of the Civil Service could provide general training and experience in skills (not least secretarial and computing skills) which would be used in the private sector.

The additional work involved for the Civil Service in training and supervising the young people is exactly the same as that which we are asking private employers to take on. The Treasury has agreed that the MSC may reimburse Departments for the cost of training as they would any other employer.



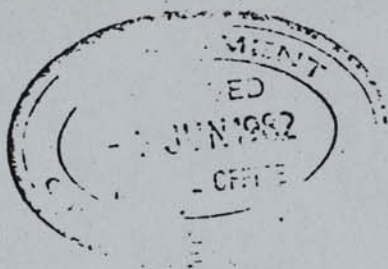
I like David Young, believe it would be very damaging if the Government as an employer was seen to play no part in the new training scheme.

I am copying this letter to the Prime Minister.

J. G. ...
Norman

ur ref
Your ref

Date 7 June 1982



MSC Manpower Services Commission

Selkirk House
166 High Holborn
London WC1V 6PF
Telephone 01-836 1213

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

Chairman: David Young

Des Norman,

I understand that there is currently some discussion amongst Ministers about the extent to which Government as employer should participate in any new youth training scheme that may be introduced in 1983.

I am anxious that you and your colleagues should be in no doubt that I regard such participation as essential to the success of any scheme. Indeed I would go further and say that, without such participation, there is little or no chance of achieving the targets that are likely to be set.

The Government is a major employer of both industrial and non industrial staff. It has establishments, large and small, in all parts of the country. In some places, including some areas of high unemployment, it is a major employer; in some cases the largest single employer. We cannot ask private sector employers to act swiftly and on the scale we require if Government itself is unwilling to do the same.

Under the Youth Opportunities Programme there has been sustained and justified criticism by the private sector and many others of the paucity of opportunities provided by Government, whose record, it must be said, (with the exception of the Inland Revenue), has been dismal. But under YOP at least it was possible for Ministers to lay the blame at the door of the unions (particularly the CPSA and SCPS) who refused to co-operate despite major efforts by themselves and management.

If it became known (as surely it would and very swiftly) that this time Ministers themselves had decided Government should not provide opportunities, the Government's credibility would disappear. It would rapidly become a scandal. There is no defence Government could mount. If the Government is strictly controlling numbers of employees, so too are almost all the large firms on whom we crucially depend. If Government has imposed cash limits on Departments, so too have private sector firms on their divisions. If Government is not prepared to allow for adequate supervision of young people, why should any competitive private sector employer be expected to do so?

I therefore urge that Government should commit itself unreservedly to playing its full part as an employer in any new youth training scheme. I venture to suggest that such a commitment should be made as part of any Government announcement that may shortly be made. There could be no better start to what we all know will be a huge task.

*Yours,
David*



Prime Minister (4) *Spawer*

Mus 2/6

CONFIDENTIAL

Qa 05938

2 June 1982

To: MR SCHOLAR ✓

From: JOHN SPARROW

CPRS Unemployment Study

Thank you for your Minute of 1 June. I confirm that the unemployment study will be available by the end of August and will be designed to contribute to policy making for 1983.

Copies of this go to those who had copies of your Minute.

JS.

CONFIDENTIAL



Manpower 19

10 DOWNING STREET

From the Private Secretary

MR. SPARROW

CPRS UNEMPLOYMENT STUDY

The Prime Minister was grateful for your note dated 25 May on how you see the CPRS study of unemployment progressing.

Mrs. Thatcher hopes that the report will concentrate on the crucial policy issues, decisions on which can be incorporated in the approach to the 1983 Budget. This leads her to the conclusion that the report will be too late if it appears at the end of the summer recess. She has commented that the end of August is the latest time that the study will be of use in decision-making for next year.

I am sending copies of this minute to John Kerr (HM Treasury), Barnaby Shaw (Employment), Alan Walters, and David Wright (Cabinet Office).

MCS

1 June 1982

CONFIDENTIAL

cc Mr. Mount
Mr. Vereker
Mr. Smith

please see his
note (attached)

Prime Minister (4)

MR. SCHOLAR

Shall I ask that John Sparrow brings

CPRS UNEMPLOYMENT STUDY

forward the study by a month or so?

1. John Sparrow's memorandum on the current state of play on this study covers a lot of ground. But in being comprehensive, it may divert attention from the crucial policy issues.
2. First the new anticipated time of completion, namely the end of the summer recess (end October) is some months later than the original date which Robin Ibbs envisaged (and which was reported in the Press as July). This delay could result in Ministers not having the results of the study in adequate time to take them on board for the next relevant policy decision - the mid-November uprating announcement of Social Security benefits for 1983. The part of the study we are doing in No. 10 will be available in August and there would be advantages if the CPRS timetable could be advanced two or three months.
3. Secondly, in their final report I hope that CPRS avoids unnecessary descriptive material and concentrates on an analysis of the labour market. We can then focus upon crucial policy decisions, such as the 1983 budget decisions.

MUS 27/5

Yes - I agree with Alan. The end of the summer recess is much too late. The end of August is the ideal time to be making decisions for next year.

AW

26 May 1982

ALAN WALTERS

CONFIDENTIAL



CONFIDENTIAL

9. JV
Prime Minister

Qa 05930

25 May 1982

MU 27/5

To: PRIME MINISTER

From: JOHN SPARROW

CPRS Unemployment Study

1. Soon after I arrived at the CPRS I said I would let you have a note on how I saw the study of unemployment progressing. You have since received minutes from the Chancellor and the Secretary of State for Employment which give helpful guidance on the direction of further work. Meanwhile, more and more commentators have expressed pessimistic views about the prospect of any substantial reduction in unemployment for some years ahead.

2. I envisage a final report which:-

- (i) describes the main causes of unemployment;
- (ii) assesses the consequences of a continuing high level of unemployment;
- (iii) examines the prospects for employment in the longer term;
- (iv) outlines the scope and criteria for counter-measures, both for remedying the underlying causes of unemployment and for coping with the consequences.

This word take long-

3. On causes, our approach will be to look at recent international experience, to see how far the rise in unemployment in the UK is attributable to factors common to OECD countries, and then to identify and evaluate any causes peculiar to ourselves. In our analysis of international experience, we shall be able to draw on the work being done by Alan Walters and Adrian Smith. With the help of Treasury economists, we are also hoping to distinguish more clearly between the levels of temporary (cyclical) unemployment and structural unemployment. We recognise, however, that a large number of inter-related factors have been at work, and that there is no precise way of disentangling their effects.



CONFIDENTIAL

4. We therefore share the view that our examination of causes will have greatest relevance in enabling us to identify remedies, whilst recognising the Chancellor's point that there is value in being able to show how far the causes are beyond the scope of Government action.

5. A strategy for dealing with unemployment must aim both to improve the competitive performance of the economy, and to alleviate the consequences of long-term unemployment. Measures to improve performance cannot individually be expected to have much effect on the immediate employment outlook, but they should make for a healthier economy and thus more jobs in the longer term. Hence we must look, for example, at:-

(i) ways of making the labour market more responsive to market forces, and in particular of eliminating or minimising restrictive activities which limit productivity growth and employment prospects;

(ii) reducing current disincentives to employers to offer more jobs (e.g. by tax changes to reduce the overhead costs of employing labour);

(iii) increasing incentives to (and opportunities for) unemployed people to seek out different kinds of work; and

(iv) new education and training initiatives to make the unemployed more attractive to potential employers and to reduce bottlenecks in key skills.

6. The further work on causes should be helpful in considering the prospects for unemployment to the end of this decade. If we are indeed faced with the prospect of a high level of structural unemployment remaining even when the economy moves out of recession, consideration must be given to the policy implications. The social and political consequences of continuing high unemployment may be serious in themselves, and must not put at risk the longer-term gains of the economic strategy. Attention should therefore focus on the criteria for employment measures in this situation, and on what palliative steps can be taken without hampering the competitive efficiency of the economy.



CONFIDENTIAL

7. We hope to produce the report before the end of the summer Recess.
8. I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Employment, Alan Walters and to Sir Robert Armstrong.

PS.

CONFIDENTIAL

To be published as HC 221

manpower
spare

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

YOUTH UNEMPLOYMENT AND TRAINING: NEW TRAINING INITIATIVE

NOT FOR PUBLICATION, BROADCAST OR USE ON
CLUB TAPES BEFORE 1130 HOURS ON 20 MAY 1982
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 19 May 1982

FOURTH REPORT

The Employment Committee have agreed to the following Report:

YOUTH UNEMPLOYMENT AND TRAINING : NEW TRAINING INITIATIVE

1. The Employment Committee are very concerned about the high level of youth unemployment and the social problems that this leads to. In August 1981 they consulted a wide selection of interested organisations and invited observations on the causes of youth unemployment, suggestions for reducing its harmful effects, and in particular views on the adequacy and effectiveness of existing training provisions and on the new training initiative proposed in the MSC consultative document issued in May 1981. The Committee are grateful for the submissions which were provided in response to their invitation.

2. In December 1981 the MSC published a report "A New Training Initiative : An Agenda For Action", which, taking into account the comments received on their consultative document, contained recommendations for a fundamental reform of training in Britain.

3. At the same time the Secretary of State for Employment issued a White Paper, "A New Training Initiative : A Programme For Action", which drew substantially on the MSC recommendations and set out a ten point agenda for action,¹ to provide a framework within which employers, unions, local authorities, educational services and trainees could play their part in modernising the training system in this country.

4. The MSC proposed the setting up of a Task Group to report on the structure, scope and content of a general scheme of vocational preparation for young people, including its funding, the timetable for introduction, and the nature and level of participants' income. This proposal was welcomed in their document by the Government, who expressed willingness to consider re-allocating the resources available to young people in any way which might contribute more effectively to their futures.² The report of the Task Group, which was unanimously endorsed by the MSC, was submitted to the Secretary of State in April 1982.

1. para. 3.

2. Cmnd. 8455, para. 21.

5. The Committee took oral evidence from the Secretary of State for Employment on the Government's New Training Initiative on 24th February 1982, and from the Institute of Careers Officers on 31st March 1982. In February Members of the Committee visited Birmingham, and in March, Glasgow, and in both cities held discussions with representatives of the Careers Service and local MSC officials, and went to see the operation of specialist schemes, where they talked with the young people who were on the schemes and their supervisors. Visits had already been paid during the two preceding years to Thurso, Newcastle-upon-Tyne, Liverpool, Plymouth,³ Belfast and Livingston. All these visits gave a direct practical insight into the problems faced in areas of high unemployment and the efforts being made to help unemployed young people. The Committee have also looked into the way other countries have tackled similar problems.

6. Following publication of the MSC Task Group Report the Committee took oral evidence from the MSC and from representatives of MSC Special Programmes Area Boards and major employers.

3. HC(1979-80)594-i, ii, iii, vi.

7. It is clear from the response to the MSC's consultative document last year⁴ and the report of the MSC Task Group that there is widespread recognition among employers, unions, local authorities, educational services and voluntary organisations of the need for a fundamental reform of the training of young people in this country. This has been borne out by the evidence the Committee has received, and the Committee welcome the acceptance of all concerned to play their part. The Committee wish to emphasise particularly the need for commitment by employers and trade unions if the reform of training is to be a success.

8. As mentioned above the Committee took oral evidence from the Institute of Careers Officers and had discussions in Birmingham and Glasgow with individual careers officers with direct experience of the problems in their localities. The Committee were impressed by the dedication of those they met and their depth of knowledge and would like to pay tribute to the valuable work done by careers officers. The evidence provided by the Institute was full and well-argued, and deserves careful consideration by the Government in coming to decisions on the future of training.

4. A New Training Initiative : An Agenda For Action, para. 4 et seq.,

9. The MSC Task Group covered a wide spectrum of interests, with members representing the CBI, the TUC, local authority associations, professional educational interests, careers officers, and voluntary and youth organisations. The Task Group's report was unanimous, as was its acceptance by the MSC.

10. In oral evidence the Chairman of the MSC stressed that the various recommendations in the Task Group Report must be considered as constituting a single package.⁵

11. The TUC representative underlined the importance the TUC attached to the voluntary nature of the scheme proposed, both as it affects young people and those who provide them with opportunities. For this reason the TUC were opposed to what they see as the financial compulsion which refusal of supplementary benefit to those unemployed young people not joining the scheme would represent.⁶

12. The CBI representative also supported the voluntary approach of the Task Group, on the grounds that young people who had no real alternative but to take part in a scheme would be unlikely to learn or contribute.⁷

5. QQ.126 -135, 139, 148.

6. Q.136; TUC Press Release on Youth Training Scheme, 11th May 1982.

7. Q.155; Youth Task Group Report, para. 3.14.

13. The Committee welcome the Task Group Report. The fact that representatives of all the major interests concerned agreed unanimously to the report lends it considerable weight. The Committee note that the Task Group are confident that the Exchequer cost of their proposed scheme will not exceed £950 million in 1983-84 or £1.1 billion in 1984-85, which are the resources the Government has made available for MSC youth training schemes in those years.⁸ The Task Group estimates will need to be carefully checked by the Government to ensure that the Exchequer cost is in fact within the resources available and does not add to the total cost to the public funds.

14. The Task Group Report contains many elements in common with the Government's White Paper, eg. the need for a guarantee of training places for all unemployed 16 year olds, moves towards education or planned work experience with training for all under 18 year olds, the content of training, the length of the course, off the job training, and machinery for delivery.

15. There are also some points of difference which will need consideration by the Government. One of these is the treatment of supplementary benefit.

8. Youth Task Group Report, para. 5.26.

16. The White Paper envisaged a change in the provision of supplementary benefit, under which in general unemployed minimum age school leavers would not receive supplementary benefit in their own right until 1st September in the year after that in which they leave school.⁹ (As an exception to this general proposal, the benefit needs of special groups among young people, broadly those who can claim supplementary benefit while still at school, would continue¹⁰).
17. The Task Group Report, on the other hand, recommended that supplementary or unemployment benefit should continue for those young people neither in work nor in the programme.¹¹
18. There are differences of view within the Committee about the Government's proposal in the White Paper. The majority think that the Government's approach is right in principle, but consider it important that the new scheme should get off to a good start, and that any change in the rules for supplementary benefit should only be introduced at this time if it would not prejudice the introduction of the scheme. The minority also want the scheme to get off to a good start, but believe that abolition of supplementary benefit at this time would

9. Cmnd. 8455, paras. 35-6.

10. Ibid., para. 37.

11. Youth Task Group Report, para. 7.15.

put the credibility and effectiveness of the programme at risk and consider that supplementary benefit should be retained for all unemployed school leavers.

19. However the Committee are agreed that if and when the Government proceeds with legislation for changes in the provision of supplementary benefit these should include a further exemption in addition to the special groups already referred to.¹² As the Task Group pointed out,¹³ many young people would enter the programme before September and many others between September and Christmas, so that, through no fault of their own, there would be times in the period up to September in the year after they left school when some young people were neither in work nor on the scheme receiving an allowance. Supplementary benefit should not be taken away from such young people or any others who have not been given a reasonable offer on the scheme, taking into account such matters as the suitability of the training in the light of the aptitudes of the young person, and travel and other difficulties which may be associated with the particular offer. With this modification of the Government's proposal, supplementary benefit would then be stopped only from youngsters who unreasonably refuse a training opportunity which they are capable of taking up.

12. *supra*, para. 16.

13. Youth Task Group Report, para. 7.15.

20. There are two other matters to which the Committee would like to refer. In paragraph 4.4 of the Task Group Report it is said that it is desirable that 18 year olds with special needs (eg. disabled young people) should be covered. The Committee recommend that this group (which should also include the educationally subnormal) should be included in the scheme from the start: they understand from oral evidence by the MSC that this would not greatly disturb their calculations.¹⁴

21. There is great need on the part of the Government to make certain that in any scheme dependent on sponsors those young people who for one reason or another are least attractive to sponsors should be given adequate opportunities. It is important that the Government make clear how this is to be achieved.

22. The foundation training provided under Youth Training Schemes must be designed so as to accommodate in a suitable form the least able or the disadvantaged, particularly those whose attendance at school has been poor. Adequate Government funding should be made available to ensure that there are Community Industry type places for these youngsters.

14. QQ. 184-5.



Hampson
JC SV

Prime Minister (2)

To note.
MUS 18/5

PRIME MINISTER

MS.

CPRS UNEMPLOYMENT STUDY

The Chancellor's letter of 30 April gave his views on the CPRS interim report on unemployment and on the further work which should be done.

I entirely agree that the final report should be concerned with the identification of causes only to the extent that this is relevant to finding the right policy prescriptions. There is clearly no point in over refined analysis. A broad diagnosis is all that we really need. I very much doubt whether further attempts to assign relative weights to the contributory factors could have much influence upon the thrust of policy.

Our main concern in this study must be with the structural rather than the cyclical component of unemployment; and there can really be no question but that we must steadfastly pursue measures to increase competition and the rewards of success in that competition as the basic remedy. So I too would like the report to deal broadly with the causes of our low competitiveness, not just in the labour market, but in our markets for goods and services generally.

The emphasis in the study ought now to move towards remedies and, in terms of priorities, I think it would be helpful if the CPRS were to focus particularly on areas which may not have received sufficient attention up to now. Thus, among the topics suggested by the Chancellor I should like to see attention paid particularly to sharpening the work incentive by changes in taxation, to methods of reducing the impact on labour costs of



taxes and other public imposts, and to the stimulation of competition in our product markets. There is already a lot of work on which they can draw so far as training, mobility and benefits are concerned and I think we have a pretty clear idea of the possibilities for going further on legal regulation of unions.

There is one particular problem to which it is important that the CPRS should direct attention. While we need to identify and stick to remedies for dealing with the structural problem we must, I fear, accept the CPRS contention that, whatever we do, unemployment is going to remain high for some time to come. We shall therefore need to continue to devote resources to lessening its impact upon those who are particularly hard hit. This presents us with the problem of reconciling this necessity with the furthering of our longer term objectives. The transformation of the Youth Opportunities Programme into the new Youth Training Scheme is an example of such a reconciliation, but in other areas the way forward is less clear and CPRS guidance would be valuable.

I also hope that the CPRS will look closely at the case for increasing part time work. It is becoming rather taken for granted that the creation of part time jobs is a good way of providing work for the unemployed, when the truth may be that it will largely attract into the labour market people who are interested only in part time jobs, and so increase the labour supply. This could be a very sensible thing to do in times of labour shortage but not of high unemployment. Furthermore, if there is a case for our influencing the market for part-time jobs, I would like the CPRS to consider not only how this might be done through the social security system but also through the employment policies of major public sector employers of part time labour.

I am copying this minute to the Chancellor and to John Sparrow.

NT

N T

17 May 1982

CONFIDENTIAL



FILE SW.

bcc. Mr. Walter.

Man part.

10 DOWNING STREET

From the Private Secretary

11 May, 1982

CPRS Interim Report on Unemployment

The Prime Minister has noted the Chancellor's minute of 30 April about the CPRS's interim report on unemployment.

In relation to Paragraph 6 of the minute, the Prime Minister has commented that we should not be drawn into a detailed analysis of measures which we would certainly never wish to implement. She sees no point, therefore, in commissioning work on ideas such as the Layard proposals for a wage inflation tax. I am sending a copy of this letter to Barnaby Shaw (Department of Employment) and Gerry Spence (Central Policy Review Staff).

M. C. SCHOLAR

Peter Jenkins, Esq.,
H.M. Treasury

CONFIDENTIAL



file

PK

10 DOWNING STREET

From the Private Secretary

10 May 1982

THE YOUTH TRAINING SCHEME AND THE CIVIL SERVICE

The Prime Minister was grateful for Lady Young's minute of 5 May. But she is strongly against the proposal that the Civil Service should provide places for the Youth Training Scheme.

One of the purposes of the New Training Initiative is to inculcate private sector habits and practices at an early age, and the Prime Minister is not convinced that using public sector training facilities is a sensible way of training those who may eventually be employed in the private sector. On the other hand, if the purpose is to provide training for eventual employment in the public services, then the Prime Minister questions whether such additional training is needed. In any case, she feels that the public services ought increasingly to be recruiting those trained in private sector disciplines.

Furthermore, the Prime Minister does not feel it would strengthen Mr. Tebbit's hand, in seeking cooperation from the private sector to say that the Civil Service will be taking on trainees at the taxpayer's expense. She feels that employers will understand the arguments against Civil Service involvement. We have always argued that Civil Service numbers must be reduced, and the Prime Minister considers that there would be widespread criticism from the private sector if the Government were to take on an extra 200 staff to provide 8,000 training places.

In short, the Prime Minister has considerable doubts about the principle of the Lord Privy Seal's proposal, doubts which are reinforced by the proposition that Civil Service manpower will need to be expanded.

I am not copying this to Barnaby Shaw in Mr. Tebbit's office since Lady Young's minute was not copied elsewhere, but I would be happy for you to copy this letter to him if you wish.

W. F. S. RICKETT

CS

Jim Buckley, Esq.,
Lord Privy Seal's Office

CONFIDENTIAL

CONFIDENTIAL

MR. RICKETT

cc Mr. Walters

The Youth Training Scheme and the Civil Service

I consulted Alan Walters about Lady Young's minute of 5 May, and the draft letter to the Chancellor which she enclosed; and we have considerable reservations about it.

It seems to us that neither of the possible reasons for providing training facilities in the Civil Service holds water:

i) If the purpose is to provide training for eventual employment in the public services, it is misconceived both because there is no evidence of a need for such additional training facilities, and because the public services ought increasingly to be recruiting those who have been trained in private sector disciplines.

ii) If the purpose is to use public sector training facilities in order to provide training for those who may eventually be employed in the private sector, it is misconceived because the whole point of the New Training Initiative is to inculcate private sector habits and practices at a very early age in those embarking on their careers.

Andrew

We think the Prime Minister ought, therefore, to reply to Lady Young expressing considerable doubts about the principle of what Lady Young proposes, doubts which are reinforced by the proposition that Civil Service manpower would need to be expanded in order to meet this proposed obligation.

[Signature]
6 May 1982

CONFIDENTIAL

CONFIDENTIAL

Prime Minister (4)

cc Mr. Vereker

Mr. Smith

MCS 6/5

PRIME MINISTER

MCS

2 pps

CPRS INTERIM REPORT ON UNEMPLOYMENT - CHANCELLOR'S VIEWS

1. The Chancellor apparently does not endorse the interim report. He makes a number of suggestions:
 - a. that we should concentrate on micro-economics rather than macro-policies;
 - b. that the report should be more concerned with practical measures on many fronts which can be implemented in policy; and
 - c. that the main thrust should be to make markets work more efficiently.

2. Although the Chancellor's approach is more eclectic than incisive, I believe that the approach he recommends is basically right. My main reservation is that we should not be drawn into a detailed analysis of measures which we would certainly never wish to implement. The Chancellor, for example, suggests that CPRS investigate Layard's wage inflation tax. This had been suggested by CPRS before in their paper on pay last autumn. E rejected it. Further work and reflection on Layard's proposals have exposed fatal flaws in the proposal. From my sources I believe that the Alliance would not adopt the Layard proposal although this may change.

3. I conclude, therefore, that with the exception just discussed, the Chancellor's proposals are a useful "tour de scene" which CPRS can bear in mind. And the Chancellor's emphasis on micro-policy and market improvements, rather than monetary and fiscal policy, is entirely right.

No

AW

6 May 1982

ALAN WALTERS

CONFIDENTIAL

Prime Minister 4



PRIME MINISTER

THE YOUTH TRAINING SCHEME AND THE CIVIL SERVICE

One of the key proposals in the Government's White Paper "A New Training Initiative: A Programme for Action" was that by September 1983 a new Youth Training Scheme would be introduced building on the experience gained from the Youth Opportunities Programme. Places for some 300,000 young people would be provided in 1983-84.

The Secretary of State for Employment is asking all employers, private and public, to contribute and has written to me saying that he hopes that the Civil Service as an employer will play its part in providing places. I think it important that we should make a good contribution, both for its own sake and in order to give a lead. In fact, Departments generally are keen to do so. As a first step they will be running pilot schemes designed to provide about 200-400 good quality places by September 1982. This will give the experience needed to enable much more large-scale provision to be mounted by September 1983.

If the Civil Service is to do its share it should provide places for about 8,000 young people and this will require up to 200 people in Departments to train and supervise the young people concerned. If Departments are going to take part on this scale - and if we are going to get the trade union support we want - the manpower side of the Treasury will need to recognize this in its manpower ceilings. I therefore plan as a next step to write on the lines of the attached draft to the Chancellor of the Exchequer seeking his co-operation.

I thought you would like to know of this development and hope it has your support.

Baroness Young

BARONESS YOUNG

5 May 1982

It is important
to get places
Sector places for
Y.O.P.

ML

1. 1.000 in
for many
places. It
do not make sense to run
down not on grounds of
efficiency & then to
take on parties
new ones

At A is a minute from John Vereker
and Alan Walters arguing against
any involvement by the Civil Service
in the Youth Training Scheme. I
would have thought private sector
employees would understand the point
of his arguments. Agree that I should
put the points in the minute at A to
Lady Young and Mr Tebbit, and seek
their reactions? Yes

LM
6/5

210

I am very strongly
opposed to this. The private sector has

DRAFT LETTER FROM THE LORD PRIVY SEAL TO THE CHANCELLOR OF THE
EXCHEQUER

to pay for our
services.
ms.

YOUTH TRAINING SCHEME AND THE CIVIL SERVICE

One of the key proposals in the Government's White Paper "A New Training Initiative: A Programme for Action" was that by September 1983 a new Youth Training Scheme would be introduced building on the experience gained from the Youth Opportunities Programme. The new scheme would offer a training programme of up to a year for all unemployed minimum age school leavers, consisting of planned and supervised work experience together with properly designed opportunities for off-the-job training and further education. The aim is to provide places for some 300,000 young people in 1983-84.

No - I don't agree.

Norman Tebbit and I are both keen that the Civil Service as an employer should, in common with other employers play its part in providing these places. Clearly it would strengthen Norman's hand with private sector employers, whose co-operation we need if the scheme is to be successful, if the Civil Service were seen to be making a major contribution. My officials have agreed in principle with officials of other departments, through the Establishment Officers' meeting, that the Civil Service should aim to provide between 200 and 400 high quality places by September 1982 in a variety of departments and locations on a pilot basis. These pilot schemes would provide the basis for a large expansion within the Civil Service from September 1983. The proposals do however have implications for Civil Service manpower and that is why I am writing to you now. It is already established that MSC funded trainees on schemes of this kind are not civil servants and are not therefore included in the manpower count.

In existing YOP programmes in the Civil Service which are geared overwhelmingly to work experience, the staff resources involved in supervision and administration are in general balanced by

the contributions made by the trainees so that there is no need for provision for extra staff. With the new proposals the staffing requirements will be much greater because of the amount of formal training required and the need to provide more varied and more carefully structured work experience. It is difficult to estimate in advance what extra staff resources would be needed and the proportions will vary from place to place. The best guess that we can make at present is that one additional person may be needed for every 40 trainees. The pilot schemes starting later this year will enable us to assess this more accurately. A proportionate share for the Civil Service of the 300,000 places sought for September 1983 would be 8,000 trainees, and on this basis an extra 200 staff would be required in participating departments.

Departments are conscious that these demands will fall on them just when they will be finding it hardest to meet the April 1984 manpower target and they do not think that they can be expected to participate in the Youth Training Scheme without some easement of manpower ceilings to allow for the extra staff required. Although the numbers involved are small, I sympathise with them.

The staffing point is also one that will be of major interest to the unions, whom we have yet to approach formally. Union agreement is required for schemes operated under the Youth Opportunities Programme and the same will be true of the Youth Training Scheme. The Civil Service has not done its share in existing YOP work experience schemes, largely because of the opposition of the CPSA and the SCPS. Without some assurance that adequate staff resources will be made available, there is little likelihood of union agreement to participation in the Youth Training Scheme. Is there room for some dispensation in relation to the Civil Service manpower count? Alternatively should we make provision out of the "contingency margin" within the existing 630,000 target?

I believe departments will be able to find staff to run the pilot schemes which start later this year out of existing manpower provision, but we need to settle this point quickly if they are to prepare for a very substantial expansion in 1983 and if consultation with the unions is to begin. In other words progress with this year's pilot scheme is linked with assurances on manpower for 1983.

I am sending copies of this letter to the Prime Minister and Cabinet colleagues.

BARONESS YOUNG

CONFIDENTIAL



CCJ

Prime Minister (4)

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

To note

M/S 6/5

PRIME MINISTER

CPRS UNEMPLOYMENT STUDY

Robin Ibbs' minute of 26 March, covering the CPRS interim report on unemployment, invited us to consider whether we share their interim assessment of the causes of unemployment and whether we are content with their proposals for further work.

2. What we most need, I suggest, are clear views on how to tackle the unemployment problem practically. There are dangers in concentrating too much on analysis and too little on the scope for action. I believe the further work should aim at identifying relatively briefly the many factors which have contributed to the rise in unemployment over the last 20 years without becoming too side-tracked in "theology". It should try to provide some indication of each factor's relative importance, although views on this are likely to differ and no precise estimates are possible. The report should concentrate on identifying causes only to the extent that they are relevant to finding the right policy prescriptions. The most important task of the report should be to suggest how and over what timescale remedial action might be undertaken - necessarily across a broad front, involving many areas of policy.

3. The analysis needs to distinguish clearly between the temporary or cyclical elements and the structural component of the unemployment problem. Our main concern must be with structural unemployment, which in my view reflects deep-rooted

/and long-standing



and long-standing problems not just in the labour market but in our goods and services market generally. (Internal Treasury work suggests that structural unemployment may now exceed two million.) It would be useful to compare our experience with that of other similar countries; this may help identify the influence of such common factors as the sharp rise in real oil prices and increasing competition from newly industrialised countries. This aside, I hope the analysis could focus broadly on our poor competitiveness and not merely on real-wage inflexibility. The most striking contrast between us and our main competitors seems to me more our low productivity levels (often reflecting resistance to new techniques) than excessive real wages.

4. In addition, I suggest that the work might look not only at other causes of labour market inflexibility besides the benefit and union aspects, but also at how imperfections in goods and service markets cause unemployment and how central government policies may also have contributed to the problem. Some specific topics (in no particular order) are set out in the
 Annex herewith.

5. The analysis should lead into specific policy proposals. The most serious aspects of the problems will no doubt be the most difficult to resolve, for both economic and political reasons; but I hope that CPRS will be radical, and moreover that they will not regard unsuccessful discussion of this or that option in the past as ruling out fresh efforts.

6. It will be helpful if the work can equip us to deal effectively with policy options put forward by others, like the Layard ideas for a wage-inflation tax and for employment subsidies, the Minford proposals for a 10 per cent cut in benefits, and the various ideas for early retirement and work-sharing. We need to have a clear analysis of the disadvantages and limitations

/of these ideas,

No??



of these ideas, as well as any comments they may have.

7. I do not want to urge specific policy ideas at this stage. But I believe there are certain themes which might help form a broad framework; for example:-

- (a) All restrictions on competition are potentially damaging; the goal of increased competition should underpin policy towards regions, industry and employment. We must be ready to take a strategic view even in face of short-term tactical pressures.
- (b) Radical action is needed to redress the imbalance of power between employers and employees, and to improve attitudes to work. This means restricting union immunities on the one hand, and on the other increasing the involvement and responsibility of employees through better employee communications.
- (c) We need to press ahead vigorously with every possible fiscal and other measure to establish new and competitive centres of activity; and to back this by a presumption in favour of new activity by de-licensing and de-regulating as widely as possible. We should be prepared to look with an open and sceptical eye at all forms of restriction, regulation and licensing imposed by Government, central or local.

8. As to procedure and handling, I imagine we do not envisage publishing the CPRS work. But the importance of the message means we must plan to draw on it to change public perceptions. So long as the "solution" to unemployment is generally seen by the wider public as the management of demand, the PSBR or exchange rates, it will be difficult to gain acceptance of the radical policy actions that are needed. We have to shift attention to

/the real roots

CONFIDENTIAL



the real roots of the problem, and the need for changes in the way both our labour and our good markets work. This need is all the greater in that achieving practical results takes time.

9. I am copying this minute to Norman Tebbit and John Sparrow.

(G.H.)

30 April 1982

CONFIDENTIAL

ANNEX

Labour Market

- (i) Benefits - further work to update data on the replacement ratio beyond 1980; an analysis of the importance of incentives needs to incorporate other relevant information such as the enforcement of availability for work regulations, tax thresholds and in-work benefits and the changing distribution of the unemployed - an increasing proportion of single or "married no children" unskilled workers with low benefit entitlement.

- (ii) Unions - further evidence on union mark-ups will no doubt be illuminating; but the analysis needs to include examination of low productivity - how attitudes to new technology and restrictive labour practices prevent change and the impact of this on competitiveness and hence unemployment.

- (iii) Mobility - in addition to housing, the influence of factors such as transferability of pensions and different schooling arrangements ought to be considered; better information services are also crucial - for example more private sector agencies to cater for low skill jobs (now largely handled by Job Centres).

- (iv) Training - we need to look specifically at the retraining issue now that there are so many long term unemployed with no or obsolete skills; but the problems of matching training to industry's needs could bear further analysis.

/Wider Considerations

CONFIDENTIAL

Wider Considerations

- (i) Competition - in product markets where there is an absence of competition from either domestic or foreign sources, opportunities arise for employees to gain higher wages than would be warranted in a competitive situation and/or enjoy low productivity levels, without jeopardising the future of the employer. We need further analysis of the relationship between employment, productivity growth and wages in sectors with different degrees of openness to foreign competition and different degrees of concentration.

- (ii) Taxation - the effect of long-standing subsidies to capital through the tax system, and taxes on labour costs on production techniques and hence labour inputs, needs to be examined.

PART 6 ends:-

1603 to PM Qa 05875 of 30/3/82.

PART 7 begins:-

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