



Prime Minister

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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;



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(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



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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



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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.

B.