

CONFIDENTIAL

Pm's minute

2

C. M. Dymally

Prime Minister

MF

You have already
commissioned a study
by CPRS on all this.
Mr. Jenkins has some
important points, but they
can be taken into account
by CPRS in conducting their

LONG-TERM UNEMPLOYMENT AND THE YOUNG

I have read Geoffrey Howe's minute of 5 December and the paper study by Treasury Officials, and Jim Prior's minute of 12 December. The paper usefully brings together most of the range of initiatives being undertaken or considered, though I may say I share Jim Prior's surprise at the form the Treasury response has taken. DHSS has a number of strong interests in this area, and we shall be glad to co-operate fully in the follow-up work of the CPRS and the Manpower Group.

I have a number of fairly major reservations about the main thrust of the Paper.

- a. Should our concern be quite so heavily concentrated on the Under-20s?

Jim Prior questions the balance of effort between the age groups in his comments on the proposed CPRS study. The Paper makes the point that, on the whole, the periods of unemployment for the under 20s tend to be shorter than the periods of unemployment for unemployed people as a whole. In particular, it is clear that there are many more long-term unemployed among over 20s, than among under 20s: 95 per cent of those unemployed over a year are aged 20 or over. I cannot help feeling that the immediate social problems of families with young children, where the breadwinner is out of work for prolonged periods, must be a very great deal more serious than among the under 20s, who for the most part do not have these responsibilities. The feeling seems to be borne out by, for example, our cohort study of people becoming unemployed in the Autumn of 1978, and by other research. 80 per cent of unemployed young people live in a household where there is an adult in full-time work, while this is true of only 20 per

CONFIDENTIAL

cent of unemployed married men with children. Young people seem less liable to run up debts, and in general to show less concern about being unemployed than do married men with children.

In terms of prevention of human hardship and degradation, in terms of the well being of families with children (there are half a million children with fathers out of work), in terms of the demoralisation of the long-term unemployed, it is at least worthy of consideration whether we ought not now to be devoting more care and attention to families where the breadwinner is out of work for prolonged periods. There are hints in an as yet unpublished in-depth study by Dr L Fagin that there could be long run effects on the children - both directly from loss of income and standing in the community, and from the strains or even breakdown in the family itself. It may well be that many of the remedies for which we should look would be different for this group, from those canvassed in the Treasury Paper. All I am asking is whether we are right to concentrate so exclusively on the under 20s. This is something CPRS might give special consideration to - given the work already in hand on YOP, etc. It is worth bearing in mind that the unemployed family man is much more 'expensive' in terms of benefit costs and lost revenue - a point which I enlarge on later.

b. A Cause of Unemployment Among Under 20s - Pay Levels?

I have for some time now been increasingly of the opinion that the growth of youth unemployment owes itself in substantial measure to the quite unrealistic pay expectations which this generation now has for this age group. The Paper (paragraph 17(b)) makes the point that earnings of young people as a percentage of adult earnings have risen in the post-war period, and the details are given in Table 1. (That table indicates that the problem is with boys rather than girls, but does not in itself show whether it lies with the under 18s or the 18-21s.) Research suggests, it

says, that there may have been a fairly strong adverse effect on the demand for young people's labour. Is this not a case of young people with little or no experience, and perhaps limited skills, simply pricing themselves out of their jobs by the unrealistic expectations they have been encouraged to hold? To what extent are trade union attitudes contributing to this? Is this not likely to be a more serious factor than the benefit-wage ratio, referred to in paragraph 17(c)? I was one of those that supported the main thrust of the parallel paper, which we have had from officials, about the proposed new "youth benefit", and I would not object to recasting benefits for young people out of work, along the lines recommended in that paper. But while this might help the benefit/wage ratio and encourage more vocational training, it is by no means clear that it would do much about work incentives (at £15.25 a week the present benefit level for someone under 18 living at home is well below any likely wage level), or would help more young people to find work, if the wage expectation continues to be unrealistically high.

c. Volunteering/National Service

This is the part of the Paper, which causes me most concern. I would feel bound to resist most strongly any suggestion of "compelling" young people to volunteer - for several reasons. First, if we want to encourage genuine volunteering among the young, the last way to do this is to force them to "volunteer". It is quite easy to give virtue a bad name. Second, this is the surest way to arouse the most hostile (and understandable) trade union and management suspicion - particularly in hospitals and other social service environments, where there is at present a widespread readiness to welcome genuine volunteers, provided these are suitable and suitably motivated and are not seen just as cheap sources of labour, displacing paid staff. Third, I am sure we must tread exceedingly warily when discussing anything as sensitive as "National Service" because of the connotation it

holds in many people's minds. The reaction to Jim Prior's reported comments earlier in the year demonstrates the political sensitivity. I agree entirely with what Jim says in his minute; and it would avoid misunderstanding if compulsion were kept out of the CPRS terms of reference.

At the same time, I believe there is a great deal more scope for providing useful voluntary work for those currently without paid employment. On benefit rules and volunteering, we are sharpening up our hitherto modest proposals and hope to be able to make progress with them soon. As the Treasury Paper says, the main impact will be presentational, though I would hope that they would go a little beyond that. We aim to remove any unnecessary obstacles posed by the "availability for work" rule; and to clear up any misunderstandings about the issue of expenses, which has in the past caused problems vis-a-vis the payment of benefit. We need to discuss how young people out of work can be put in touch with volunteer bureaux - for instance by having suitable notice boards, or other sources of information, at job centres. There are issues here which could, when the essential groundwork has been done, be looked at by the Ministerial inter-departmental group Chaired by Tim Raison, on which both Lynda Chalker and George Young sit. I have been disappointed by the slow progress of this group, some Members of which, no doubt for good reasons, see greater difficulties in fostering more volunteering.

Ideally, one would like to see the possibility of many more unemployed people (including young unemployed people) being given the chance, with the necessary supervision, of engaging in voluntary, social or environmental work. This, if well done, could do much more than simply keep them off the streets. I hope that the part of Jim Prior's recent youth, etc, unemployment package embodied in the Community Enterprise Programme, will be followed up vigorously. I still believe that helping with the insulation

of the homes of elderly and disabled people would be among the many worthwhile projects that should be explored - I do not believe that the problems of materials, costs, supervision, and type of work are insuperable.

d. The Costs of Unemployment

I have recently been trying to get accurate figures for the additional costs to public funds when a family man becomes unemployed. I am bound to say, I have been somewhat startled by the figures my officials have produced in conjunction with the Treasury. I attach, as an Annex, a calculation of costs for two typical cases; and you will see that the cost, taking account of the loss of tax and national insurance revenues, the repayment of income tax, the value of unemployment benefits, and the administrative costs of paying these benefits, amounts to roughly £50 per week for a single young person under 18, and no less than £150 per week (£7,800 a year) for a married man with two children. Hypothetical examples may, of course, exaggerate the overall Exchequer costs of a rise in unemployment (though not the relative costs for different groups). I understand that, taking account of the actual characteristics of unemployed people, the Treasury have estimated that the first-year costs of an increase of 100,000 in registered unemployment is £326 million, or £3,260 per person. However, this is clearly an underestimate, as it excludes some of the elements in the calculations set out in the Annex - for example, indirect tax revenue foregone, staff costs of administering benefits, and housing and other means-tested benefits for which people who are unemployed would be eligible.

The figure of £7,800 is a good deal higher than the figure given, for instance by Lord Cockfield, in a written Reply in the Lords on 12 November, where he put the cost for an employed man with wife and two children as amounting to £6,000, over a year. Altogether, it seems to me that the Exchequer costs of unemployment

may be very much higher than any figure on which we have hitherto been basing our calculations (even if one ignores health and social service costs of long-term unemployment). If this conclusion is anything like correct it suggests that carefully designed job creation activities should add very little to the PSBR, particularly if directed at unemployed family men. If account is taken of the value of the output or services produced and of the social and morale consequences, it is difficult to believe that the benefits of a sensible job creation programme would not outweigh these limited financial costs.

I have one or two other points on the Treasury Paper. First, I think, we should tread cautiously on the notion of abolishing contribution liability for, and in respect of, young people. This would be tantamount to a direct subsidy for employment, and could only have the effect, other things being equal, of displacing people for whom National Insurance Contributions have been paid. I am sure that this is a suggestion which would arouse great trade union hostility, and I remain to be convinced of its merits. It seems to me that it is much better to deal with the question of the costs of employing young people by encouraging realistic pay levels, where there should be a greater differential between young and unskilled or inexperienced people, and those who have spent several years in a job.

Second, the Paper makes some play with the greater geographical mobility of the young. Do not let us overlook the counterpart of that. I am not sure that it is right to send teenagers away from their families, with no qualifications, to try to establish themselves in an unfamiliar area without parental support, or without a guaranteed roof over their heads. This sort of mobility is already giving rise to serious problems in London where they are bad for boys and worse for girls. The Treasury Paper does not seem to take account of this at all.



I hope these thoughts will be considered helpful in our further consideration of the ideas canvassed in the Treasury Paper. Copies go to those who received Geoffrey Howe's minute.

P.J.

30 December 1980.

ANNEX 1 - THE COST OF UNEMPLOYMENT

	Married Man with 2 Children at School - weeks 2 - 26	Single Person, Under 18, Living at Home
		<u>£ pw</u>
Foregone income tax	29.62	7.07
Tax rebate (maximum)	12.38	7.93
NI contributions		
Employer	19.18	6.85
Employee	9.45	3.38
Indirect tax	8.00	4.00
Benefits		
Unemployment benefit	35.90	-
Earnings related supplement	16.50	-
Supplementary benefit	-	15.25
Housing Rebates:		
Rent	7.53	-
Rates	2.83	-
Free school meals	4.50	-
Civil Service	4.00	4.00
TOTAL	<u>149.89</u>	<u>48.00</u>

NOTES

1. Earnings

(i) The single person is assumed to have average earnings for the age group (in line with results from the Cohort Study of the Unemployed): estimated to be £50 pw;

(ii) The married man is assumed to have earnings just above the average for all adult men (based on results from the Cohort Study of the Unemployed): estimated to be £140 pw.



2. NI Contributions

Assumed contracted-in.

3. Indirect Taxes

Based on data from the 1978 FES published in Economic Trends, January 1980 ("The Effects of Taxes and Benefits on Household Income, 1978"). Changes since 1978 and other factors result in no overall change in indirect taxes as a proportion of disposable income according to the reply given to Lord Kilmarnock on 12th November 1980. Hence the 1978 figures have been used unadjusted to estimate how much indirect tax would have been paid while in work and how much when unemployed, assuming consumption patterns adjust immediately to the lower level of income. The estimate is particularly suspect for the single person, because the FES data referred to householders.

4. Benefits

November 1980 rates. For the married man, based on the DHSS Tax/Benefit model assuming he has been unemployed for between 2 and 26 weeks.