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Wolfson
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File HS
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SUBJECT



10 DOWNING STREET

From the Private Secretary

13 May 1981

Dear Richard,

Unemployment and young people

As you know, the Prime Minister held a meeting this morning to discuss the question of unemployment and young people. The following were present in addition to your Secretary of State: Chancellor of the Exchequer, Secretaries of State for Industry, Education and Science, Scotland, Social Services, Sir Robert Armstrong and Robin Ibbs. They had before them the note circulated under cover of your letter of 7 May, and the CPRS note of 11 May.

The Prime Minister said that she was concerned about the rising tide of youth unemployment, and she wished to reconsider some of the ideas which had been considered by Ministers earlier in the year. While she understood the difficulties, she thought that more could be done within the existing resources to ensure that young people either stayed in school, took some sort of training, or obtained a job. Her impression was that some of the options were not as costly as had been indicated. For example, she understood that there were still many unfilled places in technical colleges.

The Secretary of State for Employment said that it was right to be concerned about the rise in youth unemployment and in unemployment generally. While there were a number of forecasts, all of them put total unemployment at 3 million by 1982; and the more pessimistic forecasts put it at 3½ million by July 1982. A considerable amount was already being done to alleviate youth unemployment. Thus, the Youth Opportunities Programme (YOP) had provided three hundred and sixty thousand places over the last year - well in excess of the two hundred and fifty thousand places budgeted; they were budgeting for four hundred and fifty thousand places in the coming year. However, more needed to be done. The contrast between Britain and Germany was striking. In Germany, there was scarcely any youth unemployment because nearly all those leaving school at 16 entered into some kind of training or apprenticeship. There was no shortage of apprenticeship places, and those who did not become apprentices or take up other training found it easier to find jobs because unskilled wages were far lower in relation to skilled wages than in Britain. Furthermore, those who remained unemployed were not paid social security. But for Britain to emulate the German position would require a substantial increase in resources for training.

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/ The Secretary of State

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The Secretary of State for Education said that there was anecdotal evidence that some young people were being persuaded to leave school earlier because of the decision by the DHSS to postpone payment of supplementary benefit until September for those leaving at the end of the Summer term. But he believed the effect of this change was a good deal smaller than some had suggested. There were also undoubtedly some who were leaving school who would not otherwise have done so to take up YOP places and to become eligible for supplementary benefit. By contrast, there was a good deal of evidence that the total number of young people staying on in school and in FE colleges was increasing. Yet there was still some spare capacity in technical and FE colleges. Although the proportion of spare capacity varied from area to area, in total some 40 - 50 thousand extra students could be accommodated in the system. Spare capacity was also emerging in secondary schools as the secondary school population declined. There was bound to be some additional cost if colleges and schools were to take on extra students; but their extra costs would almost certainly be less than the costs of some of the alternative proposals for taking young people off the unemployment register.

The Chancellor said that he did not believe that the existing resources set aside for alleviating youth unemployment were being used efficiently. The money being spent on YOP could, in his view, be spread more thinly so as to provide for more places. Instead of paying an allowance of £23.50 to each participant, the Government should reduce it to, say, £10 and employers should be asked to make a contribution of, say, £20. At the same time, YOP participants should be allowed to undertake proper work or training. In this way, many more would benefit and both the individuals concerned and the community would get more out of it. The changes he proposed would have to be discussed with the trade unions and the employers; he believed they would go along with them.

The Chancellor went on to say that there were also other defects in the present system. Firstly, the pay structure was wrong. Further consideration ought to be given to removing young people from the ambit of Wages Councils; and efforts should be made to persuade negotiators in collective bargaining to accept larger differentials between the pay of young and older employees. Secondly, the pattern of incentives was unhelpful. The payment of supplementary benefit to people under 18 was expensive and gave undue encouragement to them to leave school and not take advantage of training and work experience places. One option would be to continue to pay child benefit to parents of those participating in training or work experience, and to pay them an allowance equivalent to supplementary benefit or slightly below. Those who refused to participate would not be eligible. In the Chancellor's view all of these issues needed to be considered thoroughly afresh.

Mr. Ibbs briefly outlined the points in the CPRS note. The biggest problem, as they saw it, was the structure of incentives. To encourage young people to stay in full-time education, they needed greater financial incentives. To pay for this, either supplementary benefit levels for 16-18 year olds and YOP allowances would have to be reduced; alternatively, there would have to be additional public expenditure.

/ In discussion,

In discussion, the following points were made:

(i) It would be very expensive to pay a flat rate allowance to all 16-18 year olds who stayed on in school. On the other hand, means testing of such allowances would be politically difficult. An alternative to providing improved incentives for young people to stay in education would be for the Government to mount a publicity campaign to persuade them to do so.

(ii) Given that it would require some extra resources to fill the 40 - 50 thousand unfilled places in technical and FE colleges, it might be possible to allocate part of the existing YOP provision for this purpose. The cost for each extra student could well be less than a £23.50 plus expenses which each YOP place cost.

(iii) If it were the case that some young people were leaving school prematurely because of the decision to postpone supplementary benefit for summer school leavers from July to September, the decision might have to be reviewed.

(iv) The question of the level of supplementary benefit for 16-18 year olds was being looked at by the Secretary of State for Social Services; even if it were decided that the supplementary benefit for this group should be reduced, or even eliminated, nothing could be done about it before the next upratings. On the other hand, it was suggested that it might be necessary to put through a bill very quickly in order to implement such a measure.

(v) There was no point in changing the structure of incentives unless there were enough training places available. To come anywhere near to eliminating youth unemployment, would require a much larger number of places than the 40 - 50 thousand unfilled places in technical and FE colleges.

(vi) As regards the Chancellor's proposal that YOP should be modified, it was unlikely that many employers would be interested in participating. Furthermore, the trade unions would almost certainly unite against it.

Summing up, the Prime Minister said that she understood that the Secretary of State for Employment would be submitting a report to E Committee in early July on some of the issues referred to in the discussion. Any concrete ideas on how the present arrangements for keeping young people off the unemployment register could be improved would be most welcome, and the Secretary of State would no doubt take into account the points made in the discussion. There seemed to be a strong case for reducing the supplementary benefit payable to 16-18 year olds; but further consideration would have to be given to this by the Secretary of State for Social Services in advance of the next upratings. In the meantime, the Secretary of State for Employment and the Secretary of State for Education should consult urgently on how the unfilled college places might be taken up; in particular, they should look at the possibility that some YOP funds should be allocated to the colleges for this purpose. If the Chancellor wished to press his proposals for a reform of the YOP, he should clarify them further in consultation with the Secretary of State for Employment, the CPRS and the Manpower Group.

I am sending copies of this letter to Peter Jenkins (H.M. Treasury), Ian Ellison (Department of Industry), Mary Bowden (Department of Education and Science), Godfrey Robson (Scottish Office), Don Brereton (Department of Health and Social Security), David Wright (Cabinet Office) and Gerry Spence (Central Policy Review Staff).

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[Handwritten signature: Tim Latham]

Richard Dykes, Esq.,
Department of Employment.