

P.0517

PRIME MINISTER

MEASURES AGAINST UNEMPLOYMENT
E(81)74, 75, 76 and 77

BACKGROUND

In E(81)74 the Secretary of State for Employment makes substantial proposals for special employment measures to reduce unemployment in 1981-82 and beyond. The Secretary of State for Education and Science discusses in E(81)75 the implications for the education services; in E(81)77 the Chancellor of the Exchequer comments on the public expenditure aspects and calls for a more selective approach directed to young people in particular; and the Central Policy Review Staff comment generally in E(81)76.

2. The background to the Secretary of State for Employment's proposals is the prospect of unemployment reaching 3 million this summer and rising above it at seasonal peaks in the next two years, and within that total the young, the long-term unemployed, and ethnic minorities being hit particularly hard. Even with economic recovery the impact on the unemployed could be limited because of (otherwise welcome) productivity improvements. Ministers will no doubt regard the recent riots in Toxteth and elsewhere as an added reason for taking early action.

3. The Secretary of State for Employment's measures are directed to three groups: the young, those nearing retirement, and the long-term unemployed. At present, special employment measures keep around 300,000 people off the register and, if his proposals were implemented, the Secretary of State estimates that this figure could build up to over 600,000 by March 1983. The effect of each of his proposals, in terms of numbers off the register, is tabulated in Annex I to his paper.

1 Young
2 long-term unem.
3 Nearing retirement

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4. As shown in Annex 2 of E(81)74, the measures represent enormous additional public expenditure bids of, in total:

	<u>£2b</u>	<u>£2b</u>		£ million cash
1981-82	82-83	83-84	85-86	
169	<u>1177</u>	<u>1550</u>	1550	

In addition, there would be a cost of at least £220 million a year if means-tested allowances were made available to young people continuing in full-time education, and a further £60 million in 1982-83 rising to £100 million in 1984-85 if the other proposals put forward by the Secretary of State for Education and Science in E(81)75 were accepted. The gross costs of the employment measures would be offset to some extent by social security benefits which would not have to be paid, and by some tax and national insurance payments. It should be possible to secure some financing of the schemes for young people from the European Social Fund but, given that the United Kingdom contributes 23 per cent to the Fund, the net benefit would be at best marginal. The Secretary of State for Employment estimates that the additional staff required would be offset by reductions in those staff now dealing with benefits.

5. In E(81)77 the Chancellor of the Exchequer points out, not surprisingly, that acceptance of additional expenditure on this scale would make it impossible to reduce public expenditure planning totals overall. He appears to accept that it is necessary to decide now on the further expenditure necessary in 1981-82 in relation to the existing commitments to training of young people, and that this will have consequences for 1982-83. Beyond that, he is against any commitment on the remaining proposals, and he implies that he wants to rule out all those measures related to people nearing retirement and to the long-term unemployed, and to concentrate on young people. He is not persuaded that the Secretary of State for Employment's approach to young people offers the best way forward, and he calls for 'a new, coherent philosophy for young people leaving school' which he wants further developed for discussion and decisions in the autumn in the context of the 1981 Public Expenditure Survey.

6. The Secretary of State for Employment will no doubt argue that his approach to young people is both coherent and carefully considered and he will want it, together with his other proposals, discussed in detail. His proposals, and the issues arising, are summarised in the following paragraphs (with references to his own summary list, in paragraphs 26 and 28 of E(81)74, shown in the margins). The Chancellor of the Exchequer's particular points on the approach to young people can be picked up under these headings; as noted above, he appears to be against all those measures concerning people nearing retirement and the long-term unemployed.

Young People

26.1

7. In November 1980 the Government asked the Manpower Services Commission (MSC) to offer unemployed school-leavers a place on the Youth Opportunities Programme (YOP) by Christmas 1981 and other young people unemployed for three months a place on YOP within three months. It was then estimated that this would require 440,000 YOP places. On the latest estimates, about 540,000 places are required if the pledge is to be met and, for this purpose, the Secretary of State for Employment asks for additional provision of £93 million in 1981-82 and of £113 million in 1982-83. He wants a firm decision on this as soon as possible so that he can authorise the MSC to set about providing the additional places. You will recall that, in answer to Questions on 23 June, you said that you hoped that the 440,000 places would be enough but that if it was not the Government would increase the number in order to guarantee school-leavers some work experience by Christmas (Hansard Col 133 23 June). It may be that the Committee will be willing to authorise the additional places now, subject to the Secretary of State sorting out the public expenditure consequences with the Chief Secretary.

Wages
Council
Lower and
for young people

26.2

8. The Secretary of State also proposes expenditure of £9.3 million in 1981-82 and £11 million in 1982-83 to provide 12,000 places for long-term skilled training for young people, and in particular trainees who have been made redundant by their firms. Again he wants a decision now in order to get things moving with the MSC.

26.6

9. The Secretary of State for Employment further proposes that from September 1983 there should be a comprehensive scheme of training, work

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experience and community service for unemployed 16 year olds, who would be on the programme for up to 12 months, and that in the meantime YOP should be developed to this end. Under this approach no 16 year old would have to accept unemployment. The Secretary of State asks for approval in principle now so that, after informal consultations, he could come back with firm proposals in the autumn. The main features of this scheme are:-

(i) Additional costs of £600 million in 1982-83 building up to £950 million in 1984-85.

(ii) Option B training allowances of £20 (£15 for those waiting for a place) rather than Option A allowances of £8 with beneficiaries regarded as dependent on their parents who would continue to draw Child Benefit. The Secretary of State judges that young people and unions would not accept Option A and so the scheme would be unworkable. Option B allowances cost approximately £130 million a year more than A. The Chancellor of the Exchequer strongly prefers Option A; the CPRS support Option B. The Committee will need to choose.

(iii) The Secretary of State for Education and Science (paragraph 9 of E(81)75) wants allowances (whether Option A or B) to be paid to those in full-time education as well as those on YOP-type schemes in order to remove the disincentive to stay at school or college. It is estimated that, assuming Option B allowances for trainees, this would cost £220 million a year if means-tested and about £450 million a year if not (and not much less for Option A). Whatever the merits, the Committee may wish to rule this out as too expensive.

(iv) Anyone refusing one of the new training places would not get supplementary benefit. The Secretary of State for Social Services will wish to comment on this.

(v) Legislation would be necessary early in the 1982-83 Session to provide for the allowances and for the new supplementary benefit rules.

(vi) CPRS propose (paragraph 9 of E(81)76) that there should be further

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work on possible 'levers' to encourage employers to shoulder an increasing share of the training burden in due course. This is in tune with the Chancellor of the Exchequer's point in 4(d) of E(81)77.

People nearing Retirement

26.3 10. At present, under the Job Release Scheme (JRS) an allowance is paid to men aged 64 who retire and are replaced by someone from the unemployment register. The Secretary of State for Employment proposes that the age for JRS should be reduced to 63 this November and to 60 next February at an additional cost of £57 million in 1981-82, and of £303 million in 1982-83. His figures assume that the scheme would revert to age 64 in March 1983. I understand that if it proved impracticable to revert in this way the costs could rise from £300 million more in 1982-83 to well over £1 billion more by 1986-87; the Committee will wish to consider whether, in view of this risk, this proposal should be ruled out.

26.4 11. He further proposes that those who have been unemployed and drawing supplementary benefit for more than one year, and are aged 60 or over, should be enabled to retire on the long-term supplementary benefit rate. This would cost £5 million in 1981-82 and £21 million in 1982-83 and should take 45,000 people off the register (but would not, of course, create any new employment). The Secretary of State for Social Services will wish to comment.

The Long-Term Unemployed

26.5 12. The Secretary of State for Employment wishes to consult the MSC on the possibility of developing more opportunities for voluntary service by the unemployed at a cost of £4 million in 1981-82 and of £8 million in 1982-83. Under these measures the people concerned would still be on the unemployment register.

26.7 13. Against the possibility that by 1983 there could be 800,000 people who had been without work for over a year, the Secretary of State for Employment recommends that the Community Enterprise Programme (CEP) should be expanded from 25,000 to 60,000 places at an additional annual cost rising from £100 million in 1982-83 to £200 million in 1984-85. The CPRS suggest, in paragraph 11 of E(81)76, that many more people could be employed under

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CEP if they were paid not the rate for the job but benefit plus premium and that, notwithstanding the Secretary of State for Employment's doubts, the unions might be persuaded to accept such a basis for payment in return for more jobs.

Other Proposals

28. 14. The Secretary of State for Employment proposes that further work should be done on:

(i) The possibility of providing flexible retirement through appropriate actuarial reduction of pension (paragraph 17 of E(81)74). The Chancellor of the Exchequer may argue that this would be too expensive, costing £250 million to reduce the register by 40,000.

(ii) Professor Layard's idea of a £70 recruitment subsidy to employers taking on long-term unemployed people in addition to their normal complement (paragraph 23).

(iii) The measures summarised in paragraph 24 of his paper. These include further examination of the relative wages of young people - in line with the Chancellor of the Exchequer's proposal in 4(c) of E(81)77.

The Secretary of State for Education and Science's proposals: E(81)75.

15. The Secretary of State for Education and Science generally supports the Secretary of State for Employment's proposals which he sees as providing an opportunity to make use of spare places in colleges of Further Education. He wants to see allowances paid to those in full-time education in line with those in training (see paragraph 9(iii) above). He argues that, while training is important, the best solution for many young people would be to continue in full-time education and he is putting forward additional bids, for consideration in the 1981 Public Expenditure Survey, of £60 million in 1982-83 rising to £100 million in 1984-85.

16. The Secretary of State for Education refers in his paragraph 9 (as an alternative approach to allowances) to the proposals for youth benefit

which were discussed by the Committee on 26 March (E(81)12th Meeting, Item 1), when it was agreed that the scheme should be put on ice and reconsidered in the autumn. Briefly, YB would have applied generally to 16 and 17 year olds at school, in training or unemployed and they, or their parents, would have received child benefit plus a means-tested allowance plus a flat rate sum for those on YOP. The aim was to remove the financial incentive for young people to leave full-time education. The attraction was that, in contrast to the present package proposed for young people, it was thought to lead to no net additional expenditure. It was rejected because of the need for contentious legislation and for additional staff, and of the criticism which would be aroused by paying less to those unemployed at a time of rising youth unemployment.

HANDLING

17. One of the main difficulties which the Committee will face in dealing with these papers will be to keep track of the interrelationships between individual decisions and to see both the emerging package and its costs in the round. It may be that there is no alternative but to plough on and let the decisions (and the total costs) emerge from the discussion. Another possibility however might be to suggest that any decisions taken at the meeting should be regarded as provisional and subject to confirmation, say next week, on the basis of a new summary paper by the Secretary of State for Employment outlining the provisional decisions reached and showing the cost as agreed with the Treasury. In either event you will wish to open the discussion by inviting the Secretary of State for Employment, the Secretary of State for Education and Science, the Chancellor of the Exchequer and Mr Ibbs each to speak to their papers. Unless any other Ministers want to make general comments thereafter, I suggest you use the proposals listed in paragraphs 26 and 28 of the Secretary of State for Employment's paper E(81)74 as an annotated agenda. In doing so you could draw on the points made in paragraphs 7 to 16 above.

18. The Secretary of State for Education and Science's proposals (in paragraph 11(1) and (2) of E(81)75) for persuading the MSC to make maximum use of the education service in developing YOP and for introducing

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allowances for those staying in full-time education should be picked up in the course of discussion of the Secretary of State for Employment's proposals, as should the detailed points made by the Chancellor of the Exchequer. The Secretary of State for Education and Science's other proposals for expanding full-time education and making more resources available (his paragraph 11(3) and (4)) could be left over for later discussion in the context of the 1981 Public Expenditure Survey.

19. The Secretary of State for the Environment may refer to the possibilities of creating employment opportunities by more investment in public sector projects (see the housing and environment examples in Annex 5 at the back of the second report by officials attached to E(81)74). If the Committee judged there was anything in this, it could be picked up in the public expenditure discussion.

CONCLUSIONS

20. You will wish to record conclusions on each of the proposals listed in paragraphs 26 and 28 of the Secretary of State for Employment's paper E(81)74 and on those in paragraph 11 of the Secretary of State for Education and Science's paper E(81)75; in doing so you will also cover the detailed proposals put forward by the Chancellor of the Exchequer and by the CPRS. If the Committee has agreed that its decisions should be regarded as provisional you will want to invite the Secretary of State for Employment, in consultation with the Chancellor of the Exchequer, to bring forward an early paper summarising the decisions reached and accompanying them with an agreed estimate of the cost. If however the Committee prefer (or feel that timing requires) only one bite at the cherry you will need to ensure that there is no doubt as to which proposals are approved now and may be announced; which should be left for decision in the autumn in the context of the public expenditure discussion; and which are ruled out. You will also want to ensure that proper arrangements are made to secure the maximum public and political mileage from the presentation of what could well be the biggest single package of social measures in the lifetime of this Government. You might ask the Secretary of State for Employment and the Chancellor of the Duchy of Lancaster to consider this after the meeting and put specific proposals to you.