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Original filed on:-

Manpower: Special Employment Measures:

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10 DOWNING STREET

From the Private Secretary

11 November, 1981

B F ?

MSC Estimate of Cost of Unemployment

You kindly provided a note for the Prime Minister's use at Question Time yesterday on the Financial Times report of 9 November about the costs of unemployment.

The Prime Minister was yesterday enquiring about the reasons why currency had been given to an estimate on this basis. The estimate of a cost of £4,380 per person a year, as I understand it, rests on the assumption that each unemployed person would, if they re-entered employment, do so in the private sector so that their payments of income tax, national insurance contributions and indirect taxes would all be sourced other than from the Exchequer.

The Prime Minister would like consideration to be given to an alternative method of presenting this figure in future; and to an alternative way of commenting on the published figure. Would not the cost of unemployment be better expressed purely in public expenditure terms in the first instance (i.e. unemployment benefit plus ERS plus rent and rate rebates)? The answer could then go on to give several different estimates of the revenue foregone on different bases - including the basis of the present estimate that all the unemployed if employed would pay their taxes from non-publicly financed incomes.

I am sending a copy of this letter to Richard Dykes (Department of Employment).

M. C. SCHOLAR

John Kerr, Esq,
HM Treasury

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