

Prime Minister (+)

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MR TURNBULL

4 October 1984

I attach a copy of a note I wrote for Norman Fowler as the  
problem of early retirement and jobs came up at the Pensions  
Inquiry. It may be of more general interest.



JOHN REDWOOD

SECRETARY OF STATE

28 September 1984

EARLY RETIREMENT AND JOBS

The idea that encouraging early retirement helps with the employment problem is one of a number of lump of Labour fallacies.

If there is only so much work to go round, then it is right that you have to reduce the numbers of people seeking it in order to cut unemployment. It seems obvious to everyone that it would work.

But there are snags.

If a person accepting early retirement goes off and gets another job then the scheme is defeated. That is why the JRS has such a stiff wage stop imposed on it.

If the company offering early retirement as a way to avoid sacking people wants to raise its labour productivity, then again early retirement does not help as the person would not be replaced. That is why JRS insists on another person being taken on to replace the outgoer.

If the workforce is growing - as it is - the person's job could be taken by someone not registered as unemployed. So

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if you wish to lower the count of unemployed, the job has to go to someone currently unemployed and registered as such.

All these snags assume there is a fixed amount of work to be done. But there is no fixed lump of employment in any economy that can be employed. The total number of jobs expands or contracts depending on the competitiveness of the economy, the fiscal balance, the level of interest rates etc. Early retirement has a cost. If it is all charged to the employer it may raise his unit costs, cutting his sales and lowering output and jobs at the margin. If it is charged to the State, Treasury models suggest that after a few years the knock-on effects of higher State spending and higher interest rates destroys the early benefit on the unemployment count.

More jobs are generated if an economy is dynamic and capable of flexibility. In such a situation early retirement is best left to market forces where it can represent a humane mechanism of getting rid of people not wanted in their current employment.

Companies and corporations offering general schemes on attractive terms find out that many of their best people want to go. Some have been forced into hasty modification when they have discovered this.

General schemes set up by the Government can be costly and the evolution of the JRS shows just how difficult it is to deploy a scheme which reduces the unemployment count without narrowing its scope to avoid the pitfalls.

JOHN REDWOOD