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FROM: CHIEF SECRETARY

DATE: 12 May 1986

Prime Minister ⁴

PRIME MINISTER

WORKFARE

A meeting on this is being fixed, but I'm afraid it can't be fitted in before next month.

DJY
12/5.

I agree with much of the analysis in the minute to you on workfare from David Young. I am impressed by the description in the report of the decline in effectiveness of the test of availability for work in Britain. The contrast with the systems operating in countries as different as Sweden and Switzerland is striking. And I think that Professor Addison has produced an admirable summary of the US experience.

2 On the other hand, I share David Young's hesitancy about certain of the features of a possible workfare programme set out in the Blaug report: I too am wary about the open-ended concept of the state as the employer of last resort. In addition I believe the report under-estimates both the difficulties and costs of setting up a programme on the scale of 1 million or more places.

3 In paragraph 6, David says that he will be pursuing in this year's PES discussions the possibility of extending the restart programme for those unemployed for just six months at an estimated gross cost of an extra £40-£50 million in 1987-88. Although David would like to use the existing nine pilot schemes now to test the effectiveness of inviting for interview those unemployed for six months, I think it would be premature to do so as such an extension of the pilots would raise expectations which we do not, in advance of the Survey,

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know whether it will be possible to fulfil. In addition we ought to be clearer about the cost effectiveness of the existing restart programme before deciding on any further extension; it could be relatively more expensive and less cost-effective. For instance, a much higher proportion of people unemployed for 6 months or more leave the count anyway, than of people unemployed for over twelve months, so there could under the counselling part of the scheme be many more interviews following which the interviewee leaves the count just as he would have done without the interview in the first place; and as many more of the 6 months plus unemployed leave to get jobs anyway, deadweight under Jobstart could well be much higher.

4 I must emphasise the tightness of the public expenditure situation and the need for spending Ministers to live within the resources available to them. As a result of an agreement at the time of the Budget, David is committed to find from within his existing resources savings to offset the forecast overspending from the redundancy fund. A working group is looking at the costs of an extension of TVEI against the background that David says that he is prepared to fund the costs of such an extension from within present planned MSC resources. It is clearly crucial that competing bids for resources within the DE Group are considered together as part of the PES process so that judgements can be made about relative priorities without specific options being pre-empted.

5 I welcome the suggestion in paragraph 13 that a further report be prepared before the end of the year which would look at the results of the restart programme and how the Community Programme could be moved closer to the "work for benefit" model. I would like Treasury officials to be associated with this exercise. Officials will need to look at ways of introducing modifications which do not lead to a series of net additions to the DE programme; modifications should involve offsetting reductions elsewhere. This review will need to tackle vigorously

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the issues raised by David about whether institutional changes will be necessary (e.g. changing the role of the MSC) if we are to modify the requirement in CP of payments at the "rate for the job" and reliance on trade union approval for projects.

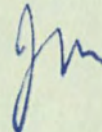
6 I am not persuaded that Professor Blaug's report should be sent to the Select Committee formally for their comments nor that it should be published unless there are significant amendments. For instance, we would want to see some improvement to pages 41-44. As it stands this section assumes that the effects of employment measures are crowded out instantaneously, which is not the case and which, if it were, would undermine the rationale for our own employment measures; and it ignores the possibility that workfare on the scale envisaged would lead to an increase in labour supply - in which case the gross (and net) costs of the programme would be very much higher. Also, the section on pages 46-50 would be improved by greater acknowledgement of the scale of likely displacement, which was a major objection to the Select Committee's proposals.

7 It would in particular be essential to tone down the sections which refer to reducing long term unemployment by 1 million through a new employment measure with the state acting as employer of last resort. The conclusions on page 53 and pages 64-67 much overstate the feasibility and attractiveness of such an option. We would not want the Select Committee to latch onto the proposals and urge increased expenditure, or taunt the Government for wavering from its recent reply to the Select Committee which admirably set out the Government's strategy and reasons for rejecting the Committee's proposals. If David wants to pursue publication, I would be grateful if my officials could be involved.

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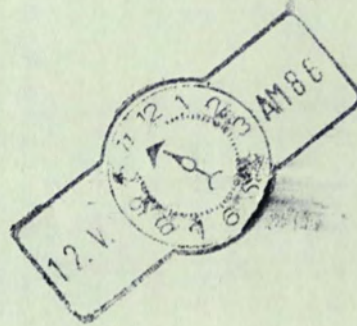
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8 I am copying this minute to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Secretary of State for Employment, the Secretary of State for Social Services and Peter Morrison.

A handwritten signature in blue ink, appearing to be 'jm', is positioned above the printed name.

JOHN MacGREGOR

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