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David Norgrove Esq  
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22 April 1986

Dear David,

**GOVERNMENT RESPONSE TO THE EMPLOYMENT SELECT COMMITTEE REPORT ON LONG TERM UNEMPLOYMENT**

... I am attaching a copy of the Government's response to the Employment Select Committee's report on special employment measures and the long term unemployed, which was passed to the Committee yesterday.

My Secretary of State hopes to make the response public in the very near future.

I am copying this letter to Rachel Lomax (Treasury), John Mogg (DTI), Robin Young (DoE), Tony Laurance (DHSS), Jim Daniell (NIO), Colin Williams (WO), Robert Gordon (SO), Andrew Lansley (Office of the Chancellor of the Duchy of Lancaster), and to Nigel Snooke (Office of the Chairman of the Manpower Services Commission).

Yours etc,

CHRISTOPHER SNELL  
Private Secretary



## SPECIAL EMPLOYMENT MEASURES AND THE LONG-TERM UNEMPLOYED

### THE GOVERNMENT'S RESPONSE TO THE REPORT OF THE SELECT COMMITTEE ON EMPLOYMENT

#### INTRODUCTION

1 The Government has studied carefully the proposals in the Select Committee's report. It shares the Committee's concern about long-term unemployment and is committed to providing people who have been unemployed for some time with help to get them back to work. It believes that the measures announced in the Budget offer a surer and more cost-effective way of providing help to all long-term unemployed people than the Select Committee's proposals. This note comments on the approach recommended by the Select Committee and contrasts it with that adopted by the Government.

#### The Select Committee's proposals

2 The Select Committee Report discusses the problem of long-term unemployment and puts forward proposals with the objective of creating 3/4 million extra jobs. The aim is a position in which long-term unemployed people can be guaranteed a job. The Committee envisages pilot projects in areas of particularly high unemployment with a view to implementing its full proposals within three years.

3 The Committee proposes a three-part programme consisting of:

- (i) a new building improvement programme, to provide 300,000 extra year-long jobs for long-term unemployed people. They would be employed on projects proposed by local authorities and private agencies, firms and individuals, agreed by the Manpower Services Commission (MSC), and tendered for by private contractors. They would be paid the rate for the job, reimbursed up to a maximum average wage - which would currently be some £105 a week - by the MSC.



The Committee assumes an average benefit saving of £2,000 per head, and estimates the net cost per job at £4,000 to £5,000; so that the scheme would cost £1.5 billion net in a year of full operation;

(ii) the employment of 50,000 long-term unemployed people in personal social services, and a further 50,000 in the National Health Service (NHS). They would, in the first instance, have a year-long contract of employment; and be paid an average of £120 a week, which would be reimbursed by the MSC. The Committee hopes that many would be established in permanent posts at the end of the year. It estimates the total net cost of this at some £0.4 billion a year;

(iii) the introduction of a wage subsidy to employers in the private sector (but not construction) who took on long-term unemployed people without reducing non-subsidised employment. In the view of the Committee the subsidy, at £40 a week paid for a year, would create 350,000 new jobs, at a net cost per job of £4,000 and a total net cost of £1.4 billion a year. The MSC would be responsible for administering the subsidy.

4 It is important to note that on the Select Committee's own assumptions it would be necessary to support 1.25 million places on the various schemes in order to reach the target of 750,000 extra jobs. This is not stated explicitly in the Select Committee's report but it is implicit in its costings of the proposed wages subsidy where it appears to have assumed that it would be necessary to subsidise 850,000 jobs to create 350,000 extra jobs.



5 For the reasons of practicability discussed below and in the Annex, the Government does not believe that the Committee's proposals could be implemented to achieve a guarantee of a job for all long-term unemployed people. Furthermore, even setting aside these objections of practicability, the cost of attempting to implement the Committee's proposals would be prohibitive. The cost of the proposals, the effect on the economy of financing them and their feasibility are examined in turn below.

(i) Cost

6 The Committee's report estimates that its package of proposals would cost £3.3 billion net, which would imply a gross cost of some £4.8 billion as set out in the Annex. That in itself would be a formidable extra cost, but the Government considers both gross and net costs have been underestimated in a number of ways.

7 First, the costings of both the building improvement and social services programmes make no allowance for sponsors' management and associated costs in running the schemes. Experience suggests that these could be substantial in programmes of this size. In particular, it is difficult to see how the proposed building scheme could get off the ground unless employers were offered a management fee to cover their management and supervisory costs. Equally, the introduction of an extra 50,000 employees in each of the health and social services sectors would require high levels of supervision and training if standards of care and safety were to be maintained.

8 Secondly, the net costs of both the building and social services programmes depend on optimistic assumptions about deadweight, substitution and displacement i.e. about the extent to which they would support jobs which would have been there anyway or displace jobs which would otherwise have existed. A rapidly expanded building programme, carrying out work on the infrastructure, would be bound to substitute for normal jobs in the private and public sectors. A social services scheme might substitute less, but the Committee's assumptions that there would be no displacement or substitution seem unrealistic.



9 Thirdly, the net costings of the proposed subsidy to employers are particularly sensitive to assumptions about deadweight, substitution and displacement. The report estimates the cost of the subsidy at £4,000 per job. All the evidence from previous subsidies suggests that this is unduly low. Wage subsidies targeted on the long-term unemployed not only have high displacement but will also lead to some substitution for other workers. As the Annex shows, even if the practical problems could be overcome, the net cost per extra job created by the subsidy would more probably be in the range £7,000 to £9,000.

10 The Committee has therefore underestimated the net costs of the overall package of measures recommended in its report by up to £1 billion. The minimum £4 billion net it would require to finance the Committee's package would be additional to existing expenditure on measures for the long-term unemployed, which the Committee envisages would continue. But the fact remains that, even with expenditure of this magnitude, it would not be practicable to create the 750,000 extra jobs by the means the Committee proposes. The feasibility of the Committee's proposals is discussed in paragraphs 14 to 26 below.

(ii) The wider economic effects

11 The Committee is therefore proposing what is by any standards a substantial increase in public expenditure. It does not however discuss how it is to be financed, nor the implications for the economy of paying for it.

12 Additional expenditure on this scale would have to be financed by reducing expenditure elsewhere, by higher taxation or by increased borrowing. If it were financed by reducing expenditure elsewhere, the net effect on jobs would be reduced and the structure of expenditure would be distorted. The effect on jobs would be particularly compromised if resources were diverted away from the job-generating



measures which make up the Government's existing approach. If it were financed by higher taxation, incentives would be damaged and this would lead to job losses elsewhere. If it were financed by higher borrowing, it is most likely that there would be higher inflation and interest rates and higher costs for industry. As a result, jobs elsewhere would be jeopardised.

13 The effect would be to threaten the combination of lower inflation and sustained economic growth which has produced a net increase of nearly a million extra jobs over the last three years. The cost of the Committee's package to create temporary jobs would, therefore, be a slowing down in the growth of permanent jobs on which our prospects for a sustained reduction in unemployment depend.

### (iii) Feasibility

14 Finally, it must be reiterated that experience suggests there would be serious practical difficulties in building up the proposed schemes to the Committee's target of 750,000 extra jobs, even over a three year period.

15 The Government's Community Programme is already providing work in the building and social services fields. At the last count almost 20% of places involved some building, construction or refurbishment work and 30% involved personal and social services. The past year's expansion has involved development in both these fields and it is by no means clear that there is major scope for huge expansion on the lines the Select Committee is proposing.

16 The Committee places considerable reliance on the private sector and on the development of tendering arrangements for contractors to get its building programme off the ground. At the Government's request the Manpower Services Commission has been experimenting in the past year with greater private sector sponsorship under the Community Programme. It has also been discussing with the Building Employers' Confederation the possibility of new arrangements to allow private sector firms to tender for Community Programme projects.



17 The Government is keen to see greater private sector sponsorship of projects and will be seeking to increase it further in the coming year. However, the report of the Efficiency Scrutiny into the Community Programme which was sent to the Select Committee on 14 April warned against regarding employers as an easy or unlimited source of new sponsors. It pointed out that some employers were not well placed to employ large numbers of long-term unemployed people on a temporary basis and concluded that it would require concentrated effort to increase employer sponsorship to 5% of the total Programme in the next financial year.

18 The Efficiency Scrutiny report also welcomed the attempt to develop a new "Schemes for Tender" arrangement within the Programme. It pointed, however, to the problems of devising a scheme which is sufficiently attractive to building contractors without significantly increasing the unit costs. It also commented on the fears of local builders that temporary work programmes substitute for work in normal employment and take business from small building firms. The substitution effect of the Programme is generally acknowledged to be low. But a huge building programme on the lines proposed by the Select Committee would be likely to have much greater substitution and displacement effects and therefore to increase the fears of the building employers about the effects on their business.

19 The Government is also seeking to expand the number of Community Refurbishment Schemes, where Community Programme projects contribute to, and are part of, wider projects to regenerate run down municipal council housing estates. Schemes have now been announced in Hull, Leeds, Gateshead, Calderdale, Bradford and Coventry and further schemes are to follow. There are, however, two lessons which are relevant to the Select Committee's proposals. First, such schemes can be developed cost effectively within the Community Programme and a new programme is not necessary to get them off the ground. Secondly, the schemes take time to negotiate and set up and experience so far does not suggest that they provide scope for expansion on the scale needed to meet the Select Committee's target.



20 The Committee's proposals for an extra 50,000 people in each of the health and social services sectors are also impracticable and undesirable. The Committee is not precise about how or where these extra people are to be deployed and admits that "the allocation of tasks and the screening and supervision of individuals will present some problems especially in the initial stages ..." In practice the influx of 100,000 extra people into the health and social services sector would swamp existing services and resources.

21 It is assumed that the Committee envisages most of the extra 50,000 in the health service working as unqualified nursing auxiliaries in hospitals. There are currently 109,000 such staff in Great Britain, so the Committee's proposals would represent an increase of almost 50% . It is highly unlikely that the health authorities could cope with this increase of staff or with the training and supervisory burdens which it would impose. Furthermore, these difficulties would be added to by the fact that the 50,000 long term unemployed people would change every year. The Committee hopes that many would be kept on in permanent jobs at the end of the year. There is, however, no evidence that health authorities would be able or willing to absorb even a proportion of these people each year.

22 In the social services field, about 213,000 people are currently employed in all grades of social services departments. The impact of 50,000 extra jobs - a huge increase of 23% - would therefore be considerable and pose similar serious problems of absorption. As in the National Health Service, those working in the established social services are employed to assist the most vulnerable in society. The value of the work done often depends on the building up of personal relationships between helper and helped. It is unrealistic to believe that this standard of service could be provided by thousands of untrained long-term unemployed people, taken on for a year at a time.



23 The report of the Efficiency Scrutiny on the Community Programme also highlighted the general problems of expanding temporary work programmes rapidly. In particular it commented:

- (i) on the difficulties of ensuring at a period of rapid expansion that projects are doing the maximum to improve the employment prospects of individuals;
- (ii) on the need to plan provision so that it achieves the maximum output in terms of benefit to the community;
- (iii) on the strain which expansion has put on the organisation and management of projects in the public and voluntary sectors;
- (iv) on the growth of monopoly sponsors and the difficulties in developing new sponsors.

All these problems would be present to an even greater degree in programmes of the size proposed by the Select Committee.

24 Finally, the success of the Committee's package both in guaranteeing a job to all long-term unemployed people and in creating 750,000 extra jobs depends to a large extent on the effectiveness of its proposals for a wage subsidy. It is, however, extremely unlikely that a subsidy to employers of £40 a week could achieve a coverage of 850,000 jobs or induce 350,000 new jobs a year. Employers would take into account the extra costs of rehabilitating, training and supervising people without recent employment experience, and this would have an effect on take-up; moreover, their use of the subsidy would be likely to drop away as suitable posts were filled and also as those long-term unemployed people whom they considered most employable were recruited. As the Annex shows, it is most unlikely that given the deadweight in such a subsidy, the coverage could be more than about 650,000, with the net increase in jobs only about 125,000.



Even in the unlikely event that the 850,000 target were reached, many fewer than 350,000 new jobs would be created because of the effects of displacement and substitution.

25 The Select Committee also assumes that these new schemes would continue alongside the existing programmes. However, both the building improvement and social services schemes would operate in the same fields as the Community Programme but with higher wages for the participants. They would inevitably be in competition with the Community Programme and would be likely to draw work and participants away from it. It should also be noted that if the employment subsidy coexisted with the Jobstart Allowance, as the Committee suggests, the employment of some long-term unemployed people would be subsidised to the tune of £60 per week.

26 To sum up, the Committee's proposals are costly, impractical and likely to reduce both permanent jobs and temporary jobs in the Community Programme. Their most serious defect is that they do not provide a realistic or practical means of creating the extra 750,000 jobs which are fundamental to the Committee's approach.

#### The Government's approach

27 The Government is, however, concerned to provide direct and practical help to long-term unemployed people. It has developed a strategy which it believes is cost effective and practical and which in contrast to the Committee's approach reinforces the Government's wider strategy for the economy. The approach is in three parts:

28 First, the Government's specific measures to assist long-term unemployed people are part of a wider economic strategy for encouraging enterprise and employment. That strategy underpinned the Budget. It is designed to continue the pattern of low inflation and sustained



growth which produces more jobs. It includes improving the working of the labour market and removing those rigidities which lead to pay settlements inimical to growth in employment. Over the last three years there has been a net increase of nearly a million jobs in the economy. That has not fully absorbed the major increase in people coming into the jobs market in that period. But it is a performance which has not been matched by any of our main Western European competitors. The labour force is now expected to grow less rapidly. A continued sustained growth in jobs ultimately offers the best hope for everyone who is unemployed, whether short-term or long-term.

29 Secondly, the Government has recently taken a number of further specific steps to encourage employment and enterprise and to improve the effectiveness of the labour market. These are an essential part of the wider economic strategy. They include:

- . 2 year YTS which from 1 April will provide 16 and 17 year old school leavers with high quality training leading to recognised qualifications.
- . the New Workers Scheme for under 21 year olds who have just left YTS or who are too old for it; this will encourage employers, by a payment of £15 a week for up to a year, to recruit people aged 18 and 19 in their first year of employment at wages of £55 a week or below, and 20 year olds at £65 per week or below;
- . the Enterprise Allowance Scheme expanded in the Budget to help 100,000 unemployed people a year to start up their own business;
- . the Small Firms Loan Guarantee Scheme extended for three more years in the Budget, with a reduction in the cost to borrowers.

30 Thirdly there are measures to focus specific and direct help on



long-term unemployed people, who find it particularly difficult to compete for the jobs that are available. The Government will shortly be launching the Restart programme which is designed to offer assistance to everyone who has been unemployed for over 12 months.

31 The Restart Programme will revolutionise the Jobcentres' approach to long-term unemployed people. Between 1 July 1986 and March 1987 everyone unemployed for a year or more will be contacted and offered an interview at a local Jobcentre. The aim will be to improve the skills, work experience and motivation of long-term unemployed people and help them get back into jobs. Everyone who is interviewed will have the chance of one of eight ways towards finding work:

- . submission to a permanent job;
- . a temporary job on the Community Programme;
- . a place in a Job Club with a high chance of finding work;
- . a chance of self employment under the Enterprise Allowance Scheme;
- . £20 a week Jobstart allowance for six months for anyone taking a job paying less than £80 a week;
- . a place on a training course;
- . work on voluntary projects;
- . a place on one of the new Restart courses offering help with the whole process of job hunting.

32 The Programme builds on the pilot schemes which have been carried out in nine areas of the country over the last few months. These have shown that in labour markets as diverse as Dundee and Crawley the approach now being adopted nationally can remotivate people and provide them with constructive help in looking for work. It has been well received by long-term unemployed people because for the first time Jobcentres are taking the initiative to offer them practical assistance in breaking out of unemployment. A survey in the pilot areas has shown that more than two-thirds of those interviewed have found their interview useful or very useful.



33 The Government is also expanding the number and range of opportunities available to long-term unemployed people under its other programmes. This is an essential backup to the Restart Programme.

34 The Jobstart Allowance is now available nationally as part of the Restart Programme. An allowance of £20 a week will be paid for six months to anyone who has been out of work for 12 months or more and who takes a job with gross earnings of less than £80 a week.

35 The number of Job Clubs is to be increased to 450 by the end of this financial year so that more long-term unemployed people can participate in this highly successful route back to employment. At present about two-thirds of Job Club members find a job.

36 The Community Programme will be expanded in 1986/87 to provide by November 255,000 temporary jobs for long-term unemployed people doing work of community benefit. Over 330,000 people will participate in the Programme in a full year, at a cost of some £1.1 billion. The average wage limit for the Programme, discussed in the Select Committee report, has also been raised to £67 a week from 1 April.

37 This amounts to the most comprehensive package of assistance ever provided for long-term unemployed people. This year the Government will be £3 billion on the whole range of measures to generate employment, support training and help the unemployed. Some £1.2 billion of this will be spent on measures specifically to assist long-term unemployed people.

38 Compared with the Select Committee's approach, this package is part of a wider strategy for encouraging enterprise and employment in the economy; it is cost effective; and it builds on experience with successful pilot schemes and existing programmes. Above all, it provides assistance directly and within the next 12 months to every long-term unemployed person who needs it.



## Presentation and publicity

39 Finally, the Select Committee drew attention particularly to the need to get the message through to long-term unemployed people that help is available. The Restart Programme will do this for the first time by putting every long-term unemployed person in touch with counselling and advice at the Jobcentre. In addition, the Government has now launched a major new booklet, "Action for Jobs", designed to raise public awareness of the full range of measures and services provided by the Department of Employment and the Manpower Services Commission.

40 The new booklet, which is easy to follow, brings together information about 30 programmes covering employment, training and enterprise. It aims to ensure that everyone who needs to know about the opportunities available has the basic information about the choices, and knows where to get further details. It is thus particularly relevant to unemployed and long-term unemployed people.

41 The availability of the booklet is being advertised widely. National and regional press and commercial radio advertising will encourage people to pick up a free copy of the booklet - from their jobcentre, main Post Office, unemployment benefit office or by freepost. In addition, future advertising for individual measures will carry the 'Action for Jobs' logo, to stimulate awareness of the range of schemes and how they can be used in a complementary way.

42 The booklet and advertising campaign respond directly to the Select Committee's comment that "the present system of informing people about what is available should be improved. It is important the information should reach those who may have given up the search as well as those who are actively seeking work." The Government would welcome the Committee's support in publicising the Action for Jobs booklet.



### Conclusion

43 The Government recognises that long-term unemployed people are particularly disadvantaged and agrees with the Committee that they are a priority for help through employment measures. The Government and the Select Committee differ on the most practical and cost-effective way of helping them back into normal jobs.

44 The Government believes that the approach it has adopted will provide much more cost-effective help directly to long-term unemployed people than the costly and impracticable proposals in the Select Committee report without damaging the continuing growth in new jobs in the economy. It will keep its measures under review and will continue to welcome comments and suggestions from the Select Committee on how they can be developed.



## RESPONSE TO THE SELECT COMMITTEE REPORT ON LONG TERM UNEMPLOYMENT

The Proposal

1 The Committee proposes three programmes to generate a net increase of 3/4 million jobs for long term unemployed people to be built up over three years. On the Committee's own assumption this would involve provision of approximately 1.25 million additional places, when allowance is made for deadweight and substitution.

2 The Committee estimates the net cost of the programme at £3.3 billion in 1985-86 cash prices. Although detailed costings are not provided by the report, the implied costs of the Committee's proposals are summarised below.

Table 1Cost Effect of Proposals on the Committee's Assumptions

	Gross Cost (£bn)	Numbers of places (millions)	Number of new jobs (millions)	Net Cost (£bn)	First year Net cost Per extra job (£,pa)
Building Improvement Programme	2.3	0.3	0.3	1.5	5,000
Social Services and Health	0.7	0.1	0.1	0.4	4,000
Subsidy	<u>1.8</u>	<u>0.85</u>	<u>0.35</u>	<u>1.4</u>	4,000
	<u>4.8</u>	<u>1.25</u>	<u>0.75</u>	<u>3.3</u>	

These cost estimates seem highly optimistic as will become clear from a detailed examination of the three component programmes.



## Building Improvement Programme

3 This scheme is similar to the Community Programme but specifically targeted at housing renovation, renovation of schools and hospitals, minor road repairs, and site clearance and environmental improvement.

4 For the reasons discussed in paragraph 15 of the memorandum it must be doubted whether there is scope for huge expansion in this area on the lines the Select Committee is proposing. If it were possible on the scale envisaged, it would almost certainly lead to major deadweight, substitution and displacement effects. Substitution on the Community Programme is currently estimated at only 4%. However, a scheme on the scale proposed by the Select Committee would inevitably lead to an increasing proportion of necessary repairs and maintenance being carried out under the auspices of the proposed programme with the formerly long-term unemployed replacing those currently in employment. The net cost per job estimates would clearly be higher, the greater the degree of substitution and displacement.

5 The Committee in discussing the possibility that the Programme will displace local authority or private sector projects which would otherwise have gone ahead, argues that money saved by ratepayers or individuals will lead to increased spending elsewhere, thus generating employment. But to the extent that money saved by ratepayers or individuals is offset by the extra taxation required to pay for the renovation programme there is no assurance that there would be a net increase in employment; any employment generated in this way would probably be less than the jobs lost through the contraction of renovation work outside the proposed scheme.

6 Substitution is also likely to occur between the building improvement programme and the Community Programme which the Committee envisages continuing. The Community Programme pays a maximum overall weekly wage of £67 and would be likely to lose work and participants to the proposed Scheme.



7 Finally, it seems likely that gross costs per job have been seriously under-estimated as no allowance has been made for sponsors' management costs and other overheads incurred in running the scheme. The experience of Community Programme suggests that these could be substantial and it is difficult to see how the scheme could get off the ground without such expenditure. Taking account of this additional expenditure and on the assumption that one-third of the jobs would have been carried out anyway, the net cost per job under this proposal would rise to £9,500.

### Social Services and Health

8 The Committee proposes that 50,000 long-term unemployed people should be recruited to social services and a further 50,000 to the NHS; working in community care, cleaning, laundry and catering. An average maximum wage of £120 would be paid by the MSC for one year per participant. The practical problems of this proposal are examined in the main report.

9 Even if it proved practicable to provide places on this scale, the Committee's basis of zero deadweight, displacement and substitution seems implausible, even on the most optimistic assumptions. In NHS community services, substitution for skilled professional staff is less likely, but hospitals might choose to recruit formerly unemployed people on the scheme as nursing auxiliaries instead of recruiting from other sources, and the same problem might arise with less skilled jobs in Social Services Departments.

10 The Committee expresses the hope that at the end of the year the workers could be kept on on an unsubsidised basis, and that the employer would at that point take on other subsidised workers. This does not seem likely; it assumes a much higher turnover of staff in the NHS and Social Services than is current. Furthermore it ignores the fact that, with each succeeding year of the scheme, it



would become more and more difficult to absorb even a small proportion of the 50,000 temporary workers. It should also be noted that this process does not lead to a net increase in employment (other than for long-term unemployed people) unless workers are kept on beyond the year of the subsidy without being substituted for other workers.

11 The Select Committee also makes the assumption that the gross cost is the average wage and makes no allowance for costs of administration, recruitment, training and supervision, which are likely to be substantial. The gross cost of this part of the project has therefore been underestimated, and is likely to be in excess of £0.9 billion, while the net cost per job is likely to be about £7,000.

#### Wage Subsidy

12 This proposal is for a subsidy of £40 per week for a year to be paid to private sector employers (outside construction) for each person recruited from among the long-term unemployed.

13 The Committee's proposal assumes that 850,000 people would be covered by the subsidy and that this would generate some 350,000 new jobs when fully operative. These assumptions seem to be highly optimistic particularly given the voluntary nature of the scheme and the considerations set out in paragraph 24 of the main memorandum.

14 The proposed subsidy is set at £40 on the grounds that to subsidise a formerly long term unemployed person at the cost of £2,000 will save approximately £2,000 in benefit. But the calculations of effectiveness of total benefit savings and of net exchequer costs are highly sensitive to assumptions about deadweight. The Committee assumes 60% deadweight, hence its calculation that 850,000 subsidies would create 350,000 extra jobs. A more realistic assumption on previous experience, is that deadweight would be at least 75%. On this basis, if the Committee's estimated deadweight of 500,000 is accepted, then the total coverage of the subsidy would be no higher than 670,000.



15 Even if it were practicable to reach the Committee's target of 850,000 jobs, the increasing displacement and substitution which would arise from a subsidy on this scale would mean that many fewer than an extra 350,000 jobs could be created. There would be a tendency in recruitment to substitute long-term unemployed people for those who had been unemployed for a shorter time. Employment benefiting from the subsidy would be likely to displace unsubsidised employment elsewhere in the economy. On the alternative assumption - itself arguably optimistic - that deadweight, substitution and displacement together were 80% the net increase in jobs would be of the order of 170,000 jobs and the net cost per extra job would rise to nearly £8,500.

#### The total package

16 To sum up, the difficulties of implementing the Select Committee's package make it highly unlikely that the level of coverage necessary to provide a guarantee to all long-term unemployed people could be attained. Even if the practicability of the Committee's package is accepted, it would not produce the net increase of 750,000 extra jobs which is the Committee's target. On the basis of the discussion in the previous paragraphs the best estimate, in the unlikely event of the proposals proving practicable, is that

- . the building and social services programmes might produce in the region of 250,000 -300,000 extra jobs at a net cost per job of over £7,000 for the social services programme and £9,500 for the building programme.
- . the subsidy might produce up to 170,000 new jobs at a net cost of £8,500 per extra job.

On the most optimistic assumption, therefore, the Committee's package is unlikely to produce more than 450,000 extra jobs, at a net cost per job of between £8,000 and £9,000.



17 The programme is regarded as additional to the existing measures for the long term unemployed people , but it is not clear that some of these measures could work together. The average maximum wage limits of £105 (for renovation) and £120 (for social services and health) would be operating next to Community Programme, where the average wage is £67 in 1985-86 cash prices. We have also drawn attention to the £60 subsidy to certain of the long-term unemployed which would result from the simultaneous operation of the wage subsidy and Jobstart allowances.

18 Expenditure on the package is assumed on the Committee's estimate to build up over three years to reach a peak of £3.3 billion in 1985-86 prices. Additional spending on this scale would preempt the scope for tax reductions necessary to stimulate enterprise and employment. Alternatively the package might be financed by increased borrowing which would have consequences for interest rates, exchange rates, and inflation. Whatever option is chosen, any short term gains for output or employment would be offset by adverse macro economic effects beyond the short run.



