

cc JV
AW



Prime Minister (P)

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Alan Walters

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has no objection to
these changes. Agree them?

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Great George Street
LONDON
SW1

Ms 21/9

21 September 1982

D Geoffrey

YOUNG WORKERS SCHEME

We introduced the Young Workers Scheme with the intention of running it for 2 or 3 years, but the European Commission approved its operation only until 3 January next year. I have accordingly reviewed the scheme in the light of experience and evaluation of it with a view to securing European Commission approval to its continuation.

We have now approved 100,000 YWS applications and are in line with our estimate of expenditure for 1982/3. Our preliminary evaluation of the initial effects of the Scheme suggests that whilst there is a large deadweight new jobs are being created. In 6% of cases, wages have already been reduced and in a further 40% of cases, employers expect the scheme to influence wages. The incremental effect, although small, is in line with what we expected at this stage and the fairly substantial wage effect in prospect is encouraging.

The proposals I now make for changes in the Scheme are that, from 3 January next,

(a) the present earnings limits of £40 and £45 should be raised to £42 and £47 and that the subsidy should be available where those sums or less are paid in weekly earnings. This increase is less than the rate of inflation (which would produce limits of £43.50 and £48.50) and will maintain the squeeze on juvenile wages while keeping a reasonable proportion of young people in scope. I do not propose to alter the levels of subsidy, which will stay at £15 and £7.50.

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(b) the Scheme should be extended to the employment of young people in domestic households. There may be some political criticism, but I can see no good reason for excluding from the Scheme any area in which jobs might be created for young people.

(c) the Scheme should be available to employers in respect of young people coming off the Youth Training Scheme, in exactly the same way that it is currently available for ex-YOP trainees. In order not to rule out young people who have a short period of employment before entering the YTS, we will not count his time on the YTS as part of his first year of employment for the purposes of this Scheme. The Scheme will also be available for 16-year-olds alongside the YTS. The MSC have argued against this that it may seem to detract from the Government's commitment to the objective of seeing all young people entering working life with a sound foundation of educational training and work experience. I do not accept this and in any case we do also want to see as many young people in jobs as possible. If the YWS induces employers to create additional jobs for young people and so reduce the number of them who are unemployed and need to be catered for by the YTS, I would welcome it. the two subsidies - under YTS and YWS - would not however be paid together to the employer in respect of the same person.

(d) if European Commission approval seems to turn on making provision of training a condition of eligibility for the subsidy, I propose to introduce into the Scheme a simple condition that the employer should undertake to provide some training that he regards as appropriate. I should, however, prefer to avoid imposing a training requirement. It is an undesirable complication of the aims of the Scheme and an evaluation has shown that 90% of young people subsidised under it do in fact receive some training.

It is estimated that the net effect of these changes in the Scheme will be to reduce expenditure on it in 1983-4 by £30 million compared with the existing PES provision. Inclusion of domestic service in the Scheme will therefore not require additional provision.

The most difficult question has been whether or not to raise the earnings limits. We certainly do not want to give the impression that they will automatically be increased every year, since that would be contrary to the aim of the Scheme. Not to raise them at all would, however, lower very considerably the take-up and scope of influence of the Scheme next year, for the reasons explained in the attached note. With Alan Walters agreement, my proposal is therefore to make sufficient increase to maintain



its take-up and influence but a good deal less than would be required to maintain the real value of these limits.

I hope these proposals are acceptable. Subject to your views and those of other colleagues, I propose to announce these changes at the end of this month. The Wages Councils begin soon on the process of considering their forthcoming awards and it is important that they should know our decisions beforehand. I also have to give two months' notice to the European Commission of our intention to continue the Scheme and to seek their approval.

I am sending copies of this letter and the attached note to the other members of E Committee, Sir Robert Armstrong and Alan Walters.

J. Norton



EARNINGS LIMITS

At present employers receive £15 a week if the young worker earns less than £40 a week and £7.50 if the young worker earns £40 or more but less than £45. These limits were set well over a year ago and a fall uprating to maintain their real value would take them to £43.50 and £48.50. It can be argued that, given the aims of the scheme, the limits should not be changed at all this year, so as not to arouse expectations that the limits will be increased each year as wages rise.

2. There are three reasons for making some increase in the limits:

(a) The introduction of the Young Training Scheme will affect the take-up of the Young Workers Scheme. Fewer 16 year olds will be available for the YWS, and the balance of the YWS will thus shift from 16 year olds to 17 year olds. There will be an important role for the YWS in subsidising jobs for young people leaving the YTS at 17, but at the same time the scope for the scheme will be reduced because the proportion of 17 year olds whose earnings are within the limits is roughly half that of 16 year olds. With the addition of a fall in the real value of the earnings limits, the coverage of the scheme is bound to fall. We have just approved the 100,000th application since the scheme started in January. If the limits are unchanged, the take-up is estimated to fall considerably to under 80,000 in the 12 months of 1983-84;

(b) At present, YWS may influence the wage policies of the very large number of employers paying juvenile wages just above the earnings limits, in that they might well keep wages down in the hope of qualifying for YWS when earnings limits rise. If there is no rise, we shall lose the opportunity to influence these employers.

(c) The position of employers covered by the Retail Wages Councils, which cover large numbers of young people, has been the subject of continuing critical correspondence with employers. They have pointed out that premia payable for Saturday work make it more difficult than it would appear from tables of basic Wages Council rates for many of them, particularly smaller businesses, to benefit from YWS. They will also be affected by an increase in London Weighting to come into effect by the Spring of 1983. Preservation of the present state of eligibility for both the higher and lower rate subsidy will require increases in YWS limits to £42 and £47, and these revised limits would still give very little scope for further general increases in the coming round. To retain the existing £40 and £45 limits would therefore give rise to a substantial volume of protest from the retail employers covered by the Wages Councils and remove the leverage of the scheme on those Councils' decisions.

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A. Walters

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bc JV

10 DOWNING STREET

From the Private Secretary

30 September 1982

Dear Barnaby,

Young Workers Scheme

The Prime Minister has seen a copy of your Secretary of State's letter of 21 September to the Chancellor of the Exchequer, in which he proposes, inter alia, that the present earnings limits of £40 and £45 in the Young Workers Scheme should be raised to £42 and £47.

The Prime Minister has commented that she thinks it unwise to raise these limits now. Such action would give rise to the expectation that the limits would be raised every year; and the Chancellor of the Exchequer has just made a speech discouraging such expectations.

I am sending a copy of this letter to the Private Secretaries to the other Members of E Committee, Richard Hatfield (Cabinet Office) and Alan Walters.

Yours sincerely,

Michael Scholam

Barnaby Shaw, Esq.,
Department of Employment.

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cc J
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ms 5/10

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SECRETARY OF STATE FOR EMPLOYMENT

Young Workers Scheme

1. I have seen a copy of your letter of 21 September to Geoffrey Howe about the continuation of the Young Workers Scheme. I have no objections to the changes you propose.
2. I agree we have a commitment to inform the European Commission. Although the Scheme has never been popular with them I understand they are unlikely to raise serious objections. It will be important to satisfy the Commission that YWS has not distorted competition 'by favouring certain undertakings or the production of certain goods' as proscribed by Article 92.1 of the Treaty of Rome.
3. I am copying this letter to recipients of yours.

(FRANCIS PYM)

Foreign and Commonwealth Office
4 October, 1982

Manpower, Employment
Measures, Pt 8

