

rc'd
3/12/82
Ⓟ g/c IV

PRIME MINISTER

UNEMPLOYMENT

Following your meeting on 14 October about our policies on unemployment, I was asked to follow up six areas, in consultation with the Chancellor and the Secretary of State for Employment as appropriate. These were:

- (i) requiring supplementary benefit recipients after three months to accept any safe work which gives them an income, with in work benefits, no worse than benefit income when unemployed;
- (ii) requiring supplementary benefit recipients to show evidence of active job search.

2. On these two aspects I enclose notes 'A' and 'B' by my officials. There is no doubt about the value of interviewing unemployed people, whether on supplementary benefit or not, to check whether they are making sufficient efforts to find jobs and, where appropriate, providing the necessary stimulus or help to ensure that they do not remain on benefit longer than can be avoided. The work of my unemployment review officers is very effective, and I have recently taken steps in consultation with Norman Tebbit to make them even more so. The key to success, however, is for their efforts to be directed selectively at those cases where it is likely to do most good. As the notes show, a much more sweeping approach does not seem likely to produce such effective results, apart from the substantial increase in staff resources which would be required, and the resentment which the necessary enquiries and checks would arouse, not least on the part of employers. I think, therefore, that we should concentrate on improving further the existing methods in this field, rather than pursue these two specific proposals.

3. (iii) Applying to supplementary benefit payable to long-term unemployed family men and their wives the same disregards of part-time earnings as apply to supplementary benefit paid to single parents;

E. R.

- (iv) encouraging more early retirement in the short-term by, in effect, allowing 50 to 59 year olds to retire after two years' continuous unemployment.

4. I enclose note 'C' on these two proposals, which are inter-related and can overlap. Here the position is that extending the long-term rate to the older unemployed and improving disregards for long-term unemployed people could both be useful contributions towards making our benefit system more responsive to long-term unemployment. The main problem is resources of money and manpower, which is the reason why I have accorded these measures a lower priority up to now in my public expenditure programme than other measures we have considered. But I suggest that we should look at this again in our forthcoming discussions in MISC 88 on how we handle next year's uprating of benefits and other benefit improvements.

5. I should add that the extension of the Job Release Scheme so that it would offer a partial retirement option has been dealt with by the Department of Employment.

6. (v) Reviewing the Family Income Supplement, including consideration in the short-term of the possibilities of marketing it better and other changes, and in the longer term of the feasibility of devising a replacement in the wage packet for it;

(vi) examining the implications of the proposition, on which Ferdinand Mount has been in touch with my Department, that there might be a refundable second-tier child benefit.

7. Both these are far-reaching and complicated matters on which work is going ahead; but it will take further time before I can give you a first substantive report back on them.

8. Copies of this minute go to the Chancellor - there has so far been no occasion to consult the Treasury - the Chief Secretary in view of the public expenditure implications of my note 'C', and the Employment Secretary; our two Departments are co-operating closely in all this work.

[Handwritten signature]
N F

23 DEC 1982

12 11 10 9 8 7 6 5 4 3 2 1

COMPLETION

11

CONFIDENTIAL

PROPOSITION:

SUPPLEMENTARY BENEFIT RECIPIENTS, AFTER THREE MONTHS, TO BE REQUIRED TO ACCEPT ANY SAFE WORK WHERE INCOME IN WORK, INCLUDING IN-WORK BENEFITS, WOULD BE NOT LESS THAN INCOME WHILE UNEMPLOYED

1. The same basic rules apply to unemployment benefit as to supplementary benefit paid to the unemployed, and the aim for some time has been to ensure that all relevant rules are the same so far as the different nature of the benefits allows (see Annex for examples). It is desirable to align the rules and keep them aligned for ease of understanding by the public and by staff, in the interests of efficient administration and to minimise the numbers of civil servants employed in DE and DHSS. Many unemployed people, moreover, receive unemployment and supplementary benefit simultaneously, or move from one benefit to the other. It is assumed, therefore, that the proposal would apply to unemployment benefit as well as to supplementary benefit.

2. At present, a job which is offered to an unemployed beneficiary is judged "suitable", so far as wages are concerned, if those wages are not below the normal standard rates prevailing in the area for the particular job in question. The relationship of the wages to the benefit level in a specific case is irrelevant. Thus a claimant may now be, and in practice occasionally is, required to take a job at less than the benefit rate. If the rule were changed to make the benefit level the criterion, any one who was offered an otherwise suitable job but with a wage of less than his benefit rate would be automatically protected. This protection does not exist now, so that such a change could actually weaken the current arrangements. The new rule would have to apply to wages after compulsory deductions and after allowing for essential expenses (which can be considerably) in view of the comparison with supplementary benefit rates. That would cause further complication in administration, whereas staff are now concerned only with the rate for the job.

3. The evidence from surveys (e.g. from the 1979 DHSS Cohort Study of the Unemployed and from a later study by the DE of long-term unemployed) is that family men with higher benefit levels look for work more assiduously, and find it more quickly, than do people with lower benefit. In fact that wage expectations of unemployed people questioned are in general found to be realistic, and often very modest. The typical unemployed person is shown to be a low wage earner who loses a low-paid job and returns - if he is lucky - to other low-paid employment, sometimes

even for earnings smaller than the benefit he was getting. The proposed change would therefore be unlikely to have any significant effect on the behaviour of people with higher benefit rates. People on lower benefit rates would in any case be unaffected because their income from any work they might get would normally be higher than their benefit income had been.

4. The Manpower Services Commission have recently conducted a small-scale administrative enquiry into the extent to which vacancies remain unfilled because the pay is low, and they found that only about two per cent of vacancies remained unfilled for over four weeks for this reason. These vacancies were concentrated in the South-East, and the numbers elsewhere were negligible.

5. The main problem arises with younger people who may be content with comparatively low benefit rates which provide them with what is virtually pocket money. They can therefore live fairly comfortably without work, or afford to wait until they are offered well-paid work. Although there is no hard evidence to support this, it is the subject of occasional comment by the DHSS Unemployment Review Officers and it fits the evidence that people with family commitments and higher benefit rates look for work more keenly; those without such commitments tend to be the young, or the older claimants whose families have grown up. (It would be wasteful to expend extra control effort on this last group). The new Youth Training Scheme will largely solve the problem for the youngest section of younger beneficiaries. For the rest, a more effective solution would be to increase the number of Unemployment Review Officers, so that there could be more concentrated and continuous unemployment review of beneficiaries aged under 25.

ALIGNMENT OF RULES

Availability (General): An unemployed supplementary benefit claimant is required to be available for employment in the same way as is a claimant for unemployment benefit. Where there is doubt, the Benefit Officer is required to seek a decision from the UB Insurance Officer. This ensures that we do not find the claimant available for the purposes of one benefit but not for the other.

Availability Test: Regulations in both schemes require the claimant to complete the same declaration as part of his claim, and provide for the non-payment of benefit if it is not completed.

Voluntary Unemployment: Where a claimant has left a job without good cause, or unreasonably refused employment (or committed similar misdemeanours) his unemployment benefit is disallowed for up to six weeks. Supplementary benefit is reduced, normally by 40 per cent of the personal scale rate, for the same period. Again, an insurance officer decides whether the penalty is appropriate - even if there is no entitlement to unemployment benefit.

Unemployment Review: The unemployment benefit rules have just been amended to provide for the withdrawal of benefit if a claimant fails to attend an interview with an Unemployment Review Officer, in the same way as already happened with supplementary benefit.

CONFIDENTIALPROPOSITION:

SUPPLEMENTARY BENEFIT RECIPIENTS TO BE REQUIRED TO PRODUCE EVIDENCE OF ACTIVE JOB SEARCH

1. There was a rule of this nature (that a claimant must be "genuinely seeking" work) for a few years in pre-1930 unemployment insurance legislation, but it was dropped because it was too subjective, in that it tried to ascertain the state of the man's mind, and because it was impossible to operate fairly at a time of high unemployment.
2. DHSS Unemployment Review Officers now require small numbers of selected claimants to demonstrate that they are looking for work. Skilled or white collar workers usually produce replies to job-seeking letters which they have sent; and unskilled men produce lists of places to which they have been in search of vacancies. This effort is concentrated on cases selected because of doubts about their attitude to work, because it is expensive in time and staff to deal with the people involved; but the present process can already provide evidence of non-availability for work which in turn can lead to benefit withdrawal or reduction or, in the extreme case, to prosecution for persistently failing to maintain oneself.
3. Against that background:-
 - a. The evidence produced by a changing caseload of about 1,500,000 unemployed claimants would have to be, at least, received, looked at, and perhaps filed; and that alone would require an absolute minimum of 1,100 additional staff if, say, the evidence was required fortnightly, when the claimant signed on. If there was any question of following up what was produced, for instance by checking that a man had visited an employer, or even by interviewing the man, the staff cost would be much higher.
 - b. Inevitably, many claimants would write after jobs they could not hope to get, simply to acquire evidence. Others would ask gatemen at factories, etc., for a chit to prove that they had asked. Employers would, fairly, complain strongly about the waste of time and effort which would be involved.

CONFIDENTIAL

c. Another natural way for claimants to prove job search would be to attend a Jobcentre and obtain a note or similar evidence from the staff there. This would have a staff cost, and would run directly counter to the recent introduction of voluntary registration (which brought staff savings).

d. There could be political embarrassment on a large scale if the public were to compare the requirement with what was done in the 1920's and early 1930's.

e. It would be seen as unfair that this requirement applied to supplementary benefit recipients but not to those who were receiving unsupplemented unemployment benefit. But the alternatives are not attractive. To bring in all unemployment benefit cases would increase the numbers involved substantially with further large staff costs. To restrict the requirement to, say, the long-term unemployed would still involve over a million cases, but a larger proportion would be those with the poorest prospects such as the disabled and older claimants.

4. We know that similar requirements have applied for some years in some states in the USA. The Unemployment Insurance Commission there has reported that the arrangements cause considerable inconvenience, and some expense, to employers because of the time wasted in providing evidence for job seekers to produce.

Department of Health and
Social Security

December 1982



DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

Michael Scholar Esq
Private Secretary
10 Downing Street
London SW1

*Michael
Amendment now
incorporated. Loge 10/12*

9 December 1982

Dear Michael,

UNEMPLOYMENT

I am afraid we have discovered an error in note 'C' attached to my Secretary of State's minute of 3 December to the Prime Minister. In the table on page 3, the fourth and final line of figures should be entitled 'Aged 55 and one year on unemployment benefit/supplementary benefit (including the cost for the over 60s).'

I am sending copies of this letter to John Kerr, John Grieve and Barnaby Shaw.

Yours ever,

C A H Phillips

C A H PHILLIPS
Private Secretary

PROPOSITION

ALLOW 50 TO 59 YEAR OLDS TO RETIRE AFTER TWO YEARS' CONTINUOUS UNEMPLOYMENT; AND APPLY TO LONG TERM UNEMPLOYED FAMILY MEN AND WIVES THE SAME DISREGARDS OF PART TIME EARNINGS AS FOR SINGLE PARENTS

(These two propositions are considered together, since there is obviously a possibility they will overlap and they need to form a consistent whole).

EARLY RETIREMENT OF THE OLDER LONG TERM UNEMPLOYED

1. Early retirement is taken to mean an extension of the kind of arrangement which now applies to men over 60 who qualify for the long-term rate of supplementary benefit after a year on supplementary benefit and are then no longer required to be available for employment*. The objective would be to encourage the effective withdrawal from the labour market of older people who have very little chance in practice of getting a job; in future such people would not be counted in with the unemployed. The idea has the support of the House of Commons Select Committee on Social Services and the House of Lords Select Committee on Unemployment.

2. The particular proposition put forward - two years unemployed and aged between 50 and 59 - is only one of a number of forms an "early retirement" concession could take. The variables are as follows:

- a. Age. The concession amounts to confronting the individual with the probability that he is finished as far as further full time employment is concerned; and expecting the working population to provide for the maintenance of that person without him having to make any further efforts to support himself at all. It must obviously be a matter of judgement how far down the age range one can carry the early retirement proposition and still command general acceptability in these terms. But 50, at any rate at one jump, seems a bit low and it might be better to start at, say, age 55.

*Since registration for employment as a condition of title to benefit was abolished in October, early retirement in this sense no longer requires the exercise of a positive option by the claimant to remove himself from the labour market. But in practice this change will not have been particularly significant. Even under the previous arrangements people who had "retired early" were not prevented from looking for or indeed taking work if they wanted to. In this regard they are in the same position as retirement pensioners who similarly can take work if they find it, and are paid by order book instead of through the Unemployment Benefit Office.

CONFIDENTIAL

b. The length of the qualifying period. The proposition is for two years and if the age were as low as 50 there seems a strong case for having a period as long as this. And of course for any given age two years will be cheaper in staff and money terms. But the existing rule for the long term rate for the over 60's, as for all other recipients of supplementary allowance, is one year and it would be simpler to stick to the same period if it can be afforded. For many people this does actually mean between one and two years unemployment as they may not come on to supplementary benefit at the outset.

c. Conditions for qualifying. The proposition refers to a period "unemployed" but the present arrangements for the long term rate all relate to a period on supplementary benefit. This is because the long-term rate is intended to recognise the extra needs of people who spend a long period in poverty. If people have not been claiming supplementary benefit then that is likely to be because their resources have been above this level. There is already heavy pressure on this rule because of its effects on the sick in the "invalidity trap" who can never get the long-term rate because their resources are above the short-term rate. Ministers have accepted the case for springing the trap for the sick, but until resources are found to do that it would be extremely difficult to justify more generous treatment for the unemployed. Moreover unemployed people would not normally be permanently excluded from the long-term rate by a "supplementary benefit only" rule but simply come on to it rather later. But if one were to go beyond the supplementary benefit rule, the most workable way of doing it would be to make the rule "on supplementary benefit or unemployment benefit" - to relate it to a period of unemployment as such whether or not any benefit was payable would be extremely difficult to test particularly as it would have to be done retrospectively. Any change would have to extend to the existing arrangements for the over 60's, since one could hardly justify retaining the present less generous rule for them.

Options and costings

3. Taking the above factors, age 55 and one year on supplementary benefit ie simply extending the over 60 concession downwards, seems the best proposition. But three alternatives are also shown. The staff costs shown are for DHSS and assume the take on would be done as part of an uprating exercise. All the options ought to provide some staff saving in the Department of Employment, but it will be considerably less than the DHSS cost - perhaps of the order of 50-100, depending on the option chosen.

CONFIDENTIAL

	APPROXIMATE ¹ BENEFIT COST	APPROXIMATE STAFF COST		NUMBERS BENEFITTING
	£m	TAKE-ON COST	CONTINUING COST	
Aged 55 and 2 years on supplementary benefit	25	60	60	57,000
Aged 55 and one year on supplementary benefit	35	80	90	87,000
Aged 50 and 2 years on unemployment benefit/supplementary benefit (including the cost for the over 60s)	50	140	160	128,000 ²
Aged 55 and ^{1 year} 2 years on unemployment benefit/supplementary benefit (including the cost for the over 60s)	60	130	160	137,000 ^{2,3}

IMPROVING EARNINGS DISREGARD FOR THE LONG TERM UNEMPLOYED

4. At present unemployed people and their wives can only earn £4 each without their benefit being affected. After that it is reduced £ for £. This disregard applies also to all other people on supplementary benefit except lone parents who, after the initial disregard of £4, have their benefit reduced by only half of the next £16. The proposition is that this disregard should be extended to long term unemployed family men and their wives.

1. All costs are in terms of forecasts of numbers unemployed as at November 1983 and November 1982 benefit rates.

2. But there will be 2,000 extra cases on the supplementary benefit load ie cases at present on unemployment benefit only.

3. Numbers removed from the unemployment count will be slightly less as some will still be receiving unemployment benefit and will be paid through UBOs.

5. The objective of such an extension would be to encourage unemployed people to undertake useful activity and to support themselves as far as they could by undertaking part time work. The concentration on family men reflects the evidence that they are the worst off and therefore have the most need for the extra income; the concentration on the long term unemployed reflects the need to minimise difficulties about incentives.

6. On the face of it, encouraging the unemployed to help themselves in this way must be sensible; there is support for this kind of idea from both the House of Commons Select Committee on Social Services and from the House of Lords Select Committee on Unemployment. But it does raise a number of issues, which will need to be faced if the proposal is to be taken further. The unemployed would be getting higher disregards than the retired or the disabled, and the number of people who would be better off on benefit than they would be if they were in full time work would be increased. This suggests that it would be necessary to arrange matters so that the unemployed received the higher disregard only when they did not get the long-term scale rate. Limiting the increase in the disregard to family men (ie those with children), if justified on the grounds that it was this group who found it hardest to manage on supplementary benefit, would be bound to prompt the response that the proper way of dealing with that was to increase the rates of benefit, particularly the children's rates. Extending the new concession to wives' earnings as well would carry high staff costs (because wives' and husbands' earnings are dealt with by different systems at the moment). In any case, the extent to which changing the disregard actually affects people's behaviour must depend on the availability of part-time work; to the extent that people's behaviour was not changed, the effect of the new rule would merely be to increase the benefit payable to those already in part-time work.

Costs

7. If the higher disregard were made available to all unemployed claimants (regardless of whether they had dependant children) after one year on supplementary benefit, the costs would be as set out below. These figures relate to work claimants would be doing anyway; they do not reflect any increase in either numbers working or the amounts of earnings.

	APPROXIMATE BENEFIT COST	APPROXIMATE STAFF COST		APPROXIMATE NUMBERS BENEFITTING
	£m	TAKE-ON COST	CONTINUING COST	
Claimant only	2½m	10	40	12,000
Claimant and wife	13	25	170	12,000 claimants plus 30,000 wives

CONCLUSION

8. The case for both these proposals will have to be considered alongside other Government priorities for social security improvements and the extent of the adjustment of next year's uprating of benefits following the 'overshoot' on this year's uprating.



cc secret
tree mount

HU
Mansford

10 DOWNING STREET

From the Private Secretary

22 October 1982

Follow-up to the Employment Studies

The Prime Minister has asked me to suggest that your Secretary of State, in the follow-up work which he will be bringing forward after last week's discussion of unemployment, should include an examination of the proposal for a refundable second-tier to child benefit, which would smooth out the "benefit gap" between unemployed parents and employed parents and would be more cost effective than a comparable increase in flat rate benefit. This is, I understand, a scheme currently in effect in Canada, and is mentioned in the CPRS study on unemployment.

I am sending a copy of this letter to John Kerr (H.M. Treasury).

M. C. SCHOLAR

David Clark, Esq.,
Department of Health and Social Security.

SECRET

HU

Prime Minister

①

You were attracted to this Canadian idea

MR. SCHOLAR

but did not discuss at last Thursday's unemployment meeting - so DHSS are not pursuing. Shall I ask

To solve the "employment trap", reforms in the tax-benefit system are necessary to ensure that unemployed parents are not penalised if they find jobs.

them
to consider

One suggestion that we put earlier to the Prime Minister was something on the lines of the Canadian system of a refundable second tier to child benefit which would smooth out the "benefit gap" between unemployed parents and employed parents and would be far more cost-effective than a comparable increase in flat-rate benefit.

report to

you?

MS

21/10

Since the DHSS is investigating the possibilities of improving the Family Income Supplement system, I think it would be helpful if a more radical approach of this sort was also carefully considered, particularly in view of the fact that the SDP is publishing shortly a major reform of the system of child support.

Would it be possible for the Prime Minister to suggest that the DHSS might include this kind of scheme in its immediate programme of work?

fm

Yes please
no

21 October 1982

FERDINAND MOUNT