

Prime Minister

(2)

This is the Policy Unit's first reaction to Mr Tebbit's paper which you saw earlier

CONFIDENTIAL

this week.

PRIME MINISTER

POLICY UNIT

I attach (tag A) Mr Fowler's

TEMPORARY UNEMPLOYMENT MEASURES

paper. I will resubmit, with

We have read Norman Tebbit's progress report on temporary measures to reduce the number of people appearing on the unemployment register. We are awaiting replies from the Secretary of State for Health and Social Security, due by December 7, and the Chancellor of the Exchequer, expected shortly. This can, therefore, only be a first reaction.

advise and suggestions

Paragraph 4 ends with the following sentence:

for handling,

"Unlike most special employment measures, this scheme would generate new small businesses and real jobs."

later.

This is an admission that, on the whole, special employment measures do not provide genuine, long-term employment. However, before turning to the fundamental question whether it is wise to spend as much as is now being spent on schemes which are, for the most part, avowedly cosmetic, we comment on the five measures considered in Mr. Tebbit's paper.

MCS 3/12

ms

A : ENTERPRISE ALLOWANCES

Register effect: 22,000. Gross yearly cost: £145 million. Net average yearly cost per head (1984-1985): £2,900.

This is the most expensive of the proposed schemes, with a net cost of £3,000 per person taken off the register. In our view it would not be right to take a decision on expanding the scheme until the full evaluation is available at the end of 1983.

More real jobs in industrial enterprise would be created by winding the scheme down and reducing the taxation of businesses by the amount saved.

It is not safe to assume that the jobs created by the enterprise allowance scheme will remain in being in the longer term. It is accordingly unlikely that the high net cost per person will be reduced, as the paper suggests.

B : JOB RELEASE SCHEME

Register effect: 54,000-139,000. Gross yearly cost: £265-420M. Net average yearly cost per head (1984-1985): £1,500.

This is a step towards allowing men the right to retire at 60, which women and civil servants already enjoy. As a temporary measure, the job release scheme is at about the average cost for such schemes, but its long-term impact on overall levels of unemployment is negligible.

CONFIDENTIAL



C O N F I D E N T I A L

=====

It may be that the cost of this and other schemes is now so high per person taken off the register that a progressive reduction in the male retirement age in annual steps would be a less cumbersome, administratively simpler and perhaps cheaper answer.

C : PART-TIME JOB RELEASE SCHEME

Register effect: 27,000. Gross yearly cost: £19 million.  
Net average yearly cost per head (1984-1985): -£90.

The partial retirement option both reduces the numbers on the unemployment register and saves money. It should therefore be adopted at once, whatever the fate of the other schemes.

D : TEMPORARY SHORT-TIME WORKING COMPENSATION SCHEME

Register effect: 35,000. Gross yearly cost: £130 million.  
Net average yearly cost per head: £140.

The central argument against this scheme is that it distorts economic reality by encouraging employers to retain workers whom they cannot in truth afford to employ. The counter-argument that the scheme allows firms to keep work-forces together while they adjust to economic pressures is unlikely to apply in all but a few firms. The scheme is comparatively cheap, at a net cost per head of £140, but its long-term effect must be to distort the market rather than to provide secure employment. Furthermore, the scheme conflicts with our strategy of reducing real wage-costs and increasing productivity. It should be discontinued.

E : WORKFARE

The response from the Department of Employment on workfare is incomplete. We await details of a scheme for workfare. We feel that this scheme, suitably targeted to young people of 21 or under, offers considerable potential and we have sent to the appropriate departments our information on the United States and Jersey (Channel Islands) schemes. We shall withhold our assessment until we see the Department of Employment's scheme, but we believe that it could have a significant effect.

RECOMMENDATIONS

The total net cost of the first four schemes above would be £275m in 1984/85 alone - about £1,230 per head. That cash has to be raised from general taxation and may destroy more jobs in the general economy than it saves by direct subsidy.

C O N F I D E N T I A L

=====



C O N F I D E N T I A L  
=====

We recommend:

1. That the Secretary of State for Employment should consider to what extend his Department's proposals coincide or conflict with the Government's overall economic strategy of reducing wage-costs per unit of output.

2. That the Department of Employment's costings for schemes A to D above be closely questioned. We believe that some of the figures for net cost may be understated.

3. That, if the Department is right in its assumption that the part-time job-release scheme (C) both reduces the numbers on the register and saves money, it should be introduced immediately.

4. That the Department should not extend the Enterprise Allowance scheme.

5. That the Department should consider all its temporary unemployment measures in the light of its submissions on the reform of employment protection legislation, which we await. There is a strong case for saying that de-regulation of the manner in which employers may hire and fire would do more to reduce unemployment than schemes A to D added together.

6. That, in the 40th anniversary of the Beveridge Report (which endorsed Workfare), it is now time for a full reconsideration of the financial aspects of the taxation and welfare system, with particular consideration of the unemployment and poverty traps, the piecemeal tangle of benefits, the question of indexation and the long-term effects of undermining the attractiveness to the individual of Adam Smith's two foundations of a sound national economy: hard work and thrift.

*fm*  
FERDINAND MOUNT  
ALAN WALTERS  
ADRIAN SMITH  
PETER SHIPLEY  
CHRISTOPHER MONCKTON

3 DECEMBER, 1982.

C O N F I D E N T I A L  
=====