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Prime Minister²

MR. SCHOLAR ✓

To see

YOUTH UNEMPLOYMENT AND RELATIVE WAGES

MCS 25/4

Recent work on youth unemployment by the Department of Employment, which will soon be published in the Gazette, reveals some interesting conclusions. Perhaps the most surprising one (although it's no surprise to me!) is that a 1% reduction in the ratio of youth wages to adult wages will give rise to a 2% expansion in youth employment.

The implication of this is that a reduction of only 5% in the ratio of youth to adult wages would be sufficient to eliminate the youth unemployment problem. This can be calculated as follows:

Suppose the youth unemployment rate is 15%, then if we wish to reduce unemployment by ten percentage points, we need to reduce the ratio of youth to adult wages by five percentage points. This will then give an unemployment rate of about 5%, which might be taken to be about "normal". There are two cautions. If we did reduce relative wages in this way, it would take some time for the full effects to work out. Most of the expansion in employment would have taken place by the end of two years, but it is no "at a stroke" solution. Secondly, some of the additional employment of youths would be likely to be substitutes for adult workers. It would not be pure gain for total employment. The study did not calculate that aspect of the effect of relative wage movements. However, I would add that in my judgement the 2% reaction to a 1% decrease in relative wages is an under-estimate. I would expect the reaction to be rather more.

The other conclusions of the study chart the course of youth wages relative to adults over a period since the Second World War. The main effect is to show that there has been an increase in youth wages, relative to adults, which ceased on a very high plateau in the mid-1970s. More recently there has been a slight slip from the plateau, but it is too early to say yet whether this is a new trend.



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