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10 DOWNING STREET

From the Principal Private Secretary

23 September, 1983.

Thank you for your letter of 21 September and for the summary of the findings of the Cohort Study of Unemployed Men. I am sure that the Prime Minister will find this interesting.

You will remember that at the recent meeting with the Prime Minister she referred to correspondence which she had received from Mr. Donald Longmore of the National Heart Hospital. With the Prime Minister's permission, I am now sending you a copy of Mr. Longmore's paper and covering letter. I am not sending you the enclosures at this stage, although, if you want them, I could do so, except for Mr. Longmore's letter to Dr. Louis Freedman about the nuclear magnetic resonance machine, which he asked me to treat as private. The Prime Minister has asked you to arrange that Mr. Longmore's paper is only seen by your Secretary of State, Mr. Clarke, and yourself.

The Prime Minister has written to Lord Weinstock about the NMR machine asking him to arrange to see Mr. Longmore as soon as possible.

E. E. R. BUTLER

Sir Kenneth Stowe, KCB, CVO.

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From the Permanent Secretary

Sir Kenneth Stowe KCB CVO

Robin Butler Esq.,
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21 September, 1983

Dear Robin.

One of the topics which we circled round on Friday at the Prime Minister's Seminar was the problem of incentives for the unemployed to find themselves jobs, and the impact on their attitudes of social security benefits at present or projected levels. I am sending you herewith an interesting summary which was prepared for me of the findings of a major piece of research which DHSS commissioned some time ago and which has been bearing some fruit - the Cohort Study of Unemployed Men.

The main lesson to be drawn from it is, I suppose, that as always nothing is simple-but there are some pointers in it about two sensitive areas of policy. I would also observe that the summary is as good an illustration as you would wish to see of how difficult it is to be objective in ones analysis of data in this area. It would be quite possible to take all the figures and in several places write sentences the other way round - the last sentence of paragraph 6 is a good illustration.

*Yours
Ken*

PURPOSE AND DESIGN OF THE STUDY

1. The study examined the incomes of men who become unemployed, their financial incentives to work and their experience of employment and unemployment. It was based on a national sample of 2,300 men who became unemployed in the Autumn of 1978. Data were collected from personal interviews held approximately one, four and twelve months after the men registered as unemployed and from departmental records on benefit payments.

CHARACTERISTICS OF THE MEN

2. The study confirmed that a higher proportion of men who become unemployed than of those in the general population are young and unmarried and that, before unemployment, they are more likely to hold semi-skilled or unskilled manual jobs. It showed that the men's earnings when last in work had been far below the national average and that this was true for all age groups apart from those over the age of 60. This meant that half of those who had been employed in the year before their unemployment had had gross earnings in the bottom fifth of the earnings distribution. These earnings were rarely supplemented by an additional source of income. For example, of the married men only a third had wives who were in paid employment compared with over a half in the population as a whole. Given the low levels of pay and the rarity of other income it is not surprising that few men started unemployment with substantial savings. Over half reported having no savings at all, and only 9 per cent had savings of over £1,250 (£2,080 at current prices). Men most likely to have savings were those who had retired early.

EXPERIENCE OF UNEMPLOYMENT

3. A surprisingly high proportion of the men had had recent experience of unemployment; half in the year before the study began, three quarters in the previous five years.

4. Because of the prevalence of repeated spells of unemployment, the length of the initial spell of unemployment in the study year was not a good guide to the total amount of unemployment experienced over that year. Amongst men who were interviewed at the third stage, the first spell lasted on average for 15 weeks, whilst the average time unemployed over the whole year was 22 weeks. About a tenth of the men were registered as unemployed continuously throughout the year and

just over a third had two or more spells of unemployment in that year. All the others (53%) had one spell of unemployment of less than 12 months. For half of this group that spell actually lasted for under three months.

INCOME IN AND OUT OF WORK

5. Comparisons of income when last in work before registration with income during unemployment were confined to those men who provided details of previous earnings and who remained unemployed for at least three months. This enabled us to calculate a reliable measure of benefit during unemployment.

6. For nearly 50 per cent unemployment benefits (Unemployment Benefit which could have included an Earnings Related Supplement and Supplementary Allowance) replaced less than half of previous net earnings. Total income out of work represented less than half of total income in work for as many as a third of the men.

7. Unemployment benefits exceeded previous net earnings for 6 per cent of the men. But 9 per cent had higher total incomes out of work than in work; that is they had an income replacement ratio of 100 per cent or more.

8. A quarter of the men had an income replacement ratio of at least 80 per cent. A quarter of these men were occupational pensioners. (The study took place before the abatement of Unemployment Benefit for occupational pensions of over £35 was introduced.) Excluding the occupational pensioners, two-thirds of the men with high replacement ratios had dependent children and only one-sixth were single. These men were particularly likely to have had low earnings - about half had gross earnings which were in the bottom tenth of the earnings distribution - which, when combined with relatively high benefits, produced high income replacement ratios. In addition, amongst men with dependent children very low take-up of means-tested benefits when in work was an important underlying reason for high income replacement ratios, eg amongst those identified as having been eligible for Family Income Supplement when last in work before unemployment, under a fifth reported having received it.

CENTRE FOR LABOUR ECONOMICS, LSE - ANALYSES

9. The results reported above were all obtained from internal analysis of the Cohort Study data and have been published in the series of DHSS Working Papers and the articles in the Employment Gazette (which were attached with my minute to Mr Doran of 21 June 1983). Mr Stern in his work at the London School of Economics' Centre for Labour Economics, has produced analyses on (a) unemployment inflow rates (ie the probability of entry into unemployment) in 1978 and (b) factors associated with the length of the first unemployment spell of cohort members. The latter was done in co-operation with Professor Nickell and Miss Narendranathan.

10. On unemployment inflow rates it was found that the following (not mutually exclusive) groups were more likely to become unemployed - young men, less skilled men - especially personal service workers, single men, men with large families, men with low earnings, men working in small establishments and men living in rented accommodation. Men who had been in their pre-unemployment job for less than 12 months had a particularly high chance of becoming unemployed and this was true for all age groups. Indeed, there was no difference in the inflow rate by age after controlling for length of previous job. One would expect men with short length jobs to be less skilled and have lower earnings than men of comparable age with longer lasting jobs.

11. Turning to the length of the first spell of unemployment, the most important factor was age. Whereas the average expected length of spell for a 20 year old single man in 1978 was 22 weeks, for a single man aged 45-60 it was about 42 weeks, and for a single man over 60 it was 70 weeks. Benefits showed some association with the expected length of unemployment spell but the effect was relatively small. Extrapolating from these data indicated that a 10 per cent increase in the real value of unemployment benefits might have increased unemployment duration for a 20 year old man by 3 per cent, ie a little under 1 week. Further analysis by age group suggested that the level of association between unemployment benefits and length of spell actually varied between age groups and with the length of the unemployment spell itself. The association was strongest for teenagers whilst there appeared to be none at all for men aged 45 and over. Only for teenagers did level of benefits seem to affect duration once men had been unemployed for over 6 months. In quantitative terms, the repercussions of this could be expected to be small. The results suggest that a reduction in the real level of benefits

for teenagers of 10 percent would only have reduced unemployment spell lengths by 1.3 weeks.

12. An exercise was carried out to investigate the effects on the level of unemployment of abolishing ERS. This suggested that the maximum figure for the consequential reduction in male unemployment in 1982 was 120 thousand (or 0.9 percentage points). However, given that the levels of unemployment in 1982 were much higher than those of 1978/79, a rather lower figure would probably be more likely, e.g. of the order of 50 thousand.

8 September 1983

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