

PAPERS FOR E(A), 18 JULY:
EMPLOYMENT AND TRAINING

Tom King is bringing forward papers on the Special Employment Measures and on Training Loans.

1. Special Employment Measures

Tom King's special employment measures are the cheapest and best means of easing the unemployment problem. They should be increased, and the money should come from the very expensive programmes run by DTI - especially regional policy and capital grants to dubious projects.

However, this issue cannot be resolved until the autumn when the Treasury figures proving the case will become available. In the meanwhile, given the Chancellor's troubles in meeting PES targets, it would be wrong to let Tom King swallow the money made available by the YTS underspend.

We therefore recommend that E(A) should treat the special employment measures as follows:

Enterprise Allowance

Continue present 1,000 entrants per week during 1984/5; announce that the scheme will be kept at that level in 1985/6; and state that the government may want to expand it once the money has been found.

Community Programme

Raise average wage limit from £60 to £63; reassure sponsors that the Programme will continue until 1987, (possibly with some changes); introduce training; defer decision on expansion until September review of employment measures.

Voluntary Projects Programme

Spend an additional £2.5 million in 1984/5 to avoid run-down of good projects; but defer all other decisions.

Other Measures

Make no immediate changes.

We support Tom King's view that the special employment measures should be presented not as "stopgaps" but as part of the government's general attempt to improve the labour market. The best way of getting this message across would be an autumn Green Paper on wages and jobs. This would not only draw public attention to the problems of labour market rigidity, but would enable Ministers to persuade the public

that they take unemployment seriously, and might also provide a means of airing possible changes on Wages Councils.

2. Training Loans

The Department of Employment and the MSC have energetically pursued the idea of giving loans for adult training. They now propose a consultative paper, followed by a £5 million pilot project. The trainees would provide 20% of the cash needed for fees and maintenance. The Government will contract with the banks to run a loan scheme for the remaining 80%, of which the banks would themselves provide at least 40%, and the Government the rest.

We understand that Tom King has talked to various banks, and has had encouraging replies from the Cooperative.

The scheme seems cheap and workable, and will be a very useful way of introducing the public to the idea of loans. We have only two caveats:

- i. the interest rate should not be subsidised - the point of a loan is to bring market forces to bear, and this will not be done if people are protected from reality by subsidies;
- ii. the government should, however, ensure that re-payment is deferred in any year during which the ex-trainee earns below a certain sum or is unemployed. Experience in Sweden and the United States shows that default is likely to occur when people fall on bad times, and that essentially honest defaulters are then afraid to start re-paying when their circumstances improve, for fear of recrimination. Deferral prevents this occurring.

We recommend that, subject to these caveats, the Prime Minister should welcome the proposals on training loans.

Oliver Letwin

OLIVER LETWIN



10 DOWNING STREET

AT

I gather that ECA is unlikely to discuss sp.

emp. measures on Wednesday.

But, just in case, I attach

a note on the subject. If

the topic is postponed, you will presumably keep the note on the file:

I doubt that ~~it~~ there will be any cause for revision in the next few days. OZ.