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Ref No E 056

PRIME MINISTER

Long-term unemployment

(Minutes from the Secretary of State for Employment of 5 June and the Minister without Portfolio of 6 June).

BACKGROUND

You are meeting a group of the Ministers primarily concerned on 12 June to consider possible further measures to reduce long-term unemployment. The meeting responds to concerns expressed at Cabinet earlier in the year about the co-existence of a high level of unemployment with a substantial number of job vacancies. You will also want to have in mind the themes of your recent discussion with Mr King about value for money in the Department of Employment Group, and I understand that you have also discussed some of the issues with the Chancellor of the Exchequer.

2. Mr King in his minute makes a number of proposals with the objective on reducing the number of registered unemployed by about 300,000, at a net annual exchequer cost of £700 million. About half of this impact would be achieved by a straightforward expansion of the existing Community programme; there would also be new schemes run by charities and voluntary groups (the Voluntary Projects Programme), financed on a different basis, and also a new Facelift Programme directed particularly towards improving the environment, which would seek to mobilise the local economy in the target areas to provide necessary managerial resources. The Facelift Programme could be in part a further conventional expansion of the Community Programme, but the possibility is also canvassed of attracting workers by a 'benefit plus' subsidy, to give people with a high entitlement of benefit (who would otherwise have



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little incentive to join in at established Community programme rates of pay) an inducement to move into employment. This inducement could be specifically targetted on those unemployed for more than two years. Mr King also mentions separately the possibility of paying a job-finding subsidy (of say £20 a week for six months) in addition to normal wages to people re-entering employment after a long period on the register.

3. Lord Young puts forward two ideas:

(i) a job finding tax credit (of £20 a week paid for a year) for the long-term unemployed who go back into employment; and

(ii) more effective measures to combat benefit fraud.

The first of these suggestions is on the same lines as Mr King's job-finding subsidy, except that it would be paid as a tax credit, and for a full year rather than six months. The second suggestion echoes the theme of your discussion on 5 June with Mr King, when you reviewed the detailed examination currently being undertaken by the Department of Employment of all those on the unemployment register in the Crawley area, and noted that a campaign against fraud was in progress in the Thames Valley area.

4. Underlying all these ideas is the perception of the need for measures to be taken to ensure that those drawing unemployment benefit are actually seeking work, that claimants should not be able to avoid work on the grounds that nothing was available to fit their requirements, and that in the last resort there should always be some work available of the sort provided under the Community Programme.

MAIN ISSUES

5. The main issues before your meeting are



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- (i) an assessment of the Government's priorities in further action to deal with the problem of long-term unemployment;
- (ii) the timing of decisions.

Government priorities

6. The various suggestions put forward serve a number of objectives:

- (a) to reduce benefit fraud, and so expenditure on benefits;
- (b) to increase the number of people in 'real' jobs;
- (c) to reduce the number of people registered as unemployed; and
- (d) to improve the local environment, particularly in the most economically depressed areas.

In each case it will be essential that the objective is pursued in the most economic way from the standpoint of the Exchequer. Further work will be needed on each of the suggestions to see how they match up to the criteria in (b), (c) and (d). There must be some presumption that measures are to be preferred which increase the number of people employed by the private sector, either through a job-finding tax credit or through a Government subsidy to employers which enables them to pay 'benefit plus' levels of wages. However, some public sector involvement, whether through conventional expansion of the Community programme, through a new Facelift Programme, or through the charities and voluntary project schemes, is likely to be required if substantial progress is to be made towards a position in which some kind of work can be provided for all benefit



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claimants with particular characteristics (eg all who have been unemployed for more than two years).

Timing of decisions

7. The 1985 Budget incorporated substantial measures designed to foster the growth of employment. These included reductions in National Insurance Contributions in respect of the lower paid, and a substantial expansion of the Community Programme. The National Insurance Contribution changes will only begin to take effect from the middle of the current financial year, while the existing expansion of the Community Programme is already a substantial undertaking whose costs will build up gradually during this financial year and next. Meanwhile the results of the 1985 Public Expenditure Survey will be put to Cabinet on 4 July, as a preliminary to the Ministerial discussions in the Autumn to agree the totals for each programme. It would seem premature to try to reach conclusions on the sort of further major programme proposed by Mr King; the case for this will need to be explored thoroughly in the light of the overall position on public expenditure, and of the response of the economy to this year's Budget measures. These considerations would point towards decisions being taken in time for the 1986 Budget, or at the earliest - if the trend of unemployment in the meanwhile proves clearly adverse - for this year's Autumn Statement. The same considerations do not, however, apply to measures to combat benefit fraud, where action should be taken as soon as it can be organised; and it may be that measures to encourage employment in the private sector of the long-term unemployed, whose costs would be relatively much lower, might also be taken in a shorter timescale.

HANDLING

8. You will wish to invite the Secretary of State for Employment and the Minister without Portfolio to set out their ideas, and the Chancellor of the Exchequer will wish to comment on the possible costs and the timing of decisions. The other Ministers will wish to comment on the nature of possible measures



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which could have a substantial impact on the regional environment, and on the scope for involving the private sector, both in the provision of employment and in devising programmes tuned to local needs.

CONCLUSIONS

9. You will wish to reach conclusions on the following:

(i) how work on measures to combat benefit fraud should be carried forward, and in what timescale, in the light of the pilot schemes now under way at Crawley and in the Thames Valley;

(ii) what guidance should be given to the Employment Secretary, in consultation with the Chancellor of the Exchequer, the Secretary of State for Social Services and the other Ministers with regional and industrial responsibilities, in further work on contingency plans for reducing the number of long-term unemployed; and

(iii) the arrangements for further collective discussion of these issues. It may be appropriate to ask the Employment Secretary to put a paper to E(A) for a first discussion before the Summer Recess, so that the implications of possible decisions can be taken into account in settling future public expenditure programmes.

HP. A J WIGGINS
Cabinet Office
11 June, 1985