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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MEASURES AGAINST UNEMPLOYMENT IN 1981/82 AND BEYOND

Memorandum by the Secretary of State for Employment

When we decided not to proceed with the idea of a compulsory training year for school leavers I was asked to arrange interdepartmental consideration of the outstanding CPRS recommendations (E(81)8th Meeting). I asked officials in the Manpower Group to do this in the context of unemployment prospects and what might be done about them, including a comprehensive voluntary training scheme for the young unemployed. Officials have now produced the two attached reports

- Employment and Training Measures in 1981/82, and
- Unemployment Prospects and Employment Measures from 1982.

I set out in this paper my recommendations.

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UNEMPLOYMENT PROSPECT

3. The unemployment total may reach 3 million this summer. It is likely to rise above it at the seasonal peaks over the next year or so, with a modest fall during 1983 if output grows as expected. If recovery is flatter, unemployment could still be rising in 1983. These are intolerable levels. We have to act now if we are to reduce them.

4. My Department estimates that the special employment measures are currently keeping some 300,000 people off the register. On unchanged programmes that figure would fall to 270,000 by next March. My recommendations in this paper would raise the figure to 350-390,000 by March 1982 and then build it up to over 600,000 by March 1983 (Annex 1). This will lower the register by 300,000 more than now and is the minimum necessary to contain unemployment near its present level.

MAIN PROPOSALS

5. Present schemes are the result of improvisations and the situation now requires that we take radical steps towards a coherent approach. If we are to alleviate the social problems, we must make provision for three categories of the unemployed - the young, those nearing retirement and the long term unemployed. I deal with each of these in turn.

ACTION FOR THE YOUNG

6. Unemployment among the young is growing rapidly and will lead to alienation with all its social consequences. My central proposal is therefore the establishment of a comprehensive scheme of training, work experience and community service for unemployed 16 year olds, who would be on the programme for up to 12 months.

(a) Comprehensive Scheme

7. The basic features of this scheme are set out in paragraph 3.4 of the attached report on Unemployment Prospects and Employment Measures from 1982. Paragraph 3.7 of the report presents two options, A and B, for the treatment of allowance and benefit. I regard Option A as unworkable and recommend the adoption of Option B.

8. This comprehensive scheme would be developed from the Youth Opportunities Programme (YOP) along lines consistent with the New Training Initiative. To move to such a scheme would be an immense step forward towards a proper vocational system of vocational training for young people. It would ensure that no

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16 year old school leaver had to face unemployment. It would be a much better answer to this acute problem than schemes of compulsory national service - though it would encompass options of community service.

9. The Scheme is a vast jump from YOP in numbers, length of course and quality of training and I have concluded that introduction in September 1982 is not feasible. We cannot risk a failure in the first year. I therefore propose that the scheme should be introduced from September 1983.

10. Meanwhile, in 1982-83 we would work towards the goal of universal coverage by asking MSC to develop YOP as far as possible towards the same objectives, ie to place as many 16 year old leavers as possible by Christmas, to extend the duration of courses and to develop a number of integrated 12 month courses. In this period we might be able to move towards universal coverage of unemployed 16 year olds in a number of selected areas. No change would be made in SB arrangements until the full scheme was introduced in September 1983.

11. The cost of this approach would depend on a number of factors which are very hard to predict - notably the course of youth unemployment. Officials' best estimate is that developing YOP in 1982/83 and then replacing it with Option B would cost about £900m in 1982/83 and £1250m in 1984/85. This compares with costs of about £650m in 1982/83 and £730m in 1984/85 if we simply ran YOP with the existing guarantees. (The current PES provision is £370m rising to £415m.) All these are gross costs, but there would be benefit and tax offsets amounting to about 40% of the total in each case.

12. The scheme as designed does nothing for 17 year olds. We cannot ignore them and I propose in working up this scheme to see what minimum provision could be made alongside it for them.

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(b) Other Action for the young

13 The immediate requirement, however, is to provide for another 100,000 or so entrants this year on YOP so as to honour the new guarantees we introduced last November, while continuing to run the programme on its current basis. The additional cost in 1981-82 would be £93m gross (£59m net) and the consequential cost in 1982-83 would be £113m gross (£71m net). Additional posts would also be needed in the Careers Service provided by LEAs at a cost of £0.3m in 1981-82 and £1.3m in 1982-83.

14 Although the real value of the YOP allowance has fallen by nearly 25 per cent since 1979 and is causing problems, I do not propose to accept the MSC proposal to increase it to £28 from November. I wish to defer a decision until we have decided on the new comprehensive scheme.

15 We also need to maintain long term skill training for the young by supporting this year another 12,000 places for first year and redundant trainees. Of the gross additional cost, £9.6m would fall in the financial year 1981-82 and £11m in 1982-83. The net cost over the two years is £15m. I am seeking ways of assisting MOD within this provision to make use of their spare training capacity for apprenticeships. The level of support to be provided in the training year 1982-83 will need to be decided nearer the time.

16 Further education places. The proposed expansion of YOP this year and of training support will directly take up some 15-17,000 of the 40,000 spare places in FE colleges, with more being taken up as the quality of YOP courses is improved. To switch the balance further away from work experience to full time college based courses would run against the aims of YOP.

THOSE NEARING RETIREMENT

17 Despite the difficulties, I believe we must proceed vigorously to enable people to retire earlier where they wish to. More thought needs urgently to be given to providing flexible retirement through appropriate actuarial reduction of pension.

18 Immediately, however, I recommend extending the Job Release Scheme down to age 60, which could take 144,000 unemployed off the register at an annual cost of £425m gross (£242m net).

19 I also recommend that we should make it possible for those who have been unemployed and drawing SB for more than one year and are 60 or over to retire on the long term supplementary benefit rate. This could take another 45,000 people off the register at a cost of £21m.

20 Both these changes should be introduced this year. We shall have to stagger the extension of JRS in order to cope with the numbers, but I propose that we should bring the JRS age down to 63 this November and introduce the scheme for the retirement of the long term unemployed at the same time; and bring the JRS age down to 60 next February. The additional cost in 1981-82 would be £57m gross (£32m net). I propose that the JRS age reduction should continue until March 1983 and the cost in later years given in Annex 2 is on the basis that it would then revert to 64.

LONG TERM UNEMPLOYED

21 By 1983 there could be 800,000 people who have been without work for over a year. I believe that we should expand the new Community Enterprise Programme from 25,000 to 60,000 places (but this cannot be before 1982/83). I also recommend funding more posts in voluntary organisations for the express purpose of providing opportunities for voluntary service by the long-term unemployed (though they would still be on the register). I propose to consult the MSC on the possibility of making a start from this October at an additional cost of £4m this year.

22 The expanded CEP could help 100,000 in a full year. A further 50-60,000 could be helped to find voluntary work while still on the unemployment register. We could experiment under both programmes with seeking to give priority to family men with children and by seeing whether more could be helped by shortening the period on the schemes. The full additional annual costs of such programmes could be about £150 million (£50 million net), but I want to discuss these proposals with the MSC before putting forward firm figures.

23 I do not think that even these measures plus the retirement scheme for the elderly long term unemployed will match the gravity of the problem. Preliminary investigations by officials raise doubts about the Laynard idea of a subsidy for employing long term unemployed people, but I think further examination is necessary.

OTHER PROPOSALS

24 Paragraphs 8 and 9 of the summary of the attached report on measures from 1982 list other points for consideration. Of those not dealt with so far, I support the proposals on:

- relative wages for young people (paragraph 8(ii))
- early retirement (paragraph 8(iii))
- public sector investment projects (paragraph 9(v))
- regular overtime and developing part-time work (paragraph 9(viii))

- married women's tax (paragraph 9(ix)).

I think these should be pursued as officials propose.

25 I do not, however, at this stage favour developing proposals for a continuing scheme of short time working compensation. I do not think that we should be extending the present scheme further this year. A decision on 1982-83 should be taken later this year.

CONCLUSION

26 I seek colleagues' approval for:

- 1 Expanding YOP to provide for 100,000 extra entrants this year at an additional cost of £93m in 1981/82 and £113m in 1982/83 (paragraph 14). The extra costs should be offset in some degree by larger receipts from the European Social Fund.
- 2 Increasing support for long term skilled training by £9.3m in 1981/82 and £11m in 1982/83 (paragraph 15).
- 3 Reducing the age for JRS to 63 this November and to 60 next February, at an additional cost of £57m in 1981/82 and £303m in 1982/83 (paragraph 18).
- 4 Allowing long term unemployed aged over 60 to retire from November this year. (£5m in 1981/82, £21m in 1982/83 (paragraph 19)).
- 5 Developing opportunities for voluntary service by the unemployed (£4m 1981/82, £8m 1982/83 (paragraph 21)).

I also seek approval in principle for:

- 6 Comprehensive youth scheme from September 1983 and for developing YOP in 1982-83 towards it (paragraph 7-12).
- 7 Expanding CEP in 1982-83 (paragraph 21)

Subject to this agreement, I will come back to colleagues with costed proposals on items 6 and 7 and on support for training and for Short Time Working Compensation next year. Annex 2 indicates the order of the costs that might be involved.

27 Increased staff numbers arising from these proposals would be offset by staff savings in the administration of benefits. There would be a small accommodation cost arising from JRS expansion.

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I also invite my colleagues:

- 28
- (a) to agree that consideration should urgently be given to providing flexible retirement through appropriate actuarial reduction of pension (paragraph 17).
 - (b) to agree that I should examine more fully and report on Professor Laynard's idea of a recruitment subsidy for the long term unemployed (paragraph 23).
 - (c) to support the proposals listed in paragraph 24 above and to instruct officials to proceed accordingly.

Department of Employment
Caxton House

JP

2 July 1981

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AT SPECIFIED DATES

	<u>Currently</u>	<u>March 1982</u>		<u>March 1983</u>		
		without additions	additions	without additions	additions	<u>Notes</u>

SCHEME

TSTWCS

Present programme	98	39		17	
Proposed addition					

YOP

Present programme	123	134		134	
Proposed addition			42		190

The March 1983 figure presumes that YOP will be developed towards Youth Scheme in September 1983.

CI

Present programme	7	7		7	
Proposed addition			-		-

Apprentice support

Present programme	21	23		23	
Proposed addition			7		7

JRS

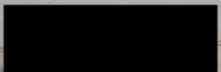
Age 60 from 1.2.82					
" 63 from 1.11.81					
Present programme	43	36	28	34	
Proposed addition					110

LTU

Aged 60 allowed to retire - new programme	-	-	45?	-	45
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The figure for March 1982 is totally dependent on being able to introduce the scheme before then.

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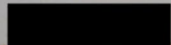


<u>SCHEME</u>	<u>Currently</u>	<u>March 1982</u>		<u>March 1983</u>		<u>Notes</u>
		without additions	additions	without additions	additions	
<u>CEP</u>						
Present programme	15	30		30		
Proposed addition			nil		30	
<u>TOTAL</u>	307	269		245	382	
<u>TOTAL</u> - with additions				346-391	627	

Footnote

These are based on a number of uncertain assumptions and are DE's best estimates of the direct effects of the measures. They take no account of the indirect effects on employment of the changes that would be needed to finance them.

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<u>SCHEME</u>	<u>£m cash prices</u>				Orders of magnitude of additional funds to develop programmes as suggested.		
	1981/82 existing estimate	1981/82 additional bid	1982/83 PES provision	1982/83 additional bid consequential on decisions for 1981/82	1982/83	1983/84	1984/85
TSTWCS	388	-	129	-	-	-	-
YOP/Youth Scheme from Sept 1983	323	93	367	113	600	900 ^(b)	950 ^(b)
Community Industry	22	-	24	-	-	-	-
Careers Service Strengthening	6	0.3	7	1.27	-	-	-
Apprentice support	30	9.6	30	11.0	10	20	25
JRS to 63 in Nov 81 to 60 in Feb 82 until March 82	129	57	126	303	-	410 ^(c)	340 ^(c)
LTU over 60 retire	-	5	-	21	-	20	25
CEP	95	-	41	-	100	190	200
Voluntary work	-	4	-	8	10	10	10
TOTALS	993	168.9	824	457	720	1550	1550

Notes

- (a) These are all gross costs which would be offset by direct flowbacks on social security and tax which in the major programmes amount to about 40% of gross costs.
- (b) There would also be costs of around £150m for s.b. for 17 year olds.
- (c) These are consequential of early retirement before March 1983.

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**EMPLOYMENT AND
TRAINING MEASURES
IN 1981-82**

Report by Officials

Department of Employment

EMPLOYMENT AND TRAINING MEASURES IN 1981/82Report by officials

1. Special employment and training measures are currently keeping some 300,000 people off the unemployment register and when we announced the programme we thought that they would continue to do so to March 1982. It now however seems that on unchanged programmes this number will decline to about 270,000 by March 1982, despite increasing unemployment. This is mainly because less use than expected is being made of the Temporary Short Time Working Compensation Scheme. On the other hand, with unemployment amongst young people higher than expected the demand for places on the Youth Opportunities Programme and to support firms' intakes of long term trainees is outstripping present provision.

2. Against this background we consider three proposals:

(a) reducing the decline in the impact of the Temporary Short Time Working Compensation Scheme.

(b) increasing financial support for skill training of young people.

(c) a further expansion of YOP to enable it to meet undertakings already given by the Government.

In doing so we consider what use could be made of the 40-50,000 spare places in the Further Education system.

3. In all cases we endeavour to give estimates of gross and net costs and of the estimated impact of the proposals. Particular uncertainty surrounds the net cost estimates because of the numerous assumptions that have to be made in arriving at them.

(a) Temporary Short Time Working Compensation Scheme

4. The numbers kept off the register by this Scheme have fallen from some 150,000 at the peak last March to about 100,000 now and are expected to fall further to only an estimated 40,000 in March 1982.

5. This is the quickest acting and cheapest of the special measures and the only one under which industry receives direct financial assistance. At the moment 1981/82 expenditure under the Scheme is expected to be about £80m less than the £388m approved in the Estimates. If Ministers wished to increase its impact this year, there are three possibilities:-

(i) Extend the maximum period of support from 9 months to 12 months.

This would have the biggest immediate impact on the register. If it were done from 1 June (an improvement can be backdated), the extra cost in 1981/82 would be £100m gross (net cost £17m) and the effect on the register would be increased by over 41,000 this August and by 15,000 next March. This, however, would be the second time in a year that the period of support has been extended and the present Administration cut it from 12 to 6 months in 1979.

(ii) Admit small businesses to the scheme by lowering the minimum number of redundancies to 3 from 10.

The gross cost would be £21.7m in 1981/82 (net cost £3.6m) and the effect on the unemployment register would be over 3,000 in August 1981 and over 14,000 in March 1982. The extra staff required would be balanced by savings in the unemployment benefit service. (Eliminating the threshold altogether would admit a very large number of extra applications for a very small number of jobs saved. The extra staff required would then exceed savings in the benefit service. The extra effect on unemployment would be insignificant).

(iii) Allow renewed support for jobs for which support has expired where employers are prepared to contribute to the cost. If employers were required to give employees 50% compensation as at present but receive only 45% from the Government, the gross cost might be £29m in 1981/82 (net cost £2.4m) and the effect on the unemployment register might be 13,000 in August and 45,000 in March 1982.

6. Any of these changes would be welcomed by the CBI. But (i) and (iii) both detract in some degree from the principle that the Scheme is intended to support only potentially viable jobs; and attractive though (ii) might be in relation to helping small firms, the impact on unemployment would be too small to be worth making on its own.

(b) Long Term Skill Training

7. Employers' recruitment of young people for long term training in the training year beginning September 1981 is expected to be 82,000 which is some 20% lower than two years ago. In addition there is a growing problem of those apprentices taken on in recent years being made redundant before completing their training. Any move towards meeting these problems by increasing incentive grants etc would require additional expenditure in the financial year 1981/82 and in the following year.

8. Some 23,000 young trainees are already being supported by MSC at a cost of £30m. The main form of assistance is premium grants paid to employers, in arrears, for first year training of apprentices and technicians over and above their own immediate needs. Even allowing for this MSC estimate that in sectors now covered by ITBs alone training intakes will fall 14,000 short of future manpower requirements.

9. The MSC propose that they should be enabled to make funds available to ITBs and training bodies in other sectors so that, overall, the MSC would meet not more than half the cost of making good 8,000 of the shortfall. This would cost the MSC about £11m over two years. Road transport and engineering would be the main beneficiaries. The MSC would seek to use the funds to encourage training in tune with the New Training Initiative, but many of those helped would be in traditional apprenticeships.

10. The Ministry of Defence have proposed that their spare training capacity be used to take on 500 extra apprentices. Their proposals are expensive compared to the MSC's, mainly because they involve totally funding four years' training rather than partially funding one year. Ways are therefore being explored of making use of MoD training facilities in the context of the MSC's package.

11. MSC estimate that redundancies among young people undergoing long term training are likely to exceed 4,000 this year. The additional cost of securing continued training for these young people, by a combination of grants to employers and direct provision, is about £6m. The main beneficiaries would be engineering and construction.

12. The MSC also propose making more grants to firms or ITBs to try to keep up the number of industrial placements for college based sandwich students. In the recession firms cannot afford to provide places, have difficulty in giving students worthwhile tasks and supervising them effectively, and sometimes encounter hostile reactions from unions and employees. The MSC is seeking £3m to encourage extra placements through part funding.

13. These proposals would cost in total £9.6m in the present financial year and £11.0m in 1982/83 and would support some 12,000 young people on long term training courses. The net cost would be about £14m. There would be no additional staff costs. Unemployment among young people this autumn would be reduced by 6-8,000.

(c) YOP

14. On the basis of September 1980 unemployment assumptions Ministers approved in November 1980 an expansion from around 260,000 entrants in 1980/81 to 440-450,000 in 1981/82. This enabled the Government to ask the MSC to improve the undertakings to unemployed school leavers and other long term unemployed young people so that school leavers would be offered a place by Christmas 1981 and young people unemployed for 3 months would be offered a place within 3 months. MSC undertook to try to meet these challenging objectives.

15. At the same time the MSC proposed to develop YOP so that it contributed to the Government's publicly announced aim of ensuring that in due course every 16 and 17 year old not in education either had a job or was assured of vocational preparation lasting as necessary until age 18. This entailed improving the quality of opportunities, giving more work-experience trainees release for off the job further education or training (the proportion receiving this kind of training is currently around 40%). It also entailed more progression within YOP so that those young people who needed it could experience various types of opportunity lasting up to a full year. These developments also fit in with the New Training Initiative.

16. It is now clear that last year's estimate of youth unemployment is too low. The latest figures of school leaver unemployment for May 1981

show an increase of 102% over May 1980 and the MSC assessment in May 1981 of likely demand for YOP places in 1981/82 points to a need for 550,000 entrants - 110,000 more than budgeted for.

17. At its meeting on 23 June the Commission were presented with three alternatives for YOP in 1981/82:

- (i) Retain the present plans and budgets. This would mean dropping the undertaking for non school leavers and in the case of school leavers resorting to an Easter 1982 deadline rather than Christmas 1981 as announced.
- (ii) Increase provision to 550,000 entrants so that the present undertakings are capable of being met.
- (iii) Restrict the programme to the two undertaking groups. This would require increasing provision to 520,000 entrants and could lead to operational difficulties (eg in keeping expensive training places in workshops continually filled). Moreover some young people not in the undertaking groups but who otherwise could benefit from a place would be excluded (eg recent immigrants, young offenders and the disabled).

18. The Commission has put forward option (ii). It has also asked for the YOP allowance to be raised in November 1981 to £28 with travelling expenses over £5 paid.

19. The MSC proposals would require an additional £98m gross (£62m net) in 1981/82 and £121m (£76m net) in 1982/83. If the allowance were maintained in real terms (at £26 per week), with travel expenses met over £4, the additional cost would be £93m gross (£59m net) in 1981/82 and £113m (£71m net) in 1982/83. If the allowance and travel costs were held

at present figures (£23.50 and £4) the costs would be £86m (£54m net) and £101m (£63m net).

20. The MSC proposal could require an extra 850 MSC staff. There would also be an associated requirement for an extra 125 unemployment specialists in the Careers Service, which would add £300,000 to the cost in 1981/82 and £1.275m in 1982/83. All additional staff would be offset by savings in the administration of benefit.

Taking up Spare Capacity in Further Education Sector

21. Particularly because of the fall in craft and technician courses as a result of the recession, colleges of further education in England and Wales have something approaching 10 per cent spare capacity - some 40,000 full-time places. For the most part it is concentrated in the traditional craft areas of engineering and construction in older industrial areas. Ministers have recognised the desirability of using as much of this capacity as possible both to provide valuable experience for young people and to make the most effective use of existing facilities.

22. In the longer term, sustained use of this capacity could depend on the development of high quality courses within the NTI or a comprehensive scheme for the young unemployed, on the further development of education-based vocational preparation and on adequate finance. In the short term, apart from efforts which local authorities are making to emphasise to young people the benefits of further education over unemployment, use of these places depends on the buying in of capacity by the MSC at competitive rates.

23. The increase in apprentice training (paragraph 13 above) might generate a demand for 5,000 FE places and the development of YOP this year might generate a further demand for 10-12,000 of the spare places. The

move towards higher quality YOP is already bringing increased demand for FE provision under such schemes as those agreed with the Road Transport ITB and under discussion with the Construction ITB. Particularly if Ministers agree to the proposed expansion of YOP (paragraphs 18-20 above) it is recommended that both MSC and local education authorities should be urged to make maximum efforts to increase the relevant further education content of both the additional and the existing YOP programme, whether in colleges or provided by sponsors. This would result in more places being taken up beyond the 15-17,000 mentioned.

24. There is little spare capacity as such in Scottish FE colleges, particularly in the main centres of population. But it would be possible to expand provision in colleges for YOP and other forms of training by using existing facilities flexibly.

Conclusion

25. Ministers need to decide which, if any, of the above proposals for reducing unemployment in 1981/82 they wish to see pursued. Any additional expenditure would constitute a bid on the contingency reserve. The options and costs are set out in the attached table. In all cases where extra staff are required to administer the expansions, they would be entirely offset by staff savings in the administration of benefit.

COSTS AND POSSIBLE IMPACT OF ADDITIONAL MEASURES 1981/82

	<u>Cash Prices</u>		Extra Register Effect March 1982*	Net cost per person off the register per year*
	Extra gross cost 1981/82 £m (net)	Extra gross cost 1982/83 £m (net)		
<u>PSRCS</u>				
(i) Extend period of support from 9-12 months from 1 June 1981	100 (17)	45 (7.5)	15,000	£550
(ii) Extend to businesses with 3 or more redundancies	21.7 (3.6)	33.4 (5.6)	14,000	£550
(iii) Contributory scheme	29 (2.4)	67 (5.6)	45,000	£300
<u>YOP</u>				
Extend to 550,000 entrants ⁰				
(a) £28 allowance	98 (62)	121 (76)	42,000	£1460
(b) £26 allowance	93 (59)	113 (71)	42,000	£1445
(c) £23.50 allowance	86 (54)	101 (63)	42,000	£1418
Extend to 520,000 entrants				
(a) £28 allowance	70 (44)	114 (72)	36,800	£1440
(b) £26 allowance	66 (42)	107 (67)	36,800	£1426
(c) £23.50 allowance	59 (37)	121 (76)	36,800	£1400
<u>Training</u>				
Additional support for long term training, redundant apprentices and sandwich courses.	9.6 (6.7)	11.0 (7.6)	6-8,000	£1900

* These are DE's best estimates of the direct effects on unemployment and the PSBR. They depend on a number of uncertain assumptions and the estimates of net costs are subject to wide margins of error.

⁰ Estimates for 1982/83 represent additional expenditure arising from the extra commitment in 1981-82.

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**EMPLOYMENT PROSPECTS
AND EMPLOYMENT
MEASURES FROM 1982**

Report by Officials

Department of Employment

UNEMPLOYMENT PROSPECTS AND EMPLOYMENT MEASURES FROM 1982Report by OfficialsSummary

1. The Secretary of State for Employment was asked to arrange interdepartmental consideration of the outstanding proposals in the CPRS Report on Unemployment and Young People (E(81)8th Meeting). He asked that officials, in undertaking this, should look more widely at the prospects and problems of unemployment over the next two to three years and what might be done to cope with them.
2. We have set out in a separate report possibilities for further action in 1981/82. We are here concerned with 1982 onwards.
3. The attached report accordingly:
 - (a) sets out the prospects and problems of unemployment over the next few years (Section 1);
 - (b) examines the role of employment measures in the context of the Government's economic strategy (Section 2);
 - (c) identifies and costs possible schemes for grappling with the problem (Section 3);
 - (d) lists other ideas that either seem less promising or need pursuing in a different context (Section 4).
4. Section 1 shows a prospect of unemployment around 3 million over the next 2 years. The young, long term unemployed, disabled and ethnic minorities will be badly hit. Northern Ireland unemployment rates of 20% or more will be experienced more widely in mainland localities and rates up to double this may be experienced in some inner city areas. The eventual decline in unemployment seems likely to be slow, especially with

productivity potentially high and the population of working age growing by 1 million through the 1980s. The trends away from manufacturing and from manual and unskilled jobs and towards the use of new technology set a changing pattern of employment and unemployment.

5. Section 2 suggests that any conflict between measures to meet this situation and the Government's basic economic strategy is a matter of degree. Special employment measures normally cost much less per person off the register than fiscal measures or public investment and can more easily be reversed. They can and should be designed to contribute more to policies for improving labour market efficiency, and to take full advantage of aid from the European Social Fund.

6. Section 3 and the associated Annexes examine a wide range of possible specific measures, including the earlier CPRS recommendations. The most promising areas for further action are those which:

- help the young unemployed;
- temporarily reduce labour supply (notably through early retirement); and
- help the long term unemployed.

7. This section concludes that a selection of measures in these three areas could be combined to form a coherent programme of action to help counter unemployment while the economy is restored to competitiveness. They would however have a substantial cost, which Ministers would need to consider against their plans for public expenditure generally.

Points for Consideration

8. If Ministers want such a programme of action, Section 3 of the report puts the following suggestions and questions for consideration:

(i) A comprehensive scheme of training/work experience for all unemployed 16 year olds. A possible scheme is described in paragraphs 3.3 - 3.9 and in Annex 2. Is this preferable to continuing to develop YOP on its present basis? If so, what should be the benefit and allowance arrangements - Option A or Option B? Possible starting date - September 1982 or April or September 1983? Should the scheme allowance be extended to those in full-time education and on what basis?

(ii) Relative wages of young people (paragraph 3.10). Talk them down in context of New Training Initiative and more generally.

(iii) Early retirement (paragraphs 3.11 - 3.16 and Annex 3). To be encouraged at this stage through short term reversible measures rather than permanent alterations to State pension scheme. If resources allow, the most promising courses seem to be extension of Job Release Scheme - to 63 or lower - and early retirement for the long term unemployed over 60 who have been on SB for a year or more.

In addition, to strive throughout the public sector where 60 is the normal retirement age to make this the actual age in more cases; urging employers to allow early retirement under existing occupational pension schemes; and to defer abolition of the earnings rule for pensioners and allow the real value of the earnings limit to continue to fall.

(iv) Long term unemployed (paragraphs 3.17 - 3.27 and Annex 4). Numbers too great (possibly 800,000 in 1982-83) to provide all with temporary work or training. Practical options if resources allow are the suggestions for expanding CEP and stimulating voluntary work opportunities, concentrating to the

extent possible on priority targets like those with dependent children.

9. Section 4 of the report covers ideas which are either less promising or need pursuing in a different context:

- (v) Public sector investment projects (paragraphs 4.2 - 4.5 and Annex 5). When considering Departmental expenditure bids an attempt should be made to identify and support projects with a high potential for generating employment over the next 2-3 years.
- (vi) Temporary Short Time Working (paragraphs 4.6 - 4.9). Do Ministers wish proposals developed for a continuing scheme (perhaps with a levy on employers) which might ease the way for ending the present scheme in a year or so?
- (vii) Training for stock (paragraphs 4.10 - 4.12). Developments of this kind (beyond the apprenticeship proposal for the current year) should be left for reappraisal in the light of responses to the consultative document on the New Training Initiative.
- (viii) Worksharing (paragraphs 4.13 - 4.16). Not to be pursued save that Ministers might publicly support the TUC view that regular overtime should be reduced and applaud efforts to help the young unemployed with part time opportunities. If Ministers wish to encourage employers to develop more flexible reward packages of hours and pay in anticipation of a trend to shorter hours, this should be discussed informally with the CBI to see how best to pursue it.

- (ix) Married women's tax (paragraph 4.17 - 4.19). Employment considerations favour removing the tax incentive for married women to work and adopting the Green Paper proposal for a fully transferable allowance. Full weight should be given to these employment implications in the final decision and Inland Revenue should be asked to implement this change, if decided, as soon as possible.
- (x) Employment subsidies (paragraphs 4.20 - 4.22). No case at present.

SECTION 1 PROSPECTS AND PROBLEMS

1.1 The Public Expenditure White Paper gives the following unemployment figures:-

	1981-82	1982-83	1983-84
	- Thousands -		
GB (excluding school leavers)	2,500	2,700	2,700
Northern Ireland (ditto)	108	116	116
School leavers	212	212	212
UK Totals	2,820	3,028	3,028

1.2 These figures are averages. The summer flow of school leavers will take total unemployment towards or to 3 million this summer and above it in the following two years. No-one can be precise about the level or date when unemployment will peak - perhaps at around 3½ million in 1982, with a modest fall in 1983 as output grows. But if the recession is longer than expected or the recovery flatter, unemployment could still be rising in 1983.

1.3 Certain features stand out:-

- (a) Youth unemployment. If the national unemployment rate rises to 11-12%, it may be double that for young people under 20. With 3 million unemployed, about 60% of those under 18 could be without a normal job. They do, however, tend to change jobs more than adults and their unemployment bouts are on average of shorter duration. Thus, those under 20 at present constitute 18% of all unemployed but only 5% of those unemployed for over 1 year.

- (b) Long term unemployed. Durations of unemployment will increase. By 1983 over half the unemployed are likely to have been out of work for more than six months, 800,000 or so of them for more than a year. Older age groups have particularly high durations of unemployment: thus, at present 15% of all unemployed are aged 55 plus but they constitute nearly a third of those unemployed over one year. When unemployment is at its peak there could be as many as 400,000 children living in families of which the head has been unemployed for more than a year.
- (c) Local impact. Regional unemployment rates will range from 8% to 15%, with Wales, Scotland, North and the West Midlands at the upper end. Areas dependent on heavy industry will continue to suffer and some traditionally buoyant areas will join them, eg. unemployment in Birmingham is currently only 3 percentage points below that in the Merseyside Special Development Area. More places will experience rates of 20% or more such as till now have occurred only in Northern Ireland and recently, for example, in Corby, Consett and Irvine.
- (d) Minorities. The disabled and the ethnic minorities will have disproportionately high rates of unemployment. In the case of ethnic minorities, this will often be geographically concentrated.

Longer Term Trends

1.4 The rate at which unemployment eventually declines may be relatively slow. There are three main factors affecting unemployment in the longer run, none of which is favourable over the next 2-3 years:

- (a) The rate at which output expands. The rates of growth of output over the next two years are unlikely to be high enough to pull down unemployment markedly.
- (b) The trend of productivity. The shakeout of labour and technical advance could well enable productivity to rise fast when recovery starts, with fewer people taken back for any given increase in output, though desirable from the point of view of producing sustainable jobs in the longer term.
- (c) Labour supply. The labour supply - and the unemployment figures - have been kept lower than they would have been by quite fast reduction in the number of older men and married women looking for jobs. These trends could be reversed as output and employment rise again, particularly given the long term increase in women's activity rates.

Moreover the population of working age is expected to grow by over a million by 1990. The bulk of the increase takes place before the mid-1980s, in the case of adult men because retirements are relatively low until 1985. Although the numbers of young people entering the labour force peak this year, the annual entry will remain high until 1987.

1.5 Other trends in the labour market are relevant in considering approaches to the problems of unemployment:-

- partly, though not solely, because of the move away from manufacturing, there will be a trend in the 1980s towards non-manual and professional and technical occupations. These will soon account for half of all employment;

- there will be a decline in the number of unskilled jobs and a check to the expansion of jobs in education and in clerical, sales and personal services;
- new technology will alter skill needs.

SECTION 2 THE APPROACH TO THE PROBLEMS OF UNEMPLOYMENT

2.1 The aim of current Government economic policy is to maximise the level and rate of growth of output sustainable in the medium term by controlling inflation, reducing the proportion of national resources deployed in the public sector and by encouraging enterprise. Employment considerations do not figure explicitly in that aim, but clearly the maximum sustainable output offers the best possible basis for the maximum sustainable employment.

2.2 The most important determinant of employment is the level of activity in the economy and the market will continue to be the most powerful influence operating on both output and employment. The Government can of course have highly significant effects on output and employment by the economic and fiscal policies it chooses, but it is no part of our remit to consider these. Our studies are concerned with specific measures that the Government might take to create employment or lower unemployment.

2.3 There is a wide range of measures of this kind which the Government already undertakes in order to stimulate employment or provide useful things for the unemployed to do. They include the various regional and industrial aids and the measures of encouragement to small firms. They include also the expenditure on training and labour mobility to increase the efficiency of the labour market. More particularly, they include the range of what have become known as the special employment measures - the youth programmes, temporary work programmes for the long term unemployed, earlier retirement through JRS and temporary short time working compensation.

2.4 The latter were originally adopted a few years ago as a means of combating the unemployment effects of a short term cyclical downturn, much

as they have been used elsewhere in Europe. It is now plain that the unemployment problem is not simply cyclical. A large element is structural - arising from various factors which account for the uncompetitiveness of important sectors of British industry, including investment and labour market deficiencies. These are not easily remedied and unemployment could continue through much of the 1980s at levels much higher than those experienced in the last four decades.

2.5 This perception has led to growing calls for the special employment measures to be greatly expanded and developed as continuing programmes. The CBI document "Will to Win" illustrates this with its suggestions for a special employment programme derived from the current measures but going further to develop a comprehensive training programme for the young, for a national expansion of voluntary activities to perform useful community services, for encouraging earlier retirement and for undertaking new public sector investment which will create employment.

2.6 Such a view is prima facie attractive since it can be shown that, at least in the short run, special employment measures are generally a more cost effective way of reducing the numbers registered as unemployed than other forms of public expenditure or tax reductions. It may nevertheless be argued that the desired employment effect might be better attained in some cases by financing particular public investment projects because of the asset creation that results. We examine this further in paragraphs 4.2 - 4.5.

2.7 In either case the net cost per person off the register is generally significantly lower than the gross cost, largely because of the savings in benefit. However, after allowing for direct and indirect effects, there is no measure which is without some cost or effect on the PSBR.

2.8 In assessing indirect effects, the effects on the labour market need to be considered. Any measure which reduces the level of unemployment, particularly if it reduces the supply of labour, tends to increase pressure on the labour market and might therefore be supposed to have an unfavourable effect upon earnings and prices and (assuming a fixed money supply) interest rates, and hence output. At current levels of unemployment the extent of such effects from measures on the scale under consideration is uncertain, particularly in the case of YOP and CEP. However, any such effects (like the effects on the PSBR) tend to build up over time, making such measures less attractive in the long run.

2.9 For these reasons the allocation of resources to any employment creating measures must be regarded as to some extent in conflict with the Government's basic economic strategy and, like all public expenditure, involves judgement as to priorities. Each measure must be evaluated as to whether the net extra expenditure is justified by the beneficial effect on the level of unemployment, generally or for a particular group, bearing in mind the prospects for finding offsetting savings.

2.10 It is also important to bear in mind that Government policy is much concerned with improving the supply side of the economy. This involves policies to remove distortions and improve the operation of markets. It is therefore important to consider the extent to which special employment measures can be developed and designed so as to contribute more to the general policy for remedying structural defects, notably those relating to the efficiency of the labour market (including training).

European Community considerations

2.11 We must also bear in mind that other countries in Europe are facing problems of high unemployment - though few on the scale experienced in the UK. There are signs of greater concern among Member States to lower

unemployment through Community instruments on such ideas as worksharing and flexible retirement. We will seek to adapt such proposals as far as possible to UK needs and in general to avoid binding Community instruments. At the same time it will be necessary to ensure that the measures we adopt nationally accord with established Community requirements.

2.12 This will be particularly important in relation to the European Social Fund which has to be reviewed before the end of 1982. We wish to increase UK returns from the Fund and to use it as a source for lowering the net costs of special measures. Ministers have already decided that we should seek higher priority within the Fund for schemes of youth employment and training and for schemes to help with unemployment in areas of industrial decline (including urban areas). In addition, the Commission are likely to develop proposals for schemes of job creation for the unemployed. These considerations have been kept in mind in the examination below of possible developments of employment measures.

SECTION 3 THE RANGE OF POSSIBLE MEASURES

3.1 We have looked at a very wide range of measures and our examination leads us to suggest that the most potentially worthwhile areas for greater action lie in:

- (a) measures to help unemployed young people (where Ministers asked specifically that we should work up for consideration a new comprehensive scheme for 16-17 year olds).
- (b) measures to reduce the labour supply at least temporarily (notably through early retirement of older workers).
- (c) measures to help the long term unemployed (including through the provision of non-market working opportunities).

These options are dealt with briefly in the paragraphs which follow and at more length in annexes to this paper. The main CPRS recommendations are taken into account in these sections, but our conclusions on all the CPRS recommendations are set out for convenience in Annex 1.

YOUTH UNEMPLOYMENT

3.2 The size of YOP is growing each year as youth unemployment rises. As our separate report on 1981-82 measures shows, the MSC advise that this year's programme of 450,000 places now needs to be increased to 550,000 in order to meet the Government's undertakings to young people; and, on the unemployment prospects, a programme for over 600,000 (nearly half of all 16-18 year olds not in full-time education) could be needed in 1982-83 if the undertakings are to be maintained.

3.3 Ministers have already spoken of the ultimate aim of ensuring that no young person need be without a job, training or further education up to the age of 18. Ministers decided earlier this year against compulsory schemes, but within a voluntary system we think there are possibilities for radical change if the Government can offer to a category of young people a scheme which provides for all who need it. The shape of the proposals outlined below is necessarily determined by the need to provide for the unemployed. If youth unemployment were not expected to be a dominant problem over the next few years, proposals might well take a different form with the emphasis on how employers might be encouraged by various means (not excluding financial penalties as with the French tax d'apprentissage) to provide more training of better quality for those with jobs. But the unemployment situation seems to demand concentration on what the Government can do for those young people without jobs and the development of work experience and training for them on a comprehensive basis in line with the New Training Initiative (NTI) as is already the trend with YOP. Such an approach should be complementary to the current (or even further expansion of) Unified Vocational Preparation (UVP) for those in employment.

3.4 Annex 2 sets out details of how a comprehensive scheme for the young unemployed could work and be phased in to replace the current YOP. The basic features are:-

- (a) it would apply to all 16 year olds in the first instance.
- (b) they would still be encouraged, on leaving school, to get into jobs, including apprenticeships, with proper training, but
- (c) those who found themselves unemployed within a year of leaving school at the minimum school leaving age would have available to them the opportunity of training and work experience at

state expense for up to 12 months. (To make the programme manageable, the offer would be of a minimum 6 months for those who apply within 6 to 12 months of leaving school and who therefore will usually have had some experience of working life and perhaps some training).

- (d) the aim would be to make the 12 month offering a properly structured and integrated programme of training and work experience. (Initially, the overriding priority would have to be the provision of enough 12 month courses to meet the demand - the average YOP provision at the moment is about 6 months - and it would be some years before the quality aim could be fully attained.)
- (e) joining the programme would be voluntary. There are alternative possibilities for payment of an allowance on the programme, but neither SB nor the allowance would be available under either option to those young people who refuse to register for it or unreasonably turn down a place.
- (f) it would be possible at some future date - depending on resources and capability - to extend this scheme so that those who, after the training, found themselves without employment could be offered work of a community nature at the same level of allowance as on the training scheme up to the age of 18. In those circumstances SB would no longer be available to most young people in their own right before the age of 18. (This extension would achieve the Government's stated ultimate aim in paragraph 3.5).

3.5 Timing. Main legislation might be needed on some aspects of the scheme eg affecting benefit and allowances. Subject to that, the scheme -

without (f) of course - could be phased in to replace the current YOP from 1983 or - if Ministers were prepared to accept a significant risk of failure to achieve the targets in the first year of operation - from September 1982. The risk with the earlier date is that not enough 12 months places could be provided in time, that the quality could not be raised significantly in enough places and that hasty introduction could accentuate the problem of acceptability referred to in 3.11 below. The principal alternative would be to continue YOP in 1982-3 with increased emphasis on those aspects (early entry for 16 year old school leavers and better quality training of longer duration) which will feature strongly in the new scheme.

3.6 Those in education. The rapid introduction of a programme of this kind raises questions of relationship with young people staying on in education to follow either traditional academic and technical courses or the newer schemes of vocational preparation. The above scheme would lessen to some extent the current financial disparity between those in full time education and unemployed young people on YOP. If Ministers wished to give priority to further education the full allowance could be paid also to those in full-time further education but on the basis that it is reduced by the amount of child benefit (and possibly the element of travel costs) and parentally means tested. (This is further explained in paragraph 26 of Annex 2). Unlike the scheme allowance, which would extend for only 12 months, this education allowance would have to be available until the end of schooling at 18 or 19 with consequences for the overall cost.

3.7 Benefit arrangements. Annex 2 sets out two versions (Options A and B) of the benefit arrangements which could apply under this new scheme. The main difference is that Option A treats unemployed 16 year olds, like those at school, as still dependent on their parents and therefore receiving only out-of-pocket expenses (£8 allowance) while actually on the

scheme; whereas Option B accords them the same status in this respect as their contemporaries who have jobs and pays them a training allowance (£20) while on the scheme or waiting for it. Option A is less expensive, and simpler in that, save for the receipt of expenses when on the scheme, the unemployed 16 year old is treated as if he were still at school. But it has major disadvantages. A successful scheme necessarily relies heavily on employers to provide places. They will have little incentive to do so if young people and/or unions do not co-operate because of the unpopularity of the low level of the allowance and the extension of their dependent status - which would be seen as contrary to recent social trends. The supply of places would dry up and the New Training Initiative itself would be damaged. Option B costs more, and because the young person is regarded as independent, a waiting allowance needs to be paid for which purpose it might be just as well to retain SB, unless presentation demands a new nomenclature. But Option B would seem to largely avoid the repercussion on the supply of places which seems to follow from Option A. It is therefore the more practical course.

3.8 The annual costs and effects of the two Options are shown below, together with the costs of extension to those in full-time education; and, for comparison, the costs of the alternative course of continuing YOP with the present coverage and guarantees.

	Gross Costs (£m)	Net Costs (£m)	Register Effect
Option A-£8 allowance	1030	547	398,000
<u>plus</u> education allowance (parentally means tested)	(212)	(212)	
Option B £20	1164	681	398,000
<u>plus</u> education allowance (parentally means tested)	(220)	(220)	
[YOP with existing guarantees	848*	379*	233,000*

* Provisional figures subject to amendment

This new scheme would be in line with the EC approach to providing for the young unemployed and we would expect to obtain substantial assistance from the Social Fund in support of such a scheme. (The UK received, in respect of YOP, funds amounting to 25% of its cost in 1980.)

3.9 There are clear benefits in moving to a more comprehensive approach which concentrates resources where they can be used with advantage rather than simply supporting the young unemployed school leaver. Yet there are also considerable problems in introducing it and presenting it. There will be complaints that it is in reality a compulsory scheme because SB 1s lost if a place is unreasonably refused. The lowering of the allowance is likely to reinforce present criticism that YOP is cheap labour. It will be claimed that, initially at any rate, it is not sufficiently different from YOP, and this criticism would be reinforced by any failure to supply sufficient places quickly, particularly for the peak of school leavers in the early autumn. So if Ministers decide to proceed, the scheme will need very careful presentation as improving training and furthering the NTI. This points to informal sounding of the CBI, TUC and MSC before final decisions are taken and to timing announcement of the scheme as part of the action following the ending this autumn of the consultations on the NTI.

Relative Wage Levels of Young

3.10 The above scheme would go part of the way with the CPRS recommendations to contain, or preferably widen, the wage differentials between young people and adults, in so far as it reduces the level of benefits and allowances. Ministers decided (E(81)14th Meeting) not to pursue the exclusion of young people's wages from the jurisdiction of Wages Councils, in favour of attempting to influence their relative wages through collective bargaining and the NTI. While Ministers may wish to reconsider the issue if it were decided to go ahead with a comprehensive

scheme on the lines described above, we do not think that adoption of the above scheme would alter the balance of argument on that question. But whether or not Ministers proceed with a comprehensive scheme as above, we believe that

- (a) they should take opportunities to point out to pay negotiators, and employers in particular, the adverse employment effects of high relative wages for young people under 18;
- (b) discussions on the NTI should emphasise in particular the case made in the consultative document for lower relative rates of pay for young people in training.

The message in (b) is likely to be the most influential and would be even stronger with the above scheme.

LABOUR SUPPLY AND EARLIER RETIREMENT

3.11 The virtue of encouraging earlier retirement is that it helps to release real jobs for the unemployed. Such schemes are used in a number of European countries and a Community instrument favouring earlier retirement for employment reasons is likely to come forward later this year.

3.12 This is an area in which it is worth considering whether, in view of the longer term prospects for unemployment set out in Section 1 above, a programme for lowering the age for State pension (preferably through flexible arrangements) during the 1980s is feasible. Annex 3 discusses possibilities and costs (including a scheme for partial retirement and ways of encouraging early retirement of occupational pensioners if only through publicising existing provisions). But as the White Paper "Growing Older" has recently made plain, the costs of permanent measures of this

kind are generally very high and rise as growing numbers of the population become eligible for retirement benefits paid at increasingly high levels.

3.13 There is a considerably stronger case for short-term reversible action to boost the retirement rate as a particularly effective means of reducing unemployment. Activity rates for men aged 60-64 have been declining recently, but are still much higher here than elsewhere in the Community (80% compared with the EC average of 57%). Also, the number of men retiring declines in the early 1980s before rising sharply in 1985 because of the large number of births in 1920. So we have concentrated on possible schemes for increasing the impact of earlier retirement on unemployment in the short term.

3.14 Of the schemes of this kind described in Annex 3 the most promising are:

- (a) Extend the Job Release Scheme down from the present age of 64 for 1 year. To reduce it to 63 would cost £45m in 1982/83 (net cost £26m) and to lower it to 60 would cost £225m (net cost £128m). The gross costs rise further in the following years as shown in Annex 3. An extension to age 63 would take another 19,000 persons off the unemployment register and to 60 would take off an additional 100,000. (The proposal is to accept applications from lower age groups for one year; if the expansion was continued for more than one year the annual cost would rise by £50m in 1983/84 if open to 63 year olds and by £169m in 1983/84 if open to 60 year olds with correspondingly higher costs thereafter).

It is important to ensure that the effectiveness of the scheme is maintained, and paragraphs 4 and 6 of Annex 3 set out ways in which the effect on unemployment could be improved

(exclusion of those within 6 months of compulsory retirement; insistence that jobs in public services should be filled by the unemployed).

- (b) Early retirement for the long-term unemployed on the basis that the unemployed aged over 60 who have had SB for over one year should be allowed to withdraw from the labour market and be treated as retired. They could be offered either an allowance set at the long term rate of supplementary benefit, or merely at the lower rate of supplementary benefit to which they would have been entitled as unemployed. In the former case some 45,000 might be removed from the unemployment register at a gross additional cost of £21m in 1982/83. In the latter case there would be no additional costs but considerable doubt as to whether many would leave the register. Either, but especially the latter, is liable to be criticised as no more than a cosmetic device for reducing the unemployment count.
- (c) More rigid imposition of retirement age in the public sector. The Civil Service normal retiring age is 60 and yet in October 1980 nearly 35,000 non-industrial civil servants were aged 60 or over. This situation is already being reviewed by CSD and we believe that, from the unemployment viewpoint, it would be advantageous to strive throughout the public sector where 60 is the retirement age to make this the actual age in many more cases. This will not prevent them registering as unemployed (even where they are drawing substantial occupational pensions) but it will release jobs to young unemployed people whose benefit entitlement will normally be larger.

3.15 We have concentrated here on JRS and the short term possibilities. Looking further ahead Ministers might wish to consider moving towards

longer term aims on the pensions front which would achieve similar effects on unemployment eg moving towards actuarially reduced pensions (as in paragraphs 9-10 of Annex 3).

3.16 The CPRS report suggested reviewing abolition of the earnings rule for pensions. However, the Government is now committed to abolition at a net cost of about £45m. This is unfortunate in employment terms as it is bound to give some incentive for older workers to remain in employment. Although the impact is likely to be small, we suggest that, if the Government is introducing further early retirement measures to reduce unemployment over the next few years, it would be desirable to defer abolition and to allow the real value of the earnings limit to fall as in the last 2 years.

LONG TERM UNEMPLOYED

3.17 Over the next 2 or 3 years the long term unemployed (currently defined as those unemployed over a year) are likely to form an increasing proportion of total unemployment. The main hope for this group must be economic recovery resulting in their getting real jobs. In the meantime the question is whether anything can be done to give them a chance to withdraw from the labour market, to give them preference over other unemployed or to help them retain or recover their employability. The numbers (a possible 800,000 in 1982/83) are too great to contemplate a practical scheme which would accommodate them all with training or employment opportunities. But we have looked at various ways of helping them (Annex 4) in the light both of the CPRS report's suggestion and others from outside.

3.18 One thing that could be done would be to allow long-term unemployed men aged over 60 and in receipt of SB for more than a year to retire early and come off the unemployment register (see paragraph 3.14(b) above). That could lower the numbers by some 45,000.

3.19 For the rest the best practical scheme that we can see is to improve the Community Enterprise Programme which Ministers have said will go on for at least three years and make efforts to enable the voluntary agencies to expand their efforts. The MSC think that it would be practical to increase the CEP in 1982/83 to provide 60,000 places by the end of that year instead of the 25,000 planned for this year. The gross cost of this expansion would be £145m (net cost £48m). This expansion programme would not be feasible if MSC grants to local authorities for special employment measures are included in the total of local authority expenditure and this matter is currently the subject of Ministerial correspondence.

3.20 The CPRS suggested a change to CEP which would raise the number of places to 100,000 on the basis that employees should receive benefit rates plus a small premium instead of the rate for the job and that those under 25 should be refused benefit if they refused a place on the scheme. The basic objection to this is that grass roots union support would not be there for schemes based on the "benefit plus premium" approach to the payment of employees rather than the "rate for the job". Because of this sponsors would not be found for the schemes. (This objection applies with even greater force to Professor Layard's suggestion that certain categories of unemployed people should be guaranteed a place on a programme at "benefit plus premium").

3.21 There is, however, much to be said for supplementing CEP by helping voluntary organisations to provide more opportunities for community service. If about 3,000 temporary posts in voluntary organisations were funded through the MSC this could eventually provide voluntary activity for 30-40,000 of the long term unemployed at any one time. With a £5 a week allowance for expenses over and above the benefits paid this would cost £8m. DHSS are also considering supporting this approach by using section 64 of the 1968 Health Services and Public Health Act to enable national voluntary bodies to support additional unemployed volunteers. In both cases the volunteers would remain on the unemployment register.

22 Some CEP places will be taken up by more than one long term unemployed person in the course of a year and others may be among those 800,000 adults obtaining temporary jobs to help run YOP schemes. So in all something over 100,000 of the long term unemployed could be taken off the register at least temporarily and a further 50-60,000 given voluntary work in the course of a year.

23 The coverage might be extended to some extent if long term unemployed people were enabled to share a single place part time. There are serious practical difficulties of organisation, payments and benefit, but it might be worth trying to launch experiments with a small number of sympathetic sponsors in view of what is said about part-time work in paragraph 4.15 below.

24 A much more important question is whether these schemes should be targeted on a narrower group of the long term unemployed, eg those unemployed for more than 2 years (now about 200,000) or those with families to support (about 75,000) where the social need is greatest or those under 25 (85,000) where long term unemployment is growing fastest. These figures will probably double by 1982/83 and will still present a very large target. For instance, a programme limited to males unemployed for more than 2 years with dependent children might still need to cover 800,000 people if total long term unemployment were 800,000. The problem in limiting the schemes to priority targets is that need does not fall neatly within these categories and extra conditions of this kind cause problems with sponsors and make the schemes difficult to run.

25 If the schemes are to be limited in target, the sensible course might be to raise the present duration criteria so that the schemes apply to 18-24 year olds who are one year unemployed (not 6 months as at present) and to others who are 2 years unemployed (not one year as at present). Within these formal criteria it would be possible also to have

an informal priority for family men with children (for whom there is little difference between the rate for the job and the benefit plus premium approach). MSC intend to try informal experiments over the next few months to explore the practical possibilities of such targeting.

3.26 The formal target group would then become 530,000 instead of 800,000. JRS for the over 60s who are unemployed would take the target group below 500,000. The expanded schemes would then enable the Government to provide opportunities of 6 months temporary work for about 20% of the group over the course of a year. If experiments for providing work for shorter periods showed this still to be useful and practical, this could raise the numbers covered somewhat and opportunities for voluntary work might be made available for a further 5% of the group. This falls far short of the 100% coverage for all those unemployed for over 6 months which Professor Layard claims could be achieved by a combination of 'benefit plus premium' schemes and substantial job subsidies. However we do not think either element of his approach can be recommended (see 3.20 above and 4.20 - 4.22 below) and that it is quite impractical to think that a guarantee of work could in this way be given to all who might ask for it from the field of around 1 1/2 million who could be over 6 months unemployed in 1982-83.

3.27 The development of EC policy in this area will be important. Expansion of provision of employment opportunities for unemployed adults is certainly in line with Commission thinking, but we shall need to watch the details in order to benefit from any Social Fund provision for job creation schemes of this type. In this respect it will be important for the Government to satisfy the Commission that our rules on "additionality" of expenditure do not work against the objects of the Fund.

A GENERAL APPROACH

3.28 None of these approaches is without risk but, subject to availability of resources, it would be possible to put together a combination of the above measures as a coherent programme for assisting unemployment in positive ways while the economy is restored to competitiveness and the long haul back to low unemployment takes place in the 1980s. To move to training all young persons who are unemployed is to use the misfortune of high unemployment to prepare them better for working life and to introduce a scheme which will be of continuing benefit to the efficient operation of the labour market. Providing for the worst hit groups of the long term unemployed will maintain their capability to work against the time when labour demand increases. Earlier retirement responds to the labour supply situation in the 1980s, particularly over the next few years, and is the least damaging form of worksharing though it may still add to inflationary pressures. These schemes could be put together in ways which match the supply of assistance to the local need, which tap voluntary resources more effectively in this area and which emphasise organisation of the programmes at the local level involving fully those who can help in the local community. It would be in line with many of the public suggestions made, notably with the CBI suggestions in "Will to Win".

3.29 As an illustration of the maximum impact and costs of such a combination of these measures we set out in Annex 6 the costs, additional PES requirements and employment effects of the comprehensive youth training and employment scheme, an expanded CEP and voluntary scheme of temporary work and an extension of earlier retirement through JRS. Extra staff would be needed to run these schemes, but they would be offset by those saved in benefit administration.

3.30 Ministers need to decide whether they want to adopt a general approach of this kind and which, if any, of these measures to undertake having regard to the resources available. If they initially favour any of the courses covered in this report it would be highly desirable for informal consultations to take place with the CBI and MSC before decisions are finally taken. It would then be necessary to decide in the context of the 1981 Public Expenditure Survey what could be found for such measures and to decide priorities between them.

SECTION 4: OTHER IDEAS

4.1 We have examined several other areas of thinking to reduce unemployment, but do not see scope in them for as sizeable or as favourable an impact on unemployment as those already discussed. There are, however, possibilities within some of them which Ministers may wish to consider in addition to or in replacement for some part of the above approaches.

1. Public sector investment projects

4.2 This is the alternative or complementary approach to which Ministers say wish to give most attention. The question it raises is whether there are public expenditure projects which might have particularly beneficial employment effects as well as being more attractive than special employment measures in terms of creating new wealth and assets.

4.3 Our general conclusions about this approach are:

(a) Mainstream capital expenditure programmes could be focussed on particular industries and areas but not generally on providing jobs for the unemployed or particular categories of the unemployed.

(b) They are liable to cost substantially more in relation to the jobs produced than do the sorts of special measures discussed earlier in this report. This is essentially because they involve higher wage payments and a greater element of spending on machines and materials.

(c) This approach is usually slower to affect unemployment than special employment measures and is more likely to conflict with particular policies to control public sector spending and employment.

4.4 The relevance of these considerations is likely to differ according to the nature of particular investment projects. This is illustrated by the proposals by the Department of the Environment listed in Annex 5. These projects could result in additional jobs at modest net costs as well as producing wealth or improving infrastructure. It is notable, however, that those relating to private trusts or charities etc are not distinguishable from those that can be undertaken under CEP, which is already trying to do more with voluntary bodies to improve infrastructure and the environment. Those involving local authorities in environmental work or housing are perhaps closer to the aim of creating assets as well as jobs, but seem more likely to conflict with the general Government policy of containing local authority expenditure.

4.5 It seems to us that financing public sector investment projects cannot be a wholly alternative approach to special employment measures. But we suggest that in countering unemployment over the next 2-3 years:

- (a) special employment measures should be biased as far as possible towards asset creation; and
- (b) when considering Departmental public expenditure bids an attempt should be made to identify and support projects with a high potential for generating employment over the next 2-3 years.

2. Temporary Support for Viable Jobs

4.6 The current Temporary Short Time Working Compensation Scheme has been particularly cost effective in keeping people off the unemployment register. It is the cheapest method of keeping people off the unemployment register and accounts for one third of the unemployment register effect of the current special measures. In 1980-81 take-up very

greatly exceeded original estimates but the use of the scheme is likely to fall off markedly over the coming year as firms exhaust their entitlement, so that it keeps only about 15-20,000 people off the unemployment register in autumn 1982 compared with 150,000 in the spring of 1981.

4.7 Our separate report on measures for 1981-82 considers the options for improving the impact of the scheme on the register over the next few months.

4.8 Looking beyond the present there is a case for ending the scheme when most firms that could benefit have exhausted their entitlement under the present rules. This would mean regarding it as a short term counter cyclical measure, which could then be available for re-introduction in the course of another cyclical down-turn.

4.9 However, there is also a case for some form of permanent short time working compensation scheme to help companies through temporary difficulties which do not reflect their true market position. The scheme was first conceived as a permanent measure on the lines of similar schemes in Europe. This may be behind the CBI "Will to Win" desire to see the scheme developed. A continuing scheme could have different features from the present one, such as a levy on employers. Although Ministers did not pursue the original idea of a statutory scheme, they may wish to consider whether to have proposals developed for some kind of permanent scheme, which might ease the way for ending the present scheme.

3. Training for stock

4.10 The proposals for a further £20 million support for skills training discussed in our separate report on 1981/82 measures follow the pattern of existing support programmes in that the idea is to help to maintain total intakes to meet industry's foreseeable needs. It would be possible to

mount a larger training package, but generally we do not favour this. It would amount to "training for stock" which has previously been rejected by Ministers.

4.11 The main reasons for rejecting the idea are:-

- the more training is paid for from the public purse the more employers might respond by cutting back their own training ("substitution"). Substitution involves the risk of the whole industrial training budget gradually falling on the public purse.
- Supporting skill training, especially apprenticeships, is very expensive.
- If training is not employer-related it is difficult to decide what skills to train in.
- There is a risk of the skills being unused after training. Unused skills rapidly deteriorate and leads to disillusion with training.

4.12 These arguments are not conclusive in all circumstances and there are counter-arguments. Thus, it can be argued that shorter courses are possible, that some potential skill shortages can be identified and that work experience not leading to a job is not necessarily more beneficial than training not leading to a job. This question is bound to come up in the consultations on the New Training Initiative and we suggest that it should be left now for reappraisal in the light of the responses to the NTI consultative document.

4. Worksharing

4.13 Worksharing as a means of countering unemployment is likely to be given a new lease of life in consideration within the EC, notably with the new French Administration's intention to bring the normal working week down to 35 hours. The Commission are currently considering producing an instrument on part-time working.

4.14 It is important to distinguish the different forms of action which fall under the definition of "worksharing". They include reductions in basic working hours, restricting overtime, encouraging part-time work, increasing holidays, providing working sabbaticals and shortening working life by earlier retirement. There seems little doubt that it is best for Government to leave industry to move towards shorter normal working hours at its own pace rather than to attempt to use this as a means to try to generate extra employment. There is a most serious risk in this approach of simply reducing competitiveness and so employment. Reducing over-time is more attractive but suffers from a number of the problems associated with reducing normal working hours. We believe, however, that the Government should take opportunities to give public support to the TUC's views that regular over-time should be reduced. This would either increase efficiency or help to create more jobs.

4.15 At the margin there may be some scope to encourage part-time work or job sharing, in particular amongst young people and those nearing retirement (for whom the possibilities are covered in Annex 3). Disabled people are other potential candidates for any extension of part-time opportunities. Some individual employers in both the public and private sectors are attempting to re-organise work to allow them to recruit an unemployed person who would not otherwise have been recruited eg by dividing a full-time job into two part-time ones. There are only a handful of such schemes at the moment, but the Institute of Personnel

Management is considering a publicity drive and Ministers might publicly applaud these efforts by employers to help young people.

4.16 The CPRS also pointed out that technical developments may bring a trend to shorter working hours in any case and that there could be employment advantages in encouraging employers now to offer more flexible reward packages in terms of hours and pay. If Ministers think this worth pursuing, we suggest that it should in the first instance be discussed informally with the CBI to see how best to carry it forward.

5. Married Women's Tax

4.17 Against the unemployment prospects sketched in this note there seems to be a strong case for changing the present tax system, which is specifically designed to encourage married women to go out to work. A higher proportion of married women are in the labour force in the UK than in virtually any other European country. Removing the taxation bias in favour of two-earner couples would result in a rather lower rate of participation of married women in the labour market, and therefore some improvement in jobs prospects for other groups, including the young.

4.18 The practical effect of the change would probably be small but it would nevertheless be a welcome improvement and from this point of view we support removal of this tax advantage for two-earner couples and the proposal for a fully transferable allowance set out in the Green Paper on Taxation of Husband and Wife.

4.19 The view of Inland Revenue is that the earliest possible date for implementation of such a change is the late 1980's (after computerisation of PAYE). Nevertheless Ministers may wish to see that full weight is given to the employment implications in these ways when decisions are taken in the light of the Green Paper; and to press for the change, if decided on, to be implemented as soon as possible.

6. Employment Subsidies

4.20 Successive Governments have in the past operated subsidies to encourage the creation of additional jobs (eg Regional Employment Premium and the Small Firms Employment Subsidy) or the recruitment of particular groups within the unemployed (Youth Employment Subsidy, Adult Employment Subsidy and the Job Introduction Scheme for the disabled). The present Administration ended the two largest subsidies of this kind (SFES and AES).

4.21 It is sometimes argued that, in view of the employment outlook this decade and the manpower implications of technical advance, it would be wise to move from subsidising capital investment to subsidising employment. That does not seem to correspond to the nature of the British industrial malaise of low productivity and high unit labour costs. Moreover, general employment subsidies are from experience relatively expensive because they have to apply to large numbers of people who would have been recruited anyway. And they inevitably distort the working of the labour market.

4.22 There is a somewhat different case (for which Professor Layard of the London School of Economics is a strong advocate - see paras 3.20 and 3.26) for subsidising particular groups eg the young, the long term unemployed or the disabled if the Government wishes to give them priority in the labour market. Such subsidies do not of course create jobs but simply redistribute them. The arguments are considered in Annex 4. We see no strong case at the present for using employment subsidies of either kind.

CONFIDENTIAL

ANNEX 1

CPRS RECOMMENDATIONS ON UNEMPLOYMENT AND YOUNG PEOPLE

This note briefly sets out interdepartmental views on the outstanding recommendations in the CPRS report "Unemployment and Young People" that we were asked to examine. It is in two parts:-

A. Those recommendations dealt with in the main report

B. The remaining recommendations

A. RECOMMENDATIONS DEALT WITH IN THE MAIN REPORT

(1) Training and Education

Recommendation 1: A voluntary approach to providing a training year to unemployed school leavers through YOP, accompanied by a substantial reduction in benefits and allowances and measures to increase the staying on rate in full-time education.

Comment: Paragraphs 3.2 - 3.9 and Annex 2 of our Report set out a possible comprehensive scheme for unemployed 16 year olds and considers the relationship of this to young people in full-time education.

Recommendation 2: More training for skills by increasing MoD apprentice recruitment, continuing the MSC's Threshold Programme of computer training and considering a skills training package (with an upper cost limit of £50m) biased towards areas of high unemployment.

Comment: Provision has been made under the MSC's Threshold Programme for 1476 young people to be supported in 1981/82 at a cost of £3m.

Further support for apprenticeship training (including possible use of MoD facilities) are made in our report on measures for 1981-82: subject to the availability of resources we regard this as first priority for a skills training package. Whether more should be done on skill training should now await the outcome of consultations on the New Training Initiative.

(2) More opportunities in the ordinary labour market

Recommendation 3: To contain, or widen, wage differentials between young people and adults by reducing levels of benefit and allowances; consider excluding the wages of young people from the jurisdiction of Wages Councils; and by a campaign to persuade employers and unions of the damaging implications for young people of too high a relative wage level.

Comment: Ministers concluded (E(81)14th) that changing the Wages Councils system would not be an appropriate way forward; although the Chancellor of the Exchequer has suggested that this decision might be reconsidered if it were decided to go ahead with a comprehensive scheme. The scheme for unemployed 16 year olds discussed in our report would carry the CPRS recommendation forward by encouraging the idea of lower allowances where training is given. This is already a message of the consultative document on the NTI and paragraph 3.10 of our report suggests that Ministers should take opportunities to point out to pay negotiators, and employers in particular, the adverse employment effects of high relative wages for young people under 18 and that discussions on the NTI should emphasise in particular the case for lower relative rates of pay for young people in training.

Recommendation 4: The CPRS recommended against subsidies for youth employment.

Comment: Paragraphs 4.20 - 4.22 of our report consider employment subsidies and agree with the CPRS that in general there is no case at present for them.

Recommendation 6: Employment implications should be given full weight when decisions on the taxation of married couples are taken.

Comment: We agree. (See paragraphs 4.17 - 4.19 of our report).

Recommendation 7: Pensions and early retirement:

- (i) the case for abolition of the earnings rule for pensions should be reviewed and some further reduction in the real level of the limit be considered.
- (ii) the scope of earlier and more flexible retirement in the longer term should be reviewed.
- (iii) the scope for a more flexible approach to early retirement within the state scheme should be considered.
- (iv) the scope for early retirement under occupational pension schemes in public and private sectors should be assessed.

Comment: These recommendations are discussed in paragraphs 3.11 - 3.16 and Annex 3 of our Report. Briefly, we consider that, in the shorter term, the most promising options are to extend the Job Release Scheme below the present age of 64; extend JRS to allow those over 60 unemployed for over one year who are willing to withdraw from the labour market to be treated as retired and paid an allowance; and a more rigid imposition of retirement age in the public sector.

Three options for encouraging the early retirement of occupational pensioners have been considered:

- (1) where pension schemes already provide for early retirement, increasing awareness and use of such provisions;

- (ii) exhortation to include such provisions in schemes; and
- (iii) supplementation of occupational pensions from public funds, (see Annex 3).

We consider that there would be some advantage in (i) but that the response to (ii) would be likely to be limited and (iii) is not to be recommended.

On the earnings rule, the Government is now committed to abolition but we understand that further deferment of this has been proposed in a PESC context, although further freezing at the present earnings limit is not envisaged. We suggest that there is a case for both measures in terms of consistency with general policy on early retirement of older workers.

(3) More opportunities outside the ordinary labour market

Recommendation 9: An expansion of the community work programme along the following lines:

- (i) offer community work to more of the unemployed generally;
- (ii) emphasis on areas of highest unemployment;
- (iii) community work within YOP should be merged with CEP;
- (iv) the financial basis for CEP should be reconsidered, in particular a 'benefit plus premium' approach should be examined;
- (v) possibility of providing some community work direct, not through the MSC, should be examined;

- (vi) consider whether the offer of community work to a young person should be regarded as equivalent to the offer of a job for the purpose of testing availability for work; and

specifically that provision of 100,000 community work places, on the basis of 'benefit plus premium,' should be seriously considered.

Comment: We consider that CEP in its current form (payment of 'rate for the job') should be continued. Provision has been made for it to run for three years to encourage sponsors to provide places and trade union opposition to a 'benefit plus premium' approach for all CEP opportunities would make it unworkable.

However, our suggestion for measures for the long-term unemployed (see paragraphs 3.17 - 3.27 and Annex 4) describe the possibilities for providing, in addition to CEP, opportunities for 30,000 unemployed to undertake voluntary work under the auspices of voluntary organisations on the basis suggested by CPRS.

Recommendations (iii) and (vi) are overtaken by the options we have identified for a comprehensive scheme for 16 year olds.

B. REMAINING RECOMMENDATIONS(2) More opportunities in the ordinary labour market

Recommendation 5: Giving young people access to a wider range of jobs by:

- (i) DE and MSC considering a single, all ages, job information network;
- (ii) jobcentres and the Careers Service being prepared to offer young people part-time job opportunities;
- (iii) the MSC considering an experimental scheme to put together packages of different jobs to make up full-time employment.

Comment

The first of these recommendations envisaged reassessing the step taken in the 1973 Employment and Training Act when the responsibility for running careers services was fully devolved to local education authorities. This was a subject of considerable controversy for a long period leading up to the Act and we consider that it would be unproductive to reopen this by suggesting a major institutional reversal. Nor does it seem necessary when steps can already be taken to open up young peoples' access to a wider variety of jobs by improving existing arrangements for the exchange of vacancies between careers services and the employment service. This is now being looked at by a joint steering group on placing young jobseekers which has membership drawn from MSC, DE and the Careers Service. Compatibility between the computer systems used by the two services will be an important factor in giving young people wider access to vacancies and DE have been asked to give appropriate advice on this to careers services, when considering introducing computer systems for this purpose.

As to the second recommendation, the steering group on placing young jobseekers has now been asked to consider how the flow of information about part-time jobs to young people can be improved.

As to the third recommendation, we thought that getting the employment service to assemble packages of part-time work for young people was likely to be bureaucratic, costly and of limited effect and we consider that this recommendation should not be pursued. Nevertheless, encouraging part-time working generally may have some benefit for young people at the margin and paragraph 4.15 of our Report suggests that Ministers might publicly applaud the efforts of some employers to re-organise work to allow them to recruit an unemployed young person who would not otherwise have been recruited by, for example, dividing a full-time job into two part-time ones.

Recommendation 8: Options for increasing the MoD contribution to YOP should be urgently considered.

Comment: The MSC has reached the view that the MoD proposal to offer training in the Armed Forces for unemployed young people for six months is not appropriate to YOP. DE and MOD officials are considering whether the proposal could be implemented in any other way.

COMPREHENSIVE SCHEME FOR UNEMPLOYED YOUNG PEOPLE

The Aim

1. There are two separable but linked aims of Government policy in relation to 16 and 17 year olds in the employment field. The first focuses on the need over the next two or three years to cater for the large numbers of unemployed young people expected. The second, unrelated to the unemployment situation, is to improve the vocational education and training of all young people. So far the first has found expression in the Youth Opportunities Programme; the second in Unified Vocational Preparation and, more generally, in the New Training Initiative.
2. With the levels of unemployment expected in the next few years Government resources will need to be primarily directed to provision for the unemployed. It is such a scheme that is set out in this Annex. The scheme will need to be both informed by, and tailored to, the principles of the New Training Initiative and run alongside increased emphasis on training by employers in jobs (including apprenticeships) supported by an expansion of assistance through the Unified Vocational Programme.
3. YOP is already being developed in this way and if a scheme covering all unemployed 16 year olds is to be introduced quickly it will have to be based initially on the current type of YOP provision. There will just not be time to make available 12 month courses with good quality training for the whole target group. This is bound to make it more difficult to associate radical benefit changes with the scheme.
4. Any scheme of this kind for the unemployed requires substantial support from industry. Yet Government resourcing is bound to run the risk

that industry will withhold jobs and training from 16 year olds. This would not only increase the costs of a scheme, but run counter to the fundamental aim that industry should shoulder responsibility for industrial training.

5. Against this statement of aims this Annex sets out:

- (a) The basic concept of a comprehensive scheme (para 6);
- (b) Who is to be covered (paras 7 and 8);
- (c) Duration and content of course (paras 9 to 12);
- (d) Benefit arrangements with two options (paras 13 to 25);
- (e) Relationship to full time education (paras 26 to 30);
- (f) Possible starting dates, experiments and transitional problems (paras 31 to 37);
- (g) Organisation (para 38);
- (h) Financial contribution by employers (paras 39 to 42);
- (i) Costs (paras 43 to 46);
- (j) Legislation (para 47);
- (k) Longer term considerations (paras 48 to 50);
- (l) Pros and cons of presentation (paras 51 to 53).

BASIC CONCEPT

6. The Scheme will be available to all unemployed young people in the first year after they reach minimum school leaving age. Once they are on the Scheme, they will be eligible for an allowance. There are broadly two options for the payment of benefits and allowances. These are set out in paras 13 to 22 below.

TARGET GROUP

(i) Age

7. Unemployed young people will be entitled to enter the Scheme at any time up to a year after their minimum school leaving age. Some entrants will therefore be 17. In particular:-

- 1) Those who start in a job and become unemployed after a few months will be eligible.
- 2) Entrants will be free to leave the scheme to take a job and return if they become unemployed again during the first year after minimum school leaving age.

(ii) Numbers

8. Coverage will depend on the numbers unemployed, but if introduced in September 1982, the Scheme would probably have to provide for around 450,000 unemployed young people, with the majority wanting to enter following the summer school leaving dates.

COURSES

(i) Duration

9. Those entering direct from school should be able to remain on the Scheme for a full year's entitlement. For those who enter the Scheme with some months experience in employment a lower minimum might be appropriate - perhaps 6 months for those with at least 6 months employment.

(ii) Content

10. The content of courses would follow the lines set out in the NTI on which YOP is already being developed by MSC, ie, a greater element of training - both through longer work preparation courses and a greater training content in work experience. The MSC also aims to emphasise links between schemes so as to enable trainees to experience various types of training and/or work experience in a combined programme. On completion of a course a certificate would be issued indicating the training received.

11. The development of modules would be particularly helpful for those young people who will not stay on the Scheme for a full year; eg, those who move in and out of jobs; those entering it late might benefit particularly from short training courses.

12. It will take several years to develop fully structured and integrated 12 month training programmes for all who enter the Scheme when they need them.

BENEFIT ARRANGEMENTS

13. There are two broad approaches to the level and treatment of the allowance, depending on how this scheme is seen in relation to the position of the young unemployed during the transition from school to work. (It should be noted that references to particular rates of allowances and benefits, actual and proposed, and relationships between them have been drawn up with current SB, Child Benefit and YOP allowance rates in mind. The cash sums will need adjusting according to when the Scheme is introduced.)

Option A

14. This assumes that the young unemployed are regarded as still dependent on their parents for the first year after leaving school at the minimum age. The parent would continue to receive Child Benefit and, if appropriate, dependency additions to benefits. There would therefore be no need for the allowance paid to the trainee to be sufficient to meet living costs or to be as much as the basic rate of Supplementary Benefit now paid to the young person. It might be fixed at a nominal £8 - the current lead of the YOP allowance over basic rate SB, reflecting an element for out of pocket expenses eg, daily travel. The allowance would only be paid while the young person was on the Scheme, and not to those waiting to enter or who had completed their course or dropped out.

15. The young person would continue to be regarded as a dependent until 1 September in the year following that in which he left school, ie, until that date he would not be eligible for SB in his own right.

16. At that point, ie on 1 September in the year after leaving school, the £8 allowance paid to trainees on the Scheme would be supplemented by payment of an amount equivalent to the Child Benefit no longer paid to the parent. This would mean that while it was marginally advantageous for the trainee to leave the Scheme and register as unemployed to obtain SB, the incentive would be very small and unlikely to affect those who valued the training.

Option B

17. The second option is based on the assumption that young people are no longer dependent on their parents after leaving school.

18 In consequence, the allowance paid while on a course would need to be sufficient to cover the young person's living costs, including payment of rent to parents. It would also need to cover travel expenses. A figure above the present SB rate of £15.25 therefore seems appropriate, and the figure of £20 has been used in the costings below. However, the MSC is likely to consider that the allowance should be no lower than the present YOP allowance (£23.50) and the costings also cover this level of allowance.

19. Although the unemployed young person would no longer be dependent on his parents, it would not seem appropriate to pay an allowance at this level while he was waiting for a place on a course. Particularly if the Scheme were introduced in 1982, some of the unemployed might have substantial waiting periods and the financial arrangements would need to recognise this. At present if he leaves school in the summer he becomes eligible for SB on 1 September. It would be possible instead to pay the prospective trainee a special allowance in recognition of the fact that he had registered for a course - say £15 a week (ie £20 minus travel expenses). This would have the presentational advantage that SB would be abolished for the generality of the unemployed 16 year olds. But that apart, it might be simpler to continue to pay SB (£15.25) to those waiting for a course. The question of whether legislation would be necessary (see para 47 below) is relevant to this issue.

20. SB would have to become payable again at the end of a year's course because there will be no other payment available. It would be administratively difficult to relate this to the progress of an individual in the Scheme, so a fixed date would be set eg, 1 June or 1 July, one year after the minimum school leaving date for most summer leavers. Thereafter anyone who had left school the previous year could apply for SB. Those who had not yet completed their 12 months courses would have no financial incentive to leave after they become eligible for SB because they would

still be eligible for the higher allowances payable to those on the course.

(iii) Refusals of opportunities

21. Under Option A it would not be appropriate to withdraw financial support if an unemployed young person refused a suitable opportunity or left a course without good reason, because the young person would be regarded as dependent on his parents who would have to maintain him whether he was on the Scheme or not. The low allowance also reduces the scope for an effective sanction.

22. Under Option B each unemployed young person could be required to sign a declaration of willingness to enter and stay in the Scheme. If he unreasonably refused to take up or continue in an opportunity he would lose either his waiting allowance (or SB) or the allowance paid to trainees. Refusals would need to be handled with discretion, since there will often be a problem in matching individual young people and courses, and allowance will have to be made for travelling difficulties and other factors which might make acceptance difficult for the individual. Otherwise there could be considerable pressure for expensive appeals machinery.

23. The major disadvantage of introducing a sanction is the element of compulsion. It would also mean that the Scheme, ie, individual sponsors, would have to cope with a number of unwilling trainees who would not have accepted places if some other financial support had been available.

(iv) Special Groups

24. Under both Options handicapped young people would continue to get mobility allowance and attendance allowance. Those unlikely to enter

employment or benefit from the courses would get Non-Contributory Invalidity Pension if entitled. SB would continue to be paid for two exceptional groups: those who cannot go on the Scheme (eg severely handicapped with NCIP; single parent girls), and those who could not live on the allowance unless topped up with SB (eg handicapped with special needs, married, those living away from home). Young people who had a job and lost it and who had qualified for Unemployment Benefit in their own right would receive it, as now.

(v) The Options Compared

25. Option A is less expensive than B, but the low allowance can be expected to lead to disgruntlement among young people, who will be treated as dependent on their parents even if they have been in work, and to a loss of the full co-operation which unions and employers have given to YOP. There is a real risk that the supply of places in industry, far from expanding as needed, will sharply fall because of union opposition to the lower allowance. It would be difficult and expensive to make good such a shortfall by greater public sector provision and divorce of the scheme from industry would greatly undermine its value. Option B may therefore be the only practical course.

RELATIONSHIP TO FULL TIME EDUCATION

26. Although there is little hard evidence at present that large numbers of young people are leaving school for financial reasons, and indeed the staying-on rate may have risen last year, the introduction of a comprehensive scheme with an allowance will raise again the question of parity between YOP-based programmes and full-time education. YOP and education are already drawing closer together as on the one hand one-year pre-vocational courses are developed in education, while on the other hand improvements in the quality of YOP are leading to YOP trainees being sent

on courses in colleges of further education. The proposed Scheme would accentuate this trend and raise questions about the equity of treatment of those in education and those who have left, and the distribution of resources between the worlds of education and work. It will be of great importance to encourage young people who would benefit from staying on in education to do so. Several considerations suggest that the various forms of financial support provided by the State to young people should be rationalised.

27. On the other hand, the financial arrangements under the Scheme will be less attractive than the present arrangement as even under Option B the allowance will be lower than under YOP. The Scheme will also remove one incentive to leave school by abolishing SB payments to unemployed 16 year olds (including the present concession under which young people can draw SB while in part-time education for up to 21 hours). They will receive an allowance only where they are on the Scheme (or, under Option B, awaiting a place).

28. If, however, Ministers did wish to improve financial support for young people still in full-time education, it would be possible to do so on a basis related to the allowance under the Scheme. Under Option A they could receive the proposed £8 allowance, although it is arguable that none of this should be paid, since this figure largely covers out-of-pocket expenses. Under Option B they might be paid the amount of the allowance subject to subtraction of Child Benefit (which is already payable to their parents) and possibly of the travel costs element of the allowance, and subject to means-testing on the basis of parental income. Means-testing for these young people could be justified on the ground that they are still dependent on their parents. This financial support would probably be best administered by local education authorities.

29. If the allowance were extended to those in education, the recipient could justly expect it to be payable during the whole time he/she is in continuing education and not just during the year corresponding to the Scheme. There would be no financial incentive to undertaking educational courses for more than one year if the support would stop half-way through.

30. The cost of paying an educational maintenance allowance for those remaining in school or at college would be £212m a year under Option A if the whole of the £8 allowance was paid, and £220m means-tested under Option B (£447m if not means-tested), on the assumption that there would be no cut-off after one year.

STARTING DATE

(a) Pros and Cons of September 1982

31. Launching the Comprehensive Scheme in September 1982 would only be possible if an early decision were taken and even then would involve a significant risk of failure. So far the maximum number of young people in YOP at any one time has been about 160,000. In 1981/82 this figure could reach 250,000. Under the Scheme, the figure would have to rise to perhaps 350,000. Moreover, if lengthy waiting times are to be avoided, those leaving school in the summer would have to be placed by about September as against the present YOP undertaking to offer places to school leavers by Christmas. In addition, there is the major challenge of providing 12 month courses; if the Scheme began in September 1982 this could only be achieved by combining several shorter courses, and so the provision would not look radically different from the present YOP.

32. If it was not possible to secure sufficient places from sponsors it would be necessary either to make good the short-fall in the public sector - very difficult at such short notice, or to leave young people to fall-

back on the revised benefit arrangements. This would be particularly unpopular under Option A which provides for the majority of parents to receive Child Benefit, and SB dependency allowances in the minority of eligible families. Under Option B young people would fall-back on an allowance of £15 or SB and would therefore have reasonable financial support but if a large number could not be placed on the Scheme it would lose credibility and this in turn could undermine the New Training Initiative. The Scheme might come to be regarded as simply an exercise to reduce the unemployment figures and - particularly in respect of Option A - to cut benefit levels.

(b) A Temporary Alternative for 1982

33. If it was decided not to launch the Scheme in September 1982, there is the alternative of asking the MSC to develop YOP in 1982/83 as far as possible towards the same objectives. The aim might be to place as many 16 year old leavers as possible on YOP by Christmas and to extend the duration of courses. At the same time the MSC could continue to develop integrated 12 month courses with a target of at least 50,000 by September 1982. These steps would prepare the way for the introduction of the Scheme in September 1983. Meanwhile it would be necessary to consider an increase in the YOP allowance for 1982/83 though not necessarily to the extent of maintaining its real value.

(c) Possibility of Local Experiments

34. There is also the possibility of moving towards the Scheme initially in selected areas. It is inconceivable, however, that young people in the selected areas could be paid a lower level of allowance with less favourable benefit arrangements than other young people. There might, however, be advantage in testing the feasibility of universal coverage of 16 year olds and higher quality 12 month courses within selected areas, possibly SDAs.

TRANSITION PROBLEMS

35. There is an argument that, in the first year of the Scheme, those who have already left school for a year will be unfairly treated since they will not have access to the new Scheme and yet will be deprived of the opportunities which they have at present under YOP. Since the Scheme involves a formidable task in coping with all 16 year olds, 17 year olds could not be offered anything like the present YOP undertakings. If Ministers thought this unacceptable the Scheme could not be introduced in the next 2 years for this reason alone.

36. It might, however, be possible to provide a limited number of places for 17 year olds with the same allowance as 16 year olds. They would still be entitled to SB if they registered as unemployed and whether they took the opportunity of entering the Scheme would be up to them. Few could be expected to do so under Option A when SB would be higher than the allowance.

37. A further transition problem is that there will already be a large number of young people in YOP and paid a higher allowance when the new Scheme starts. As has happened in the past when changes have been made in special employment measures, it would be appropriate that those already in the programme should continue to be dealt with on the basis on which they entered.

ORGANISATION

38. Much of the comprehensive nature of the Scheme will spring from the varied, yet integrated, nature of its provision. This points to the desirability of seeking to stimulate the creation of "consortia" or "networks" of sponsors in a locality, both to build up the links between Schemes and for organising the pattern of provision in the area. This is

the idea the MSC is intending to explore in relation to YOP in the next year, and is clearly most appropriate to this Scheme also. It will also minimise bureaucracy.

FINANCIAL CONTRIBUTION BY EMPLOYERS

39. Under a comprehensive scheme it might be thought reasonable to acknowledge the productive element of work experience by inviting employers to pay a token amount of - say - £5 per week. This would be likely to encourage substitution, but that might be a worthwhile price to pay for a universal scheme for those most at risk - young entrants to the workforce. The consequence however would be more fundamental as it would effectively mean that employers could have every incentive to recruit exclusively through this Scheme which would increase the costs of the Scheme. This would have very serious implications for trade union and young people's co-operation with the Scheme, since it would be seen as encouraging a full day's work for very much less than a full day's pay. If union co-operation meant in fact that many fewer WEEP* places could be available to the new programme, this would mean greater (and more difficult) reliance on more costly non-WEEP provision.

40. If, on the other hand, substitution was strongly discouraged, an employer's contribution would make the Scheme less attractive to employers at a time when they were also being asked to improve the training content of courses. Employers already make a significant contribution (in terms of on-the-job training, supervision costs, etc) in return for which they may benefit from some productive work by trainees (NB it is estimated that at present the employer's contribution to WEEP costs is about £20 per week and the MSC is currently being pressed by some YOP sponsors to pay them for the training/work experience they provide).

* Work Experience on Employers Premises.

41. Another drawback to an employer's contribution would be that a sizeable minority of those on the programme would not be following courses where employers are involved - around 40 per cent of present YOP cases are non-WEEP. These young people would not get any additional element.

42. For these reasons we do not think this proposal could be made to work on a voluntary basis. It might need to be looked at again at a later stage, if Ministers thought it necessary to shift more of the burden of training costs to employers (see longer term considerations below).

COSTS

(a) Comparison with Expansion of YOP

43. An alternative to the introduction in 1982/83 of a comprehensive Scheme for 16 year olds would be to continue the development of YOP in line with the NTI but with the existing undertakings. This means a change in the balance of YOP away from opportunities consisting purely of work experience, improvements in the quality of YOP opportunities and an increase in the average length of stay on the Programme to say, 32 weeks (including provision to re-enter the Programme for those who have had a YOP opportunity followed by a job but who have then come back onto the unemployment register). On this basis the Programme might need to provide in 1982/83 for around 600,000 entrants at a gross cost of £1,100m. In addition SB would be payable to unemployed young people not in the Programme; it is estimated that this would add about £150m to the cost.

(b) Costs of Comprehensive Scheme

44. The following estimates of the costs of the Comprehensive Scheme for 16 year olds are based on a number of assumptions about the average length of courses which will be provided. The table also shows the cost of

leaving 16 and 17 year olds on SB, to indicate the irreducible minimum expenditure on unemployed young people. For comparison with the option in para 43 of continuing to expand YOP for 16 and 17 year olds on the present basis, figures include an additional element of around £125m for benefit payments to unemployed 17 year olds in 1982/83.

<u>Option</u>	<u>£m in 1982/83</u>		<u>Net cost per person</u>
	<u>(full year)</u>		<u>off register</u>
	<u>Gross</u>	<u>Net</u>	<u>£ p.a.</u>
Policy off (ie all on SB)	445		
Option A (£8 allowance)	1030	547	1375
Option B (£20 allowance)	1164	681	1710
Option B (£23.50 allowance)	1240	757	1900
Movement towards comprehensive scheme	1100	622	1920
through development of YOP (£23.50 allowance)			
(see para 43)			

45. The above costings do not take into account the costs of additional staff in MSC and the Careers Service. The numbers of staff engaged on special employment measures are in general fully offset by the savings on staff who would otherwise be required to pay social security benefits.

46. The register effect of the Scheme is estimated at 398,000 compared with 324,000 for YOP.

LEGISLATION

47. It seems likely that primary legislation would be needed in order to withdraw SB from those unwilling to register for, or who refuse a suitable

place on the Scheme. Statutory authority might also be necessary to give power to pay an allowance under Option B while waiting for a place, and under Option A to cover the payment of Child Benefit as proposed. This could affect the timing.

LONGER TERM CONSIDERATIONS

48. The long-term objective of the NTI and UVP is to get employers to pay for proper training of the young people they employ. Developing a comprehensive Scheme for the young unemployed may induce employers to reduce or give up recruitment of young people in their first year after leaving school. As discussed in paras 39 to 42 charging employers is likely to prove self-defeating since employers will then be reluctant to provide work experience places. If employers were to move away from employment of 16 year olds, it will remain open to the Government to place statutory obligation on employers to take trainees or pay towards their training (much as the French do in respect of apprentice training). Statutory action would be unwelcome to employers at present and it is best and in accord with the NTI to seek to proceed on the voluntary basis.

49. If Ministers wish to emphasise that the Government is not concentrating its training efforts solely on the unemployed it would be possible to consider a further expansion of UVP, which is at present planned to cover some 20,000 young people a year by 1983/84. A faster expansion might however require some improvement in the financial incentives provided for employers.

50. The Government has said that it wishes to work to the position where all young people are in education or work or training up to their 18th birthday. This Scheme will not achieve this. But once it has been established there are two possible ways of expanding it further and they might be done as consecutive steps towards the longer-term objective:

- (a) The 12 month course could be opened to 17 year olds as well as 16 year olds. This would bring in 17 year old school leavers, and those who obtain jobs after leaving school and lose them at the age of 17. In which case, the programme might need to provide for around 600,000 young people.
- (b) A Comprehensive Scheme with courses of up to 24 months could be developed to provide cover up to the age of 18. This would raise questions of content of courses. It might be that the 12 month courses should be filled by those who need them with an opportunity of temporary work up to age 18. If this was universal it could be combined with a matching withdrawal of benefit to young people under 18 although as stated above it would appear that at least for the foreseeable future under Option B some kind of waiting allowance SB or otherwise will be necessary for those who cannot be fitted in immediately. Such a Scheme would need to provide for around 700,000 young people.

PROS AND CONS OF PRESENTATION

51. As with the existing special programmes, the success of this Scheme will depend on the support it receives from all concerned - employers, unions, education service and the young unemployed themselves. It has some major attractions and also some drawbacks. Among the attractions are:

- (a) It is comprehensive in scale. It seeks to provide for the whole Target Group and will, in fact, be providing for more than twice as many young people at any one time as YOP does now. It therefore responds in a practical way to the demand for a national community service.

is comprehensive in content. The idea is not just a course of work experience or training, but various modules with a long training element designed to last a full year.

is consistent with the objectives of the NTI and will in fact be taking a strong lead in meeting them in respect of the young people employed.

reduces the level of allowance in return for a substantial training element. These steps will in turn open up the possibility of containing or widening wage differentials between young people and adults.

objections are mainly concerned with the related conditions of work rather than the Scheme itself:

Under Option A the withdrawal of SB for the target age group in its own right and the much lower level of allowance. There has been much disquiet over the comparatively small scale of changes in the SB arrangements for school leavers this year. The criticism of these much more radical proposals would be tempered to the extent that the training offer carries conviction. Under Option B an allowance lower than the YOP allowance would attract criticism. The fact that the allowance would not be paid to those who had refused a place on the Scheme would be criticised by many as making the scheme virtually compulsory.

Withdrawal of help under YOP for those who have left school before a year (unless the Scheme were extended). This would be seen as a further pulling back from the original YOP that was intended for those up to the age of 19. This problem, however, could be catered for by providing some places for 17 year olds

in the transition year and possibly by extending the Scheme to 17 year old school leavers in the second year.

- (c) The difficulty of providing relevant and interesting schemes, or combinations of schemes, lasting a year. Many young people and their representative organisations are complaining now that what they want are jobs and not any form of continued learning and/or dependence.

33. If Ministers decide to proceed with the Scheme, it will need to be discussed first informally with the TUC, CBI and the MSC. Their backing will be crucial, in order to ensure the viability of the Scheme through a supply of sufficient places. Private soundings might be conducted at an early stage, but there should be no public announcement until the NTI consultation is complete. The Scheme could then be presented as a logical follow on from it.

CONCLUSION

34. Ministers are invited to consider 3 questions:

- (i) do they wish officials to work up a Comprehensive Scheme along the lines set out in this paper?
- (ii) if so, do they favour benefit arrangements along the lines of Option A (paras 13-16) or Option B (paras 17-20)?
- (iii) which starting date do they favour?

EARLY RETIREMENT AND UNEMPLOYMENT

1. There is already a well-established trend towards early retirement, which reduces labour supply and can release jobs for the unemployed. Ideas of encouraging early retirement as a way of reducing unemployment are increasingly put forward as for example in the CBI paper 'Will to Win', which suggests flexible retirement for men and women between 58 and 63 with initially an extension of the Job Release Scheme. The CBI calls for careful study of the cost and other implications before any decisions are taken.

2. We examine below a wide range of possibilities from short term reversible action to adaptation of the state pension scheme, including the suggestions in the CPRS Report.

Option 1: Extension of Job Release Scheme

3. The Job Release Scheme pays an allowance to older people who leave the labour market and are replaced from the unemployment register. The replacement condition makes JRS a more effective means of reducing the unemployed register than a general reduction in retirement age. It is a special employment measure introduced under temporary legislation as a response to high unemployment; it therefore has the two advantages over the other options that it is reversible and does not have repercussions on social security policy, eg by adding to contribution rates. The following table shows the effect of lowering the eligibility age for men below 64 for just one year (1982-83):

Age for Men	Register effect at March 1983	Gross cost (£m)		
		1982-83	1983-84	1984-85
64	34,000	124	142	165
63	53,000	170	198	176
62	79,000	227	302	253
61	106,000	288	411	365
60	134,000	350	524	481

The net cost per person off the register per year is £1,800 at 1981-82 prices.

4. If the eligibility age for men was reduced to 60 there is the problem of excluding from the Scheme employees, including many in the public sector, who would have retired anyway at 60. DE is introducing a new rule with effect from April 1982 that no-one can join the Scheme if they are being compulsorily retired within 6 months of the date they hope to join the Scheme.

5. If it was thought desirable to reduce the effects of extending the Scheme and at the same time to concentrate the benefits on categories of workers most affected by high unemployment, the extensions could be restricted to manual workers. About 80 per cent of participants are drawn from mainly manual jobs. However, there is a problem of definition and the extra administrative work involved in drawing this distinction does not seem to be justified in order to achieve a relatively small effect.

6. Another method of increasing the effectiveness of the Scheme would be to withdraw the concession which has been made in respect of some Civil Service and Local Government posts, relaxing the requirement that all released jobs should be filled by people from the unemployment register.

A recent survey showed that the proportion of applications not reducing the unemployed register was highest in the case of Central and Local Government. The concession was introduced because of the requirement in the Civil Service and in some parts of Local Government that posts should be filled by fair and open competition; without the concession these parts of the public sector could not participate in JRS.

Option 2: Early Retirement for the Long Term Unemployed

7. It is suggested that the unemployed who have had SB for over one year should be allowed to withdraw from the labour market and be treated as retired. Since the current Job Release allowances are significantly higher than the social security benefits they will at present be receiving, a lower level of allowance would be appropriate. The higher rate of Supplementary Benefit, which is also paid to the long term sick, is suggested; for a married couple the long-term rate is at present £9 a week higher than the short-term rate. (Payment of the lower rate of supplementary benefit would have a nil net cost, but this would be difficult to justify when other groups not required to register receive the higher rate and would be regarded as a 'cosmetic' to reduce the unemployed register without improving the position of the individuals concerned).

8. If 45,000 who will have been on SB for more than one year applied to transfer to the long-term rate (still on a means-tested basis), the additional cost would be £21m a year and the net cost per person off the register per year would be £450. (The alternative of extending JRS to the long-term unemployed would be more expensive because JRS is not means-tested and numbers of people might apply who would not otherwise have registered for employment).

Option 3: Actuarial Reduction of State Pension

9. Some older workers are likely to be attracted into retirement if the state pension was available before the age of 65 even if there was an actuarial reduction in the amount of the pension. The reduction would be 8 per cent for pensions paid at 64. Such a reduction might not make much difference to the standard of living of those receiving significant occupational pensions. For other workers, however, it would not necessarily be in their best interests to accept a reduced pension; in some cases their pension might fall below the level of Supplementary Benefit and topping up could not be denied. This option would have implications for occupational pensions funds and would not be feasible before 1984, but is worth thinking about for the longer term.

10. The gross cost has been calculated at £275m for 1984-85, with a net cost of £250m and a net cost per person off the register per year of £6,500. The register effect would be 40,000. (These calculations are based on a number of assumptions, including activity and unemployment rates of 64 year old men in the absence of the change and the proportions of economically active and inactive men who would apply. Full adjustment to the policy change would take a number of years to complete).

Option 4: General Reduction in State Pension Age to 64

11. This option was likely to have no significant advantage in employment terms over either an extension of JRS or of earlier state pensions at actuarially reduced rates as the Scheme would carry a large amount of deadweight. Moreover, the option of making this change in 1984 to maximise the effect on unemployment may allow too little time for occupational pension funds to make the necessary adjustments. This was one of the reasons apart from cost why the recent White Paper "Growing Older" suggested that changes in the state pension age should be kept in view as a long term objective.

12. The proposal is that, at 64, men would be entitled (but not obliged) to draw the full basic pension plus additional component or occupational pension scheme equivalent and graduated pension they had earned up to the tax year containing their 63rd birthday (as opposed to the 64th birthday as at present). Contribution conditions for receiving pension would remain as now, and no allowance is made for the very few who would incur a reduction in pension as a result of working - or being credited for - one year less. 64 year old retired men would also become eligible immediately for the long-term rate of Supplementary Benefit.

13. Adjustment to the reduction in pension age would occur over a number of years, and costs are presented for 1984/85, 1985/86, 1986/87 and for 1989/90, the latter being taken as a year when adjustments would be complete.

	1984-85	1985-6	1986-7	1989-90
Gross cost (£m)	625	650	675	750
Net cost (£m)	650	675	700	775
Register effect ('000)	70	70	70	65

The net cost per person off the register for a year would be £9,000 in 1984-85.

14. The above calculations are based on a number of assumptions about activity and unemployment rates and assume that two-thirds of the jobs vacated by 64 year olds would be filled by someone else, three-quarters of them with people off the register.

Option 5: Encouraging the Early Retirement of Occupational Pensioners

15. The increase in availability of occupational pensions is thought to be one reason for the increase in early retirement. There are, however, doubts about the scope for going much further. There is uncertainty about the register effects, eg because some of the jobs vacated would not be filled. Moreover, there are other pressures for improving pension arrangements, eg through greater transferability, which would add to costs. However, there seem to be the following possibilities which are worth pursuing, although the response by employees is likely to be limited if their occupational pensions will be actuarially reduced:

(i) exhorting greater use of existing provisions for early retirement. There is evidence that employees are not aware of provisions already open to them.

(ii) exhorting to provide for early retirement.

16. There is a further option of supplementing occupational pensions from public funds, eg topping-up to a specified level. The advantages are that it would be reversible in the same way that JRS is; that it would allow selectivity by limiting eligibility to specific industries, occupations or areas; and that it would give individual workers more choice about when to retire. The allowance could be subject to an earnings rule that would permit those opting for it to work part-time. However, there are powerful reasons for rejecting this option:

(i) Such a Scheme could be very costly to public funds. To have a significant impact the state would probably have to augment many low level payments. It will still be many years before the effects of the 1975 Social Security Pension Act ensures adequate levels of pension for the contracted-out who retire at their scheme's normal

age. About half of all male occupational pensioners in this age group receive pensions of less than £15 a week (in current prices).

(ii) Such a Scheme would be bound to incur a certain amount of 'deadweight' ie claiming by people who would have retired early anyway, especially as there has been a large increase in the proportion of men aged 60-64 who have retired and drawn an occupational pension.

(iii) There are equity and distributional considerations. There seems no reason why recipients of occupational pensions (only about half of household heads in the relevant age groups) should be singled out for privileged treatment denied to those with other sources of income (for example, a working spouse, or investment income) or with no income, especially as members of occupational pension schemes tend to be better off than those who are not members.

Option 6: Reduction of Retirement Age in Public Sector

17. In the Civil Service the normal retiring age is 60, and yet at 1 October 1980 out of a total of 543,200 non-industrial Civil Servants there were 34,800 aged 60 or over. This situation is already being reviewed by CSD and from the unemployment view point it would be advantageous for all Civil Servants to retire at 60. They would still be eligible to register as unemployed but their places would be released to younger unemployed people who usually have higher benefit payments.

18. There may be scope in other parts of the public sector eg National Health Service, education, for similar action to enforce the retiring age more strictly.

Option 7: Retention of Earnings Rule

19. The Government's declared policy is to abolish the earnings rule under which state pensions are reduced once earnings exceed the specified earnings limit. Although the effects of the rule are small and the incentive for older workers to remain in employment once the earnings rule was abolished might also be small, in the context of early retirement measures to reduce unemployment, it is recommended that the timing of abolition should be delayed and that the real value of the earnings limit should be allowed to continue to fall as in the last two years.

Option 8: Partial Retirement

20. There is survey evidence that some older workers would be interested in the possibility of reducing their hours of work as a preliminary step towards full retirement. Since 1976, Sweden has encouraged partial retirement by making up 65 per cent of lost earnings of participating workers aged 60-64 who have reduced their hours of work to at least 5 per week. Such a scheme is expensive and in Sweden was financed by a special levy on employers; if made available to 60-64 year olds in this country, a scheme along these lines could cost perhaps around £800m a year, with only a relatively small register effect to compensate for the disruption of production. The Swedish scheme was introduced more for general social reasons than as a counter-unemployment measure.

21. It would be possible to incorporate a replacement condition, as in the Job Release Scheme. DHSS has calculated that, on the basis of a take-up similar to JRS, around 90,000 workers aged 60-64 might change to half-time work and that, with one person being removed from the register for each 2 working half-time, there would be a register effect of 43,000. In their calculations, DHSS assumed less generous provisions than in Sweden; the gross cost (at November 1978 prices) would be £75m - £100m a year.

There could still be a cost to employers in making the necessary arrangements, and the partial pensioners might suffer a loss of occupational pension.

22. Although DHSS Economic Advisors Office have been able to help produce some figures, the take-up and cost of such a scheme are very difficult to estimate; and if Ministers were interested in this approach, a great deal more work would be necessary, including a full evaluation of this in relation to other conceivable measures of flexibility, taking full account of social and economic factors. A pilot experiment would give a better indication of the likely outcome; but there are no precedents in this country for social security experiments and the 'experimental' legislation that would have to go with them.

HELP FOR THE LONG TERM UNEMPLOYED

The scale of the problem

1. The number of people unemployed (GB) for more than 1 year is approaching 500,000. In January 200,000 had been unemployed for more than 2 years and 125,000 of the total were over 55. 85,000 were between 18 and 24 (the fastest growing group - up 62% in the last 2 years). We expect the figures for long-term unemployment to continue to rise swiftly and steadily to reach over 800,000 by 1982. Within this total the proportion unemployed over 2 years, and the proportion in the younger age groups, can be expected to increase. There is likely to be a far higher proportion of people amongst the long-term unemployed who would have found work quite easily in normal times, and while they will be present in large numbers in all areas, they are likely to be concentrated in the areas of highest unemployment.

The approach to the problem

2. The recovery of the national economy and the creation of new real jobs is the only long-term remedy for long-term unemployment, as for unemployment generally. Although the Government has so far placed a lower priority on help for the adult long-term unemployed than on help for young people, and they have, except in terms of health and benefit levels, aroused less public sympathy and concern, their growth in numbers and as a proportion of the total unemployed is likely to cause increasing attention to be given to them.

3. It is clearly not practicable given the scale of the problem to provide a universal programme of support for the long-term unemployed, not only on grounds of cost, but because of the practical limits on the number

of schemes and places that could be set up. However there are three possible ways of providing assistance for at least some groups within the long-term unemployed:-

- (i) enabling them to withdraw from the labour market;
- (ii) providing temporary work schemes;
- (iii) giving them preferential treatment in the labour market.

We have considered the possibilities of all three approaches.

(i) Withdrawal from the labour market

4. This approach applies in realistic terms only to those approaching the end of their working lives. Paragraphs 3.11 - 3.16 and Annex 3 of our Report discuss the options for encouraging early retirement. In the context of the long-term unemployed, the option under which those over 60 would be allowed to "retire" from the active labour market and draw the long-term rate of Supplementary Benefit is the most relevant. It is estimated that about 45,000 people might be removed from the register in this way at a cost of some £21 million in 1982/83.

(ii) Temporary work schemes

CEP

5. The CPRS suggested that the Community Enterprise Programme (CEP) might be expanded to provide 100,000 places if the basis of payment was changed from the present 'rate for the job' to 'benefit plus premium'.

6. The Government has promised that CEP will remain in operation for three years to provide an incentive for full commitment by sponsors. To change the approach of the Programme to 'benefit plus premium' at this

stage would arouse considerable opposition from those engaged in the scheme, and more damagingly, from trade union members. This opposition would be likely to be such that employer sponsors would not be able to offer CEP places. We do not believe, therefore, that the CPRS approach is tenable.

7. Nevertheless, the value of CEP opportunities seems clear. Although they cannot guarantee a subsequent return to normal work, they give relief from unemployment, some extra money, constructive use of time, re-motivation, and experience which may be useful in seeking a job. Schemes also carry out work of value to the community. About 15,000 people are currently being helped by CEP and the current target is 25,000 filled places by March 1982. The MSC hope to be able, within existing financial provisions, to increase this to 30,000.

8. The MSC think that it would be practical to increase the CEP to provide 60,000 places by the end of 1982/83 at a gross cost in a full year of about £145m (net £48m). This would allow throughput of 100,000 per annum. With relaxations of the current criteria and 'massive' involvement of the private sector it might be possible to create up to 90,000 places by March 1983. The build-up for 1982/3 will depend on the base developed this year and general success in recruiting sponsors, but it seems sensible to aim for the maximum places which can be practically achieved consistent with other spending priorities. (The register effect of CEP is close to 100% but there is a risk that substitution would increase if the Programme were expanded towards 90,000 places). 60,000 looks the realistic target. However, even that will be very difficult to achieve unless the financial restraints currently preventing local authorities from supporting CEP are overcome.

Voluntary service

9. An alternative approach to that of CEP is to allow the unemployed to continue to draw benefits while offering them voluntary work in return for an allowance covering expenses. Although this would clearly be a cheaper option there is uncertainty about how much real scope there is for such projects, and whether voluntary organisations would be able to mount them on the scale required and at the necessary speed.

10. For the reasons given in para 6 above we believe that CEP should be continued and developed in its present form. Nevertheless it might be possible to supplement this by funding within CEP some 3,000 extra jobs with voluntary organisations so that they would be able to provide some 30,000 places for community work for the long-term unemployed. If they were paid a £5 pw allowance for expenses over and above the benefit paid, the additional cost would be £8m. Participants would, in general, remain on the unemployment register. The major advantage of reducing registered unemployment would not therefore be applicable, although those involved would still be receiving help.

Not to count people in receipt of benefit, would need changes to the present rules on benefit and voluntary work - the availability for work being the major difficulty - and would be likely to exacerbate difficulties with the trade unions. There is, however, the possibility that for some participants community service could be combined with training. These people would be paid a training allowance instead of Supplementary Benefit and would not be counted as unemployed.

"Layard" proposal

11. Professor Layard has suggested a scheme under which, in line with the CPRS proposal, unemployed people would be paid "benefit plus premium"

whilst employed on publicly funded projects. He suggests that all those unemployed for 6 months or longer should be guaranteed the opportunity of such a place. The objections to this are not only the problems with the 'benefit plus premium' approach described above but also the sheer impossibility of providing sufficient places to meet the proposed guarantee for the over 1 million people who currently have been unemployed for 6 months.

12. Within CEP, there are also the following possibilities.

(a) Extended numbers on existing schemes

The numbers who would benefit (although the register effect would remain the same) at the same cost would be increased (or the cost for the same numbers reduced) by shortening the time spent on schemes. The number of weeks could be reduced from the current average of 32 weeks though there are clearly limits to the reductions which can be made without weakening the value of the scheme to participants and the commitment of sponsors. There are already problems about replacing scheme employees who have had 12 months work, and to try to restrict the length of stay further would add to them. So would a possible alternative under which two long-term unemployed people would share a single place part-time. There would be difficulties of practicability, organisation, payment, and benefit. The justification for such an approach would be that the value of the experience of regular employment to the long-term unemployed was not directly related to its length and that it was therefore preferable to try to give more of them experience. It might not be sensible to try to make general changes of this kind in the first year of the scheme but it might be possible to envisage a small number of experiments with sympathetic sponsors.

(b) Concentrate on priority groups

Another way of bridging the gap between the numbers of long-term unemployed and the numbers who can be helped is to restrict the target group. Although to redefine the long-term unemployed would not make them go away, they are by no means an homogeneous group and the 12 month definition is artificial, though widely accepted. Priority groups could be identified within the long term-unemployed; eg those unemployed for more than 2 years (now about 200,000) or those with families to support (about 75,00) or those under 25 (85,000, who in any case already receive priority through qualifying for CEP after 6 months unemployment). All these figures would probably double by 1982/83, which would still present a very large target. Even a restricted programme limited to males unemployed for more than two years with dependent children might need to cater for large numbers - 80,000 people if total long-term unemployment were 800,000. Nevertheless, it would certainly be one way of focusing the impact of the scheme on those considered to be most in need. Support for those with families, for example, would be cheaper (in terms of net cost), would suit social priorities and DHSS evidence suggests they might be willing to participate even if only marginally better off, (though this is not well supported by MSC experience of recruitment for STEP). Another and possibly preferable approach would be to give priority to those over 25 unemployed for 2 years and under 25 unemployed for 1 year (together totalling some 250,000 at January 1981).

There may, however, be practical - and presentational - difficulties about these approaches. Increasing the length of unemployment from 6 to 12 months for the 19-25 age group might be seen to be a move away from supporting the younger unemployed - particularly ex-YOP trainees without jobs. Getting sponsors to accept those unemployed for two years or more might prove difficult as they will wish to employ the best available people. A practicable means of giving priority to those with family

responsibilities at the local level would also need to be worked out. The MSC will be testing out these approaches and by the Autumn will be in a better position to assess whether redefining the priority groups in this way is a practical proposition.

(c) Limit geographical area

A further way of narrowing the field would be to limit support to the worst off geographical areas, as was done at one stage with STEP. CEP already gives priority to areas of highest unemployment. It would not be a realistic option to reverse the decision to make CEP a national programme, but it would be possible to continue to bias any extra resources towards areas of greatest need.

(iii) Preferential treatment in the labour marketRecruitment subsidies

13. Providing employers with a subsidy to encourage higher employment has always been a possible special measure and general variants such as the Temporary Employment Subsidy (TES) the Small Firms Employment Subsidy (SFES) and the Adult Employment Subsidy (AES) have been tried in the past. Subsidies appear to offer a particularly attractive solution for unemployed adults who cannot, in large numbers, be placed in training positions at less than a full wage. Also a subsidy is aimed at established employing organisations the majority of which are in the private sector.

14. General employment subsidies such as a reduction in the employer's National Insurance contributions are not PSBR efficient since they involve enormous deadweight with the subsidy being paid for those in employment, those who would have been recruited as well as for any net increase in

employment. Various schemes have been designed to minimise this problem and one of these is a 'conditional recruitment subsidy' put forward by Professor Richard Layard who is head of the Centre for Labour Economics at the London School of Economics. He has suggested that any employer hiring a person who has been unemployed for over six months should be paid £70 a week for a year (or the equivalent lump sum) provided he does not reduce his non-subsidised employment below its present level.

15. The scheme cuts out some deadweight by limiting the offer to recruitment from the register and by making it conditional on the firm maintaining its level of employment at the start of the scheme. Nevertheless, deadweight is likely to be important; SFES was similarly restricted to firms that were expanding but surveys of the scheme showed that a sufficiently high proportion of subsidised jobs would have been created without the scheme to make it an expensive way of reducing unemployment when compared with other SEM. The Layard scheme is similar to SFES except that it is not confined to firms employing less than 200.

16. Furthermore, experience with the Adult Employment Subsidy suggests that it can be difficult to place the long-term unemployed with a subsidy and if this still prevailed the take up is likely to be much lower than Professor Layard's estimate of 'over a quarter of a million jobs quite quickly'.

Job search

17. As a means of focusing assistance on the long-term unemployed, it has been suggested that developing more intensive help in job search might be more cost-effective than temporary jobs. This assumes the availability of sufficient jobs. It would have the effect of redistributing unemployment rather than reducing its overall level, but helping the long-term unemployed into 'real' jobs even at the expense of other unemployed might be thought to be preferable to special employment measures.

Payment of long-term rate of Supplementary Benefit

18. It would be possible, rather than spending any extra resources (or current resources) on temporary work schemes, to spend them in other ways which might benefit the long-term unemployed. Spending on public work programmes is one such option which could be applied to the unemployed more generally and is covered elsewhere in our report. A more direct option for the long-term unemployed would be to pay them, or those unemployed over 2 years, the long-term rate of SB. This is about £8-£9 per head above standard SB and assuming 50% eligibility for SB, would cost about £44m for those currently unemployed over 2 years. However, this would be counter to general policy on benefits and incentives, and even if it is accepted that the incentive to work is irrelevant in practice for many, would be seen as a less positive response than special measures. It would need to be made universal for the group involved, and would give only limited, if welcome, extra support to them.

PUBLIC SECTOR INVESTMENT PROJECTS: ILLUSTRATIONS FROM HOUSING AND ENVIRONMENT

1. The possibility of public sector expenditure schemes which are explicitly designed to create wealth and assets as well as helping the unemployed is illustrated by the housing and environmental projects listed overleaf. They fall into two main categories:-

(a) those which are main stream public expenditure (Table 1), where the basic idea is that extra expenditure on programmes, presently tightly limited by lack of resources, would help the unemployed and at the same time produce useful assets for future prosperity.

(b) those which are already within the ambit of special measures (Table 2) but where the proposition is to shift the emphasis more towards asset creation. To a large extent these possibilities concern environmental assets.

2. On Category (a) it will generally be true that the net exchequer cost per person off the register is appreciably higher than on the special measures as usually defined. There may be financing difficulties, for example stimulating increase in local authority current expenditure or running up against capital cash limits, and it will not be possible to target the employment benefits on to particular groups of people on the unemployment register. On the other hand there may be ways as illustrated in the tables of steering round some of the financial problems, and some projects would actually be targeted on to unemployment blackspots, and help particular industries (notably construction) in maintenance of skills, training, and help for hard pressed firms. Moreover, some schemes can be designed to produce a large volume of activity and assets for a small input in net exchequer cost, for example, by disposal receipts and by giving guarantees to support the market.

3. On Category (b) the emphasis falls on environmental schemes, which generate environmental assets. Such schemes can be important for the broader stimulus which they can give to economic activity as well as value for recreational, educational and conservational purposes. They can be driven along faster if public agencies like the Sports Council, Nature Conservancy, British Waterways Board, etc can be given extra resources to sponsor schemes in conjunction with MSC or if some of these bodies planned expenditure can be diverted for such purposes. Such schemes would be closely linked to CEP, and would have net exchequer costs and targetting of the kind already achievable on that programme. They would accord with the aim of biasing special employment measures as far as possible towards asset creation.

Table 1: Illustrations of Category (a)

1. Derelict Land Clearance : This would be relatively costly in job terms but it can be targeted to areas where needs are great and where vacant land can be brought into productive use.
2. Operation Eyesore : This could be targeted as with CEP on to the unemployed. It would be less costly than 1 and could play a part in promoting local economic development.
3. Industrial and Commercial Development : Further public sector speculative provision of factories, eg in New Towns. Relatively costly in job terms but a useful asset for the economic upturn.
4. Housing improvement for sale : The local authority or Housing Associations can buy, improve, and sell older houses. The public sector makes good any loss. This guarantee provides good gearing, and net exchequer cost per person off the register can be quite low.
5. Housing: Shared ownership off the shelf : This allows local authorities to give builders a buy-in guarantee. Subsequent disposal or part disposal gives good gearing, and net exchequer cost per person off the register can be low, particularly if displacement itself is low.

Table 2: Illustrations of Category (b)

1. Environmental improvement sponsored by private trusts Eg Urban Environmental Trusts, Urban Fringe Schemes. These give environmental value and help to promote local economic improvement.
2. Countryside Schemes Eg Heritage Coast, National Park, Nature Reserve Schemes. Environmental, recreational and conservational benefits.
3. Sport and Recreation Eg Sports areas, Kick-about areas, Canal Clearance. Recreational and environmental benefits.

<u>OPTION</u>	Gross cost £ m	Net cost ⁺ £ m	Net cost per ⁺ person off register	Register ⁺ effect	Possible ESF ^b assistance
<u>Youth Scheme</u>					
(a) Young unemployed dependent on parents	1030	547	£1375	398,000	
(b) Young unemployed independent					Absolute maximum of 50% realistic maximum of 25%
(i) £23.50 allowance	1240	757	£1900	398,000	
(ii) £20.00 allowance	1164	681	£1710	398,000	
(c) YOP development for 16 year olds	1100	622	£1920	324,000	
(d) YOP with existing guarantees	[848]	[379]	£1627	233,000	
<u>Long term Unemployed</u>					
(a) Increase size of CEP from 30,000 to 60,000 places (total after change)	145 (290)	48 (96)	£1600	30,000 (60,000)	Probably a maximum of 50% of eligible parts of the schemes in Assisted Areas.
(b) Voluntary Service Scheme (benefit + £5 expenses 30,000 places)	7.8	7.8	-	-	
<u>Early retirement</u>					
(a) Lower JRS age to 63 (total after change)	60 (168)	27 (99)	£1800	19,000 (53,000)	No support likely.
(b) Lower JRS age to 60 (total after change)	317 (425)	181 (242)	£1800	100,000 (134,000)	
(c) LTU over 60 allowed to retire on long-term s.b.	20	20	£450	45,000	

+ These are DE's best estimates of the direct effects on unemployment and the PSBR. They depend on a number of uncertain assumptions, and the estimates of net costs are subject to wide margins of error.

Ø There are substantial difficulties in calculating the UK's likely receipts from the Social Fund in respect of particular schemes. The uncertainties include the size of the Fund; the "bids" from other Member States; how the Commission chooses to exercise the considerable discretion open to it; and our ability to produce sufficient applications which the Commission finds persuasive. The Fund is also due for a thorough going review by the end of 1982; substantial changes in priorities, rules and monetary amounts will be under discussion.

TABLE 2
EXISTING PESC PROVISION AND ADDITIONAL COST AND IMPACT OF POSSIBLE SCHEMES

	<u>£m cash prices</u>		<u>Register impact</u>	
	<u>1982/83</u>	<u>1983/84</u>	March 1982	March 1984
<u>Youth Schemes</u>				
PESC Provision for YOP	367	390	134,000	134,000
Extra provision needed for				
(a) Young unemployed dependent on parents	495*	630*	-	398,000
(b) Young unemployed independent of parents				
(i) allowance £20.00	565	785	-	398,000
(ii) allowance £23.50	620	880	-	398,000
(c) YOP development for 16 year olds	530	710	-	324,000
(d) YOP with existing guarantees	661	701	-	233,000
<u>Long Term Unemployed</u>				
PESC Provision for CEP	141	149	25,000	25,000
Extra provision needed for				
(a) Expanded CEP (60,000 places)	100	164	-	25,000
(b) Voluntary scheme	8	9	-	-
<u>Early retirement</u>				
PESC Provision for JRS	112	113	36,000	40,000
Extra provision needed for				
(a) JRS age to 63	45	55 ^Ø	-	7,000
(b) JRS age to 60	225	381 ^Ø	-	86,000
(c) JRS at long term s.b. rate for unemployed over 60s	21	23	45,000	49,000

* These figures include £100m in 1982/83 and £200m in 1983/84 for payments of Child Benefit and Supplementary Benefit by DHSS to parents of those on the programme.

Ø This is for a one year extension in 1982/83 and would also entail costs in 1984/85 and subsequent years.