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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

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MEASURES AGAINST UNEMPLOYMENT

Note by the Central Policy Review Staff

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1. The Secretary of State for Employment, in response to the CPRS report on 'Unemployment and Young People', seeks approval in E(81) 74 for five proposals designed to reduce the forecast levels of unemployment; they are all extensions of existing special measures. He also seeks approval in principle to develop a comprehensive youth scheme and to expand the Community Enterprise Programme (CEP). Finally he makes a number of suggestions for further examination by officials.

Youth Unemployment

2. Ideally a comprehensive scheme for the young unemployed should satisfy three constraints:

- it should be acceptable to the young people and to the agencies involved with providing it;
- it should not invoke compulsion;
- it should not cost more than a YOP programme expanded to meet the current guarantees.

The CPRS is now convinced that it is not possible to design a comprehensive scheme which meets all three constraints. Our original main proposal - an obligatory Training Year for all 16-year-old school leavers - might have satisfied the first and third constraints, but broke the second.

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3. Option A in the officials' report treats unemployed 16 year olds as dependent on their parents, and therefore provides them with only £8 a week when on the scheme, and nothing otherwise. Option B treats them as independant and suggests an allowance of £20 a week on the scheme, together with £15 a week 'waiting' allowance.

4. The table below (taken from p 18 of the officials' report) shows that both options are considerably more expensive than continuing YOP on its current basis - and so both break the third, cost, constraint to some extent. In fact for the large presentational difference (£8 as opposed to £20), the difference in gross costs between the schemes is fairly small (£1,030 million compared with £1,164 million). The Secretary of State considers that Option A also breaks the constraint of acceptability to the agencies, in particular to the MSC.

	Gross costs £m	Net costs £m	Register effect
Option A - £8 allowance plus education allowance (parentally means tested)	1030 (212)	547 (212)	398,000
Option B - £20 allowance plus education allowance (parentally means tested)	1164 (220)	681 (220)	398,000
YOP with existing guarantees	848	379	233,000

5. It appears clear that to have a voluntary comprehensive scheme that is workable, it will be necessary to break the constraint of keeping the costs within those for an expanded YOP. It is a matter of judgement how expensive the scheme needs to be in order to prove acceptable to the agencies needed to run it and to the young people themselves. There is also some trade-off between the level of allowance and the quality of the scheme (as measured by the training content). The need to improve quality would point to a September 1983 starting date for a comprehensive scheme, as proposed by the Secretary of State.

6. We suggest that, if a scheme is to be developed, Option B offers the only acceptable, voluntary, basis on which to build. But we think that the level of allowance should be left open until officials have undertaken the informal soundings of the CBI, TUC and MSC as mentioned in the report. We would also think it worth examining whether a comprehensive scheme might be brought forward more quickly in specific areas, particularly in the inner cities.

7. In the period before a comprehensive scheme could be introduced (Sept 1983) we support the proposals by the Secretary of State that the YOP scheme be expanded in order to maintain the existing guarantees.

8. In E(81) 75 the Secretary of State for Education proposes that 16-19 year olds in full-time education should receive the same financial support as those in MSC traineeships or the unemployed. The essential issue for Ministers to consider is whether the considerable extra expenditure - estimated in the officials' report at over £200 million a year for a means tested allowance - would in practice have a significant effect on the numbers staying on in full-time education; there is no clear evidence to support this.

9. If Ministers do wish to develop a comprehensive training based scheme for the young unemployed, they might like to consider the implications of it for the longer term aim of the New Training Initiative of encouraging employers to provide the training for young people. The more successful (and larger) any scheme for unemployed young people becomes, the more employers are likely to rely on it for the basic training of young people. There is some evidence that YOP is already being used in this way; a comprehensive scheme would tend to reinforce this. To achieve the objective of the NTL, this tendency will need to be reversed. We suggest that it may be necessary to develop levers to encourage employers to take an increasing share of the training responsibilities. The French "taxe d'apprentissage" offers one method, a conditional remission of the National Insurance Surcharge would be another. We suggest that Ministers might ask for such possible levers to be examined.

More job opportunities in the labour market

10. Most of the Secretary of State's proposals under this heading relate to the encouragement of early retirement, primarily through an extension of the Job Release Scheme (JRS). The net cost per person off the register is given as £1,800 per year, roughly the same as Option B for the comprehensive scheme for the young people. A reduction of the eligible age to 60 for one year has a large register effect (134,000); but the total cost is high (over £500 million gross in 1983-84). If a choice has to be made, we would give higher priority to a comprehensive youth scheme than to reducing the JRS age to 60, because we believe the former would be more cost effective in terms of the social objectives achieved.

Opportunities outside the labour market

11. In our report, we suggested that the rate of pay for the CEP should be reduced from "rate for the job" to "benefit plus premium", in exchange for an offer to quadruple the programme (from 25,000 to 100,000) at a relatively small Exchequer cost (£35 million net). We thought that such a trade-off might be saleable, in that unions might not wish to be seen to reject a much expanded programme for the long-term unemployed - especially since the agreed aim of the programme is to provide genuinely additional jobs. We are therefore disappointed to note the officials' conclusion that our approach would be unacceptable to the unions. Ministers may like to consider whether the choice might be offered publicly to the unions - 25,000 at "rate for the job", or 100,000 at "benefit plus premium" (or the equivalent figures if the programme is to be expanded in any case).

Conclusions

12. In summary, our conclusions are:

- a. On youth unemployment, if Ministers want a comprehensive scheme while avoiding an element of compulsion, then a scheme on the lines of Option B is the only feasible course.

- b. If Ministers decide on a further expansion of YOP - whether or not through a comprehensive scheme - we suggest that officials should be asked to examine possible levers whereby employers could be encouraged to shoulder an increasing share of the training burden in due course.
- c. Reducing the JRS age to 60 should have a lower priority than a comprehensive scheme for unemployed people.
- d. On CEP the unions might be offered a choice between a programme at "rate for the job" and a programme of three to four times the size at the lower "benefit plus premium" rate.

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