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PRIME MINISTER

EMPLOYMENT EXERCISE

1 I attach the draft of the Employment Document. I emphasise that this is far from its final version, but I promised to let you have this early so that you could see the lines on which we have been working. The Group that I have been chairing includes David Young, Norman Lamont, Peter Morrison, and John Redwood and Nigel Lawson has been receiving the various papers.

2 We have started from the basis that the document should cover the whole spectrum of the Government's approach on employment and unemployment. It might form the basis of a published document, and the draft has been so written that most of it could very easily be converted into a White Paper.

3 The document starts with the background to the present situation, looking not only at the UK but also at what is happening elsewhere. We have set out the problems but emphasised the achievements as well. Against that background we assess the challenges we still face and compare different possible approaches. From this we develop a range of proposals which could form the basis of a convincing response to the situation. In presenting these it will be particularly important to ensure that they are seen to flow from our existing policies.

4 You will notice that Sections 5 & 6 are completely different from the first four sections. Sections 1-4 are much closer to the sort of final form that we would want for a White Paper. 5 & 6 raise a number of issues for discussion on the various possible steps that we could take to increase employment and reduce unemployment.

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5 Section 5, on further action to increase employment, covers the following areas:

(a) Possible restructuring of National Insurance Contributions.

(b) My proposals on Wages Councils.

(c) The minimising of bureaucratic and administrative burdens including the current scrutinies and my "passport" proposal.

(d) The Young Workers Scheme.

(e) Current action to improve labour market mobility including pensions and housing policy.

(f) Development of training and re-training, including my proposal for training loans.

(g) Encouragement of more flexible working patterns (eg jobsplitting and early retirement).

(h) The 16-18 year olds, this being the relevant part of David Young's study as far as the Group is concerned.

6 Section 6, on what might be done to help the long-term unemployed covers:

(a) Employment subsidies, which we reject.

(b) A "benefit plus" scheme, also rejected.

(c) Possible extension of the Community Programme.

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(d) Enlargement of schemes run by DHSS and my Department to help long-term unemployed people to make better use of their time.

(e) Early retirement and the Job Release Scheme.

(f) Changing Supplementary Benefit regulations to encourage part-time work.

A PUBLISHED DOCUMENT?

7 We need to decide whether a document along these lines should be published, and if so when. This must depend on:

(a) When will the various components of our proposals be ready?

(b) What is the best time for us to get maximum impact from them?

(c) How great is the pressure likely to be for an early Government response if we encounter particularly bad unemployment figures during the winter?

8 The earliest I can see a document being produced is late January. But this would essentially deal only with the status quo. Such a published document could be based on the first four sections of the attached report, plus a fifth section spelling out the employment and unemployment measures already taken, and those in hand but not yet decided, e.g. David Young's work for 16-18s.

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9 An alternative would be to produce a published document very soon after the Budget, some time in March. This would be able to take account of the employment and unemployment implications of the major decisions to be taken over the next few weeks, including David Young's MISC 107, Norman Fowler's social security reviews, the review of administrative and bureaucratic burdens, and of course the Budget. The White Paper would then be a much more convincing document. Again, the first four sections of the attached report could be used suitably revised, with sections 5 and 6 changed following decisions.

10 I believe that this later date is the one to choose. To get the impact we want it is essential to include definite proposals from MISC 107, including both the training option for 16-18 year olds and the consequent benefit changes. The employment aspects of Norman Fowler's reviews must also be included.

11 We should also look seriously at four other areas:

(a) The restructuring of National Insurance Contributions to favour low wage employment. Since this is a matter for the Treasury and DHSS, I have already written to Nigel Lawson and Norman Fowler suggesting such an examination.

(b) The expansion of the Community Programme and the consequent reduction of long-term unemployment. While this would have public expenditure implications, the Community Programme has a low net cost in relation to its gross cost, and in my view this could be maintained for an extension. This suggestion reflects the concern of my Group that the current and future levels of long-term unemployment are likely to be affected only slowly, if at all, by rising employment.

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(c) A passport scheme to introduce an element of de-regulation into the labour market by removing employer liability to pay tax and National Insurance for certain employees. The Group thought a pilot scheme would be sensible. This would have to be co-ordinated with the outcome of the social security review.

(d) Increasing the Supplementary Benefit disregard for long-term unemployed people taking part-time work. This is for Norman Fowler to consider in the overall context of his social security reviews, and I have written to him about it.

PUBLIC EXPENDITURE IMPLICATIONS

12 When considering the likely costs of these proposals it is, I think, important to distinguish between what we can do to help increase employment in general, and what we need to do to reduce the hard-core of unemployment. Most of the public expenditure implications of the former will come from the Chancellor's work on tax thresholds etc and Norman Fowler's work on the benefit system. My proposals on the labour market and wages councils have only minimal Exchequer costs. There are two large groups of unemployed, however, for whom I believe extra help is required. They are the young, and the long term unemployed, both of whom have special problems which are unlikely to respond to our more general measures to increase employment. Between them these two groups account for around 1½ million of the unemployed, and I believe any programme to tackle unemployment should contain special provision for them.

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12a My paper has concentrated on the most cost-effective way of providing this. The Community Programme's low net cost makes it the cheapest way to reduce long term unemployment. The degree to which any YTS/benefit changes could be cost-neutral is not yet clear, but I am confident that my programme represents the most effective way of tackling these special problems that is, at the same time, consistent with our overall economic strategy.

13 Lastly, what might the impact of these proposals add up to in terms of reducing unemployment? With every possible health warning attached - and I am not including anything resulting from the restructuring of National Insurance Contributions - I would suggest a possible estimate of around 400,000 reduction in unemployment by winter 1986/87. The major components of this are a 200,000 reduction in unemployment from the 16-18 proposals, on the assumption that unemployment is no longer an option for this group; and 120,000 from the doubling of the Community Programme.

SUMMARY

14 In summary therefore, I believe a document based on the attached draft, published very soon after the Budget, would be the right choice. This would present the Government strategy towards employment, state what had been done so far, and what further steps we proposed.

15 The new elements in future policy towards employment and unemployment would then be:

- (a) proposals associated with MISC 107's work on the 16-18s;

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(b) decisions affecting employment and unemployment from Norman Fowler's reviews;

(c) the implications of Budget decisions in this area;

and, if colleagues so decided,

(d) a change in the structure (or level) of National Insurance Contributions;

(e) an extension of the Community Programme;

(f) a pilot "passport" scheme;

(g) an increased disregard for long-term unemployed people taking part-time work.

16 What I would therefore propose is that we discuss the document at our meeting on January 14, at which we ought to decide:

(a) Whether the attached draft might form the basis of a published document setting out the Government's strategy towards employment.

(b) If a published document is desirable, what is the most appropriate timing.

(c) If a post-Budget document is decided, whether any of the additional options suggested by my Group should be given serious consideration.

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December 1984

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POSSIBLE DOCUMENT ON
EMPLOYMENT

Department of Employment
December 1984

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INTRODUCTION

1 This document sets out the Government's approach to employment and unemployment. It emphasises the strategy which has governed the approach so far, summarises what the Government has done, and looks ahead to the strengthening and development of policies to help generate jobs.

2 The Government's employment strategy has three interlocking parts. First and most important is the pursuit of a sound and stable framework of economic and industrial policy. Sustained growth of employment, and lower unemployment, need a sound economic and financial policy which will help industry and commerce to remain competitive and to increase output. The key initial step has therefore been to control inflation and help restore competitiveness. The reduction of inflation has been a major achievement, though there must be no letting up in the drive for lower costs and prices and greater efficiency.

3 The second part of the strategy involves specific ways of encouraging the growth of employment, within the economic policy framework. Removing impediments which prevent employers creating jobs or individuals making best use of their potential increases employment. The Government has taken action to modernise training to ensure that those seeking jobs can acquire the skills and aptitudes required to fill them, has promoted mobility by improving the housing market, and has abolished the national insurance surcharge. These and many other measures to increase adaptability and flexibility help create jobs.

4 Thirdly, the fight against inflation and the recession have combined to intensify changes in industry which cost many existing jobs. The Government recognises that problems of unemployment for particular groups or localities can be severe and long-lasting. Indeed, even with employment growing as it is, the creation of new jobs is bound to take time to work through to lower unemployment. The Government has tackled these problems, and the human penalties of unemployment, through the range of its employment measures.

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These are a necessary complement to the creating of new jobs by employers which the other elements of the strategy encourage.

5 The strategic approach then is economic policy which supports the growth of output and wealth and hence employment growth; the removal of impediments to job creation; and special attention to deep-seated unemployment problems.

L. L. Lawrence Arthur Vincent

T. D. Atkinson

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CHAPTER 1

THE EMPLOYMENT PROBLEM

1.1 The employment of our people and the reduction of unemployment is a major challenge as Britain wins back prosperity. Employment is now rising, by a quarter of a million in the last year, but a major sustained growth in jobs will be necessary if we are to see a real impact on unemployment. Policies to meet this challenge must start from a clear understanding of the realities - the facts, the problems and the opportunities. Unemployment is an international problem, affecting all industrialised countries, but Britain does have to face particular difficulties. This Chapter explains how Britain came to the present situation and how it can best generate and sustain more jobs.

1.2 The most basic truth is that jobs arise when enterprises are able to produce goods and services which customers at home and abroad want and can afford to buy. Thus in a nation like Britain, which is dependent upon international trade for its economic well-being, many jobs depend particularly upon the efficiency and growth of our trading sector, both manufacturing and services, competing internationally in prices and costs, in quality, design and marketing. Profitable production is the key to employment, not only directly but in helping to pay for public services and as a main source of new wealth-creating investment.

1.3 For industry and commerce the task for managers and entrepreneurs is to adapt continuously to changes in markets and customer choice, and industrial enterprise must be partnered by an efficient and fair jobs market in which people are prepared to meet change, allowed to do so, and helped where necessary to adjust. This means greater flexibility in acquiring new skills, in taking on new responsibilities or methods of work, and accepting earnings which are in line with economic circumstances.

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1.4 Too often, however, we have ignored the importance of wealth creation as the route to more jobs and higher standards of living. Our unemployment problem is many-sided and deep-rooted: but its central cause has been a reluctance or inability to adapt sufficiently both in our attitudes and working practices. Our recent experience in the vastly changed circumstances of the world economy demonstrates this.

1.5 During the 1950s and 1960s living standards rose throughout the West. There was a general expectation of continuing growth, higher real wages, more leisure and virtually full employment, and it was widely assumed that Government economic policies could ensure steadily increasing prosperity. Higher living standards were seen as a right rather than something to be earned; the vital link between prosperity and efficiency, and industry's basic need to meet market demands, was often overlooked.

1.6 The world recession, triggered by the large oil price rises in 1973, required major adjustments within the economies and labour markets of all countries. These should have been tackled by some fundamental policy changes but many Governments responded simply by relaxing financial disciplines. Inflation rose alarmingly - in Britain to 26% in one year - and economic stability was threatened as business planning became more uncertain. Public services grew faster than their supporting economies, so that government spending and hence taxation increased, reinforcing demands for higher wages. Some countries - notably Britain - were slow to adjust either in industrial products or in ways of work. In some cases, productivity gains and reductions in overmanning were held back; in others high labour costs led to more substitution of machinery for manpower than if wages had not been pushed up so fast.

1.7 Most Governments responded differently to the 1979 oil price rise. They had learnt the need to control inflation as a pre-requisite for a sound economy. They therefore acted, some more quickly than others, to curb budget deficits and control monetary growth. This was essential, but involved a

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short term cost in lower growth and higher unemployment, because of the time required to adjust to new market conditions. Nevertheless, most countries are now adopting the consistent approach of the UK Government since 1979, that sustained growth without inflation can be assured only through prudent financial policies.

1.8 As a trading nation - exporting nearly one third of its output - Britain could not have hoped to escape entirely these effects of world recessions. But we have suffered more than most because of our special difficulties. Over a long period our growth rates of output and productivity have been below those of most major industrial nations while our inflation has been higher. We have adapted too late and too slowly to change. These long term weaknesses have been reflected in a declining British share of world trade in manufactures.

1.9 There are many reasons for this disappointing performance. Managements have not always shown the enterprise and flair needed to match market needs. Trade unions have often concentrated on short term pay rises and attempted job preservation, instead of looking to their members' longer term security and living standards and accepting the need to compete commercially. Levels of earnings have been too high and pay differentials have been too inflexible. Even now, real wages continue to rise too fast, relative to productivity. Employers generally have seriously under-invested in training of all kinds, while our provision of technical and vocational education has proved wholly inadequate for a modern economy. Resistance to change, on both sides of industry, has further hampered incentives and competitiveness.

1.10 Governments have added their own impediments. Stop-go economic policies have made the job of industry and commerce more difficult. Too many regulations and restrictions have handicapped effective business, while the structure of taxation has reduced incentives and distorted decision-making. Inflation, now increasingly under control, pushed up costs and interest rates, squeezed profits and made investment uncertain.

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1.11 These and other impediments to sustained employment growth are discussed in Chapter 3, together with the action taken by Government to help resolve them. But though crucial, the Government's essential role in economic and industrial affairs - to create the conditions for better competitiveness and higher output - is limited. It cannot in any lasting sense create jobs directly except through public sector employment. This has to be paid for through additional borrowing or taxation which will mean lower disposable incomes or higher interest rates which lead to lower investment, with consequent effects on employment elsewhere in the economy.

1.12 Many of the remedies and the apparently simple solutions for unemployment, discussed later, avoid the question of cost. Others appear to assume that, even in the long run, there is only a fixed amount of work which has to be "shared out" among the existing members of the workforce. While in the short run employment may rise more slowly than the available workforce, as the economy grows through higher productivity and investment, wealth increases and the number of jobs could expand. The short run arguments ignore these dynamic aspects of economic growth in creating employment.

1.13 Future levels of employment are therefore not pre-ordained; they will depend partly upon the state of world trade, but more still upon our ability to control inflation, and on competitiveness, productivity, and wage moderation and our ability to adjust to changed and changing circumstances - that is, upon what we ourselves choose to do. New opportunities are arising all the time and we need enterprise, skill and resolve to win back old markets and create new ones.

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CHAPTER 2

CHANGING PATTERNS OF EMPLOYMENT

2.1 Patterns of employment shift considerably over the years with changes in the structure of output and production, and in people's abilities, skills and choices. It is always difficult to forecast precisely where new jobs will arise, especially in current circumstances with the recession and the potential of new technology to change ways of working. As someone aptly observed, the future is not what it used to be. Nevertheless it is important to understand the major changes that have led to our present position, and to assess as far as we can the factors affecting employment in the years ahead.

Labour Force and Employment

2.2 At present around 33 million people in the UK are of working age. About 26 million - nearly half the total population - are in a paid job or seeking one. This is about 3 million more than 30 years ago, partly because of an increase in the population of working age and partly because a higher proportion of them are in work or seeking work. The number of men has remained around 16 million but the number of women has increased from 7 million to over 10 million.

2.3 There were twice as many married women in or seeking jobs in 1981 as in 1947. However, since about 1977 the proportion of married women active in the labour market seems to have levelled off at about 50%, no doubt mainly because of the recession. There have also been changes in male activity rates in recent years, in particular a decline amongst those aged over 55, reflecting the increasing trend towards early retirement.

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2.4 The future prospect is for the labour force to continue to grow, though more slowly as the population increases and a higher proportion of women look for work. The rate of growth depends in part on the economic climate, but over the next three years or so it is estimated that the annual increase will average about 130,000 (of this 100,000 will be due to population growth) tailing off towards the end of the decade. The question is how quickly the economy can generate enough jobs both to absorb these increases and to reduce unemployment from its current levels.

2.5 Three factors are especially important in an understanding of the overall employment situation in Britain compared with other countries. First, a higher proportion of total population is in work in the UK, 66% in 1982, than in our three main Continental competitors (France (61%), Germany (61%) and Italy (55%)) though our proportion is slightly lower than Japan (71%). Secondly, although the proportion of men of working age who are in the labour force has declined in all these countries, the proportion of women is significantly higher in the UK (58%), USA (62%) and Japan (57%) than in the Continental European countries. Thirdly, the UK has one of the highest proportions - 45% in 1981 - of young people above statutory minimum school leaving age and below 20 who are in work or available for work.

Employment Patterns

2.6 Of the 26 million people in the labour force, some 23 million are in work. In Britain, as in other countries, employment in the service sector has been increasing. Between 1959 and 1983, service sector employment rose from 9.8 million to 13.2 million (64 per cent of total employment) while manufacturing employment fell from 7.9 million to 5.5 million. Partly because of these trends, there has been a large increase in the numbers in non-manual occupations - from 8½ million in 1961 to over 11 million in 1981 - with a rising proportion of people in scientific, technological and professional occupations. The number of people in Britain who are self employed has also shown steady growth, to about 2½ million in 1984, about one in ten of the employed labour force.

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2.7 In most countries part of the benefit of economic growth has been taken in the form of reduced working time. This has meant fewer hours per week, fewer weeks per year because of longer holidays, and shorter working lives. For men the reduction in working life as the retirement age has come down has been as important as reduced hours per week. However, we still tend to work more hours and have shorter holidays than in other countries. In 1983, manual workers in manufacturing industry worked an average of 41.3 hours a week - more than in most other leading industrial nations.

2.8 The number of part-time workers in the UK has increased markedly, by over a million in the last 10 years. This is partly because of the changing pattern of employer demand (eg long opening hours of supermarkets) influenced by the structure of National Insurance Contributions, and partly to accommodate the preferences of individuals. Nearly 5 million people worked part-time in March 1984, representing some 23% of all employees as compared with 15.4% in 1971. 90% of all part-time workers are women, and in the year to March 1984 there were some 215,000 new female part-time jobs, a substantial proportion of the total growth of 335,000 in service sector employment.

Unemployment

2.9 Unemployment has been rising for many years as output growth has failed to keep pace with the growth of productivity and of the size of the labour force. The average level of around $\frac{1}{2}$ million in the 1960s more than doubled in the 1970s and has doubled again in the 1980s. This is not simply a British problem: since the oil price rises in 1974 and 1979 the upward trend has increased rapidly in almost all the major industrial economies. Initially, unemployment rose more rapidly in the UK than in other countries, but the rate of increase has slowed markedly in Britain to below that being experienced elsewhere. The current rate of 12.9% compares with 7.3% in the USA; 8.3% in Germany; 9.1% in France; 10.4% in Italy; 13.7% in the Netherlands; and 15.6% in Belgium.

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2.10 For all these countries, high unemployment among the young has been a new and worrying feature. Youth unemployment partly reflects the effect of depressed labour markets on new labour force entrants, but in Britain also reflects relatively high pay for the under 18s. The average earnings of young men relative to adults rose from 42% in 1951 to nearly 57% in 1981.

2.11 Long-term unemployment has also become a major cause for concern. The recession and slow growth of new employment opportunities have caused the numbers of long-term unemployed to increase much more than unemployment generally. Over 1½ million people have now been out of work for at least a year. Of these 700,000 have been unemployed for over two years and 400,000 for over three years. Five years ago about 340,000 people had been unemployed for over one year, of whom nearly 172,000 had been so for more than two years, and some 100,000 for over three years.

Prospects

2.12 Future growth of employment depends on the relationship between the rates of growth of output and of productivity. If output increases more quickly than output per man, employment will rise. As a rough rule of thumb, each percentage point increase by which output growth exceeds productivity growth would mean 200,000 more jobs each year, and 150,000 fewer unemployed and vice versa. Thus a very rapid increase in productivity may in the short run lead to lower employment if it exceeds output growth. But in the long run increased productivity is clearly essential to maintain growth and increase employment. Government policy therefore seeks to set a framework within which output and productivity can grow, and to influence the factors affecting them, including the control of inflation, technology and investment.

2.13 Prospects for individual industries and occupations will depend on their response to market changes. In general there may well be some continued decline in the trend of manufacturing employment (currently about 5½ million) alongside increasing output and productivity, even if there is some initial

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increase as employment recovers from the recession. The service sector is the area of strongest potential growth, with private-sector services providing most new jobs. The strength of job growth here depends on movements in pay, productivity and growth in the economy, since many services depend on higher output or greater consumer spending power. There will be many additional part-time service jobs which would tend to increase the proportion of women in employment.

2.14 Occupational changes are likely to be more rapid than in the past, and the shift from blue collar to white collar jobs will continue. This will partly come from changes in the structure of industry but even within individual industries more jobs will require higher levels of skill, and there will be fewer unskilled or semi-skilled jobs. The skills required will increasingly have a technical or technological bias, with more emphasis on "knowledge" skills and less on manual skills. And the faster the technological change, the greater the likely shift in occupational structure.

2.15 The application of new technology is certain to have a profound influence on employment. But though some people have expressed fears over the effects of new technology in destroying jobs, history shows that it generally creates wealth and employment. We cannot afford to fall behind our international competitors in introducing new technology to improve efficiency. So far, however, new technology has been introduced relatively slowly in this country; it should be more rapid in the next few years, with better business profits leading to more investment.

2.16 Most estimates of the employment effects of new technology have been largely confined to its direct effects in displacing jobs. But the indirect effects within and outside the industry concerned can include lower prices, higher real incomes, higher investment demand and improved competitiveness in quality, design and delivery, all of which will tend to increase employment. One recent study which looked at these wider employment effects suggested that while the industries making the change did lose jobs, this was more than

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offset elsewhere in the economy. This happens as the investment required to introduce new technology itself creates jobs; and as resulting cost reductions lead to lower prices, higher real incomes, and thus an expansion of demand.

2.17 There are of course transitional problems. New jobs may arise later than old ones disappear, and in different industries and locations. The more willing and able that people are to move to new tasks (with re-training where needed) and new areas, the less the problems and burdens of change will be.

2.18 Finally, some groups will continue to be particularly seriously affected by unemployment. The long term unemployed find it less easy to get jobs even when employment generally is increasing and unless there is strong growth in female employment, the large growth in the number of women seeking work may mean that female unemployment will continue to rise more quickly. However, among those aged under 18 unemployment should gradually decline for demographic reasons and through lower relative pay and the impact of Government's Youth Training and Young Workers' Schemes.

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CHAPTER 3

PROGRESS SO FAR

3.1 Since 1979 the Government has been pursuing a consistent strategy towards employment. The creation of employment comes directly or indirectly through the efforts of industry and commerce, and Government's main role is in helping establish a sound framework within which they can operate. This Chapter summarises the various aspects of Government's policies to date, as they have affected employment and unemployment.

ECONOMIC AND INDUSTRIAL POLICY

3.2 Economic policy since 1979 has had two major aims. The first is the control of inflation. Through the establishment of the Medium Term Financial Framework and the control of public expenditure the Government has restored financial and economic stability to the economy, and provided a foundation for economic growth. But in some sectors the response of industry in supplying the goods and services which people, at home and overseas, wish to buy has been less than adequate. The second aim has therefore been to improve the efficiency with which markets work and adjust, so improving the supply response of British industry to home and overseas demand, and hence increasing employment.

3.3 Much has been done by the Government since 1979 to improve incentives and the operation of markets. As a result profits and new investment are now rising strongly. Controls on prices, dividends, credit and foreign exchange have been removed. Reductions in personal income tax have increased incentives. The tax burden on industry has been lightened through changes in Corporation Tax allowances and rates. Share incentive schemes have been extended, and direct investment is encouraged - for example through the Business Expansion Scheme. Action has been taken to simplify and speed up the planning system, and to restrict the burden of local authority rates.

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3.4 Competition has been encouraged. Restrictions on competition impede industry's response to new opportunities and inhibit the adjustments within the economy which bring new jobs. A strong legislative framework therefore now exists to promote competition and control monopolies and mergers. Particular monopolies that distort markets are being dismantled; regulations on particular industries have been removed; and nationalised industries have been returned to the private sector. So far 10 major companies and many smaller ones involving so far some 170,000 jobs have been transferred under the privatisation programme, with some significant improvements in turnover and profits.

3.5 As a nation we have been slower to innovate and introduce technological changes than some of our international competitors. This has reduced long-term job prospects. The Government has helped to stimulate necessary progress and adjustment in industry through its Support for Innovation Programme. Substantial financial support - some £270 million in 1984/85 - is available to help with research and development costs for new products and for the introduction and application of new technologies (such as microelectronics, robots, computer aided design and manufacture). Technical advice and consultancy schemes have been made available to help management become aware of technological and market opportunities.

3.6 Management performance is crucial to the success of British industry. Quite apart from the control of costs and price competitiveness, product design, marketing, quality and delivery on time, all these are crucial in winning the customer's favour at home and overseas. British managers have not been as good at securing high performance in these areas as their counterparts in other countries and they may be less well-equipped with up-to-date techniques of planning and financial control. This partly reflects the lower status British people have accorded to managers and industry than the professions. The Government has worked hard to change this and gain wider recognition of the value to the country of successful industrial performance and good business management.

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3.7 The Government has recognised the crucial importance of the small firms sector in stimulating wealth creation, enterprise and employment. 95% of businesses in the UK are small, and they contribute 20% of GNP. Some 6 million people work in small firms. High priority is given to encouraging small firms, and many measures have been introduced to help them. These include fiscal measures to reduce taxation, measures to widen and improve sources of advice and training, and measures to make it easier for small firms to get finance.

MAKING THE JOBS MARKET WORK BETTER

3.8 An ineffective jobs market damages employment by placing barriers between individuals who wish to get jobs and employers who wish to employ them. It is important to recognise that economic forces operate in the jobs market as in other markets. If the jobs market is inflexible, this will tend to reduce employment, because employers do not find it worth their while to provide more jobs, or because individuals are unable or unwilling to take those on offer. The Government's approach has been to encourage adaptation to changes by setting out the realities of how the jobs market works, by recognising and acting when desirable protection for individuals has instead become an obstacle to job creation, and by seeking out and testing new ideas.

3.9 A basic influence on employment is its cost. The evidence shows that the higher the cost of employment in real terms the lower will be employment, since employers are more likely to economise on labour if it is expensive relative to machines and other inputs. And higher labour costs imply lower profits and worse competitiveness, which discourages employers from expanding output and investing in more capacity. These links between a rising real cost of employing people and the disincentive to jobs needs to be much more widely recognised. A reduction in the rate of growth of real wages - not necessarily the level - would be a major encouragement to employment. This could be achieved without people in jobs suffering a reduction in their standard of living, and would help the unemployed back into work.

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3.10 Pay is essentially a matter for employers and employees themselves to determine. Only in this way can the different circumstances of each individual enterprise be taken into account. At the same time the Government has repeatedly stressed to those concerned that they have to recognise the effect of pay levels on the competitiveness and profitability of firms on which future investment and jobs depend. In the short term, higher pay benefits those in work even though it leads to less employment with, in effect, the unemployed paying the price; in the long run, the economic and employment consequences are bound to be harmful.

3.11 The Government, as a major employer itself, has negotiated on the principles that pay should reflect what is needed to recruit and retain employees, and what can be afforded. It has encouraged management and unions in the private sector to take a realistic approach to pay negotiations and to remove artificial constraints from them. It has repealed Schedule 11 of the Employment Protection Act 1975 (which could be used to require employers to pay the same wages as in other employment); and it has rescinded the Fair Wages Resolution (which had a similar effect in relation to public sector contracts).

3.12 More directly, the Government has introduced the Young Workers' Scheme which encourages levels of pay which reflect the experience of young people entering work. This, and the training allowance of the Youth Training Scheme, have resulted in more realistic levels of youth pay. The Government has also reduced employers' non-wage labour costs by abolishing the National Insurance Surcharge as from October 1984.

3.13 Sound industrial relations based on good understanding and realistic bargaining are important to the labour market and so to jobs. Effective and constructive trade unions have an established and essential contribution to make here for the long-term support of jobs. In recent decades, however, the combination of out-dated and rigid attitudes, political preoccupations and excessive power has meant that many unions have failed to make such a contribution, at high cost to those of their members who have become unemployed.

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3.14 The Government has taken action to encourage a positive attitude to change and greater efficiency through a more balanced framework of industrial relations law. The Employment Acts 1980 and 1982 made a start. Closed shops - with all their potential for impeding better working systems - can now be established and continued only if supported by a substantial majority of those they cover. Anti-competitive practices like refusing to let firms without closed shops tender for commercial contracts are now unlawful. And the protection of the law has been restored to those whose businesses and jobs are threatened by irresponsible or indiscriminate industrial action.

3.15 The 1984 Trade Union Act is somewhat different in that it deals primarily with relations between trade unions and their members. In future, direct elections to union governing bodies will have to be by secret, usually postal, ballot: ballots will have to be held at regular intervals by unions wishing to spend money on politics. And unions can no longer call a strike without risking legal action unless they first win the majority support of members concerned in a ballot. By helping to ensure that unions are thus genuinely representative of their members, these measures should improve both union credibility and industrial relations generally.

3.16 But there are limits to what the law can do: and it is not on the union side alone that new attitudes are needed. More and more employers are now realising the advantages, in getting better performance and acceptance of change, if communication ensures that employees are more closely involved in decisions affecting them at work. The Employment Act 1982 requires larger companies to report annually what they have done to strengthen employee involvement.

3.17 The range of legislative and administrative procedures which employers must follow when taking on or employing people can be another factor limiting employment. While some of these procedures provide necessary protection for individuals and ensure that proper tax or other payments are made, clearer and simpler procedures would in many cases help employment without adverse

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effects. Thus, while maintaining protection for individuals, the Government has relaxed some of the other statutory burdens on employers associated with employment. In 1979 the qualifying period of employment for protection against unfair dismissal was increased to one year. The Employment Act 1980 increased this period to 2 years for employment in firms with 20 or fewer employees.

3.18 Again, the 'red tape' involved in paying tax and national insurance may adversely influence recruitment particularly of unskilled or low wage workers. The PAYE system is complex because it aims to secure payment of tax throughout the year in a way that is both accurate - ideally requiring no end-of-year adjustment - and cumulative. It involves very little work for employees but considerable amounts for employers. To help small employers in particular cope with these requirements, the Inland Revenue published a simple guide in June 1984. More generally, the Government has set up an inquiry to examine the administrative burdens on employers caused by Government legislation and procedures, particularly those burdens which bear hardest on small firms.

3.19 The growth and development of employment requires effective mobility. People must be able and prepared to make job changes, perhaps involving movement from one part of the country to another. But there may be difficulties in their way. One is the lack of availability of suitable housing. Planning constraints on substantial new housebuilding in some of the more popular and attractive parts of the country are one problem, and the Government has tried to help free the housing market and therefore allow people to move more easily. Home ownership has been extended through the sale of council houses to tenants; a start has been made on reducing restrictions on private letting; the rate of stamp duty on house purchase has been reduced; and in the public sector the National Mobility Scheme and the Tenants Exchange Scheme have made it easier for council tenants to move from one area to another.

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3.20 A further inhibition to job changing, especially in white-collar employment, is the operation of pension schemes, whereby an individual can be "locked in" to a job by the financial sacrifice of pension rights movement would require. This problem and ways of easing it are under consideration by the Government and the pensions industry.

3.21 Of course, people will only take a job or move if they see it as in their interests to do so, but sometimes the information on which they will decide may be misleading. Two examples will illustrate.

3.22 First, if the labour market is to work effectively, pay differentials should reflect more closely employers' needs for particular types of employees and the difficulties of recruitment, while providing incentives for people to take up work that is in demand. These factors change over time, and pay structures should be designed to adapt as circumstances alter. The Government has encouraged employers and employees to take account of this in their negotiations.

3.23 Secondly, the interaction of the tax, benefit and social security systems creates the "unemployment trap", whereby some people may be better off out of work than in employment. Since 1979 the Government has sought to protect the position of the worst off, notably by maintaining the value of supplementary benefits, but it has also abolished the Earnings Related Supplement and brought benefit for the unemployed into tax. This will have improved the incentive to work of those who have been unemployed for a fairly short period.

3.24 Training and education must be effective so that people have the right skills or are prepared and able to acquire them as industry's needs change. While training is not in itself a way to generate more jobs, it is an essential support to job creation. Without adequate investment in training, industry and commerce will be unable to adapt and compete.

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3.25 Since 1979 the Government has made improvement of Britain's education and training one of its priorities. The White Paper "Training for Jobs" pointed out that training is first and foremost an investment, and that the main responsibility rests with employers, who can best identify their own requirements. Trainees can contribute by accepting realistic pay or allowances while in training. The Government assists with young people's transition from school to work with the Youth Training Scheme, provides training for those out of work, and funds experimental courses and new developments using new technology and training techniques.

3.26 Much has already been achieved by industry and the Government through the activities of the Manpower Services Commission, particularly in the training of young people. Many of our industrial competitors, particularly their employers, have tended to devote much greater effort to preparing young people for working life than in the UK, where a far higher proportion of young people aged 16 and 17 go straight into the normal labour market. Great progress has been made since 1979 in tackling these problems. Perhaps most important is the Youth Training Scheme, offering school leavers for the first time in this country up to a full year of integrated work experience and training. Now into its second year, the Scheme has been demonstrably successful and as it develops, increasing emphasis is being put on improving training quality.

3.27 But the particular needs of young people start before they leave school. Education plays an important part in preparing young people for working life, and Government initiatives will improve the relevance of education to industrial and commercial requirements. In particular, the introduction of the Technical and Vocational Education Initiative is assisting changes in the school curriculum, with a greater emphasis on technical and vocational subjects. Some 62 local authorities are now running pilot projects for 14-18 year olds and funds are being made available for expansion of the Programme. The Certificate of Pre-Vocational Education is also being introduced to provide young people staying on at school for a year with a qualification more

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relevant to the world of work. Careers education and guidance help to bridge the gap between school and work, and an efficient Careers Service has an important role to play.

3.28 In addition, the links between schools (and colleges) and employers are being strengthened: the DTI's Industry Education Unit is working in collaboration with industry to provide, for example, relevant resource material for schools, colleges and Examination Boards and encourage industry-related expertise in both initial and in-service teacher training.

3.29 Changing the methods by which people acquire skills is of very great importance. Some industries are continuing to make good progress in modernising their training arrangements. But there is still much to do before time serving is fully replaced by training to standards; before unnecessary restrictions based on age or academic qualification are removed; and before skills already learnt are always properly recognised at each stage of training. The Government will continue to urge employers and trade unions to carry forward the reform of such training and, where appropriate, will make continued support of training conditional on satisfactory progress being made.

3.30 In this context, training and retraining of adults is vital. Here again, Britain suffers by comparison with its international competitors. For example, about two-thirds of the labour force in Germany have recognised qualifications of one kind or another: the proportion is similar in Japan while in the USA it is over three-quarters. In Britain the proportion is estimated at about a third. And these three countries all produce an output of professional engineers far in excess of that in this country. Some progress has been made since 1979 to develop and improve our training system for adults, and the education system, in helping to produce highly qualified manpower. A notable achievement is the establishment of the Open Tech, in which distance learning techniques are making for much more flexible training methods. There is however much still to be done in this area.

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3.31 A more responsive jobs market implies new working patterns as well as new skills and adjustments in labour costs. Responsibility for using labour more flexibly and adaptably must lie primarily with employers. Many British firms are introducing new work patterns with such elements as flexible working time, job sharing, more part-time working and different forms of employment contract. Homeworking is a particularly interesting development with the potential of new technology in allowing people to work at some distance from their employers, yet linked by telecommunications. The scope for such innovations varies with the nature of the business and the make-up of the workforce. The Government has encouraged the spread of part-time working through its own Job Splitting and part-time Job Release Schemes. In this as in other areas the Government welcomes appropriate action by employers, and sees its own role as helping to break down barriers to the adoption of worksharing where it does have real advantages.

3.32 Efficiency in the jobs market must of course be accompanied by fairness in work. Discrimination on racial or sex grounds and unfair dismissal must be prevented, and adequate standards of health and safety at work maintained. The Government remains fully committed to these aims and has done much to further them, for example by supporting the legislation with codes of practice for the employment of women and ethnic minorities.

3.33 There are nevertheless important practical realities to be recognised. The search for fairness is bound to impose restrictions on employers' freedom of action. If these become too heavy, they can cost jobs; businesses - especially small or new ones - may be made less profitable, or employers become more reluctant to take people on. Fairness matters, and losing jobs is itself unfair. But it is a bad bargain for society if the attempt to seek fairness results in large job losses.

3.34 Special help for groups who may be at a disadvantage is also being maintained and developed. Schemes run by the Manpower Services Commission to help disabled people into jobs have been improved and the Commission seeks to

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ensure places for disabled people in its main employment and training programmes. Its Fit for Work Campaign and associated Award Scheme urges employers to consider disabled people for all vacancies and to retain newly-disabled employees. The Commission has also set up a Disablement Advisory Service to provide practical advice and guidance to employers on how to make full use of the skills and abilities of disabled people and to promote the wide range of special help that is available, including financial assistance. The Government has retained the Statutory Quota scheme for disabled people with a voluntary Code of good practice in support.

3.35 People from the ethnic minorities are often at a disadvantage in getting jobs, sometimes because of a lack of fluent English. To help them compete with other workers, the Manpower Services Commission is increasing provision for work-related language training. For the most part, however, the Government believes that needs in the ethnic minorities are best met from general programmes for the unemployed rather than special measures confined to them. The Race Relations Employment Advisory Service provides practical help to employers with a multi-racial workforce.

HELP FOR THE UNEMPLOYED

3.36 However successful the country may be in achieving sustained competitiveness and efficiency, there will always be some unemployment as people change jobs. Much more serious, the recession has led to a large increase in long-term unemployment. It is now generally recognised that there are no quick or easy solutions to the present problem of unemployment, and the Government's strategy therefore encompasses a range of measures to help those affected.

3.37 There are two broad lines of approach. First, the benefit system provides income for those out of work while maintaining the incentive for people to get back into work. Secondly, measures have been developed which reinforce the policies summarised in this chapter to increase employment.

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These adopt a variety of approaches to help unemployed people, including temporary work, encouraging them to enter self employment, and to retire early. These schemes form part of a total programme of employment and training measures which are currently costing £2000 million a year and assisting nearly 700,000 people.

3.38 The largest of these is the Community Programme introduced in October 1982. In a full year it provides temporary employment for up to 200,000 long-term unemployed people on projects of benefit to the community, at a cost in 1984/85 of some £560 million. Priority is given to projects which do most to improve the long-term employment prospects of participants while providing work of practical value. To improve the effectiveness of the Programme, from October 1984 participation is being linked with short periods of basic skills training and work preparation. When these arrangements are fully in operation, 50,000 Community Programme participants are likely to benefit from training in a full year.

3.39 The Voluntary Projects Programme introduced in August 1982 also helps prepare unemployed people for work by providing about 40,000 of them a year with constructive voluntary activity. The Programme is being expanded and £12 million is being made available in 1985/86.

3.40 The Government also provides £25 million a year to Community Industry, which provides temporary jobs of community value for 7,000 personally and socially disadvantaged young people. Since April 1983, Community Industry has recruited 16 to 19 year olds outside the scope of the Youth Training Scheme.

3.41 Following successful pilot schemes, the Enterprise Allowance Scheme has, since August 1983, helped unemployed people throughout the country who want to set up their own business but who may be deterred from doing so by the fact that they would lose their entitlement to benefit. Over 60,000 people have joined the Scheme so far and some 1,000 people enter it each week. From April

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1985, resources have been made available to increase this to up to 1,250 people a week, at a cost of £111 million in 1985/86 and £125 million the following year. Surveys have shown that for every 100 firms established under the Scheme, over 50 additional new jobs have been created. The success of this Scheme thus directly contributes to the wider aim of encouraging the growth of new enterprises and self employment.

3.42 The Job Release Scheme makes it easier for older workers to give up work early and to release their jobs to unemployed people. The Scheme has been running for some years; it is currently open to men aged 64 and women aged 59. At present over 83,000 people are in receipt of the allowance paid under the scheme and approximately 350 applications are received each week. In 1984/85 some £284 million has been made available for the scheme.

3.43 This chapter has shown how Government policies are working together over a wide field to get the economy right and to encourage a lasting growth of employment. It has described the special help being provided for those hardest hit by unemployment. The next chapters consider ways of building further on what has been achieved so far.

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CHAPTER 4

THE ECONOMIC AND INDUSTRIAL FRAMEWORK

4.1 Previous chapters have outlined the rationale of the Government's policy, and its success in reducing inflation to below 5 per cent. In the light of the Government's strategy towards employment, its conviction is that sound economic and financial policies are the only basis for sustained employment growth. How should the framework of economic and industrial policy evolve in future?

4.2 Employment is now increasing, but unemployment is still rising albeit at a slower rate. In charting the course for the future, the reasons why unemployment rose to such high levels must be borne in mind. Three factors can be discounted.

4.3 First, the Government does not believe that there has been any shortfall of demand in the economy. Over the whole of the 1970s money demand rose by over 300 percent, with real output growth of only about 20 per cent. Last year money demand increased by about 9 per cent, but again most of this went in increased prices rather than more output.

4.4 Secondly, technological change is not to blame for our high unemployment. Historically, technology and investment have created wealth and employment, and it is difficult to argue that in the recession since the late 1970s, there has been a massive introduction of new technology destroying jobs. Indeed, the problem in Britain is widely recognised as being a sluggish response to new technological developments. We have too little rather than too much, and other countries such as the US and Japan have managed the introduction of new technology much more successfully.

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4.5 Thirdly, the increase in the numbers of people looking for jobs does not explain why unemployment has risen by so much. Of course if employment is static or falling, then a rise in the numbers seeking work will lead to an increase in unemployment in the short term. Thus over the past year most of the new jobs being created have been part-time and have been filled by women entering the labour force, and unemployment has not fallen though employment is rising. But these are short-term considerations. The general proposition that more people seeking work inevitably means higher unemployment is not true, since as Chapter 2 explained, it ignores the potential for growth and employment creation as the economy expands.

4.6 The Government's view, already explained above, is that we have not adjusted quickly or thoroughly enough in what we produce or in our employment practices to the new circumstances of the last 10 years. A major element in securing the framework for this adjustment is to pursue the appropriate economic policy. This means continuing, through the Medium Term Financial Strategy, to seek to restrain monetary growth; to reduce the proportion of the economy's resources pre-empted by public borrowing; and by maintaining firm control of public expenditure to ensure cost-effective use of resources, proper determination of priorities, and to create room for tax reductions. These will improve incentives and aid economic growth and employment.

4.7 There are those who would wish to take a different approach to generating jobs. They suggest a different macro-economic approach, that to create jobs and reduce unemployment the Government should borrow more, and undertake a further substantial increase in public spending. The practicalities of these proposals must be examined.

4.8 Macro-economic policy involves judgement of the best course of action to suit particular circumstances, and to achieve the balance between different policies and objectives. The Government's view is that its current policy stance is right, and that to increase the existing level of borrowing, or to go for major reflation, would be self-defeating. There are several reasons for this view.

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4.9 First of all, it is demonstrably not proven by events in the recent past. Governments in this country and others which have tried to reflate their way out of unemployment have met with failure in anything but the short-term. The effects on employment and unemployment have been short-lived, and the consequences of the reflation on the economy have been damaging, not least to employment, as wage and price inflation have risen.

4.10 It is not difficult to see why. Tax reductions unaccompanied by public expenditure restraints would mean increased borrowing. If excessive monetary growth and inflation were to be avoided interest rates would have to rise. This would depress investment and through their effects on the exchange rate damage industry's competitiveness; in due course unemployment would start to rise. Conversely, if interest rates were held down inflation would be higher.

4.11 Some point to the United States experience as evidence of the success of a more expansionary fiscal policy in creating jobs. But the long-term experience of the US and European economies does not support this argument. The current US budget deficit has led to high interest rates, and the authorities have recognised that this problem must be tackled. Moreover, over the last decade employment in the US rose by 21% while in the UK it fell by 4%. Over the same period real weekly earnings fell in the US by 10% but rose by 19% in the UK. This lends more support to the relationship between real wages and employment than to the role of fiscal policy - which was quite restrictive until the last few years - in creating jobs.

4.12 Some of those who advocate reflation have recognised the danger of renewed inflation, and have suggested agreed prices and incomes restraint to avert this. Past experience indicates the difficulties of this approach. Any form of prices and incomes policies - voluntary or otherwise - results in distortions and leads to a misallocation of resources within the economy as a whole.

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4.13 Should there be a major increase in public spending to provide infrastructure projects which would lead to more jobs? There is of course no doubt about the need for effective capital expenditure. Private sector investment is vital to improving efficiency and increasing output. There is a high and rising level of fixed investment in the British economy as a whole - (forecast) at £45½ billion (1980 prices) in 1984 - a post war record. Manufacturing investment is estimated to have risen by nearly 15% in the first 3 quarters of 1984 compared to the same period a year earlier, and surveys indicate that investment intentions are strong. Investment in the service sector in 1984 is on course to reach its highest ever annual level.

4.14 Nor is the Government opposed to public sector investment where it is appropriate and will earn a proper rate of return. Indeed, aggregate capital expenditure by the public sector has been broadly maintained, in real terms, at the 1978/79 level - some £24 billion in 1984-85. For example, spending on trunk roads has increased by 12% in cash terms in 1984-85 over the previous year; there is a large scale investment programme in water and sewerage services - costing some £620 million in 1984-85; and in 1983 repair and maintenance contracts for construction alone represented additional expenditure by the public sector of at least £5 billion.

4.15 But public spending on infrastructure cannot be considered solely in terms of possible employment consequences. Each proposal must be considered on its merits in the context of an intelligent and constructive approach to infrastructure, public expenditure priorities, and the likely rate of return on the project including the real benefits of quality improvement. Expenditure which is not cost-effective would waste resources and might harm employment and growth in the longer-term.

4.16 The overall employment impact of large-scale infrastructure investment programmes is in any case often overstated since they tend to be capital intensive and are to varying degrees import intensive. The number of jobs created by such projects, even allowing for multiplier effects, is quite small

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and the cost per job often very high. In addition, the consequences of financing the expenditure must be considered. If taxes have to be increased this will reduce disposable income and demand elsewhere. If public borrowing has to rise, interest rates will increase. In both cases there will be an adverse effect on employment.

4.17 Effective employment growth requires consistency in economic policy, but it also requires an ability to supply effectively demand in both home and overseas markets. Government's policies to improve the "supply side" of the economy and encourage enterprise and efficiency are therefore of great importance. Chapter 3 above described some of the main elements of the Government's current industrial policies. These include the encouragement of competition, the privatisation programme, support for the growth and development of small firms, and support for innovation and the adoption of new technology.

4.18 These policies will be continued as part of the Government's general aim to widen consumer choice, to make the market more responsive to consumer's needs here and overseas, and generally to eliminate unnecessary impediments to enterprise and competition. It is important that any industrial support should be selective and limited, rather than large-scale or indiscriminate. While the latter may give some apparent short-term benefits in preserving large numbers of jobs, insulating an industry from the pressures of international competition may prevent or delay necessary restructuring. In the longer term, this only leads to greater employment loss.

4.19 The Government intends to continue its privatisation programme. This will include British Airways, British Shipbuilders warship yards and as many as possible of Britain's airports. The exact shape of the programme will of course be determined by business and economic criteria.

4.20 For a country as dependent on international trade as Britain, another important aspect of generating more jobs is the expansion of trade, and the

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breaking down of trade barriers. Some people argue quite the reverse, that effective support could be given to British industry, and unemployment would be reduced, by restricting imports either generally or selectively for particular products or industries.

4.21 This argument overlooks the indirect effects of import restraints upon industry at large. The direct effect is to support employment in protected industries, but this is brought about by raising the prices of the products of those industries, and this leads to a reduction in the demand for the products of other industries. Generally speaking, any net gain to employment is transitory and in the longer term total employment may even be reduced.

4.22 The Government recognises that in certain special cases the use of temporary import restraints may nevertheless be justifiable. Demonstrable unfair competition where other countries are "dumping" products on the British market may call for action. Again there are cases in which use can be made of the breathing-space which they provide to bring the protected industry to full international competitiveness. But the indiscriminate use of import restrictions would serve only to insulate industry from the pressures of international competition and to prevent or delay necessary restructuring - as well as raising prices and reducing consumer choice.

4.23 Growth in total employment and output in the economy cannot therefore be achieved by extending import controls. Trade policy must continue to aim at the reciprocal opening up of markets, which benefits employment in two ways. First there are greater export opportunities for British business; and secondly the long run effect of more competition in home markets is improved efficiency in domestic production and lower costs which in turn provide the basis for more opportunities for sustainable employment.

4.24 It is suggested by some that industry and employment would benefit from greater special assistance to particular areas of the country. Others argue that such regional incentives distort the national economy, and that overall

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few if any additional jobs are created. Special assistance for particular areas has been part of successive Governments' industrial policy for many years. The present Government has recently reviewed this policy and concluded that although the economic case for it may be weak, there is strong social justification for an effective scheme aimed at reducing regional imbalances in employment opportunities. Changes have therefore been introduced to ensure that this objective - more jobs in relatively badly off areas - is met more effectively. Capital grants - at 15% of approved expenditure - will be subject to a limit related to the number of jobs created; alternatively firms will in future be eligible for a job grant of £3000 for each new job and they will automatically receive the higher of the two grants. The new scheme is also being extended to cover a range of service industries for the first time, and selective assistance to projects that protect existing employment but which otherwise would not go ahead is being continued.

CONCLUSION

4.25 This chapter has briefly described the first part of the Government's strategy towards employment - the economic and industrial framework. Holding a steady course on current policies is the only effective way in which a healthy economic environment and competitive industry can be fostered. This will lead to increased employment and, in time, to lower unemployment. Employment can however be higher, within the framework of current economic policies, if the jobs market reacts flexibly and if existing impediments to employment can be removed. The next chapter deals with some possible ways in which this might be done and employment growth encouraged.

CHAPTERS 5 AND 6

The following two chapters are not in White Paper form. Instead they present a series of possible items for inclusion, together with some of the relevant arguments. These Chapters are therefore an agenda for discussion and decision, after which it will then be possible to draft a final version.

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CHAPTER 5

FURTHER ACTION TO INCREASE EMPLOYMENT

5.1 The economic and industrial strategy is creating the conditions in which output and wealth can grow. Employment growth is one outcome of this increase in wealth. The question is whether employment might be further encouraged by removing barriers to employers recruiting workers or people taking or changing jobs.

5.2 This chapter considers major impediments that may continue to hinder employment and suggests possible lines of further action, consistent with efficient and effective production.

FURTHER STEPS TO REDUCE LABOUR COSTS?

5.3 As chapter 3 pointed out, the real cost of employment is a major determinant of the numbers in work. A slower growth - not necessarily reduction - in real wages would feed through into more jobs. As a broad order of magnitude, a 1% change in the average level of real pay could mean between 150,000 and 200,000 jobs. So if earnings over the last two years had not outstripped prices, the result could have been an extra half million jobs a year created over a period of time. Growth in average earnings still exceeds inflation by nearly 3%, so that employers and trade unions who favour those in employment are pushing up their real earnings at the expense of the unemployed. The Government is exerting its influence, through persuasion and by setting an example as an employer itself, to encourage moderation in wage settlements.

5.4 The Government has also recognised the significance of non-wage costs of employment in affecting the number of jobs and has acted to help, notably

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through the abolition of the National Insurance Surcharge. A further idea now being widely canvassed is a possible reduction or change in the structure of employers' National Insurance Contributions (NICs) so as to reduce the costs of employing people at lower wages.

5.5 Such a proposition does present several problems. It would mean abandonment of the insurance principle on which the National Insurance system is currently based. It could be argued that it would impart an additional distortion rather than removing existing ones; and it would be a disincentive to the employment of high-wage skilled and qualified manpower and perhaps to the acquisition of skills. In addition, the jobs effect depends on the detailed relationship between labour cost changes and employment changes in different sectors of the labour force, on which the evidence is inconclusive. And if reductions in NICs led to higher wage settlements this would reduce the employment effect. For these reasons the change would not have the same effect as a slower rise in real pay. The cost burden would be shifted and any extra costs would have adverse effects on employment.

5.6 On the other hand, the proponents of the idea that NICs should be restructured point to a number of possible advantages. It could give employers an incentive to hire those heavily represented among the unemployed, such as semi and unskilled workers, including many of the long term unemployed. If there were no resulting increase in pay inflationary pressures would not be increased, and depending upon the particular structure adopted, the jobs effect might be created without undue additional cost. Some external studies suggest that the net employment gains could be quite large, confirming the potential for new jobs not only in the high technology areas, but also at the lower end of the wage scale. By enabling more people to find a way into useful employment, lower paid jobs bring social and economic benefits, to the individual worker, the employer and society as a whole.

5.7 Several other countries, including Germany and France, have taken steps to reduce employer labour costs, and the balance of advantage and disadvantage

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of different types of restructuring NICs, which could be revenue-neutral or might involve extra cost, does seem worth serious examination in terms of the magnitude, direction and timing of employment effects in the short run, and any distorting effects in the long run. This would clearly have to be done in the context of the DHSS social security reviews.

5.8 We have also been considering the adverse effects that the Wages Council system can have on the generation of employment opportunities, particularly for young people, and the administrative and other burdens which its rigidities can impose on businesses. We are publishing simultaneously with this document a consultative paper, as a basis for informed discussion, inviting views on these effects and on options for the reform of the system. The objective would be to reduce impediments to the creation of more jobs. This consultation also provides the opportunity for discussion on whether the system should be retained.

FURTHER REDUCTIONS IN ADMINISTRATIVE BURDENS?

5.9 Excessive bureaucracy is widely held to be another obstacle to more jobs. Some of the statutory regulations have already been relaxed, notably the protections against unfair dismissal. But there are still too many forms, procedures and legal obligations, which can be a major burden for some employers and can so easily stifle enterprise and inhibit growth.

5.10 The scrutiny of burdens being conducted in 7 Departments is now in its final stage and proposals for change will emerge shortly. The report will cover a broad range of requirements and practices that can bear on employment, including local government licensing and inspection procedures, and this should lead to some helpful simplifications and lifting of burdens, particularly on small firms. Though the effects on employment might not be rapid, further action in this field could contribute to a more promising environment for employment.

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[The burdens that may be imposed by employment protection legislation are to be considered by E(A) in January].

5.11 One particular way of minimising the effect of administrative and legislative burdens is by a form of "Passport" scheme. This would specifically exempt employers who take on people below a certain wage from PAYE and employers' National Insurance contributions, and from the main requirements of employment protection legislation. The inducements to the employer would be lower labour costs, thereby providing more jobs at realistic wage rates, and the exemptions and less paper work in taking on any new employee.

5.12 This general proposal could be applied in a number of different ways. The scheme could be open to all potential employees, or restricted to those currently unemployed or the long term unemployed. There could be attractions in linking it to the end of training under the Youth Training Scheme as the natural introduction for young people into the labour market. Or the Scheme could be open to anyone prepared to work or to start work under its terms, and perhaps restricted in the first instance to small firms, including new employers. Belgium has a scheme broadly of this kind which applies to a self-employed person recruiting his first employee.

5.13 The best approach would be a scheme to be launched and tested on a nationwide pilot basis and expanded if justified by experience. Detailed study of the impact and cost of some of these options is now under way. Any proposals would need to be linked in with the MISC 107 study of provision for 14-18 year olds and with the DHSS social security reviews insofar as changes in NI contributions are envisaged.

5.14 If an option were chosen which covered 17 year olds, this scheme would replace the Young Workers Scheme. If a different option were selected, it would be desirable to retain the Young Workers Scheme, which has had some effect in reducing relative youth pay and increasing youth employment, and could perhaps be more extensively publicised to urge more companies to take on young people under the Scheme.

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INADEQUATE LABOUR MOBILITY?

5.15 Some jobs remain unfilled or are not created because people are unable or unwilling to move to a different area or to acquire new skills. Barriers to mobility need to be overcome to allow this kind of movement.

5.16 Action already taken on housing policy is noted in chapter 3. The Government is continuing to look for ways of further encouraging provision of accommodation in the private rented sector [H Committee is to consider proposals on de-regulation of the private sector].

5.17 On occupational pensions, the Social Security Bill proposes protecting the rights of 'early leavers' by requiring pension schemes to revalue their entitlements up to pension age, in line with inflation, by up to 5% a year. It will also allow people leaving an occupational pension scheme the right to a transfer value, thus paving the way for greater portability of pensions. Beyond this, consultations have been taking place in the context of the DHSS reviews about the possibility of introducing a more radical option in the form of personal pensions which would give people the freedom to choose their own pension arrangements. The Government is firmly committed in principle to move in this direction.

5.18 Better information about jobs and jobseekers helps mobility and job matching. The MSC Jobcentres will be streamlining the services they offer to make them more efficient and effective, and better suited to the needs of the modern labour market. Jobcentres will increasingly act as a 'gateway' to a range of opportunities for jobseekers. Proposals have been endorsed for a major investment in new technology, including a nationwide system to improve the speed and handling of employers' vacancies, thus helping to fill jobs more quickly. And tests are being carried out on ways of giving people direct access to information about all the options available to them, including new occupations, training programmes, opportunities in other areas and self-employment.

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5.19 The MSC's mobility schemes are being revised in ways designed to make them more cost-effective. New arrangements are to be tested which will link assistance with removal expenses more closely with specific 'hard to fill' vacancies, and which will provide greater access to assistance with fares for those who are interviewed for jobs outside their home area. Though small in scale, these schemes can make a useful contribution to meeting the needs of employers and employees.

5.20 Greater mobility also calls for more and better training and re-training. This cannot now be a once-for-all affair. People in mid-career will increasingly need new or enhanced skills. The continued economic recovery itself depends crucially upon overcoming skill shortages, especially in the new and high technologies. The adult training strategy, as set out in the White Paper "Training for Jobs", is therefore of major importance and an essential complement to our policies for youth training and education. As one element, the MSC's own adult training provision is being restructured into two main programmes, concentrating on job-related training and training to help unemployed people. The job-related programme will be directed to known employment needs and to helping the creation and growth of new businesses. The other programme is specifically designed to help unemployed people improve their basic skills, remain employable and cope with the changing content of jobs and work patterns.

5.21 But the strategy is for action by industry and individuals themselves as much as by Government. So the first task is to persuade employers and individuals to invest much more in their own training, as in our main competitor countries. This is the purpose of the awareness campaign recently launched by the Secretary of State for Employment, in an effort to change attitudes and behaviour over the years ahead. The campaign will be led by the Manpower Services Commission and will actively involve employers, those who provide training and, indeed, the widest possible range of interests, in a sustained series of collaborative events, regional and local as well as national. An important aim will be to break down the barriers to access to training that still exist.

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5.22 A consultative paper has been issued on the proposal for an experimental training loans schemes for adults. It recognises that some people who are indeed willing to invest in their own training so as to improve their job and earnings prospects may face a considerable financial problem in doing so. The scheme would help remove this obstacle. Individuals wishing to take part will provide a proportion, say 20%, of the required funds themselves and will be able to negotiate a bank loan for the remainder, half of which will be provided by the Government. Repayments will be made to the bank, which will in turn repay the Government's share. Up to £5 million is being set aside for the 1985-86 pilot scheme which should cover some 10,000 loans of varying amounts.

5.23 A possible complementary approach to encouraging and helping people to invest in their own training is suggested by the interesting new American practice of developing "individual training accounts". Under collective agreements, for example that between Ford and the Union of Auto Workers, employees contribute to a type of personal insurance fund which they can then draw on to pay for training or re-training throughout their working life or at time of redundancy. We are considering whether arrangements along the same lines could be effective in Britain.

5.24 In the same vein, further suggestions have been made with the object of allowing people to use assets they have built up in their pension funds for training. First, for self-employed people this would mean widening the existing uses of these assets, whether directly or for borrowing-back purposes. This could be relatively easy to do. Secondly, but more difficult, members of occupational pension schemes could have a similar facility against their assets in the aggregated fund. [DHSS have serious doubts about this]. This would have to overcome the resistance of fund managers to telling individuals what their assets are worth. A third change could be to increase the limit of tax relief on contributions for, say, 3 years for someone saving for a training course. This would require Inland Revenue approval.

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MORE FLEXIBLE WORKING PATTERNS?

5.25 The adoption of new patterns of work, related to the needs and circumstances of individual businesses, is of interest as new forms of employment contract develop. For example, GEC runs a scheme whereby two young people share the same job, spending the time they are not at work in further education. Rank Xerox has introduced "networking" under which some of its employees have been helped to set themselves up as self employed, often working from home, with an initial period as subcontractors. This sort of scheme is made possible by the development of telecommunications and other technology that enables individuals to operate at a distance from those employing them. More flexible working time, part-time working and extended shift systems are developing in such diverse enterprises as supermarkets and North Sea oil rigs. Other changes are being introduced such as early retirement schemes and sabbaticals or "career breaks".

5.26 The Government has so far given some encouragement to part-time working through the Job Splitting and part-time Job Release Schemes. Generalised or legislative schemes for reducing working time which have been introduced abroad, especially in Europe, are likely to be ineffective and inefficient. The employment effects are quite uncertain, being dependent upon the reaction of employers and trade unions to the changes. They could increase pay, raise productivity, or work more overtime, with no necessary increase in employment. In general, measures to re-organise working time and patterns must be compatible with competitiveness and the circumstances of individual companies.

5.27 The same factors affect the scope for intervention to limit overtime. It is hard to see how ceilings or target reductions could be imposed or administered cost-effectively in a way which added to jobs while safe-guarding competitiveness. Legal restrictions on time worked as in Italy or punitive taxation of overtime pay, for example, would be complex, costly for employers and inconsistent with the aim of greater flexibility and freedom for employers. Overtime is of course often the most efficient way of coping

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quickly with changes in demand or with small but regular amounts of work outside normal working hours. Systematic high levels of overtime not related to the needs of the job are another matter, but reductions are best pursued by negotiations within individual firms.

5.28 It might be possible for the Government to facilitate and encourage the spread of new working patterns where this is in employers' and employees' interests through the supply of information. Despite growing interest, knowledge of practices that are being adopted and the conditions making for successful change in different enterprises is inevitably sketchy and unsystematic. A clearing house, either inside or outside Government, could provide information and advice about flexible working patterns and provide a focal point for the sharing of experience and views. A particular objective could be to promote the Job Splitting Scheme and the part-time Job Release Scheme which currently have a low take up.

YOUNG PEOPLE AGED 16 TO 18?

5.29 The situation of 16-18 year olds is of special importance both in relation to current employment and training provision and for their longer-term future. In recent years the Government has put resources on an unprecedented scale into improving the transition between school and work, and helping unemployed young people. The Youth Training Scheme, the Young Workers Scheme and other measures costing between them nearly £1 billion in 1984-85 are having a major effect in reducing the numbers of school leavers who are unable to find some form of employment or training and in increasing the numbers receiving systematic work experience and vocational preparation.

5.30 But as a recent study has shown we still lag behind competitor countries like Germany, Japan and the USA in the way we prepare young people for their adult working lives. More can be done to develop a comprehensive strategy for those under 18, taking account of the wages, benefits and allowances of those on the various different pathways from school to adult life as well as their

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continuing education and training. The aim would be to move towards the position where unemployment should no longer be an option for this age group. This would also involve continued efforts to break down barriers to training, including the reform of the apprenticeship system. Every individual should therefore have the possibility of education, training or a job, or some combination, at least until age 18.

[To await MISC 107 conclusions on policy]

CONCLUSION

5.31 This section has put forward a number of ways in which employment might be encouraged, both by removing barriers to employment and by more specific action. Further examination would be required of the practicability of some of them, partly to assess whether employers and individuals would respond in such a way that employment gains were achieved, and partly to estimate their cost-effectiveness, including public expenditure effects. Parallel work, including the DHSS reviews, the burdens scrutiny, and in MISC 107 and E(A) as noted above, will also need to be taken into account.

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CHAPTER 6

THE SPECIAL PROBLEM OF UNEMPLOYMENT

6.1 Even with a sustained rise in employment, there will remain for many years difficult problems of unemployment. With increased prosperity, there are likely to be increased disparities in unemployment between localities and between groups of people. Many communities will prosper, but some where employment has fallen sharply will find unemployment a much more intractable problem. Many unemployed individuals will find new jobs, but some who have little skill and long experience of unemployment will remain out of work.

6.2 The Government has already done much to help alleviate the worst problems of unemployment during the recession. But with real wages increasing for those in work, the unemployed are bearing the burden of adjustment. The question therefore is whether, with increasing prosperity, more could be done to bridge the gap between the "haves" with jobs and the "have nots" without, through specific measures to help the unemployed?

6.3 Perhaps the most significant and worrying aspect of the employment situation is the huge number of long-term unemployed. Some 1½ million people, nearly 40 per cent of the unemployed, have been out of work for more than one year, over 350,000 of them for over 3 years. The numbers are still increasing.

6.4 The long-term unemployed must be regarded as the priority group for any action to deal with the individual problems of unemployment, and this chapter considers a range of possibilities. The discussion builds on experience with the existing employment measures. These are systematically evaluated and reviewed, and there is considerable detailed understanding of how well and cost effectively different schemes work.

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EMPLOYMENT SUBSIDIES?

6.5 Many people advocate employment subsidies whereby employers would receive a payment (or relief from National Insurance contributions) for each long-term unemployed person they took on, either in total or as an addition to their existing labour forces. Such subsidies have some advantages: they can easily be targeted on particular groups of workers or areas; and they put people into "real jobs".

6.6 But analysis shows that most employment subsidy variants would be much less cost-effective than existing employment measures. If they are to have a substantial impact, they must offer substantial incentives. However, they tend to have high "deadweight" (ie many employers receive the subsidy for doing what they would have done in any case), and there is frequently substitution of one unemployed person for another.

6.7 Because of their cost, and because in their more sophisticated forms they are difficult to administer and control, subsidies have not been favoured in discussion of past policy options.

MORE WORK OF COMMUNITY VALUE?

6.8 The existing Community Programme provides 130,000 places for temporary employment with some 200,000 long-term unemployed people participating in the Programme each year. It pays the rate for the job, but with a weekly wage ceiling. The rules provide for minimum substitution and displacement of other jobs, partly by prohibiting private gain from the projects. The gross cost in 1984/85 is about £560 million (£204 million net), and the net cost of taking someone out of unemployment is about £1900. Many other countries, including Denmark, Netherlands and France, have temporary work programmes, providing work of community benefit.

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6.9 There are several possible ways in which additional temporary work for the long-term unemployed might be provided. First, under a "benefit plus" scheme, unemployed people could remain entitled to an amount equal to supplementary benefit with an addition (perhaps of £10 per week) in return for doing useful community work.

6.10 A version of a "benefit plus" scheme was proposed in 1981 when the Community Programme was introduced, and the reaction from all those who would have been involved was strongly adverse. Trade unions were opposed, and there was a unanimous view from employers, local authorities and voluntary bodies that they could not deliver places and would not be able to act as sponsors for projects. In addition, it appears that a "benefit plus" scheme might be no more cost-effective than the Community Programme, and an unconditional scheme without a ceiling would probably have cost more as married men with high benefit entitlement participated.

6.11 While a "benefit plus" scheme has superficial attractions, not least in its effect on pay, the practical difficulties are overwhelming. A "benefit plus" scheme to replace the Community Programme at a larger scale does not therefore seem desirable.

6.12 Secondly, the Community Programme might be expanded under its present rules. This would mean tapping sources of demand which would otherwise lie dormant, such as local authority environmental projects which did not feature in immediate plans. At the maximum this would involve an increase to 250,000 places, catering for over 300,000 individuals per annum. This could be achieved within one year. The additional cost would be £540 million gross (£170 million net) in a full year.

6.13 Thirdly, the Community Programme might be expanded even further to 375,000 places. This would mean breaking new ground with some change to the current rules and new approaches to the generation of projects, eg in planning for a major programme of repair and maintenance of public facilities. In

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particular, it would be probably necessary to allow projects with an element of private gain. This would have the benefit of involving the private sector much more than now, in a wide range of projects eg removing eyesores, improving industrial estates, refurbishing premises; and possibly larger local infrastructure projects. But it would be necessary to keep a close watch on the rules and their administration to guard against more substitution and reduced cost-effectiveness. Timescale for effect would be 2-3 years, depending on industry's response; additional cost estimated at about £1 billion gross (about £350 million net) in a full year.

6.14 Within all these possibilities, there is a question of whether a guarantee of an offer of a place should be offered to some groups of the long-term unemployed, say those who had been out of work for 3 years or more. This would represent a very positive response to the problems of those hardest hit by unemployment, and it would have the incidental effect of clarifying which of the unemployed are, for one reason or another, not really interested in an offer of a job.

6.15 The numbers to be covered under a guarantee scheme would however be very large. Over 350,000 people have now been unemployed for over 3 years and the number is increasing as more people flow in. A guarantee to them would take up all the places in the "maximum" option set out above and it is very doubtful whether a programme restricted to this group - which might contain a relatively high proportion of "unemployable" people - would be at all attractive to sponsors.

6.16 If a guarantee were thought to be important, a more practical option would be to offer a place to all the 18-24 year olds who have been unemployed for more than 3 years. Such people would very largely have missed out on the youth employment programmes now running; the number, about 60,000, would be manageable, and there would be a mix of people with different durations of unemployment within each project.

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6.17 A fourth option for community work might be to introduce an additional, charity-based Programme. National registered charities could recruit an agreed number of long-term unemployed people, with rules governing activities, and be paid a weekly "block grant" for each. This would be rather less than the unit cost of Community Programme in exchange for less red tape. Perhaps 50,000 participants might be attracted over 2 years at an estimated cost of £180 million gross (£67 million net) in a full year. Further study would be needed of likely responses if this were thought to be desirable. It could run alongside the Community Programme.

6.18 In all these options, two practical considerations are important. First, such programmes must as far as possible be provided and delivered locally and by those who best know and understand the local circumstances. Secondly, there should be full involvement of private sector companies, bringing to bear their commitment to the local communities where they operate as well as their actual experience of creating employment. The possibilities of joint ventures between private, public and voluntary organisations would have to be fully examined.

VOLUNTARY WORK SCHEMES FOR UNEMPLOYED PEOPLE?

6.19 Unemployed people suffer not only from reduced income: their skills can decline and with that their chances of getting back into work. The Voluntary Projects Programme (VPP) aims to provide opportunities for work or activity on a voluntary basis which can be undertaken by all unemployed people, without affecting entitlements to state benefit. Sponsors come largely from the voluntary sector and funds are available for a small number of paid employees to run a project. The cost of the Programme in 1984/85 was £7 million.

6.20 A possible development of this programme might be to redesignate projects and pay participants a training allowance for a minimum attendance of a week at a time during which they would cease to draw benefit. It would be necessary to specify carefully the training provided so as to justify the

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training allowance. Such a programme could build on existing schemes to around 50,000 places over 1-2 years. Because training allowances would be paid, the gross costs would be high at £160 million (£86.5 million net) in a full year.

6.21 The Opportunities for Volunteering Scheme administered by national voluntary organisations for the DHSS offers further opportunities for useful activity. The Scheme provides grants, amounting to £5 million a year, to local projects enabling unemployed people to participate in voluntary work, specifically in the health or personal social services. It has proved its value and the Government has decided to continue it on a long-term basis. A consultation paper has been issued seeking views on how this may be done most effectively; it might for example be targetted on particular groups.

6.22 Another more speculative possibility would be to allow long term unemployed people voluntarily to "sign off" the unemployment count for a period to work on worthwhile projects while still receiving benefit, or an amount equivalent to it. To pay benefit to people in some form of work would require legislation, and there would have to be safeguards against substitution and displacement of other employees. Such a scheme would have the same drawbacks as the "benefit plus" proposal, but a small-scale approach with sponsors who were prepared to pay benefit equivalent - thus eliminating the need for legislation - might be cost-effective. It could be run alongside the Community Programme.

EARLIER RETIREMENT?

6.23 The suggestion is often made that, if there are not enough jobs to go around, earlier retirement would reduce the numbers available for work and help get some of the younger unemployed back into work. But this again is the short-term argument that there is a fixed supply of jobs which have to be shared out. Early retirement is a measure with a long-lasting effect in reducing the numbers available for work, and those who advocate early retirement have not considered the potential for employment creation as the economy expands.

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6.24 There are practical problems too. Lowering the statutory age of retirement would have high public expenditure costs in terms of pensions and supplementary benefits, and it would create problems for private pension schemes. Some workers might have to retire before they or their employers wished, and unemployment might not be much reduced if retired employees were not replaced, or if they themselves took new jobs.

6.25 Early retirement can of course be arranged under company pension schemes to suit the requirements of individual employers and workforces. The Government itself, like those in Belgium and Germany, has taken a much more selective approach. The Job Release Scheme encourages workers to retire voluntarily to make way for younger people. This has the advantages of being reversible and specifically focussed on reducing unemployment. This year the age of eligibility has reverted to 64 for able-bodied men, having been reduced to 62 between 1982 and 1984. The 1984/85 gross cost was £290 million (£128 million net) at a cost per person off the unemployment count of £1600. A return to the lower age would cost £46 million gross (£21 million net) in 1985-86 rising to £130 million gross (£62 million net) in 1986-87, enabling a reduction in unemployment of 44,000. Costs would continue to build up each succeeding year.

MORE INCENTIVE TO PART TIME WORK?

6.26 It is often argued that many unemployed people have little or no incentive to seek work since their total income while out of work exceeds their possible income if they found a job. The Government's changes to the social security system have lessened the effect of this "unemployment trap" which does however still apply to some people with high supplementary benefit (mainly because of family responsibilities) and low earnings potential. The relationships of people's incomes in and out of work will be a major feature of the current DHSS reviews.

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6.27 Lowering the rate of benefit, which is already means-tested, does not seem an appropriate solution to helping long-term unemployed people back to work but there is one change which might be worth consideration. At present an unemployed man receiving supplementary benefit (and/or his wife) may earn up to £4 a week without loss of benefit. Beyond that there will be an equal reduction in benefit for any additional earnings. This removes any financial incentive to take part-time work. It might be possible to improve the incentive to unemployed people to seek part-time low-paid work by increasing the amount of earnings that may be disregarded in assessing benefit entitlements. If such a change were effective it would of course increase expenditure on supplementary benefit; moreover it would diminish the incentive to take full-time work both for those who made use of it and more generally through the distorting effects on the whole structure of benefits. The DHSS review of social security will be considering this option.

CONCLUSION

6.28 This chapter has illustrated a number of measures which might be taken to help unemployed people, especially the long-term unemployed, most of them involving a reduction in the numbers. Some of the proposals have little or no cost to the Exchequer, but most would involve additional expenditure by Government. Two important points may be made.

6.29 First, to the extent that this additional expenditure is not met by savings elsewhere, there would have to be an increase in taxation or borrowing over what it would otherwise have been. This will involve some loss of jobs in the economy elsewhere, and there are therefore offsets to the beneficial effects of the measures.

6.30 Secondly, the net cost of such measures - especially the Community Programme - is much lower than the gross cost because of savings in benefit expenditure and increases in tax receipts, so that the actual increase in Government expenditure is a good deal lower than the initial cost might

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suggest. Such schemes can therefore be a very cost-effective way of reducing unemployment, and since they can be targetted on particular groups, they enable help to be concentrated on those who have been hardest hit by the recession.

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