

SECRET



CC BG
B/F

B/F 6/4 please

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460.....

Switchboard 01-213 3000

1 November, 1985

David Norgrove, Esq.,
10 Downing Street,
London, S.W.1.

Prime Minister 2

There are some interesting
and imaginative ideas here, but
they will need very careful scrutiny,
particularly for their costs. The
Chancellor will not welcome this, especially
coming at this time of year. The
Policy Unit will brief next week.

Dear David

ENTERPRISE AND EMPLOYMENT

DLN
1/11

As you asked in your letter of 10th September, I attach a
minute from my Secretary of State to the Prime Minister in advance
of the meeting on 7th November.

I am copying this letter and enclosure to Rachel Lomax (H M
Treasury) and to Jacob Franklin (Paymaster General's office).

Yours ever

Leigh

Leigh Lewis
Private Secretary

SECRET



PRIME MINISTER

A STRATEGY FOR ENTERPRISE AND EMPLOYMENT

Strategy

A strategy for unemployment must be based upon a strategy for employment. Measures designed solely to deal with the short term will not carry conviction unless they are seen to deal with the growth of employment in the longer term. Therefore I am suggesting in this minute and its accompanying annexes an integrated package designed to accelerate the growth of enterprise and employment (accepting that the benefits only come through in the longer term) and one that will at the same time deal with the transitional problem of the unemployment count over the next two years.

My proposals are designed so that some should be announced immediately and the remainder later. I am also suggesting some reserve proposals in the event of employment conditions deteriorating. As background, Annex A projects the possible path of unemployment between now and 1988 and illustrates how that path would vary if the proposals in this minute were adopted.



The nature of the problem

During the last few weeks I have endeavoured to open up a debate about the monolithic nature of the unemployment count. The Labour Force Survey (which has been in existence for some years) does enable us to nail the canard about the four or five million unemployed. It also enables us to open up a discreet discussion about the relationship between the black economy and unemployment, at least in the South East, which strikes a chord with many. The more we expose the relationship between the benefit society and unemployment, the more we reveal the causes and the cures for the condition. This debate will continue.

Tactics

I believe we must present a package of measures at the same time as we announce the decision about the abolition of Redundancy Payment rebates. It is thus all the more important that they be seen for what they are - a coherent response to the present employment needs of the nation - and not simply as a political response to public concern about the numbers of the unemployed. The same applies to the measures which I see as coming later.

The package

We must tackle two key targets.

First we must encourage long term changes that will assist the return of an entrepreneurial culture. That is the basis for



the series of measures set out at Annex B. We will have to start in the schools, and thus I am proposing the extension of TVEI despite the lack of an immediate effect on the unemployment count. Indeed, I see that as an advantage since it is important that our proposals are seen as going beyond the short term.

I am also proposing programmes to help the growth of self-employment and small firms through a revitalised Loan Guarantee Scheme and an expanded Enterprise Allowance Scheme. Both have immediate effects on the unemployment count judged by which their net cost is extremely attractive as compared with our employment measures. But their main justification lies in the impetus which they are giving to the growth of enterprise. I also suggest a programme that will complement the two year youth training programme by encouraging recruitment at realistic pay levels for the 18-20 age group. It will thus provide part of a coherent programme of policies running right through from age 14-21.

Beyond this, the Adult Training Strategy, which has not caught the imagination of employers, will be re-targetted on enterprise training - this is help for those about to work for themselves or in small firms. Both here, and in the work of the Department on tourism, we will be looking, in the not too distant future, for a real effect on unemployment.

The drive for deregulation will continue. I remain convinced that this is crucial for the long term growth of employment and enterprise. Progress in Europe is now looking more promising and the December Council may well bring your



initiative to fruition. For the home market I have promised a White paper for the late spring (the timing is dependent on the Budget) but we must make certain that the contents of the paper do not disappoint.

Second we must tackle the will to work. You know of my concern that our tax and benefit system does not provide a sufficient inducement to work for many people.

Indeed this problem will not be overcome until we can reintroduce more still water between in work and out of work incomes. Tax thresholds, since the effective reduction of benefits has been shown to be politically impossible, remain the long term solution to the employment problem. The introduction of substantially higher thresholds depends on factors outside my Department.

Until that day dawns I am suggesting a combination of programmes (set out in Annex C), some quite new in concept for this country, which may well have a startling effect. They must be presented in a spirit of concern for the long term unemployed. We will begin to direct our emphasis, in speeches and publicity, towards the long term unemployed. We will be working with a combination of carrots and sticks, but we must exercise great care that the sticks are never seen.

In the category of 'carrots', I propose an enterprise scheme for the long-term unemployed based on an idea suggested to me by Alan Walters. This would pay a £20 pw untaxed allowance for 6 months to the long-term unemployed who take a job under £80 per week. This will mean that they will be treated as new



entrants to the labour market. I also propose an expanded and facelifted Community Programme.

At the same time I propose to make a substantial increase in the number and operation of the fraud staff in the unemployment benefit offices. They more than pay for themselves (as do many of the programmes in this section) and we have neglected them in the past to our cost.

But potentially of greater significance, I am proposing that from next March we should move progressively to a position where all those unemployed for over a year should be called in to interview at a Jobcentre and offered either a job, a place on a programme, or a one to two week course to help them back into work. Failure to attend for interview would be reported to the benefit authorities for appropriate action.

These programmes all have an effect on the unemployment count. In some cases they will have an effect merely because they exist. They will be part of a longer term strategy which will bring closer together the operation of the Jobcentres and the Unemployment Benefit Offices, reversing a policy that has existed for the last ten years. They may raise questions about the continuance of the MSC in its present form. However that is for later.

In the following annexes I give details of the particular programmes, their cost and their effect on the unemployment count. But individual programmes, no matter how worthy, will not be of use unless they are clearly seen to be part of a coherent strategy. Further the Government must be seen to

SECRET



care. In announcing the first package, and the later proposals, I hope that they may be presented as part of a concerned policy. If we agree to spend more money than let us at least appear to want to.

Costs and effects

This package in its entirety (but excluding the reserve proposals) will have a net cost in 1986/7 of at most £115m and in 1987/8 of at most £295m. On present assumptions it is designed to bring unemployment down to below 2.9 million by the autumn of 1987, with a continued reduction thereafter, through a programme based on employment and enterprise.

In the event that employment conditions go against us I have also included in Annex D proposals that would have a further effect on the register and that could be left to the autumn of 1986.

I am copying this minute to the Chancellor of the Exchequer and the Paymaster General here.

D Y
1 November 1985

SECRET

1. The attached graph shows the rough profile of the effect of the proposed measures in reducing the unemployment count.
2. The graph assumes that the underlying trend of seasonally adjusted unemployment (excluding school leavers) is flat. Existing and approved employment measures mean a fall in unemployment up to May 1986, largely because of the Community Programme, and a very slight fall to April 1987 because of the expansion of the Enterprise Allowance Scheme to 80,000.
3. The top solid line therefore shows an estimate of the published seasonally adjusted unemployment total. The effect of the individual measures are shown below, in two broad groups.
4. Above the bottom solid line (coloured green) are
 - expansion of EAS to 130,000 in 1987/8
 - expansion of CP by 10,000 per month for 7 months from May 1986
 - extension of the Loan Guarantee Scheme
 - introduction of a guarantee scheme, assumed to be self financing, for the long term unemployed
 - introduction of the Enterprise scheme for long term unemployed

SECRET

- introduction of the New Workers' Scheme for 18-20 year olds.

These measures are described in Annexes B & C.

5. Below the solid line (coloured red) are three additional measures

- further expansion of CP by 10,000 per month for 5 months from January 1987.
- introduction of Job Release Scheme for 62 year olds with an April - October 1987 "window"
- additional effect of reducing JRS eligibility to 60, with same "window"

These measures are described in Annex D.

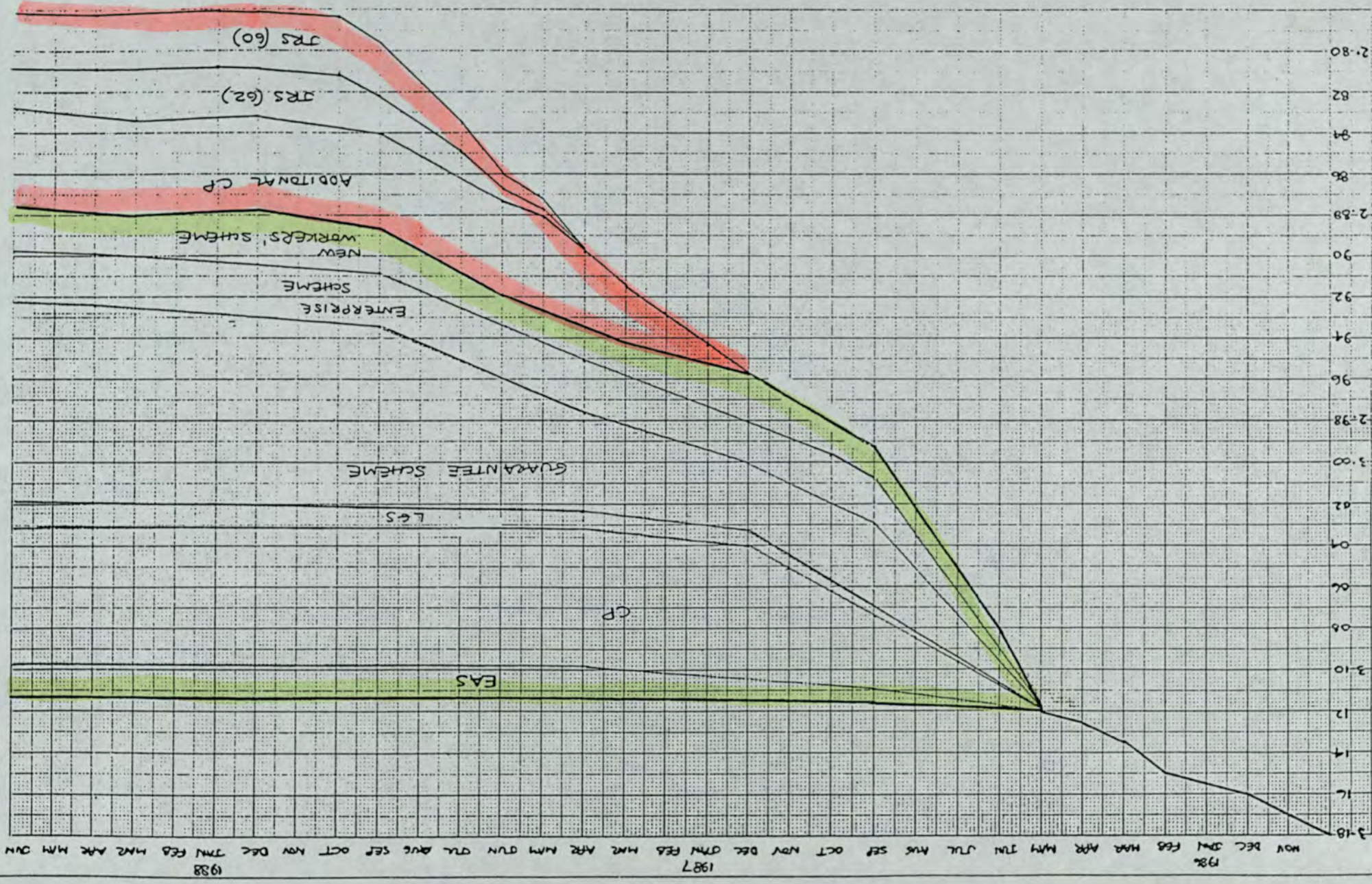
6. Also attached is a table summarising the costs and effects on the unemployment count of the measures described in Annexes B-D.

SECRET

SUMMARY OF MEASURES DESCRIBED IN ANNEXES B TO D
(Costs include administration and are additional to existing PES provision)

The net costs are net of cheques rather than net public expenditure where this is relevant.

Option	Announcement Date	Start Date	£m 1986/7			£m 1987/8			
			Gross Cost	Net Cost	Effect on Count	Gross Cost	Net Cost	Effect on Count	Net Cost per person off the count
ENCOURAGING ENTERPRISE									
Enterprise Allowance Scheme	Nov '85	April '86 (Marketing Jan '86)	15	10.6	7000 (end yr)	85	42	16000 (end yr)	£3000 (1st year) £ 750 (2nd year)
Deregulation	-	-	Nil	Nil		Nil	Nil		-
Tourism	-	-	Nil	Nil		Nil	Nil		-
New Small Firms Loan Guarantee Scheme	Nov '85	April '86	2.5	(benefit)	10000 (end yr)	23.4	(benefit)	10-15000 (av)	benefit
TVEI extension from 1987	Spring '86	Sept '87	Nil	Nil		40	40	Nil	-
New Workers Scheme	Spring '86	April '86	27	12	19000 (end yr)	48	29	23000 (end yr)	£1100
IMPROVING INCENTIVES TO WORK									
Guarantee for LTU	Nov '85	March '86	87	Nil	43000 (av)	166	Nil	82000 (av)	Nil
Additional Anti-Fraud Teams	Nov '85	July '86	2	-1.1	3720 (end yr)	3.4	-5.3	10350 (end yr)	Benefit
Enterprise Scheme for LTU	Nov '85	April '86	50	22	12000 (av)	100	44	25000 (av)	£2000
Expanded Community Programme	Spring '86	June '86	159	71	65000 (end yr)	334	146	65000 (av)	£1900
RESERVE MEASURES TO REDUCE UNEMPLOYMENT COUNT									
Job Release Scheme	a) age 60 b) age 62	Nov '86 April '87	Nil	Nil	-	184 87	101 48	49200 (end yr) 23000 (end yr)	£1900 £1900
Further expansion of Community Programme	Nov '86	Jan '87	14	8	28000 (end yr)	212	91	46500 (end yr)	£1900



ENCOURAGING ENTERPRISE

1. Four measures are envisaged to complement the continued action on deregulation and tourism and to foster the development of an enterprise culture:

- (i) An expansion of the Enterprise Allowance Scheme
- (ii) A new Loan Guarantee Scheme for small firms
- (iii) An extension of the Technical and Vocational Education Initiative
- (iv) A "New Workers Scheme" to encourage recruitment of 18-20 year olds at realistic wage rates.

2. The Enterprise Allowance Scheme has an excellent record in promoting self employment. A new and improved Loan Guarantee Scheme can play a major role in the growth of small firms. Increasing the emphasis in our schools on preparation for working life is vital to the development of an enterprise culture. TVEI is beginning to do this and we must maintain its momentum. TVEI is one of the two essential elements in our strategy for the 14-18 age group: The two year youth training programme is the other. A scheme to encourage recruitment of 18-20 year olds is crucial to the success of the 2 year programme and it is a very cost effective way of boosting employment for this age group.

- (i) An expanded Enterprise Allowance Scheme

3. The EAS provides a grant of £40 per week to people who have been unemployed for 13 week and have at least £1,000 to invest in starting up their own business. An expansion to

5. The majority of firms receiving loans are successful and have increased their employment. The LGS has helped establish many new firms with long term potential for expansion and has encouraged the banks to extend their lending to small firms. The LGS appears to have been a very cost-effective job creation measure when compared with other DE schemes.

6. The current terms of the LGS are 70% of the loan guaranteed with a premium of 5% of the guaranteed amount. The scheme that is now proposed would last for 3 years at a level comparable in real terms with the earlier scheme. The premium would be reduced to 2% and the proportion guaranteed retained at 70%. There would be a relaxation of the requirement on personal assets but a minimum personal financial involvement of £5,000.

7. The cost over 5 years of lending totalling £560 million made over 3 years would be:

Gross cost

				£m
1986/7	1987/8	1988/9	1989/0	1990/1
2.5	23.4	34.8	34.3	14.0

The costs represent the cost of guarantees met less premiums and recoveries. The LGS will provide a net saving to the Exchequer per person off the unemployment count. The effect on the unemployment count will be some 10,000-15,000 on average per annum.

(iii) An extension of the Technical and Vocational Education Initiative

8. The aim of TVEI is to encourage the enrichment of school curricula with technical and vocational subjects, so as to improve the preparation of school leavers for working life. A good start has been made through MSC funded pilot "TVEI"

SECRET

experiments already planned to cover some 3% of 14-18 year olds in schools.

9. In order to maintain and build on the current initiative it is proposed to provide Local Education Authorities with additional resources equivalent to about £15-20,000 per annum per school over 5 years. The Education Authorities would be invited to submit comprehensive curriculum development plans to enable all their secondary schools to participate. The "first round" authorities will complete their 4 year pilots in September 1987, so the expansion would begin then; as second and later round authorities complete their third pilot year they would become eligible to participate in the further development. Curriculum development requires long term planning, so an announcement in the next budget would be necessary for a September 1987 start.

Cost

£m

(including administration - 12 extra staff)		Gross
	1987/8	40
	1988/9	70
	1989/0	90
	1990/1	110
	1991/2	120
	1992/3	80
	1993/4	50
	1994/5	30
	1995/6	10

The Net costs are effectively no different from the gross costs, except that if the effect of expanded TVEI is to encourage more young people to stay at school, there should be some offsetting savings in the youth training programme or supplementary benefit costs.

SECRET

(iv) A New Workers Scheme for 18-20 year olds

10. A measure to help businesses to employ young people at realistic wage rates would provide practical help both to business and to the young unemployed. The current Young Workers Scheme aims to encourage the payment of realistic wages by offering a £15 weekly subsidy for a year to employers who pay 17 year olds under £50 per week. With the introduction of the two year youth training programme and the removal of young people from Wages Council coverage, the point of entry to employment in the labour market for most people will occur at age 18 or over. It is therefore proposed that the YWS should be replaced with a scheme covering 18-20 year olds.

The subsidy would remain at £15 per week for a year, but would be paid only if the young person's gross wage was below £55 per week for 18-19 year olds or £65 per week for 20 year olds.

Costs

(excluding administration)

	Gross	Net
1986/7	25.6	10.8
1987/8	46.5	27.9
1988/9	47.7	28.6

(Net Exchequer
cost, Income)

£m

Administration

Net cost per £1,100
person off count

1986/7	£1m
1987/8	£1m
1988/9	£0.6m

Net public expenditure cost

Impact on unemployment

			end year
1986/7	£15.4m	1986/7	19000
1987/8	£27.9m	1987/8	23000
1988/9	£28.6m	1988/9	23000

MEASURES TO IMPROVE INCENTIVES TO WORK

1. Four measures are envisaged to improve incentives to work
 - (i) A "Guarantee" for the long term unemployed
 - (ii) An "Enterprise Scheme" for the long term unemployed
 - (iii) An additional drive against benefit fraud
 - (iv) An expansion of the Community Programme

2. In combination these measures would make it possible to mount a determined drive to tackle those on the unemployment count who are working and claiming benefit fraudulently; those who are without jobs but not genuinely seeking work; and those who can be placed in job vacancies of which they were unaware or who need special help and counselling. They represent both "stick" and "carrot" measures. Two of them - (i) and (ii) - are entirely novel; and two of them - (i) and (iii) - should be self financing in net Exchequer cost terms.

(i) A "Guarantee" for the Long Term Unemployed

3. All those who have been unemployed for 12 months or more would be required to attend an interview at their local Jobcentre at a specified time. Under existing regulations all benefit can be withdrawn for failure to attend a Jobcentre interview (after one reminder letter). The interviews would begin in March 1986, with the aim of covering all the one year unemployed in 18 months - 2 years.

4. All those who attend interviews would be offered one or more of the following:

- any suitable job vacancy, including Community Programme places where available

- a place on one of the existing range of training courses
- the Enterprise Allowance Scheme (where suitable)
- a place on a new 1-2 week course (run by the MSC) designed to help them to assess their potential and to look for work.

Interviewees would be guaranteed a place on one of the 1-2 week training courses if other opportunities were unavailable or unsuitable.

5. This measure would be a mixture of "stick" and "carrot". On the one hand, the experience of DE fraud teams and DHSS Unemployment Review Officers indicates that a summons to a compulsory interview by itself has a significant effect on the count. Furthermore, existing benefit sanctions can be applied to those who attend interviews but refuse the offer of suitable job vacancies. On the other hand, the scheme would provide positive assistance - and would be publicly presented as such - for those who want to work but whose basic working skills have become rusty or who have lost contact with the job market.

Cost		£m	
(excluding administration)		Gross	Net <u>saving</u>
		84	-4
		160	-7
 Administration			
(including additional	1986/7	£3.3m	
Jobcentre staff)	1987/8	£6.3m	
 Net public expenditure			
cost	1986/7	£5m	
	1987/8	£9.5m	
 Net cost per person off the count		 NIL	

Effect on Unemployment

	average	peak (end year)
1986/7	43000	46000
1987/8	82000	94000

6. These costings assume that just over 10% of those contacted by the Jobcentres leave the count before or after the interview and that the rest go on to the one-two week courses.

(ii) An Enterprise Scheme for the Long Term Unemployed

7. The reluctance of the long term unemployed with high rates of benefit to take jobs at lower (net) rates of pay could be overcome by a new Enterprise Scheme paying a weekly allowance. Any person who had been unemployed for more than 12 months who took employment paid at less than £80 would be paid a weekly allowance (non-taxable) of £20 for six months. This would be a significant reinforcement of the compulsory interviewing of the long term unemployed in Jobcentres: there would be no reason for anyone to refuse the offer of a job vacancy on the grounds that the pay was too low in relation to his benefit entitlement. It should also have some depressant effect on wage increases.

<u>Cost</u>	<u>in first year</u>	<u>in full year</u>
Gross Cost	£50m	£100m
Net Cost	£22m	£ 44m
Effect on the Count	£12,000 (av)	25,000 (average monthly)
Net Cost person off the count	£2000	£2000

(iii) An additional drive against benefit fraud

8. Current plans to expand the numbers of staff working on fraud in the Unemployment Benefit Service by 730 between now and 31 March 1987 should be brought forward and an extra 300 staff trained for this work.

Cost

	£m	
	1986/7	1987/8
Administration cost	2	3.4
Benefit savings	-3.1	-8.7
Net saving	<u>-1.1</u>	<u>-5.3</u>

Impact on unemployment

1986/7	3720 (end year)
1987/8	10350 (end year)

(iv) An expanded Community Programme

9. A necessary counterpart to the "stick" measures outlined would be a continued expansion of the Community Programme. The present expansion is proceeding at 10,000 extra places a month to 230,000 by June 1986. That rate of increase could be maintained for the rest of 1986. CP is the main programme for the long term unemployment. There is wide scope for emphasising and improving the community benefit output of the Programme and for focussing it positively upon other important policy objectives such as inner-city regeneration, energy conservation, crime prevention, tourism, land clearance and start up assistance for small-firms. It will be important to seek more private-sector and charity involvement, and to enhance its presentation as a major Government effort in communities countrywide.

10. It would be particularly important to ensure that CP places are available for suitable candidates who are identified in the course of the compulsory interviewing of all the long term unemployed ((i) above). However, CP projects attract predominantly the single, young unemployed claimant with low benefit entitlement. Many of the long term unemployed who come

into Jobcentres only because of the compulsory interviewing might not be attracted to CP at its current pay levels or be regarded as satisfactory recruits by CP sponsors.

<u>Costs</u>		<u>Gross</u>	<u>£m</u>	<u>Net</u>
				<u>Exchequer</u>
				<u>Cost</u>
Additional costs	1986/7	152		64
(excluding	1987/8	325		137
administration)	1988/9	325		137
(administration 86/7 - £7m				
87/8 - £9m				
88/9 - £9m)				
Net public expenditure cost	1986/7	£ 99m		
	1987/8	£211m		
	1988/9	£211m		

Net cost per person off the count £1,900

Impact on unemployment

86/7 increasing by 9,300 a month to reach 65,000 Dec 1986

87/8 65,000

88/9 65,000

1 RESERVE MEASURES TO REDUCE UNEMPLOYMENT

Two measures with immediate effects on the count could be held in reserve. These are

(a) a lowering for a limited period of the qualifying age for the Job Release Scheme to 60 or 62

and (b) a further 5 months expansion of the Community Programme.

2 JOB RELEASE SCHEME

The Scheme enables employees to retire early and be replaced by an unemployed person. It thus helps free opportunities for jobs in the normal labour market, and can help employers restructure their workforces. The scheme is currently available to able-bodied men age 64 years, disabled men aged 60 and women aged 59.

The options are to reduce the age at which able-bodied men become eligible to either (a) 60 or (b) 62 years, for a limited period of 6 months, thus limiting the build-up of costs in later years. These costs and unemployment count effects are additional to the provision for the existing scheme and take account of their interaction.

SECRET

Costs (Window: April 87 - October 87)

Cost (excluding administration)			Gross	£m
	Net			
	Option	a) b)	a)	b)
87/8	181.8	86	98.2	46.4
88/9	174.1	61.6	94	33.3
89/90	113.9	-	61.5	-
Administration costs (excl. benefit staff savings)		a)	b)	
87/8		2.5	1.25	
88/89		1.5	0.6	
89/90		1.1	-	
Net public expenditure costs				
87/8	103		48.0	
88/9	97.8		34.2	
89/90	63.6		-	
Net cost per person off the count	£1,900			
<u>Impact on unemployment</u>		a)	b)	
end year				
87/8	49,200		23,000	
88/9	35,800		11,100	
89/90	23,600		-	

3 FURTHER EXPANSION OF COMMUNITY PROGRAMME

The level of 10,000 places per month expansion could be continued for a further 5 months from January 1987 to May 1987.

SECRET

SECRET

<u>Costs</u>		Gross	£m	Net
Additional costs	1986/7	11		5
	1987/8	205		84
	1988/9	234		98
Administration	1986/7	3		
	1987/8	6.7		
	1988/9	6.7		
Net public expenditure cost				
	1986/7	£7m		
	1987/8	£129m		
	1988/9	£152m		

Net cost per person off the count £1,900

Additional impact on unemployment

1986/7	9,300	a month	January to March 1987:	28,000
1987/8	46,500	end year		
1988/9	46,500	average		

SECRET

Monpower: SEM
PE 13

Year	Monpower	Additional Costs
1987	11	1987
1988	105	1988
1989	105	1989
1990	105	1990
1991	105	1991
1992	105	1992
1993	105	1993
1994	105	1994
1995	105	1995
1996	105	1996
1997	105	1997
1998	105	1998
1999	105	1999
2000	105	2000
2001	105	2001
2002	105	2002
2003	105	2003
2004	105	2004
2005	105	2005
2006	105	2006
2007	105	2007
2008	105	2008
2009	105	2009
2010	105	2010
2011	105	2011
2012	105	2012
2013	105	2013
2014	105	2014
2015	105	2015
2016	105	2016
2017	105	2017
2018	105	2018
2019	105	2019
2020	105	2020
2021	105	2021
2022	105	2022
2023	105	2023
2024	105	2024
2025	105	2025
2026	105	2026
2027	105	2027
2028	105	2028
2029	105	2029
2030	105	2030

Additional Impact on Development

1987 - 12,300 a month January to March 1987 - 50,000
 1988 - 12,300 a month
 1989 - 12,300 a month

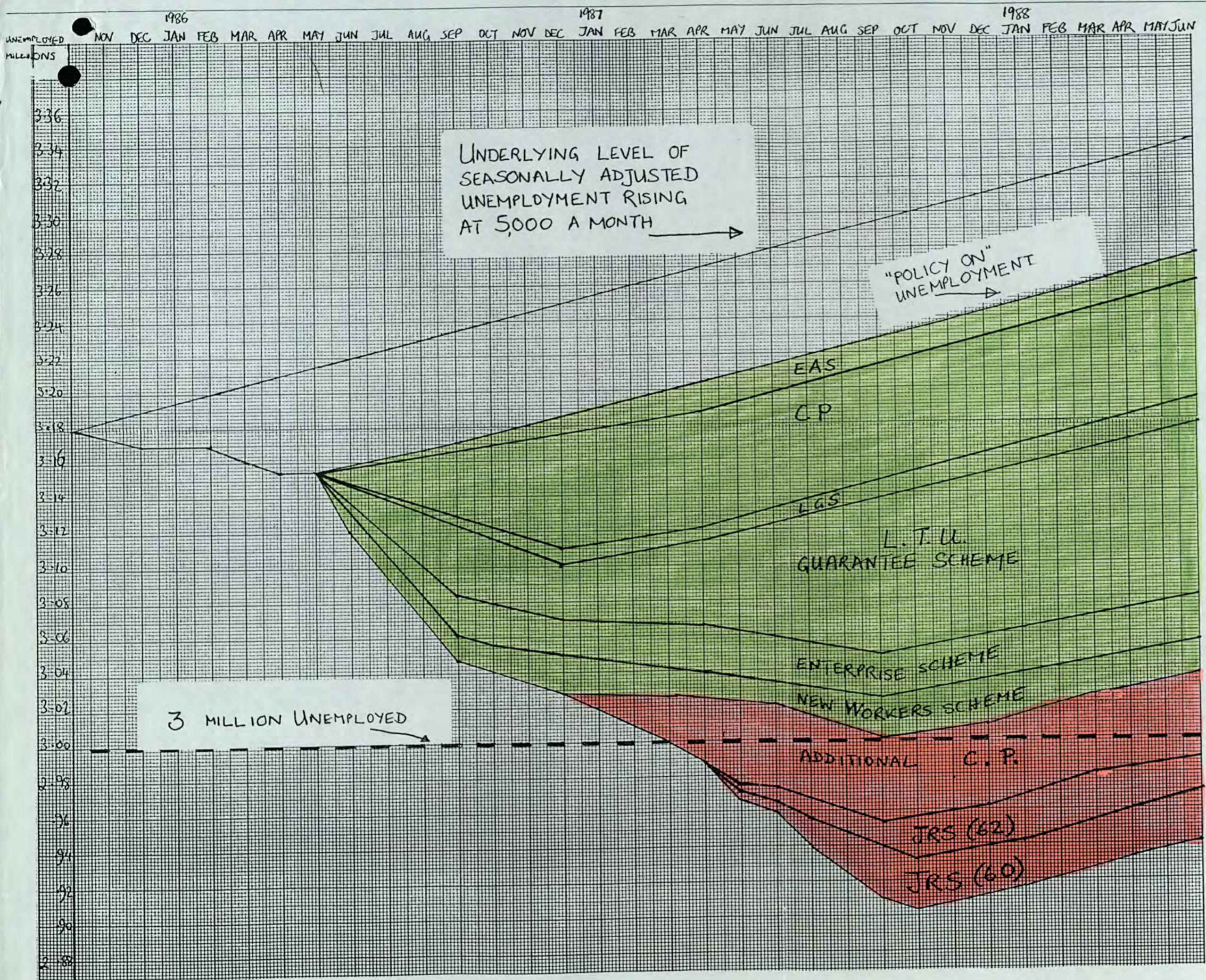


CHART TO SHOW PROPOSALS IF UNDERLYING TREND WAS 5,000 PER MONTH RISING UNEMPLOYMENT

- KEY
- EAS = ENTERPRISE ALLOWANCE SCHEME
 - CP = COMMUNITY PROGRAMME
 - LGS = LOAN GUARANTEE SCHEME
 - LTU = LONG-TERM UNEMPLOYED
 - JRS = JOB RELEASE SCHEME

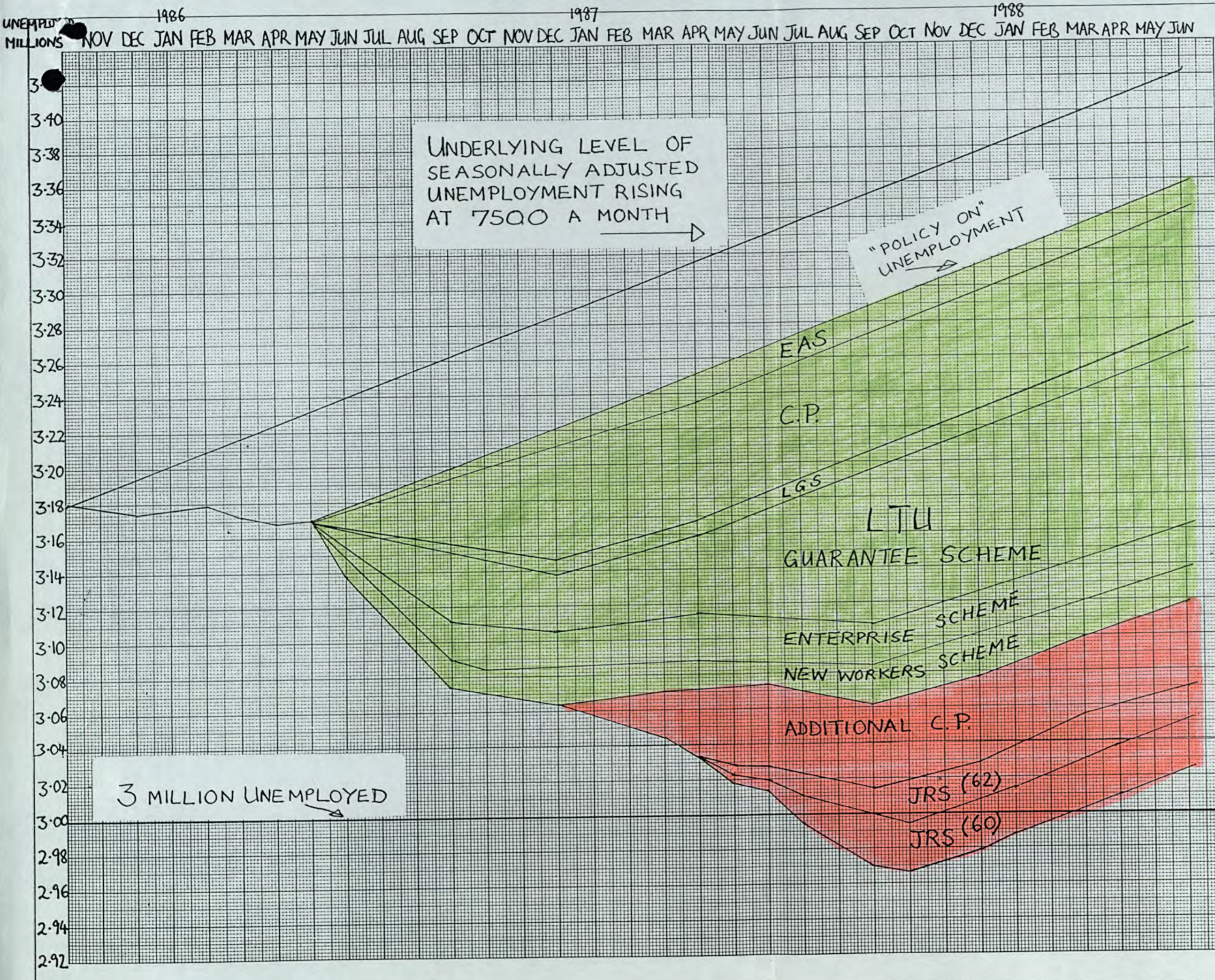


CHART TO SHOW PROPOSALS IF UNDERLYING TREND WAS 7500 PER MONTH RISING UNEMPLOYMENT

- KEY
- EAS = ENTERPRISE ALLOWANCE SCHEME
 - CP = COMMUNITY PROGRAMME
 - LGS = LOAN GUARANTEE SCHEME
 - LTU = LONG-TERM UNEMPLOYED
 - JRS = JOB RELEASE SCHEME