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ACTION TO COUNTER UNEMPLOYMENT IN 1977

Memorandum by the Secretary of State for Employment

1. I was invited to consider, in consultation with others concerned, what action might be taken to deal with the forecast level of unemployment.
2. On the forecast we face an increase of 350,000 next year in the numbers unemployed, taking the present level of 1.34 million, to nearly 1.7 million in December 1977. This reflects a decline in employment and a growth in the labour supply. The labour supply figures are particularly tentative and the National Institute of Economic and Social Research do not forecast any increase in unemployment over the next year. Nevertheless I must assume that the Treasury forecast is the best view we are able to take of the course of unemployment and what follows is based on that assumption. Any further public expenditure cuts are likely to add to forecast unemployment.
3. We have never abandoned our publicly declared objective of getting unemployment down to 700,000 by the end of 1979. It is clearly an impossible objective if unemployment is 1.7 million in December 1977. Even if unemployment was 1.34 million in that month, it would not be easy to achieve. At the very least, we must think in terms of ensuring that unemployment is not above its present level, is 1.34 million at the end of next year. This is not an objective incompatible with the hard facts of the situation. A reduction of 400,000 in the number of unemployed takes £1 billion off the Public Sector Borrowing Requirement (PSBR).
4. An important factor in the forecast rise in unemployment is the declining impact of our present selective employment and training measures. In the first few months of 1977 as they reach their peak impact they take about 20,000 a month off the increase in the unemployment register and so keep the forecast monthly rise, which would otherwise be 30,000, down to about 10,000. But all these measures come to an end during the first half of 1977 and their impact progressively and rapidly declines after the first quarter. As they lose their force the forecast rate of increase in unemployment rises to about 35,000 a month.

THE POSSIBILITIES FOR ACTION

5. The simplest and quickest action would be to extend the life of all present measures to the end of 1977 at the same level of support as at present. This would raise their impact on the unemployment register from 200,000 to about 225,000 in March and keep it at that level until the end of 1977 instead of falling over that period to about 35,000. This would reduce the forecast level of unemployment from about 1.7 million to about $1\frac{1}{2}$ million in December 1977 and would halve the average monthly rate of increase in unemployment through 1977 to 15,000 a month. The gross cost would be of the order of £380 million, but the net cost should not be more than a quarter of this and could be a lot less.

6. To bring registered unemployment by the end of 1977 to the present level - 1.34 million - would mean taking another 160,000 off the register and would necessitate increasing the impact of existing measures to the maximum extent possible (as well as continuing them throughout the year). It might also involve the introduction of new measures.

7. Some expansion of training and job creation could take another 26,000 off the unemployment register at a gross cost of £46 million (net cost £18 million). The further possibilities include extending the period of payment for the Temporary Employment Subsidy from 12 to 18 months and/or increasing it from £20 to £25 or £30; the introduction of educational maintenance allowances; a new employment subsidy for additional labour recruited (a Layard scheme); and, if the present job release scheme proves effective, an expansion of the scheme by extending it to the whole country and/or reducing the eligible ages to 63 for men and 58 for women. Not all these options need to be adopted to remove another 160,000 from the register. The possible choices between them could be considered when we have decided on our overall strategy. With the exception of training and job creation none of the possibilities mentioned is free from difficulty, whether because it is less cost-effective than existing measures or more uncertain in its effects. The best judgment I can make is that we might get the further 160,000 off the unemployment register by spending another £400 million gross. The net cost is likely to be higher in relation to the gross cost than an extension of the present measures, but would certainly be very much less than the gross cost.

8. Another group of measures which could reduce unemployment are those designed to share available work such as reducing overtime, reducing standard hours, extending holidays and encouraging short-time working rather than redundancies. The major difficulty in the way of all such developments is that existing employees will not easily be persuaded to give up work if this means a fall in their earnings; yet the maintenance of earnings would be quite unacceptable because it would push up industrial costs and would be incompatible with incomes policy. The most promising areas may be the reduction of excessive overtime and the

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encouragement of short-time as an alternative to redundancy. Legislation would not be appropriate and progress could only be made through negotiations between employers and unions supported by the Government.

7. If we decided to pursue this line of thought the next step would be for the Government to discuss the possibilities with the Trades Union Congress (TUC) and the Confederation of British Industry (CBI). I would see considerable advantage in involving both sides of industry with the Government in tackling the present high level of unemployment, though we could not expect significant results in 1977.

CONCLUSIONS

10. I invite my colleagues to agree that sufficient resources should be made available to expand the present measures and to introduce any new measures in order to prevent unemployment from increasing in 1977. It would cost around £380 million gross (below a quarter of this figure in PSBR terms) to extend the present measures on their present basis which should ensure that unemployment is no higher at the end of 1977 than 1.5 million. It could cost another £400 million gross (about a quarter to a half of this in PSBR terms) and in part the introduction of untried schemes not yet worked out in detail, to attempt to reach a figure of 1.34 million at the end of the year, ie no higher than at present. In my opinion it is necessary to prevent unemployment rising beyond its present point and I recommend to my colleagues that room should be found for the necessary expenditure. I recognise that expenditure reductions in other areas will cause some increase in unemployment but this would be trifling compared with the beneficial effects of the highly labour intensive special measures.

11. If my recommendations are accepted officials should be asked to identify the most appropriate set of measures. In addition, I recommend that we should have discussions with the CBI and TUC on the possible work sharing approaches which do not involve additions to the wage bill, especially the elimination of regular overtime.

12. If this general approach is agreed, I recommend that at an appropriate time (possibly in the statement on the International Monetary Fund discussions or when the economic forecasts are published) we should announce the Government's intention to take further action through selective measures to hold unemployment down through 1977 and to consult industry on the work sharing suggestions. The amount of detail we put into such an announcement can be settled later. It would be necessary to say that we intended to consult the Manpower Services Commission because the suggestions I have made in their field have been made without reference to them.

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Department of Employment
29 November 1976