



CONFIDENTIAL

P.0868

PRIME MINISTER

Young Workers' Scheme

(E(82)68

BACKGROUND

You announced in July 1981 the establishment of the Young Workers' Scheme (YWS), which provides grants to employers, other than domestic households, employing school leavers in their first year of employment at less than a prescribed level of wages. At present, employers paying less than £40 a week receive £15 a week for each employee; employers paying less than £45 a week receive £7.50. The scheme was introduced with effect from 4 January 1982. It had to be cleared beforehand with the European Commission, who expressed some misgivings about it and gave approval for only one year: the Commission are understood to have regarded the scheme as an employment subsidy rather than as a means of putting downward pressure on wages, and to have been concerned at the absence of any training provision.

2. In his letter of 21<sup>st</sup> September to the Chancellor of the Exchequer, the Secretary of State for Employment proposed a number of changes to the scheme, summarised in E(82)68, to take effect from the first anniversary of the scheme:

- a. an increase in the earnings limits to £42 and £47;
- b. extension of the scheme to employment in domestic households;
- c. a definition of the scheme's relationship to the new Youth Training Scheme;
- d. a requirement for training to be provided, if necessary, to secure approval from the European Commission.

CONFIDENTIAL





CONFIDENTIAL

3. Your Private Secretary's letter of 30 September said that you thought it would be unwise to increase the earnings limits, since this would give rise to expectations that they would be raised every year.

#### MAIN ISSUES

##### Earnings limit

4. As you have commented, there is a risk that increasing the limits will create expectations of an annual increase. The main counter-argument is that, if the limits are not raised, it will be more difficult for the YWS to achieve its objectives. It is of course a major objective of the YWS to bring down wage levels for young workers. To be effective for this purpose there has to be a workable incentive for employers to keep wages within the limits. If the limits are so tight that they cannot be made to stick, the YWS will have less influence on wage levels. It is also an objective of the YWS to create new jobs with the benefit of the subsidy. For this purpose also the limits need to be pitched at a realistic level. The Secretary of State for Employment argues that if the limits are not increased the number of applications will fall from 100,000 to 80,000 in 1983-84.

5. The problem arises in large measure from the existence of the Wages Councils. This was recognised from the outset as a constraint in fixing earnings limits under the YWS. The Secretary of State for Employment argues that a modest increase in the YWS limits may in practice help to keep the next round of Wages Councils awards lower than they would otherwise be. If no increases are made in the limits, the Wages Councils, who are likely to feel obliged to make some increases in their awards, will not have the incentive to pitch their increases at a level which would not deprive employers of eligibility under the YWS. Some members of the Committee may feel that the difficulty which the Wages Councils create for the YWS underlines again the need to contemplate the abolition of the Councils in whole or in part which the Committee last discussed on 14 July, (E(82)18th Meeting, Item 2). The recent study on Unemployment by the CPRS





CONFIDENTIAL

argued in favour of the total abolition of Wages Councils in 1985, the earliest date permitted by our international obligations. The Committee will need to resume its discussion of Wages Councils soon. Whatever the outcome of that discussion, the need to take account of the existence of the Councils in settling the YWS earning limits for 1983-84 will nevertheless remain.

6. It may be argued that, although an increase in the earnings limit is inevitable, it need not be as great as that proposed. The suggested increase from £40 to £42 is 5 per cent and that from £45 to £47 is some 4.4 per cent. If the Government were to bring the increases more in line with its general view of the desirable level of wage increases, somewhat lower figures would be required. An increase of 3½ per cent, in line with the public service pay factor for 1983-84, would, for example, produce figures of £41.40 and £46.55 or £46.60. If however the Committee is inclined to take a realistic view of the constraints imposed on employers and the likely behaviour of Wages Councils and wants to ensure the continued effectiveness of the YWS, the right course would be to accept Mr Tebbit's proposed figures.

#### Domestic households

7. When the YWS was introduced, Ministers took the view that domestic households should not be covered because they were concerned at the prospect of adverse publicity centering on, for example, wealthy individuals being subsidised to employ 'au pairs'. It is relevant that nationals of other EEC countries must be covered by the scheme; the numbers actually covered would naturally be greatly increased if 'au pairs' were included.

8. Extension to employment in domestic households would also add to the scheme's "deadweight" (ie coverage of people who would have acted in the same way even if the scheme did not exist). This is already high as the Secretary of State for Employment concedes in his letter of 21 September.





CONFIDENTIAL

9. We understand that the Treasury have misgivings about the proposals for both of these reasons. On the other hand the CPRS argued in their report on Unemployment for various incentives to private households to offer work to the unemployed, including extension of the YWS.

#### Youth Training Scheme

10. The Youth Training Scheme (YTS) is to replace the Youth Opportunities Programme (YOP) from September 1983. It would be natural to adopt the same rule for the YTS as for the YOP, that time on the scheme should not count as employment for the purposes of the YWS (which is available only for those in their first year of employment) and that the YWS should be available for 16 year olds alongside the YTS. The Manpower Services Commission has argued against this, presumably in order to get as many young people as possible into the YTS. The Government's concept of the YTS is however that it should be an alternative - and not an especially preferred alternative - to employment for school leavers, rather than a replacement for it.

#### European Commission

11. If the European Commission insist on provision of training as a condition for renewed approval of the YWS there would seem to be no difficulty in imposing a condition of the kind the Secretary of State for Employment has in mind since it appears that 90 per cent of those covered by the YWS receive some training. It is not clear whether the Secretary of State would be willing to go further if the Commission insisted on something more than a broad and almost certainly unenforceable undertaking of this kind.

#### HANDLING

12. You will wish to ask the Secretary of State for Employment to introduce his memorandum. The other most likely contributors are the Secretary of State for Education and Science (on training aspects); either the Chancellor of the Exchequer or the Chief Secretary, Treasury on implications for the labour market and public expenditure; and the Secretary of State for Social Services on such matters as the likely

CONFIDENTIAL





CONFIDENTIAL

attitude of the 'low pay' lobby. The Foreign and Commonwealth Secretary may have comments on tactics towards the European Commission.

#### CONCLUSIONS

13. You will want the Committee to reach conclusions on the four specific changes proposed in E(82)68, ie:

- a. whether the earnings limits should be increased to £42 and £47, or to some lesser figures, or should be unchanged;
- b. whether the scheme should be extended to cover employment in domestic households;
- c. whether the scheme should be available to young people coming off the Youth Training Scheme in the same way as it is currently available to ex Youth Opportunities Programme trainees, and should also be available for 16 year olds alongside the Youth Training Scheme;
- d. whether, if required as a condition of approval by the European Commission, there should be a requirement that the employer should undertake to provide some training which he regards as appropriate.

PLG

P L GREGSON

12 October 1982