



Prime Minister

PRIME MINISTER

Please see Alan Walker's  
minute (page A) supporting these  
proposals.  
Agree, subject to colleagues?

Yes mb

EARNINGS LIMITS UNDER THE YOUNG WORKERS SCHEME

MUS 31/3

I was invited by E Committee on 14 October (E(82)21st Meeting) to consider further the question of increasing these earnings limits, on the basis that any change might be implemented this summer.

At present employers receive £15 a week if the young worker earns less than £40 a week and £7.50 if earnings are £40 or more but less than £45. The £40 limit was set when you announced the scheme in July 1981 and these limits have applied since the scheme began in January 1982. Since the aim of the scheme is to offer employers an incentive to take on more young people at lower wage rates, it would be quite wrong to increase the limits in line with the movement in earnings. But some increase is now called for if the impact of the scheme is to be maintained.

From this autumn the scheme will be complementary with the Youth Training Scheme, which is itself designed to exert a downward pressure on youth wages. Those 16 year olds who are in jobs covered by the YTS will no longer be eligible for the YWS subsidy; and the YWS will be used by more 17 year olds as they come off YTS (which will not count as the first year of employment).

That link with the YTS is likely in any case to lower take up but if the earnings limits remain unchanged I fear that the scheme will lose greatly in influence. Take-up will fall



considerably - now about 110,000, it is likely to fall to 80,000 by March 1984 and to 65,000 a year later. There are a large number of employers at present paying juvenile wages just above the current earnings limits who may well be holding wages down in the hope of qualifying for YWS when the earnings limits rise. The scheme will lose its impact on them and more generally as the earnings limits become too divorced from prevailing rates (as may already have happened in some Wages Councils).

A full uprating in line with earnings movements since January 1982 would take the limits to £45.50 and £50.50 by this summer. That would be too high and I propose an increase to £42 and £47 to be implemented from 1 July. This would be much less than inflation since January 1982 and would maintain the squeeze on juvenile wages while keeping a reasonable proportion of young people in scope. There would be no increase in the current levels of subsidy and the increases in the limits should increase the take-up at March 1984 from 80,000 to 100,000 (only slightly below the current level). This would add £4m to the 1983-84 estimates of £75m but since that figure is highly uncertain I see no need to alter the estimate on this account.

Unless you or other E Committee colleagues see any objection to these proposals, I would wish to announce



them at an appropriate time in April. Setting the implementation date at 1 July will meet the objective of ensuring that we set no precedent for annual increases in the limits and will be in good time to encourage recruitment of summer school leavers and to influence Wages Council discussions beginning in the autumn.

I am sending copies of this minute (the terms of which have been shown to the Treasury) to other members of E Committee; and to Sir Robert Armstrong.

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Approved by the Secretary of State  
and signed in his absence

31 March 1983

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CONTROL

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10 DOWNING STREET

From the Private Secretary

5 April 1983

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*JK AW*

*Dear Barnaby,*

Earnings Limits Under the Young Workers Scheme

The Prime Minister has seen your Secretary of State's minute of 31 March. Subject to the views of the other members of E Committee, the Prime Minister agrees with Mr. Tebbit's proposals for increasing the earning limits under the Young Workers Scheme.

I am copying this letter to the Private Secretaries to members of E Committee and Sir Robert Armstrong.

*Yours ever*

*John Gales*

J. Barnaby Shaw, Esq.,  
 Department of Employment.

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JK



NBPM

MUS 11/4

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

## EARNINGS LIMITS UNDER THE YOUNG WORKERS SCHEME

In his minute to you of 31 March Norman Tebbit proposes that the earnings limits under the Young Workers Scheme should be increased from next July.

2. This is an issue on which it is not easy to strike the right balance. On the one hand, there is the need to avoid any presumption that earnings must always go up, regardless of economic circumstances, and also to underline the link between the employment prospects of young people and the level of minimum wages set by Wages Councils and employers more generally. But on the other hand, there does seem to be a danger that the influence of the Young Workers Scheme could tail off unless the earnings limits are close enough to prevailing rates to exert some leverage over them.

3. I think that the increased limits proposed by Norman are a realistic attempt to reconcile these considerations. They would represent a squeeze in real terms; and, as they would not come into effect until the scheme has been operating for 18 months, they could be presented as consistent both with the public sector pay factor for 1983-84, and with the need to ensure that no precedent for annual increases is established. I would not therefore /object to what



object to what is proposed, provided that Norman can absorb the estimated cost within his Department's existing expenditure provision.

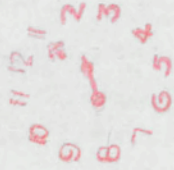
4. I am copying this to other members of E Committee and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.' with a stylized flourish.

G.H.  
7 April 1983



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CORRECTION

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PRIME MINISTER

*Handwritten initials*

A

YOUNG WORKERS SCHEME: EARNING LIMITS

Norman Tebbit will shortly be proposing to increase the earnings limit for the £15 a week subsidy from £40 a week to £42, and for the £7.50 a week subsidy from £45 a week to £47. No change is proposed in the value of the subsidy.

When he suggested this last September, you thought it would be unwise because it would raise expectations that the limits were going to be increased every year. The Chancellor made a speech discouraging such expectations. However, that objection must have less force with respect to the present proposals since they only amount to a 3½% increase in the earnings limit, and no increase at all in the subsidy. The 3½% is well below the rate of inflation and the rate of pay increases in the private sector. There is therefore no presumption of automatic indexing. On the contrary, it points in the direction of widening the youth of adult differentials - one of the effects which we hope to achieve with the scheme.

Although I conjectured the £40 limit in the original paper in July 1981, all the subsequent research has shown that that was about right at the time. If that is the case then clearly £40 is now too low to achieve the objectives of the scheme. The Department of Employment does believe that the scheme is a valuable one and would like to continue it. I agree with them.

I suggest, therefore, that you agree to these very modest increases. I understand that they estimate that they will add £4 million to expenditure in a full year and will provide for about 20,000 youths.

*Handwritten signature*

3 February 1983

ALAN WALTERS

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