TACKLING LONG TERM UNEMPLOYMENT - A PROPOSAL

by Frank Kirwan

The Problem

In Britain during July of 1983 41% of all male claimants on the unemployment register had been unemployed for at least one year. Over 60% had been unemployed for six months or more. The proportions for females were somewhat lower, but one in four had been a claimant for over one year, while one in two had been a claimant for at least six months. The incidence of long term unemployment has been increasing over time. In July of 1981 46% of all men and women on the register had been out of work for six months or more. Two years later the proportion thus affected had increased to 58%. These are **national figures** and embrace people of all ages. In some parts of the country - the West Midlands, North and North West of England - and amongst some age groups - the over 35's and particularly the over 45's - the proportions are significantly higher. Britain is not alone in facing such a long term unemployment problem, most of the member states of the OECD are affected to some degree. The problem is likely to persist for the foreseeable future. Recent projections by the OECD secretariat suggest that even a sustained upturn would have little impact on the stock of long term unemployed over the remainder of this decade.

If a proposal to tackle the problem is not to be rejected out of hand it must be formulated in the light of existing political constraints on the level of public expenditure. It may well be that an increase in public expenditure would be an effective way to reduce the present level of unemployment; however such a course of action is excluded at present and will not be considered here. The proposal outlined below would not incur any additional public expenditure; indeed, if implemented, it should deliver extra tax revenues. Unlike other schemes it does not require any "pump priming" expenditure by the state. Nor does it require the state to hire additional employees or in any way to engage in "make-work" activities. The proposal also has anti-inflationary, competitiveness-enhancing and worksharing implications.

The Proposal

With the introduction of a computerised system for the payment of unemployment benefit in 1982 it has become possible to calculate the expected duration of unemployment for a person joining the register and the remaining expected duration for a person part way through a spell of unemployment. Such calculations can be made for particular classes of individuals classified by age, sex, location and type of previous employment. These expected durations can be revised monthly or quarterly as conditions in the labour market change.* It is thus possible to

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* See: "Unemployment Flows : New Statistics" **Department of Employment Gazette**, August 1983 pp.351-358

calculate the expected disbursement of unemployment and supplementary benefit to a particular individual during the remainder of his (expected) spell of unemployment.

The proposal is to attach to each person who has been on the register for at least six months a weekly subsidy equal to the expected disbursement of benefits over the anticipated remainder of his/her unemployment spell. This subsidy would be payable to any firm hiring the worker in question under a contract whose minimum duration would be the expected remaining duration of unemployment. A single man in receipt of unemployment benefit would attract a weekly subsidy of £25, while someone on supplementary benefit would attract one of £20.55. For someone with several dependents the subsidy would be significantly greater. The largest subsidies would obviously attach to those classes of worker whose continued unemployment is most expensive to state. Amongst these would be low skilled workers in depressed regions, those with large numbers of dependents, and those aged over 45. A suggestion of this nature has some precedents, similar payments, but limited to £1000, are available under the Enterprise Allowance Scheme to unemployed persons attempting to become self-employed, while the Young Worker Scheme provides a subsidy of up to £15 per week.

The proposal would produce no immediate fall in spending on unemployment and supplementary benefits. However, government revenues should rise as the unemployed taken on by firms begin to pay income tax and national insurance contributions. Firms hiring the subsidised workers would find average labour costs lower than before, and would become more competitive on both home and export markets. There would thus be an incentive for participating firms to expand output. If Britain were the only country implementing such a proposal the trade balance would be favourably affected. With production costs thus partially underwritten by the wage subsidy inflationary pressures would be reduced. Increased profits would accrue to participating firms, reducing their borrowing needs, thus putting downward pressure on interest rates and the rate of growth of the money supply.

Implementation of the proposal outlined here would actively promote worksharing and promote it in an efficient manner by acting through the range of wage rates facing employers. With subsidised labour available from the unemployment register the incentive to employ existing labour on overtime hours would be reduced, though not eliminated. Such wage subsidies would counter the tendency of existing measures to reduce the price of capital relative to that of labour and would target assistance on those parts of the country and those classes of individual on whom the burden of long term unemployment bears most heavily.

Some Objections

The most immediate objection to the proposal is the bureaucratic one of unworkability. With modern high speed computers such an objection is far from unsurmountable. The proposal could be implemented through the tax and national insurance system. The required administrative arrangements already exist in the implementation of the Temporary Short Time Working Compensation Scheme and the now defunct Special Temporary Employment Program.

It would also be objected that implementation of the proposal would lead to the displacement of existing workers. To counter this objection the wage subsidy would only be payable in respect of recruits who represented a net increase in the hiring firm's level of employment. Firms could still in theory fire N existing employees and hire N + 1 subsidised workers from the unemployment register and continue within the letter of the law. The existence of training costs, trade unions and redundancy payments make such a course of action somewhat unlikely on a large scale.

Some of the subsidised workers would undoubtedly be fired when their subsidy period had expired. Evidence from existing schemes, such as the former Youth Opportunities Program, which subsidise some types of labour suggest that a significant proportion of employees hired under such a scheme are retained when the subsidy ceases. But even if all were fired at the end of their subsidy period the outcome would still be preferable to the present one. Those employed, albeit temporarily, would have enjoyed higher incomes for the duration and would have been gainfully employed rather than remaining unemployed..

When hiring, employers would have an obvious tendency to discriminate against unsubsidised applicants or those with a relatively small subsidy. Would the proposal not therefore create a new class of long term unemployed? No. One of the attractions of the scheme is that those thus discriminated against would in time find that the subsidy attached to them had become relatively large in consequence of such discrimination. By contrast, those workers for whom the scheme had achieved its end would find that, should they re-enter unemployment, the prospective subsidy attached to them would be correspondingly smaller reflecting their improved position in the labour market. In effect the proposed system is a self equilibrating one.

Conclusions

To sum up, the proposed scheme would "price people into jobs" as the government puts it. The net effect on the headline total of unemployment would be greater than if the same expenditure were incurred on general reflationary measures since secondary workers would not be attracted into the labour market by the proposal outlined here but would be by general reflation. Present and prospective levels of long term unemployment are intolerable, but failure to attempt to redress them is equally intolerable, especially when measures exist which are not inconsistent with the general thrust of government policy and which would have a favourable overall impact on the incidence of long term joblessness.