

Full Employment Towns.

1. The cost of unemployment to the national exchequer is £20 billion a year, or £6,300 for every unemployed person on the register. These are the most comprehensive recent estimates made by Sinfield and Fraser, and have been widely quoted in support of a reflationary programme to bring down unemployment. In principle each registered unemployed person could be paid £120 a week, and still the Exchequer would save money. The argument has, however, remained at a very general level, feeding only into the general programme of creating 1 million jobs in 2 years. There have been few if any proposals which follow throughout the costs of unemployment argument to the logical conclusion, namely of providing a guaranteed job for all.

2. In this paper I want to suggest that this is a quite feasible project. Job guarantee schemes have been successfully operated in a number of third world countries, for example by the progressive government of the Seychelles and by the state of Maharashtra in India¹. They could equally work here. What I propose is that a Labour government should immediately establish a series of full employment districts. Anyone living in these districts would be able to go to a council run employment centre and be allocated a job.

3. To begin with a new government would call for tenders from towns or districts. They would be judged on the robustness of their proposals and the extent to which they matched the broader policy aims of the Labour Party. In the first year a group of 20-30 such areas drawn from different parts of the country would be chosen as pilot districts.

4. Each pilot district would be allocated a budget which would consist of ten elements:
 - a) the existing cost of social security and other benefits paid out to the registered unemployed in the district during the previous year.

- b) an unregistered people's allowance being 50% of a)
- c) a tax and employees' national insurance allowance, being the average sum which would be repaid to the Exchequer by a newly employed person on a minimum wage.
- d) an employers' national insurance allowance, being the average repaid to the Exchequer by the new employer
- e) a top up provision to bring a + b + c + d up to the level of a minimum wage
- f) an allowance for increased VAT receipts on e)
- g) an allowance for materials, equipment and other capital costs, including working capital and excluding VAT.
- h) a training budget made up of:

the proportion of the MSC's budget applicable to the district

an ITB allocation, based on the industrial composition of the district

a development training budget linked to the tender submission

- i) an Enterprise Board budget
 - j) a top up administrative allowance
5. A key question would be the level of the wage. This will establish a floor level of wages and would therefore be the most effective weapon against low pay in all parts of the local economy. It would also be a weapon to improve women's wages where women are paid at a differential rate to men. There are two possible ways of setting the wage: either a national minimum, say £105, with some gradation by circumstance (e.g. number of dependents); or a pay submission from a tendering

authority, with a level set in relation to a particular wage configuration in the locality. The advantage of the latter is that it would encourage a detailed knowledge of the local labour market.

6. If the guaranteed weekly wage was £105, employers national insurance £10, present benefit levels £40, VAT £5, then the top up cost for newly employed labour would be £30. If we take one of the SEEDS towns Stevenage as a case study, it now has 3,400 registered unemployed. The top up cost would be $3,400 \times £30 = £102,000$ per week, or £5.3 million a year. It would need to plan for a further 1,700 currently unregistered job applicants, (50% of the registered unemployed) for whom we will assume there will be no benefit saving, but who will thereby contribute more in VAT. Their full time top up cost would amount to £65 (i.e. £105 - tax of £30 and VAT of £10), implying a weekly figure of $1,700 \times £65 = £110,500$, or £5.7 million a year. The total full time top up cost would therefore be $5.3 + 5.7 = £11$ million. The additional non labour costs of training, plus materials and equipment might be expected to double that figure. With £1 million for the local Enterprise Board, and the additional research and administrative costs of the scheme, the additional cost to the Treasury would be £24 million, or £4,700 per person. Nationally for $3 \frac{1}{3}$ million registered unemployed, and a further $1 \frac{2}{3}$ million looking for work, this would be an additional cost to the Exchequer of just under £11 billion a year.²

7. None of these figures take into account the secondary multiplier effects. These would increase employment, cut social benefit costs, and increase tax revenue. They would also decrease the number of people seeking work on the employment guarantee scheme. It might be worthwhile further sub dividing the materials and equipment budget to allow for these effects: a) a multiplier effect component, which would be higher the greater the local or regional sourcing of inputs; b) a top up to full cost. The point of the budget is that it should make clear the extent to which the cost of the scheme involves an actual extra cost to the Exchequer net of savings and income.

Finance of the net cost

8. If we assume the net cost for Stevenage is £24 million, this could be raised in the following ways:

- a) a rate contribution. It would be possible to raise a special employment rate of £50 per household, or £1 a week. There are 27,000 households, and this would therefore bring in £1.35 million. Existing business would be required to match this, contributing an average of £1,100 per business, but with the bulk paid by the top 20 employers who account for over half the town's employment. Total raised from rates: £2.7 million.

All who contributed could expect a gain from the scheme. The District Council would be constrained to show that the outputs produced would be useful and met real needs (whether individual or corporate). The transformation of the labour market would certainly strengthen labour, and therefore be opposed by employers, but the larger firms who would pay rates above the minimum might well welcome the improved training provisions implied. The argument that the scheme was ending unemployment would put all objectors onto the defensive.

The local contribution would be an important discipline on the scheme, for it is important that the majority of the town are supportive of it, that it is not seen as a centrally imposed plan, but one created and implemented locally.

- b) revenues from the services provided, or goods sold. For example, there might be a charge for the insulation service (say £30 a house). There would be income from enterprise board investments and so on. There would clearly be a political decision to be made between the rate/revenue split. We will assume an extra £1.3 million.

- c) borrowing for capital investment. The borough could issue a Stevenage employment bond, with a relatively low rate of interest, but a large lump sum on maturity in say 25 years time. It should be marketed locally both for retirement purposes and for young children recently born in the town. The aim should be to sell it to the 35,600 who work in Stevenage, including the 12,000 who work in Stevenage and live-elsewhere. The latter should be encouraged to buy the bonds as a contribution to the welfare of the town. Employers should be asked to deduct say £3 a week on average for a year at source, with an opting out system for those not wanting to take up the bonds. £4 million could be raised in this way, which at a modest interest rate of 5% tax free would cost the Council £200,000 in debt charges, to be funded out of the scheme.

The bond could carry other rights. For example Stevenage Borough Council could negotiate discounts with major retailers, travel companies, British Rail and so on. Some of the return to bond holders would come in this way.

- d) The EEC social fund. The British Government should negotiate a sum from the EEC for all pilot districts, to be distributed according to need, (Kirby would get proportionately more than Stevenage). If the original tranche of schemes had a net cost of £1 billion, for 200,000 jobs, then the EEC should contribute at least £250 million. For Stevenage this would imply £6 million.
- e) Government revenue contribution. £10 million. This could be raised from a special national employment tax on financial institutions. For the first year of the scheme, the national tax to be raised in this way would be £400 million, which would be trivial to the financial sector. The point would be to direct the tax at either unproductive sectors (advertising would be a candidate, though that should be taxed for the funding of the national cultural industries strategy) or those sectors which appear to be part of the cause of the unemployment problem, or who earn superprofits (in this case

the stock exchange, and other aspects of the city like the young millionaires would be a popular target for special taxation).

9. Implied in the above is a 1:2 split of the net cost between the local area and the government/EEC. In inner city areas and the worst hit regions this will be too high, though it must be remembered that they would turn overnight into becoming full employment zones. For this reason there is a case for local contributions. There is also a great point in having a local stake in the whole scheme. If it was demonstrable that full employment was being restored then the rich and better off (whose real earnings have been rising fast) as well as multinationals would be put onto the defensive. Even smaller firms who would be most sharply hit by the improvement in wages and conditions would have some compensating effects by the expansion of demand. If they went down, they would always have the offer of a job, while some other operator would take their commercial place.

10. The overall bids could vary the above arrangements. In the pilot scheme there will be a need for flexibility. But clearly ministers will have to make a judgement on the social implications of the funding as well as the outputs contained in the tenders. Some districts might aim to raise all the cash from residents regardless of income (like a regressive poll tax). Others might wish to raise it entirely through a special industrial rate. Guidelines should be set down, divergences from which would have to be argued for.

11. Once the district had been designated, the system would be set up which would work as follows:
 - a) a detailed skills audit would be carried out through interviews with all the registered unemployed and others wanting work. These interviews would be quite the opposite of those being conducted by present government. they would aim to find out existing experience, people's potential, and their wishes. Staff requirements for the initial placements

would range from 50-100 well trained employment counsellors/personnel officers etc. for Stevenage.

- b) the tender document would have laid out the available jobs as the result of detailed studies. They would include a home insulation programme, various construction works, and health service caring.

Each of these new projects would have an initial training period attached to them, to which the applicants would be directed. Some might not successfully pass through the training period, and be returned to the employment centre. Full equalities would be implemented at the training and later employment stage. In addition to these jobs, the employment centre would handle the normal job vacancies. It would also act as an agency for temporary workers. Like the Brook Street model, it would effectively be employing people who it would 'lease' out to employers wanting temporary workers. Such workers would have the full rights of a permanently employed person, for they would be fully employed by the Council. The agency section would be separate and should be staffed by people experienced in the agency business.

- c) Those who wanted to draw the dole could still do so.
- d) Job vacancies and those available for work would be available in a data bank (distributed through CEFAX in public places, the Council offices, and in the Employment agency itself.) In this instance the labour market would still work independently, but with improved flows of information arrangements could be made to include vacancies in neighbouring towns on the list).
- e) every unemployed person would become a 'registered worker'. They would register with an adviser who would act as a personnel counsellor. The registered worker could change adviser as they would change a doctor. If they got on a job on the 'private' labour market (by private I would also

include public jobs not filled through the planned labour scheme) they would move off the register, but could continue to consult the adviser and return to the employment centre if the private labour market job had finished.

- f) The new centre would be staffed by secondments initially from the present job centres, from personnel officers seconded for an initial time period from existing employers: There would also be a rapid training scheme for new employees to fulfill the role as advisers, which among others would take presently unemployed people who could become career counsellors.
- g) Where people were allocated to the job insulation service, say, wages would be paid by the service, and recouped from the employment centre. Administration of the wages and conditions should be decentralised from the counsellors, but according to their guidelines.
12. There should be a major labour plan drawn up around existing employers, public and private. It would in part identify current shortages, in part future ones. The training section of the employment centre would be responsible for assessing the training programme of each employer in relation to needs, and allocating funds for training by the employer accordingly. In large MNC's like British Aerospace, their training programme of course spans many plants in the UK and outside. There is therefore a case for a national training council doing the same thing at that level. But there is still a function for a local training board, with cash, to ensure the training of local people for local jobs.
13. There is a question of how such a planned labour market within a district would relate to the wider travel to work area, particularly as far as in-commuters are concerned. Non residents would be able to take jobs in Stevenage in the normal way, but would not be able to become registered workers unless they were residents in the town.

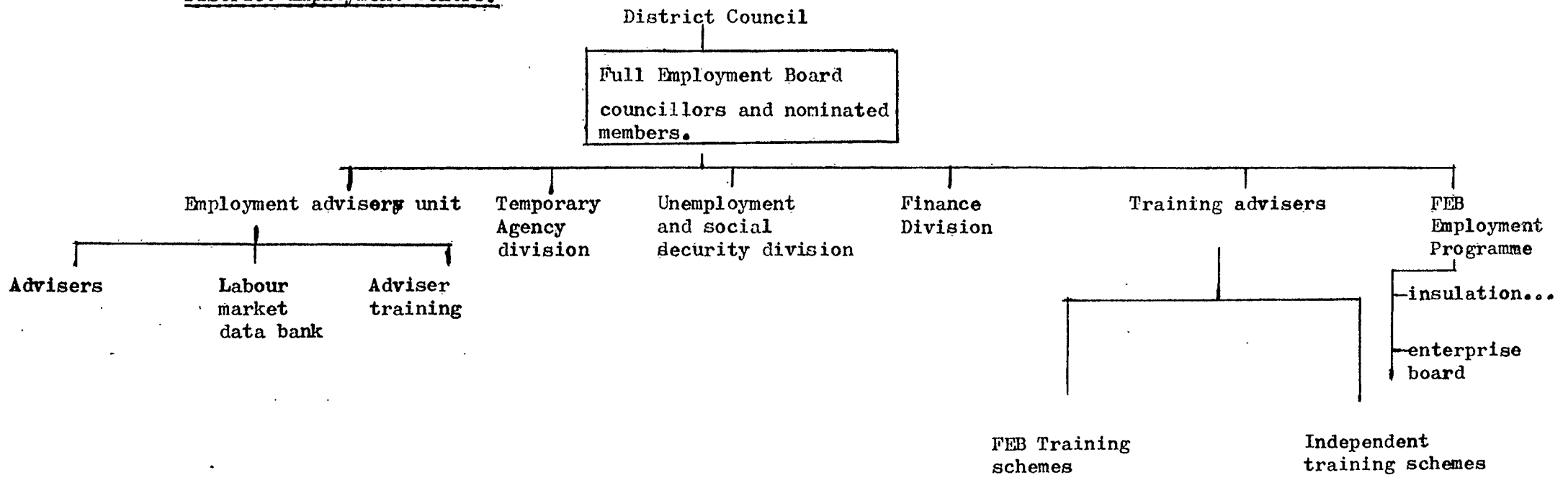
14. The pilot districts would be monitored by a separate unit of the Department of Employment. This unit would report directly to a Minister (perhaps assisted by two councillors). Difficulties would have to be quickly diagnosed discussed and corrected. The central unit should be seen in part as a support group. On the basis of the experience of these pilots, further districts would be added. If they expanded at the same rate, they would provide 1 million jobs in 5 years but they could expand much more rapidly, the main constraint being organisational capacity.
15. One objection is that the scheme would be divisive. Why not Middlesbrough as well as Hartlepool? The answer is not if but when. There has to be a staggered programme. If Middlesbrough can get a detailed plan out, and show that it has the staff to cope, then it would be considered in the second round.
16. I have not spoken about how the local plans are developed. The SEEDS district councils are developing a set of such plans. Sheffield is shortly to produce an employment plan for the city. London has done so. CLES is in a position to do so, or to help its members to do so, building on sector work already in hand. These plans need the fullest local involvement. What will be required is a central fund to provide resources to towns preparing a bid, and an advisory team to go and help potential districts set up the studies.
17. The Local Full Employment Towns (or in larger urban areas, parts of towns) are only one part of a policy of full employment. They would fit in with the National and Regional Enterprise Board structure, with the reorganised and synchronise public sector, and with new financial institutions like the BEB. What they offer is a way of co-ordinating central state functions like unemployment pay, job centres and the MSC around a common local plan, under local democratic control. They break down the dangerous division between labour market policy and productive employment, which limits the effects of schemes geared solely at cutting unemployment. They would also help introduce

macro/employment concern to the productive side of the economy, particularly all parts of the public sector, who should be required to open their employment books to the local employment board, and to co-operate fully with both the planning and implementation process.

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Footnotes

1. On the employment guarantee scheme in Maharashtra state in India, see K. Dandekar and M. Sathe "Employment Guarantee Scheme and Food for Work programme", Economic and Political Weekly, April 12th 1980, and K. Dandekar, "Employment Guarantee Scheme - an Employment Opportunity for Women," Gokhale Institute, Pune.
2. The basis for the assumptions in this paragraph are as follows:
 - minimum wage (£105). In 1984 the Family Income Supplement limit was £100 a week. The TUC regarded low pay as of median male earnings (£101). The Low Pay Unit uses of median male earnings (£107).
 - employers contribution to national insurance (£10) where employers are not contracted out, their contribution is 10.45% of the wage.
 - benefits of £40 In 1983/4 the average unemployed person received benefits worth £1,950 a year, or £37.50 a week. This includes unemployment, supplementary and housing benefit, as well as a measure of the administrative costs of benefit payments. (Hansard 23.7.84). Since then, there has been an uprating. I have assumed an increase of 6 2/3% on the 1983/4 figure.
 - VAT (£5-10) I have taken this as 15% of the 'top up' amounts of £30 and £65 respectively.
 - number of unregistered people wishing to work, (50% of registered unemployed)

Among those known to be seeking work are:

- married women not entitled to benefit
- people wishing to work part time and not claiming benefit
- people on YTS/CP schemes wanting 'proper jobs'
- under counted recent school leavers and people over 60.
- people removed from the register through the 'availability for work' test

The Department of Employment estimate the ratio of jobs required to the reduction in the registered unemployed as 1.375 (1984). The Warwick IER estimate is 1.470 (1983). These are both likely to be on the low side, because there have been downward adjustments of the registered unemployed figures since then. I have assumed 1.5, see: A. Batkin, "One Million off the Unemployed Register in Two Years: the implications for London", London Strategic Policy Unit, 1986.

On the overall costs of unemployment see A. Sinfield and N. Fraser, The Real Costs of Unemployment, BBC, 1985, and the chapter on unemployment in the London Labour Plan, GLC, 1986.