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# ▶ Countering Unemployment in The United Kingdom

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# ▶ **Countering unemployment in the United Kingdom**

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## ► Abbreviations

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<b>CP</b>	Community Programme
<b>ET</b>	Employment Training
<b>ITB</b>	Industrial Training Board
<b>IVET</b>	initial vocational education and training
<b>JCP</b>	Job Creation Programme
<b>MSC</b>	Manpower Services Commission
<b>NGO</b>	non-governmental organization
<b>NVQ</b>	National Vocational Qualification
<b>SEM</b>	Special Employment Measure
<b>SSC</b>	Sector Skills Council
<b>TEC</b>	Training and Enterprise Council
<b>WEP</b>	Work Experience Programme
<b>YTS</b>	Youth Training Scheme

## ▶ 1. Introduction

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This report charts the evolution of measures to combat unemployment in the United Kingdom of Great Britain and Northern Ireland over the three decades 1970–2000. Of course, a very wide range of government policies have an impact on employment and unemployment: the macro-economic policies of demand management; exchange rate management; trade policies; education policies, which affect the supply of skilled labour; decisions on the age of retirement; etc. But this report, while noting developments of this kind, will largely deal with policies that are more specifically concerned with manpower issues, coordinated in the United Kingdom, as in many other countries, by the Department of Employment or its agencies.<sup>1</sup>

The intention is to present a case study of how these manpower policies evolve and interact with each other during changes in the general economic environment – in particular in response to economic shocks. The report therefore attempts to depict a broad narrative, focusing on the thinking that caused policymakers to make the decisions that they did at the time. Though the path of the measures is presented as a broad and continuous sequence, it must be remembered that at each stage policymakers did not know whether their policies would work or what external events lay around the corner.

From time to time we will reflect, using a text box, on particular issues that remain relevant or where alternative routes were available.

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<sup>1</sup> During most of the period discussed manpower policy was uniform over England, Wales and Scotland. Northern Ireland had rather different arrangements, though they tended to follow the same path as the rest of the United Kingdom. Scotland's education system was substantially different from that of the other countries of the United Kingdom throughout the period, and during the 1990s Scotland started to develop different training and manpower measures too.

## ▶ 2. The context in the early 1970s

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The United Kingdom had experienced many economic changes since the end of the Second World War. By the 1970s, its empire had disappeared, being replaced by the trading links of the Commonwealth. A further and major trading realignment took place in 1974 as it became a member of the European Economic Community. Conscription to the armed services had ended in 1960.

However, at home, the period since the war had been one of stability, improved social conditions and increasing living standards. This was in great contrast to the high levels of unemployment and poverty that had affected many in the inter-war period.

Underpinning the social order was the “welfare state”. This was a comprehensive social insurance scheme covering pensions, health, unemployment and other types of social protection, all administered by the State.<sup>2</sup> Schooling was free, and compulsory up to the age of 15.

### 2.1. Political atmosphere

Governments since the war had rotated between the Labour Party, a democratic socialist party closely linked to the trade unions, and the Conservatives, who were wary of radical change and tended to align with the interests of private business.

Though there were clear divisions between them based on class interests, in practice the Conservatives had accepted the major post-war reforms of the welfare state and the nationalization of certain key industries (such as coal-mining and the railways). Elections were fought largely on issues of competence and which party was perceived to be the most likely to bring about improvements in living standards.

The Government was served by a permanent civil service whose members were selected through open competition and were expected to give objective advice to ministers of either party. With the development of the welfare state, public sector manpower had increased greatly. Senior civil servants were increasingly expected to undertake managerial tasks as well as advising on policy.

Local government (known as “local authorities”) were responsible for a range of services for which they received grants from the central government in addition to their own local property taxes. These services included education and housing. Local authority councillors were elected and most authorities were run by Labour or Conservative administrations. So, it was common for a national government to have to deal with many local authorities controlled by the opposing party.

### 2.2. Unemployment benefits

Unemployment insurance had been introduced on a national basis as early as 1911, though only in a limited way. The comprehensive system established in 1946 involved compulsory payments from wages by employees and the self-employed, complemented by contributions from employers. This “national insurance” scheme went far wider than unemployment, covering health and old-age pensions. Though

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<sup>2</sup> Individuals could supplement their basic entitlement to pensions with personal savings, and some opted for private medical insurance or non-state schooling.



there was, and still is, a national insurance fund into which these payments are credited, there is no attempt to balance payments with outgoings – if outgoings exceed income in any year, the Treasury<sup>3</sup> makes up the difference; if there is a surplus, the fund loans this to the Government. In effect, therefore, the contributions are a tax, and the benefits paid are similar to any other expenditure by government.

However, an individual's record in making continuous contributions through their career can affect the levels of benefit they receive when unemployed or retired. As a "safety net", a basic level of social security payments is available to unemployed people, regardless of their record of contributions (or after the time limit for their entitlement to unemployment benefits has expired). This element is "means tested" – the level of these supplementary payments depends on household circumstances and is reduced if a person has more than a minimal level of savings.

In the 1960s a national entitlement to redundancy payments was introduced (with compensation linked to previous wages and length of service). This, it was thought, would enable skilled workers to take time to hunt for suitable jobs rather than needing to take the first positions that became available.

### ▶ Box 1.

## ▶ Funding of unemployment insurance

The United Kingdom's benefits and social insurance system is more integrated with central government tax and expenditure than is the case in many other countries. Contributions do not go into a fund that is invested and devoted to future benefits, but rather the system is operated on a "pay as you go" basis with one year's contributions paying for the same year's benefits – necessary adjustments in any year to fund shortfalls or recoup surpluses are made by the Treasury.

From the Government's point of view, therefore, the system is reasonably flexible. It can alter contributions and benefits independently of each other. Over the years the tendency has been to reduce the amount and duration of unemployment benefits, with the result that unemployed people have become more dependent on the means-tested safety net, which is better targeted towards family need.

The fact that much assistance to the unemployed comes from general taxation rather than a dedicated fund means that the contributions from employees and employers can be kept fairly low – minimizing a disincentive to hire or to work. On the other hand, the system makes it appear that unemployed individuals are dependent on the State, rather than having a personal entitlement to funds that have been invested on their behalf.

Unemployment benefits were paid through a network of Labour Exchanges situated in all sizeable towns. These offices had been established in 1909 to match workers looking for employment with employers' vacancies. To be eligible to receive unemployment benefits a person had to be registered at a Labour

<sup>3</sup> The United Kingdom's finance ministry, also responsible for general management of the economy.

Exchange and to be available for work. Staff had a triple role – paying the right level of benefits, counselling the unemployed about suitable jobs, and seeking vacancies from employers.

The Labour Exchanges included certain specialized services, including for disabled people and those leaving the armed services. In some areas there were dedicated sections offering guidance and placement for school leavers; though in other places this function was performed by local authorities who were responsible for education.

### 2.3. The economy and the labour market

Keynesian economic management – adjusting government expenditures to counter natural business cycles – was widely believed to have made mass unemployment a thing of the past, and indeed the rate of joblessness had remained very low by historical standards since the war.

**Figure 1.**

#### Unemployment rate (%), 1961–71



Source: Bank of England n.d.

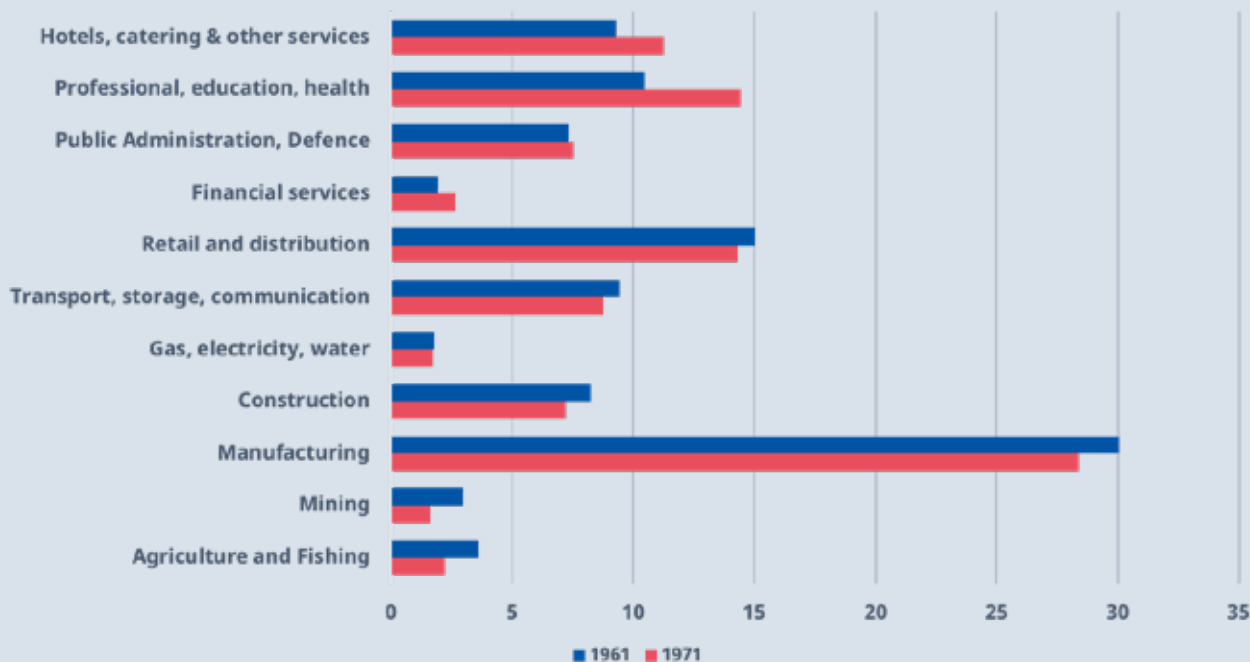
There were, nevertheless, concerns about the economy. Though unemployment was consistently low (figure 1), the United Kingdom's productivity was falling behind other advanced economies, and its main industries (such as coal, shipbuilding, textiles, metal goods and engineering) found it difficult to compete against countries with lower wage costs and/or higher productivity. Levels of investment were low and management was viewed as unimaginative.

Governments through the 1960s, therefore, had increasingly focused on improving productivity. There had been an attempt at national industrial planning through the involvement of employers' associations and trade unions in tripartite discussions to coordinate policies, encourage investment in technology and place a greater emphasis on skills training.

However, the effect of such policies was modest, and the first devaluation of Sterling since the 1940s seemed to demonstrate that the country was falling behind as the "sick man of Europe". Inflation, too, was an increasing worry and it became clear that further Keynesian measures would cause living standards to erode through price rises. Modernization of the economy was widely seen as necessary.

**Figure 2.**

**% employment by industry sector, 1961 and 1971**



Source: Bank of England n.d.

Industrial change had been taking place, though at a fairly slow pace. There had been a decline in manufacturing, though this sector still accounted for over a quarter of all employment. Jobs in mining, concentrated in certain areas, had nearly halved over a decade. Agriculture continued its long decline since the nineteenth century. On the other hand, new jobs had been created, particularly in the public health and education services and in leisure industries (figure 2). The economy was evidently moving from one that depended on manual labour towards one that was service-orientated, in which knowledge and personal skills were more important.

In line with this changing economy, there was a steady trend for women to join the labour market, often on a part-time basis, though their pay and access to certain types of jobs was frequently poorer than for men. Around 8 per cent of the workforce was self-employed.

The decline in jobs in “traditional” industries, together with the pressure on pay and standards of living, gave rise to problems of industrial relations, with regular strikes in unionized sectors such as mining, the ports and the car industry. Trade unions often resisted the modernization of industries, fearing a reduction in jobs.

## 2.4. Education and skills

Most young people left school at 15 to go into manual jobs, with a minority – selected at the age of 11 – attending schools that led to upper secondary level and thereafter to professional technical and administrative jobs. Comprehensive schools, which catered for students of all abilities had become increasingly popular during the 1960s, but the country lacked any tradition of full-time vocational education at the upper secondary level.

Though numbers going to higher education had doubled following the establishment of a number of new universities in the 1960s, still only around 10 per cent of young people progressed to higher education in 1970.

Skills training was largely carried out by enterprises. In the traditional industries, the dominant mode of training was apprenticeship, typically for boys straight from school. The apprenticeship system was of long standing but applied mainly to skilled manual crafts, and was not prevalent in the new service occupations or much taken up by girls. Apprenticeships lasted typically four to seven years and often consisted only of on-the-job training without formal tests – a skilled craftsman was referred to as “time-served”.

Efforts had been made since the war to introduce continuing education and off-the-job training into apprenticeships using a network of further education colleges, but these features were far from universal.



### ▶ 3. Modernization of employment and training services

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The mood among policymakers in the early 1970s, therefore, was that the economy and the labour market were undynamic and that productivity needed to be considerably improved; indeed, the Ministry of Labour had been retitled the Department of Employment and Productivity in the late 1960s. There was also a view that trade unions were resistant to change and that manpower needed to be released from declining sectors to move to expanding ones.

Part of the solution to these problems was to increase the flexibility of the workforce, with smoother transitions from job to job and easier access to retraining, as well as more emphasis on transferable skills during apprenticeship.

A major programme was launched to modernize the public employment and training services. In doing so the Conservative Government of the day made use of a new philosophy in the management of public services – the formation of semi-independent agencies to conduct public services. The idea was that major services that were not politically sensitive should be managed in a business-like way and not be dependent on ministerial decisions for their day-to-day operations. The network of Labour Exchanges and the Government's skills training programmes were thought to be ideal candidates for this new approach.

Accordingly, two agencies were established in 1974, one to modernize the Exchanges, and the other to expand training for adults and improve apprenticeships. They were each managed by a chief executive drawn from the civil service, and placed under the direction of a new body, wholly funded by the Government. This Manpower Services Commission (MSC) consisted of three members nominated by employers and three nominated by trade unions, plus representatives from local government and education under an independent chairman.

#### ▶ Box 2.

### ▶ Agencies and tripartite governance

---

Many countries have used the concept of government agencies to manage significant services, including those concerned with manpower. The idea is that services to the public should be given clear directions and delivered in a non-political manner by professional managers with set budgets and clear objectives. Politicians should confine themselves to agreeing the budgets and the associated numerical targets. Chief executives of these agencies should be accountable for delivery within budgets, answering to ministers.

This type of arrangement is intended to encourage business-like, focused delivery, with the set budgets and targets for achievement taking the place of profit and loss accounts. A further step is to place such agencies under the direction of an appointed board that represents the stakeholders the services are expected to satisfy. In the case of manpower services, the obvious stakeholder candidates are employers and trade unions. Frequently governments form tripartite (business, unions, government) consultative forums, and it seems natural to go further and give them responsibility for directing the services that they use.

There are, of course, problems in this approach. The pursuit of numerical targets can mean that important qualitative issues are not attended to, leading to high volume, but low quality, services. Separation from politics may not be realistically achievable when politicians appoint board members, set the budgets and agree on the targets. In any case, ministers may feel they need to intervene when there is public dissatisfaction with services run by independent boards, or when there is a serious policy disagreement between agencies and the government. As we shall see, this happened in the case of the MSC.

### 3.1. From Labour Exchanges to Jobcentres

The Labour Exchanges dealt mainly with the unemployed. They were drab buildings, usually in side streets, where people queued for their benefits. Staff sat behind screens and had a drawer with details of vacancies from employers that they would sort through in order to find something that might be suitable for a client. Employers who wanted good quality applicants were often reluctant to notify vacancies to the exchanges, but would advertise or use private agencies instead.

The programme of modernization set out to attract job-changers who were already employed. The idea was that employers would then use the offices in the knowledge that attractive applicants would see their vacancies. A coordinated effort over a number of years was undertaken to:

- ▶ physically split the offices paying benefits from those concerned with matching jobseekers and employers;
- ▶ locate these new Jobcentres in high streets with attractive décor and furnishings;
- ▶ place all job vacancies open to view on “self-service” boards, reserving staff for individual counselling;
- ▶ actively market the service to employers as a free service;
- ▶ set local managers’ targets for attracting vacancies and placing jobseekers in employment; and
- ▶ upgrade the staff who dealt with clients, making salaries more attractive and increasing staff training.

So, the new MSC was charged with delivering a modernized front-line service, focused on customer needs and separated from the bureaucratic business of taking and paying claims for benefits (the benefits offices remained in the Department of Employment).

As well as attracting employers’ vacancies, these measures were intended to make unemployed clients feel they were valued customers rather than to be ashamed of their situation. Importantly, they were intended to increase the speed that workers could move from one job to another, reducing unproductive labour shortages and frictional unemployment.

At the same time the counselling services for young people were moved entirely to local authority Careers Services. This enabled closer links with schools. Careers Officers now had a year’s professional training and could visit schools to give early advice to young people.

These changes did have a positive effect. More employed jobseekers used the service and more employers did too. The service was further enhanced by the introduction of assistance for jobseekers to take up jobs in distant parts of the country. Staff were pleased with the attractive premises and their new advisory roles. But while the faster filling of vacancies in principle reduced unemployment and increased the economy's productive potential, these benefits only occurred when the economy was running at or near full capacity. In the more difficult circumstances that were to come, smarter premises and more expensive staff would seem a questionable priority.

## 3.2. Improving apprenticeship

Apprenticeship had been a long-standing labour market institution, stemming from craft guilds in the medieval period and having adapted to industrial conditions in the nineteenth century. The State had little power of regulation over it, but by the 1960s there was concern that apprenticeships were too restrictive. The criticisms were that:

- ▶ Apprenticeships were rare in the service industries and applied mainly to young men. Their industrial coverage had not kept pace with the changing economy.
- ▶ They were too long and relied mainly on informal on-the-job training, which placed too little emphasis on knowledge.
- ▶ Employers were reluctant to offer enough apprenticeships. Wages of apprentices were bid up by trade unions (who wanted to restrict the supply of skilled labour). Employers also worried that their apprentices, once fully trained would be "poached" by other employers who did not undertake training.

For these reasons the Government enacted a large reform of apprenticeships in the mid-1960s. It created Industrial Training Boards (ITBs) for many of the manual industries and some service ones, such as retail and catering. The ITBs were made up from representatives of employers and unions, and had the power to specify apprenticeship standards in their sectors (including off-the-job training) and to impose a levy (tax) on every employer above a certain size. These levies were used to give grants to those employers who undertook training to the set standards.

### ▶ Box 3.

#### ▶ Levy/grant schemes

---

Many countries have introduced levy/grant schemes; though many, too, have abandoned them. Levy/grant schemes are designed to address a deficiency in the labour market for training, which arises because firms that undertake training are vulnerable to poaching of their skilled workers by firms that do not train, and which can therefore offer higher wages. Under a levy/grant system all employers in a sector (or perhaps even the whole economy) pay into a fund from which grants are paid to those firms that undertake authorized training. This alters the cost-benefit equation for an employer, encouraging them to train.

The problems with this approach include the definition of sectors that have similar training costs (should a shipbuilding firm, for example, pay the same rate of levy as an aircraft manufacturer), and the bureaucratic costs of raising the levy and paying out grants to firms for eligible training. If firms conduct adequate training themselves, they need to pay the levy and claim grants to get “their” money back, incurring administrative costs without any clear benefit to training, either for themselves or within their industry.

Alternatives to levy/grant schemes in tackling the poaching problem include: grants for training from general taxation; requiring trainees to work with the firm that trained them for a period after training; and offering lower wages to trainees. All of these lessen costs for a firm that does not undertake training. In practice, many skills are not easily transferable and many firms prefer to train their workers to their own requirements rather to rely on hiring skilled workers from the external market.

In parallel, the government encouraged part-time technical and business courses in further education colleges that could be accessed by apprentices, typically on one day each week. As well as covering knowledge relevant to their occupations, apprentices could continue their general education at these colleges. In time, it was hoped, talented apprentices would climb the occupational ladder to become technicians and managers, through a series of increasingly advanced courses.

Many ITBs also established Group Training Associations that provided recruitment and off-the-job training services to smaller employers that could not easily manage apprenticeships on their own.

### 3.3. Adult re-training

If workers were to move to new sectors, they would need to re-train. Adult training had been seen largely as the responsibility of firms, though a small network of government training centres had been established during the war to provide skills for wartime production and to aid resettlement of service personnel (Leonard 1999).

However, by the early 1970s Governments came to believe that industry would not meet training needs adequately, and that intervention was needed, particularly to help workers to train in new economic sectors. So, in addition to the reforms to apprenticeships, the Government greatly expanded the training opportunities available to adults.

The Training Opportunities Scheme (TOPS) offered a wide range of courses, usually of 6–12 months’ duration, to workers who were prepared to give up their existing occupation and train for a new one. Trainees were given an allowance during their training as well as having their fees met.



As the government training centres could not cope with the volumes, and were largely restricted to manual trades, the MSC commissioned courses directly from the further education colleges run by local authorities. This was an early example of “contracting out”, whereby labour market services were specified and paid for by the Central Government but delivered by others. The MSC reviewed courses regularly in the light of demand from candidates, and the extent to which graduates achieved relevant jobs was monitored. Courses could be withdrawn as well as commissioned. This gave rise to some tensions, as colleges were used to deciding for themselves what courses they should run.

#### ▶ **Box 4.**

### ▶ **Contracting out**

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Should public services be directly provided by public agencies? In the case of labour market services, the United Kingdom moved away from direct provision in the 1970s.

There are advantages in using a wide range of other bodies – those of local government, non-governmental organizations (NGOs) and the private sector:

- ▶ The ability to scale up services fast, and to scale them down when not needed. The facilities of other organizations already exist, and contracting out to them enables government to act much faster than if it had to build new facilities and hire staff itself.
- ▶ Services can be purchased at marginal cost. Spare capacity of existing organizations can be utilized at low cost.
- ▶ The networks and reputation of existing organizations can be used to add credibility to the government programme.

Contracts were the preferred way of securing services. It would have been possible to oblige local authorities to provide these services by law, but that would have taken time and would be difficult to adjust to changing circumstances.

But there are disadvantages to the contracting-out approach:

- ▶ It is sometimes difficult to specify exactly what services are to be provided, particularly in terms of quality. Services provided directly by government staff can be adjusted easily through management action, but a body that has a contract can insist that changes can only be made when the contract is renewed.
- ▶ There are costs in drawing up and monitoring contracts. In the case of services to members of the public, such as training, it can be difficult for the commissioning body to know how the clients are actually being treated.

Organizations providing services can resent the controls imposed by contracts and complain loudly if contracts are terminated. If they are influential, then this can cause political problems.

## ► 4. The shocks of the 1970s

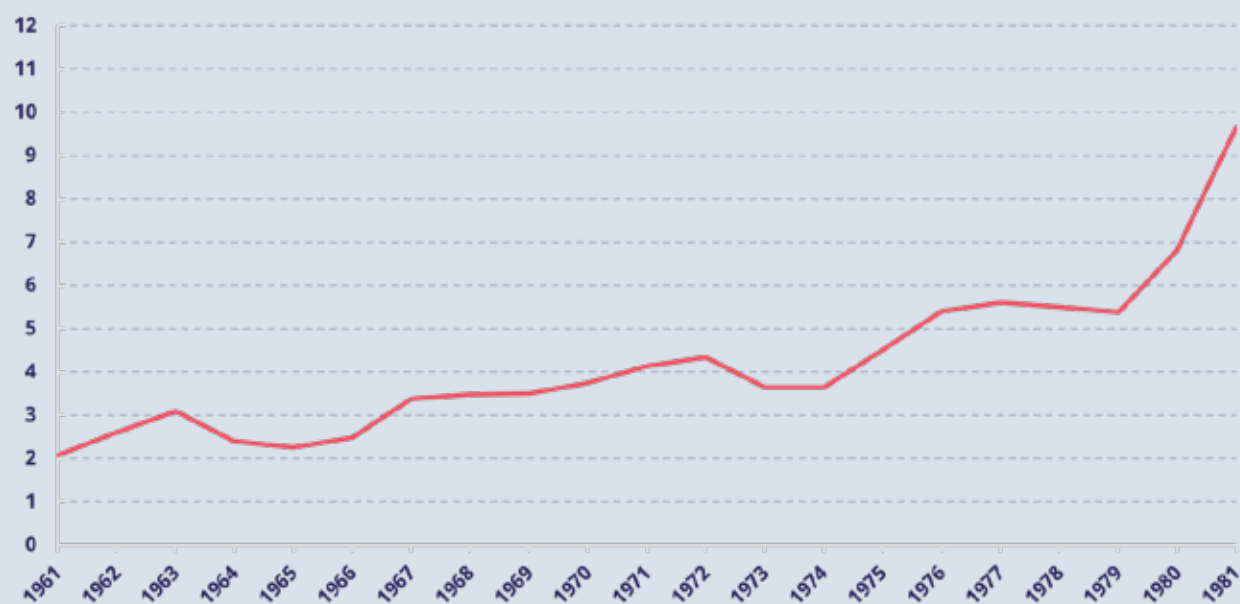
The United Kingdom now felt it had modernized its employment and training services, which could aid industry to adapt more smoothly to changing circumstances. It had also instituted a new structure that brought employers and unions together to manage the services that they both valued.

However, no sooner had the MSC been formed than the first of many economic shocks occurred with the oil crisis of 1973. A recession followed, accompanied by very high inflation (reaching nearly 30 per cent per annum). Deteriorating public finances meant that Keynesian measures to increase government spending to offset falling private sector demand were no longer an option.<sup>4</sup> Indeed, the terms of a loan that the Government had to seek from the International Monetary Fund in 1976 meant that services needed to be cut.

Unemployment rose steeply during the period, to levels not seen since the 1930s (figure 3).

**Figure 3.**

### Unemployment rate (%), 1961–81



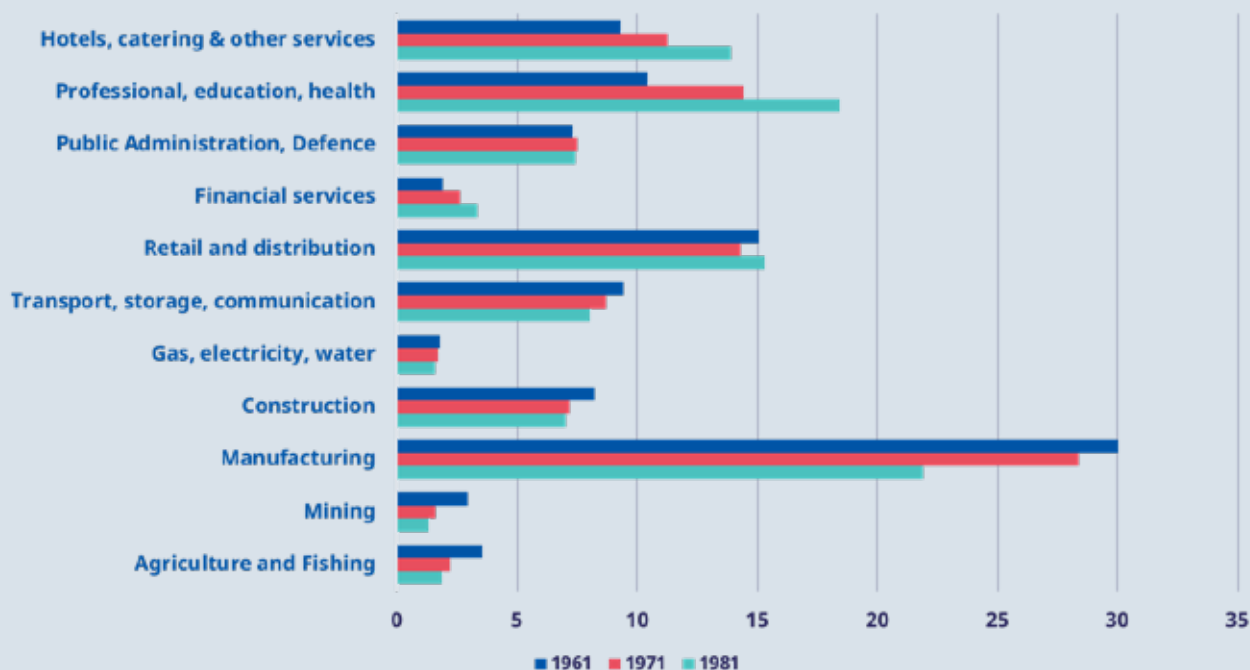
Source: Bank of England n.d.

<sup>4</sup> Prime Minister Callaghan told his party conference in 1976: "We used to think that you could spend your way out of a recession. ... I tell you in all candour that that option no longer exists."

At the same time, industrial change accelerated. Manufacturing declined rapidly to account for less than a quarter of employment (figure 4). Competition from abroad was affecting textiles, steel and now also the newer post-war industry of motor manufacture.

**Figure 4.**

**% employment by industry sector, 1961, 1971 and 1981**



Source: Bank of England n.d.

As well as the north of the country, the midlands – home of the motor industry – began to experience high unemployment. Additional and complex problems began to arise in the heart of the major cities, where not only had old industries declined, but issues of poor housing, discrimination against immigrants and race relations began to surface.

### 4.1. Protection of jobs

Because of the problems with the public finances, the Labour Government of this time found that its options were limited. Its instincts were to do what it could to protect jobs and to delay redundancies in the hope that the recession would pass and that normality would be resumed.

Though clearly the scope to subsidize industry was limited, the Government did use its influence over the nationalized industries to prevent redundancies. When the major British car maker British Leyland found itself in financial difficulties in 1975, it was nationalized to prevent massive job losses and to preserve capacity in this key sector. However, there were limits to this kind of intervention – aside from the financial costs, it was hard for the Government to explain why it would help certain enterprises but not others. There were plenty of delegations from employers, unions and local communities arguing for the Government to rescue particular firms.

► **Box 5.**

## ► **Wage subsidies and protecting jobs**

Short-term disruptions in an industrial sector cause firms to have immediate cash-flow problems. While some may be able to borrow money or use their reserves to keep production going in anticipation of a recovery in sales, others will have little option but to lay workers off. At a certain point, employers need to shed workers. This point will vary depending on the financial health of the enterprise, and on its confidence (and the confidence of its lenders) that recovery will take place. Wage subsidies from public funds can extend this period.

At the national level, the economic case for subsidies is that redundancies will increase the number who need to be supported by benefits, and moreover that their lack of spending power, together with reduced production from the enterprise's suppliers, will further increase unemployment in a "multiplier" effect. Studies of major redundancies have quantified the multiplier effects and the total cost to public funds, though these estimates vary widely.

There are obvious political advantages too. Governments can take credit for "saving" jobs in a highly visible way through direct intervention.

However, if business downturns persist, both the economic and political cases become much more problematic. Support for individual companies will cause other firms to complain that their competitors are receiving an unfair advantage. International trade agreements often contain clauses limiting government subsidies. More broadly, "freezing" workers inside declining firms or sectors will discourage them from moving to expanding enterprises that are more productive, thus reducing economic growth and wages in the long term.

Politically, it becomes difficult to deny claims from enterprises who argue they are in a similar position. And even though subsidy support may be time-limited, it will often prove very hard to end it – is the Government really going to "waste" all that money when (it is claimed) that just a few more months will enable the firm to turn the corner?

In short, the case for subsidies depends very much on how long a downturn is expected to last – which it is very hard to predict at the time.

The Temporary Employment Subsidy was a more general scheme to defer job losses for up to 18 months, paying employers around a quarter of their wage bill for each employee threatened with redundancy. At its peak, the subsidy supported 150,000 jobs. A further scheme to protect jobs gave employers grants if they placed workers on short-time work rather than declaring them redundant. The idea of both schemes was to keep workers in their jobs in the hope that their firms would recover and be able to continue their regular employment in the near future.

## 4.2. Supporting apprenticeships

The events of the 1970s added greatly to the pressures on the already limited apprenticeship system. As is normally the case in any recession, employers first cut back on recruitment, and this greatly affects the opportunities open to young people, including, of course, apprenticeships. In addition, it was the traditional manual industries, where apprenticeships were most common, that were worst affected by the recession of the 1970s. So, it was not surprising that the numbers of apprentices started to decline very significantly.

At first, efforts were made to support apprenticeships. Emergency schemes were introduced whereby apprentices threatened with the termination of their training period could be found alternative placements where they could finalize their training. Their new employers were offered financial aid. Another strand of support was financial aid for the Industry Training Boards (ITBs) to take apprentices directly into their training workshops – that way the apprentices could start training and look for an employer to adopt them when times were better.

But it rapidly became clear that the apprenticeship system as a whole was crumbling. In engineering – one of the main apprenticeship sectors – numbers declined by three quarters in the decade from 1975 (Haxby and Parkes 1989). Policymakers, who had for some time considered apprenticeships to be inadequate, saw the decline not so much as a problem to be solved as an opportunity to introduce improved arrangements for the entry of young people to the labour market. In any case, it was now apparent that the difficulties that young people were having in obtaining apprenticeships were overshadowed by the more general problem of whether they could get a first job at all.

## 4.3. Creating opportunities for young people

As employment opportunities for young people dried up, there was concern that school leavers would be denied their crucial first experiences in the labour market, where even if they did not receive formal training, they would learn basic work disciplines, gain necessary personal skills and grow confidence in their own abilities. Moreover, there were worries that unemployed teenagers would turn to crime and anti-social behaviour. The decaying inner cities were particularly vulnerable to social disorder.

In these circumstances it was natural that the Government would turn to the newly created MSC. Employers and unions together might be able to come up with solutions that would be acceptable to industry, and the MSC's network of Jobcentres, together with its expertise in training, meant that it could take action at the local level.

So, in the mid-1970s the MSC began some highly novel and experimental programmes, first on a small scale, and then rapidly expanding them under pressure from the Government.

The MSC's training division developed a number of short courses that were designed not so much to impart specific occupational skills, but rather to help individuals to decide, realistically, what occupation they might best enter, and to undertake work preparation and basic work skills.

A more direct intervention came with the Job Creation Programme (JCP). For the first time since the 1930s the Government – through the MSC – purposively created temporary jobs for unemployed people. The programme was modelled on practice in Sweden. It invited applications for useful projects from local authorities and NGOs. Employers could also become sponsors, but since one of the criteria was that the work involved should be non-commercial, there was limited scope for them to do so.

The JCP was targeted at young people and also at those over 50 who were in danger of falling out of the labour market entirely. While the work involved was meant to be socially useful, it sometimes seemed fairly pointless – a newspaper exposé at the time mocked one project that involved clearing seaweed from a remote beach. Still, valuable lessons were learned about how to organize schemes of this kind.

Area Boards were set up by the MSC to give opinions on the projects. These boards were constituted, like the MSC nationally, of employers, unions and local authority representatives.

JCP participants were paid the “rate for the job” – usually the pay for unskilled manual workers in local authorities. Projects could claim for the costs of supervision and a limited allowance for materials. The programme was progressively expanded, with some 200,000 people taking part over three years (Edwards 1985).

The absence of employers in the JCP meant that it was unlikely that participants would get a regular job directly as a consequence of their participation. This was addressed in a new initiative which followed shortly. The Work Experience Programme (WEP) was a simple scheme under which unemployed young people were placed with employers for a period of six months in order to familiarize themselves with the world of work. There was no obligation for employers to offer formal training, though they had to be vetted from the point of view of health and safety, and were not eligible for the programme if they had recently declared redundancies. Young people in the WEP were paid a basic allowance, somewhat above what they would receive on benefits.

Unlike the JCP, WEP participants were exposed to employers and to work colleagues who were in regular employment. Many employers used the WEP as a job trial, and it was common for young people to be offered a regular job at the end of their six months – employers and co-workers had got to know them, and if they were considered suitable it was natural for them to be taken on when a vacancy arose.

The WEP was cheap for the Government, too. Unlike the JCP, there was no need to pay for materials, supervision or the administration of projects. These were provided by employers in the normal course of their business. However, there was criticism that participants were not receiving either the proper wage or any structured training. There were also worries that firms were using the scheme to get free workers that they would have hired anyway, or to substitute for older workers.

#### **4.4. Consolidation of the schemes**

So within a few years of coming into existence, the MSC had assembled a range of instruments for intervening in the failing youth labour market – specially created project work, a range of preparatory training schemes, and work experience with employers. It had also developed relationships with a number

of different actors that could help it with delivery – colleges, ITBs, careers services, local authorities, local employers and NGOs. The question now was whether it could fashion these various components into a unified and coherent instrument to provide a better permanent route into the world of work for young people.

The MSC started to prepare the ground by convincing politicians and the public that the problems with the youth labour market were not just temporary, but longer-term and structural. Unemployment among school leavers had increased more than tenfold between 1973 and 1977, and it was increasingly apparent that this was not a problem that was going to disappear when the economy improved. The climate was right to persuade politicians that something more than emergency measures was needed.

In a major report (Holland 1977) the MSC argued that youth unemployment was now a permanent structural problem. It proposed a comprehensive set of provisions for unemployed school leavers, including short orientation and training courses, community work, specially established training workshops and work experience with employers. All participants would receive the same allowance, and there was to be a guarantee that every school leaver who did not get a job would receive an offer of one of these places. Careers services would advise young people and arrange entrance to the selected options. This more comprehensive offer was launched in 1978 as the Youth Opportunities Programme.

#### ▶ Box 6.

### ▶ Never waste a good crisis – policy entrepreneurship

Sometimes crises can be used to accelerate change that is desirable, but that has been blocked through lack of interest or the hostility of certain stakeholders. To achieve this there need to be solutions that satisfy the different motivations of important stakeholders – and the entrepreneurial drive to market the solution in different ways to different audiences. The case of the MSC in the 1970s is an example.

The different agendas were roughly as follows:

- ▶ A group of senior officials had long before reached the view that the country's system of vocational training for young people was old-fashioned, inflexible and limited in scope. They were supported by a number of large, progressive employers, but had not been able to gather much interest from politicians, and had encountered resistance from trade unions, which were suspicious of changes to the existing apprenticeship system.
- ▶ Politicians were not particularly excited by day-to-day training or employment services (which is why they had transferred them to the MSC), but were very concerned by rising unemployment. They were not able to reflate the economy because of high inflation and International Monetary Fund limits on government borrowing, but were attracted to any measures that promised an immediate impact on unemployment.

- ▶ Trade unions (which were very influential with the Labour Government) were alarmed by the collapse of the old apprenticeship system and wanted to be closely involved in the development of alternatives. Though suspicious of employers' motivations in reducing training times and being asked to recruit young people at no cost, the trade unions valued their role in the new MSC and were very conscious that their members were worried about their own jobs and – particularly – about the reducing opportunities for their sons and daughters.

What the senior officials were able to do was to move towards the kind of comprehensive entry routes for all young people that they envisaged while selling the package to politicians as a means of reducing youth unemployment. They were not opposed by trade unions because these were involved in the policy process and saw how they could moderate the changes to apprenticeships.

The unblocking of resistance to change was made possible by the crisis. But it did not mean that tensions disappeared. Politicians were less interested in pursuing long-term change once the crisis moderated, and trade unions had certain issues on which they would not shift – as we shall later see.

In putting this plan into place, the MSC established a Special Programme Division, with offices in each major centre, alongside its Jobcentres and training division.

The emphasis was on programmes for young people. They had been particularly hard hit by the recession, and the idea of reforming the system by which they accessed the labour market had been around for some time. But increasingly, as unemployment persisted, the problem of long-term unemployment among adults became a matter of concern. So as the JCP no longer needed to cater for young people it became focused on long-term unemployed adults, though at first only on a small scale.

## 4.5. Adjusting to Thatcher

In 1979 a new Government came to power. Prime Minister Margaret Thatcher had a very different approach from the former Labour administration, and indeed from earlier Conservative Governments. The broad post-war consensus of the welfare state, Keynesian economics, the government's role in industrial policy and the belief in tripartite institutions had ended.

The Thatcher Government had a vigorous and radical economic agenda. It believed in free markets and open competition. No longer would industry be subsidized or nationalized. The exchange rate would be left to float: if that meant that it would rise (due to the new flows of oil from the North Sea) causing British industry to become less competitive, then this was precisely the spur to increased productivity that the economy had long needed. The public sector was part of the problem, not part of the solution, and should be cut back. Business would be freed from regulation and able to compete both at home and abroad. Trade unions had become too powerful and should be restricted. Large firms had become too reliant on the State and were blocking smaller entrepreneurial businesses who would serve markets better. The population in general had low expectations, had become dependent on state hand-outs and protections, but were ready to become more self-sufficient and enterprising.



The Thatcher Government believed the economy needed a good shake-out. This would probably mean a period of high unemployment before it adapted to a new equilibrium, but that would be “a price worth paying”.

At first the prospects for the MSC and its new programmes looked bleak. The MSC itself looked exactly like the kind of “Quango”<sup>5</sup> that the Conservatives had pledged to abolish: an example of the comfortable consensus-seeking corporate State, non accountable, inclined to expand its empire, run by bureaucrats and influenced by trade unions. The MSC’s programmes sought to intervene in markets and involved substantial public expenditure.

On the other hand, from the point of view of the new Government the MSC had some attractions:

- ▶ The new Conservatives believed in “supply-side” economics. They considered that economic problems were due to inefficiencies in physical and human capital rather than deficiencies in demand. The MSC’s agenda of improving skills fitted into this view of the world.
- ▶ The Government was not sympathetic to the existing education establishment. It thought that schools were inefficient, with low expectations of pupils, and that they were contemptuous of the idea that they should prepare young people for work. The MSC offered new approaches to vocational preparation.
- ▶ Even though the MSC’s structure might seem consensual and bureaucratic, it had developed a culture of entrepreneurship with a willingness to experiment with new approaches and to take risks, quite unlike the more traditional government departments.
- ▶ The MSC had a presence in all areas of the country. Getting action on the ground would otherwise mean working through local authorities, which were often under the control of different political parties. Making local authorities take action required difficult negotiations or cumbersome legislation rather than – as was the case with the MSC – a chat with the Minister and a brief letter of confirmation.

So after an initial period of suspicion, the new Government began to warm towards the MSC, particularly after it had placed one of its supporters in the position of its chairman.

Quite soon, therefore, the MSC felt strong enough to start pushing ideas up to ministers and exploring just what kinds of initiative they would be attracted to.

Even though the new Government had decided that the MSC should continue to exist, it was far less favourable to the tripartite Industry Training Boards. These had not been able to halt a decline in apprenticeship, and the levy/grant arrangement was unpopular with most employers. The Government therefore invited a consultation with employers in each sector on the question of whether they wished to continue with an ITB set up by law. In every sector, with the exception of the construction industry, the employers opted for abolition. It was now plain that if apprenticeships were to be supported financially, they would need funding from Central Government rather than from their industries.

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<sup>3</sup> Quasi-autonomous non-governmental organizations.

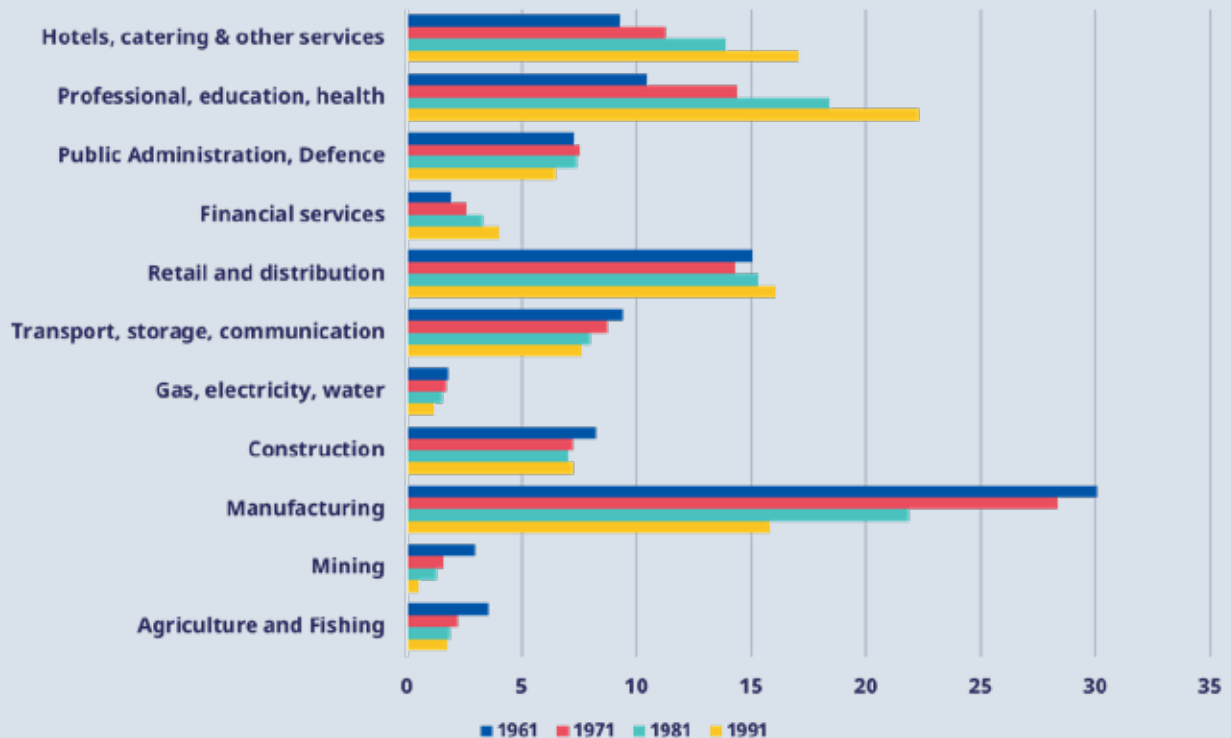
## ► 5. Special Employment Measures in the 1980s

The policies of the new Conservative administration were bound to lead to high unemployment. That, in its view, was a necessary consequence of shaking out inflation, of clearing out uncompetitive firms and labour practices, and of reducing the dependence of the economy on state activities whether in the form of bloated public services or of pampered nationalized industries. For the first time since the war, the United Kingdom had a government that was not publicly committed to attaining full employment. In addition, the advent of North Sea oil had the effect of driving up the value of Sterling, thereby increasing the pressure on British firms against their foreign competitors.

Though it might have taken longer than it had envisaged, the Government's economic strategy was in some respects successful. Inflation reduced and industrial change – uncomfortable for many – proceeded.

**Figure 5.**

### % employment by industry sector, 1961, 1971, 1981 and 1991



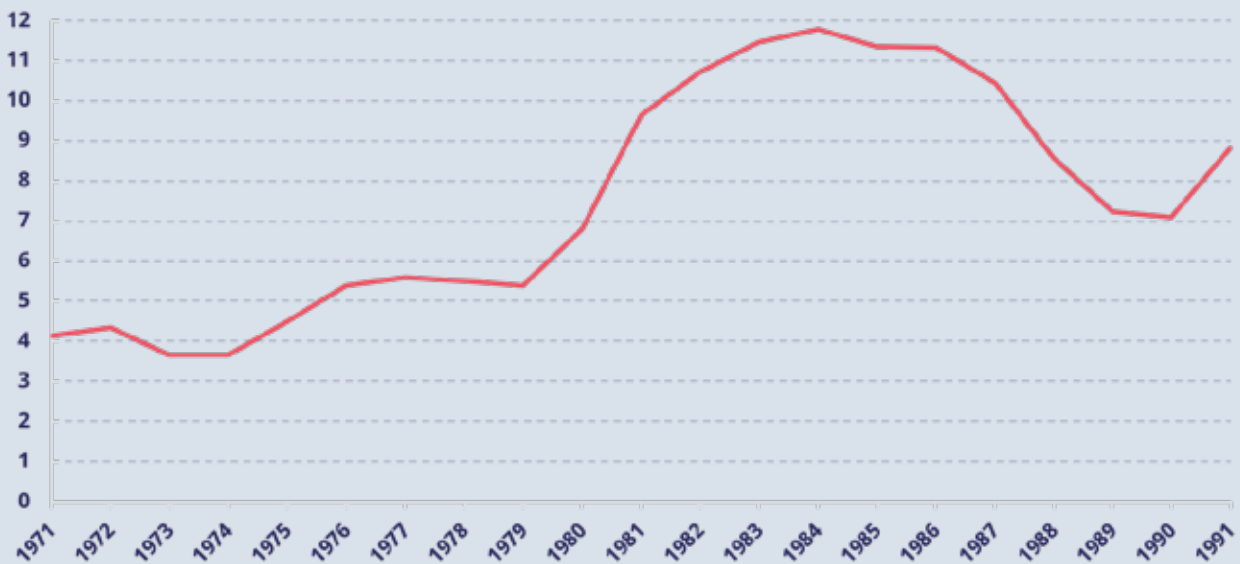
Source: Bank of England n.d.

By the end of the 1980s manufacturing industry in Britain had reduced nearly by half since the 1960s and mining had practically disappeared. The service sectors, on the other hand, had nearly doubled, with sharp rises in leisure and in knowledge sectors such as health, education and finance (figure 5). This period also saw a rise in self employment, which increased by 75 per cent over the 1980s.

But the size of the increase in unemployment, and its persistence, may have surprised a number of ministers.

**Figure 6.**

**Unemployment rate (%), 1971–91**



Source: Bank of England n.d.

As can be seen in figure 6, unemployment rose very fast in the period 1979–83, and stayed high for a further five years. Even in 1988, when it paused before a further rise in the early 1990s, unemployment was two to three times higher than its level in the 1960s.

Within these large totals there were particularly worrying features. In 1981 a series of riots broke out in inner cities, notably south London and Liverpool, where they were associated with racial tensions and general deprivation. It was plain that lack of job opportunities, which was particularly acute for ethnic minority young people, had played a large part in stoking discontent.

More generally, unemployment was affecting the North of the United Kingdom where the older industries were; while the newer financial and leisure services expanded in the South. Tensions in the industrial areas were heightened by a long bitter strike by miners who were resisting pit closures.

As in the 1970s, youth unemployment, though to some extent masked by the Youth Opportunities Programme, was a constant feature.

As high levels of unemployment persisted, it was inevitable that more and more people became long-term unemployed. By the middle of 1982 the numbers unemployed for over a year passed the 1 million mark (Department of Employment 1984). The United Kingdom had not seen anything like this since the slump of the 1930s. Three years later, over 40 per cent of those out of work had been unemployed for a year or more. In some industrial areas of the North there was a widespread feeling that jobs would never return and that many people would never work again.

The Government was confident that its macro-economic policies would work, and it recognized that these would cause a temporary rise in unemployment. At the same time, it recognized that it was paying a political price in failing to address increasing deprivation and hopelessness. Criticisms were coming not only from opposition parties and the media, but also from some of its own parliamentary supporters, party members and the churches. The new Government was therefore increasingly receptive to the idea of measures which would alleviate the worst effects of unemployment and demonstrate that it was “doing something”.

## 5.1. The political and economic case

The Special Employment Measures (SEMs) that had been undertaken in the 1970s to combat unemployment, such as the Job Creation Programme and the various forms of work experience for young people, had been crude, experimental and initially on a small scale. But they had clear political attractions:

- ▶ They promised immediate and visible effects as a direct result of political decisions. The unemployed people could be seen, counted and interviewed by the media.
- ▶ The SEMs were visible locally. They provided excellent opportunities for opening ceremonies for national and local politicians. Precise figures were kept of the numbers helped in each area. These were useful in responding to criticisms that the Government was not doing enough to help that town or district.
- ▶ SEMs involved a wide range of actors to deliver the schemes – employers, local authorities, NGOs, arts venues, etc. Even if they did not support the Government, these organizations could be relied upon to give positive publicity to their own involvement, and so indirectly to the Government.

Moreover, as the years went past, there was always scope to improve the SEMs. Revised schemes had new, dynamic-sounding titles and provided a good opportunity for launch events and TV promotions.

There were also arguments from the more strictly economic perspective. These were about preventing “scarring” – the damage done to individuals’ employability, productivity, future earnings (and therefore future tax payments) by periods of unemployment. This scarring effect could be particularly severe in two circumstances:

- ▶ young people who miss out of the early work habituation and initial training that comes with their first jobs do not easily make this good later in their careers;
- ▶ for adults, long-term unemployment leads to deterioration of skills, loss of work disciplines, demoralization and, in many cases, withdrawal from the labour market entirely. This has long-term effects both on individuals and on the productive potential of the economy.

SEMs could mitigate these effects. Importantly they could do so at much lower cost than more general reflationary policies. And, unlike some of the employment subsidies of the 1970s, they did not involve propping up failing firms – which the new Government regarded as part of the problem with the economy rather than part of the solution.

► **Box 7.**

## Costing the measures

An important part of the case for the SEMs was that they were comparatively cheap. The government was committed to reducing public expenditure. While it also wanted to reduce unemployment, it needed to do this in the most efficient way possible – maximizing the numbers taken off the unemployment registers while minimizing the costs of doing so.

As the SEMs developed, so did an accepted methodology for costing them. It involved a number of steps:

- a. Establishing a cost for the programme taking into account contributions for wages (or allowances), payments for supervision, materials, premises (if any) and administration. This is reduced by an estimate of taxes paid by participants and supervisors;
- b. Estimating the proportion of participants who would otherwise be on the unemployment registers – some might have got other regular jobs, either with the employer who offered the scheme or another one. This factor is referred to as “deadweight”.
- c. Estimating the effect of displacement. In the case of the long-term unemployed, for example, their involvement on a scheme might cause the employer or sponsor to fail to take on another unemployed person, or perhaps to dismiss an existing employee.
- d. Estimating the effect of substitution. This refers to the possibility that goods or services produced by a supported participant in one enterprise or project might substitute for commercially provided goods or services, thereby causing fewer jobs elsewhere.
- e.  $b - (c + d)$  produces a “net register effect” – the extent to which a programme actually reduces the numbers claiming benefits.
- f. The net register effect is then translated to a financial sum by multiplying it by average costs of benefits.
- g. The net cost of the programme is therefore  $(a) - (f)$ .

It was acknowledged that this methodology did not take into account all variables – for example, expenditures on the SEMs in theory pre-empted money that would have been spent elsewhere in the economy and which would have given rise to employment. However, it was important to have a workable methodology that could be applied to compare the costs and benefits of different programmes.

There were two other motivations current in the early 1980s. First, as we have seen, a long-standing desire among senior officials to replace the old apprenticeship system with comprehensive, modern arrangements for transitioning young people into the labour market. This motivation was shared by a few senior politicians, educationalists and human resource managers of large enterprises, but few in the political community viewed the issue as a major long-term problem.

The second source of motivation was rather vaguer, but quite commonly found on the political left. This was referred to at the time as the concept of “intermediate labour markets”. The idea was that there were groups of people who – whether for reasons of disadvantage, lack of skill, discrimination or location – found it hard to be accepted in the mainstream labour market. At the same time there were products and services for which there was a need, but which it was not viable to provide under normal commercial circumstances. It made sense, some argued, to put these two elements together, with some public subsidy, so that labour that would otherwise be unemployed and goods that would not otherwise be provided would be matched together to the public benefit, as well as to the benefit of the individuals concerned.<sup>6</sup>

Though the Conservative Government certainly did not espouse these ideas, a number of NGOs and local authorities who had participated in the JCP wanted to take the opportunity to demonstrate and extend this type of thinking.

## 5.2. New programme for the long-term unemployed

As noted in section 4.4 above, the JCP had been restricted to adults after young people had been moved to the new Youth Opportunities Programme. At first the Government did not attach a high priority to the residual programme and confined it to designated areas of the country with high unemployment.

However, as long-term unemployment grew, the Government became more interested in measures that would have a direct effect on adult unemployment, provided that they were at minimal cost to public funds. In the early 1980s, therefore, it increased the MSC’s job creation programmes, culminating in the Community Programme (CP), introduced in 1982.

The CP built upon the experience of the JCP, but on a far larger scale. It aimed to increase participation nearly six-fold to 200,000 a year (Moon 1983). Like the former programmes, the CP invited sponsors to put forward projects suitable for unemployed people. It offered sponsors a small margin for the costs of materials and administration, as well as the wages of supervisors. The intention was that the work undertaken should be as labour-intensive as possible.

The CP’s operational rules were designed to impact as directly as possible on unemployed people and to minimize the possibility that it would replace other economic activity (and so cause job losses elsewhere). The main rules were:

- ▶ Participants must be long-term unemployed, meaning over six months if aged 18–24 and more than a year when aged over 25.
- ▶ Activities undertaken by projects should be of demonstrative benefit to the community.
- ▶ They should not lead to private gain.
- ▶ They should not replace work that would otherwise be undertaken.

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<sup>6</sup> A long-standing example of this thinking had existed in the form of “sheltered employment” for severely disabled people.

The principles were fairly clear; though their interpretation was not always straightforward.

However, for policymakers the most difficult part in designing this scheme was the question of the wages or allowances to be paid to participants. There were both political and technical issues to be resolved that turned on whether payments should be based on “the rate for the job” (that is, the wages that would normally be paid for the work in question) or based on “benefits plus” (that is, some margin above the benefits that a participant would receive when unemployed). It had become accepted since the 1970s that people undertaking state-funded training would receive an allowance that varied with their circumstances, rather than a wage. But those on the JCP had been regarded as undertaking work – not training – and had been paid a wage that reflected the norms in the industry sector. On the other hand, new, influential voices within the Government were convinced that one of the causes of unemployment was that wages were too high, and they saw the new CP as an opportunity to break the idea of a “rate for the job” defended by trade unions.

The setting of wages needed to be triangulated between:

- ▶ the need to have some comparability between remuneration on the programme and that paid for similar work in the regular labour market, as well as previous practice on similar programmes – a position fiercely defended by trade unions;
- ▶ the need for the payments to offer some incentive for a reasonably wide range of unemployed people to participate – a position taken by NGOs who represented various sections of the disadvantaged population; and
- ▶ the need to minimize net costs to public funds – a position taken by the Treasury.

▶ **Box 8.**

▶ **Wages or allowances? – A technical question**

Quite apart from sensitive political questions, the issue of whether participants in temporary work programmes should be paid an allowance or a wage raises practical problems.

If one chooses a regime of a “rate for the job”, this is likely to be quite low, both because the work is usually basic and because government wishes to have the maximum number of participants for any given amount of expenditure on the programmes.

The problem then arises that unemployed people with large families or high housing costs (which are reflected in larger payments while on benefits) will be less attracted to participate in the programme since they will gain little in terms of income. But single people will find that the programme is very attractive, since the wages are substantially higher than their low level of benefits. A programme that pays wages can therefore be very biased in uptake towards single, and therefore young, people with little impact on those with families. This may not be what is desired.

A variable allowance, based on individual circumstances, would neutralize this effect, but means that workers doing the same job may have very different remuneration, and the allowance may be higher than the wages of regular workers, and so breed discontent. Moreover, in practice, it is not practical for project sponsors to assess the individual circumstances of each participant and to make accurate payments. So, payments would need to continue from social security offices, which then raises the question as to whether participants have actually left the unemployment register.

These effects may be reduced if there is a system of in-work benefits for low-paid workers which vary with family commitments. In this case, participants can earn a low standard rate for the job and still qualify for some state welfare payments as a supplement. This was the case in the CP, but some of the skewing effect nevertheless took place, as those with family commitments gained very little additional income if they participated.

So, we can see that judging the payments to be made on temporary work programmes is an intricate business, and becomes more complicated if the underlying benefits system is itself complex (at the time in the United Kingdom there were separate allowances for housing, tax rebates and in-work benefits as well as social security payments that varied with family size). And all of these considerations will impact on the net costs of the programme, which will vary depending on the benefits that participants would otherwise receive.

In the end, the MSC proposed a rather curious solution that had features of both remuneration systems. Participants would normally work on a part-time basis, typically three days per week, drawing “rate for the job” wages when they worked and made up with benefits if their weekly income did not cover their family needs. This allowed more people to participate for a given number of places, thus maximizing the headline effect on the unemployment register. The programme went ahead on this basis.

The types of project undertaken through CP included:

- ▶ minor public works such as playgrounds, creation of footpaths, etc.
- ▶ environmental improvements such as clearing of derelict public land and renovation of disused canals;
- ▶ cultural projects such as creation and staffing of industrial museums and restoration of heritage steam engines;
- ▶ thermal insulation of public property and council houses;
- ▶ some social service work such as visiting elderly and helping with gardening.

The projects were highly visible locally and most seemed to be broadly accepted as useful by the public, if sometimes poorly executed. The programme also managed to recruit its target numbers of long-term unemployed people, and indeed was expanded over its lifetime, attaining 300,000 participants in 1987, five years after its launch (Disney et al. 1992).



However, it was not without criticism. There was no attempt at purposeful re-training within the CP, and the jobs were by definition temporary and non-commercial. It did not look like an instrument that would help people get back to work. It was accused of being cosmetic – merely concerned with “massaging” the unemployment statistics for political reasons. Those on the political left accused it of being a tactic of the Government to divert attention from its failure to create “proper” jobs.

Furthermore, there did appear to be a contradiction at the heart of CP. In a climate of public expenditure cuts, local authorities were scaling back their normal environmental and maintenance work. Yet under the rules of the programme, the CP could not substitute for regular work or replace regular workers with the unemployed. So, it seemed that CP funding was being used to support non-priority projects while those which would have been regarded as priority were being cut back.

But the tension at the heart of the programme was that of its pay rates. The Government became increasingly concerned that unemployed people were being attracted to it because it offered union-negotiated wages, and feared that – as unemployment eventually began to reduce – the unemployed might be reluctant to take lower paid jobs in the emerging real economy.

### **5.3. Consolidation of the youth programme**

We have seen that at the end of the 1970s a larger programme dedicated to unemployed young people had emerged. By the start of the 1980s the Youth Opportunities Programme had to deal with ever increasing numbers of young people, and – as unemployment generally rose – it became apparent that it was becoming the normal means for school leavers to enter the labour market.

The Youth Opportunities Programme offered a range of offerings: advice from the local authority careers services, followed by opportunities for training and work experience in a variety of settings, including:

- ▶ placements with employers;
- ▶ short courses in further education colleges and other training providers;
- ▶ training and realistic work experience in training workshops; and
- ▶ participation in projects of community benefit similar to those in the JCP (and now the CP).

Some of the better careers services had begun to meld these elements together to provide a planned pathway for at least some of their clients. For example, starting disadvantaged young people in training workshops to instil basic work disciplines and to explore their capabilities and preferences, followed by short courses in specific skills and concluding with work experience with a relevant employer to consolidate the skills with – hopefully – a chance of permanent employment or a valuable personal reference.

In 1981 the Government backed an ambitious MSC plan to unify these elements to provide a comprehensive route into the labour market for all school leavers who could not get a job and who were not progressing in full-time education. In doing so it would also provide support for the remaining apprenticeships; these could be funded under the new programme if they accorded with its design principles of modern and efficient training. This remodelled programme was the Youth Training Scheme (YTS), and it had the following features:

- ▶ It would provide an entitlement to a year's training with the guarantee of a place for all 16- and 17-year-olds by the end of the year in which they left school.
- ▶ Each young person would receive a structured induction with an initial assessment followed by a combination of work experience and off-the-job training (which should account for at least 13 weeks).
- ▶ Everyone who left the programme would receive a certificate detailing their experience and achievements, together with any formal qualifications gained.
- ▶ Employers could receive funding towards their normal intake of employed apprentices so long as they also took additional young people who would otherwise be unemployed.
- ▶ The programme was to be delivered by managing agents who would arrange comprehensive schemes in their localities and selected occupation(s). The agents would be responsible for the wellbeing of the young people and for ensuring that they received all the elements of the programme together with the end-certificate. The agents would also be responsible for paying trainees' allowances and for accounting for the funds received, though they could sub-contract elements (for example, off-the-job training or work experience).

The YTS started in 1983, accompanied by a massive marketing campaign targeted at young people, parents and employers. Very quickly an infrastructure of managing agents sprang up, stimulated by local MSC staff who knew the likely local actors. The agents were very varied, but included:

- ▶ Some individual large employers, especially those with multiple branches across the country (for example, retail stores). However even sizeable local employers were reluctant to take on the administrative burden and most preferred to participate via an intermediary agent.
- ▶ Group training organizations established by ITBs (see section 3.2.) who faced an uncertain future after the disbandment of the ITBs.
- ▶ Local chambers of trade and commerce acting on behalf of member firms and sub-contracting off-the-job training.
- ▶ Private training providers, some established expressly for the purpose, which undertook off-the-job training while finding small local employers for the work experience element.
- ▶ Further education colleges, acting in a similar way.
- ▶ NGOs running training workshops and community projects, mainly for more disadvantaged young people and accounting for around 20 per cent of the places.

Of course, many of the components of the YTS were already in existence. Nevertheless, its establishment in little over a year was a massive exercise. In its first year the YTS catered for around 400,000 young people (National Audit Office 1985) – nearly half of all reaching school leaving age.

Three years later the YTS was expanded to become a two-year entitlement with much the same mixture of on- and off-the-job training, but with the added requirement that each person completing it should have the opportunity of gaining a recognized vocational qualification, rather than merely a completion certificate.

▶ **Box 9.****Youth programmes: Content and qualifications**

In the evolution of its youth training programmes, the United Kingdom started to elaborate a doctrine about their content and how achievements should be certified.

Certain points were already well established. By the 1960s the best apprenticeships were recognized as including supervised work in realistic conditions, supplemented by relevant theory taught off the job. Unlike some North European countries, it had not been a tradition in the United Kingdom that apprentices should continue their general education. This had been introduced in some sectors and localities, though not with any great enthusiasm from either employers or apprentices.

Though 13 weeks off-the-job training (20 weeks in the two-year programme) had been mandated under YTS, managing agents frequently complained that the costs of this (which had to be met from their grants) were excessive. Some youth educators also considered classroom-type environments to be off-putting, particularly for young people who had failed at school. There was pressure for alternatives, such as distance learning or purposeful on-the-job instruction, to be counted against the 13-week minimum.

The YTS was seen as an ideal testing ground for advanced concepts of content and pedagogy, and many development projects were funded, some leading to general introduction. In particular the idea of core (later key) skills needed in a wide range of employment and life settings was promoted, and managing agents were asked both to provide opportunities for the acquisition of these and to note achievements in leaving certificates. It was thought that the core skills might be a more suitable way of achieving the aims of continuing general education. Much emphasis was also placed on initial assessment of trainees and the devising of individual action plans that would customize their programmes. At times it was difficult to persuade enthusiasts (particularly if they had access to ministers or senior officials) that their ideas might be too advanced for practitioners in the field.

There were attempts to standardize the format of the leaving certificates, though it was hard to arrive at a model that was suitable for all, and which agents found practicable. However, the later requirement for a recognized vocational qualification posed a difficult problem. All sectors were by no means covered by the existing array of vocational qualifications, and those qualifications that existed were largely tied to a set off-the-job syllabus taught in further education colleges. Mandating the awarding of a vocational qualification would effectively exclude many of the private providers from the YTS, and moreover would not certify the on-the-job elements that accounted for most of the programme.

It was this conundrum that gave impetus to the development of National Vocational Qualifications (NVQs), which were competence-based and which could be assessed by supervisors in the workplace. While the idea of "training to standards" had begun to be explored by some of the ITBs before their abolition, the need for this approach in YTS provided a major spur for national development efforts, resulting in a wide range of NVQs becoming available in the early 1990s, with application well beyond youth training.

The YTS largely fulfilled its immediate objectives. The structure of managing agents was established, and many went on to play a part in subsequent programmes, and continue to exist 40 years later. The guarantee of available places was met – indeed in the early years there was an oversupply.

However, a number of problems arose from the start, and persisted. The programme had been conceived by the MSC as a permanent mechanism whereby young people would be given a path – with guidance, preparation, training and suitable experience – into the world of work. It would replace and modernize apprenticeship while retaining its best features, and indeed extending them to the whole youth labour force rather than, as was increasingly the case, to only a small section of it. But it became apparent that many of the important actors did not see things this way.

- ▶ While employers were in the main happy to take young people on placement and in many cases to give them jobs, few took ownership of the programmes. They left it to the managing agents to devise the formal training elements, to look after the finances and to pick up the pieces when a placement did not work out.
- ▶ Though young people were prepared to join the programme, many saw it as a temporary means of occupation and income. When a “real job” came up (often with the employer with whom they were on placement) they were happy to leave their training uncompleted and to forgo a full certificate. In its first year, over half the trainees left before completion, and this continued to be a problem as the economy improved in the late 1980s.
- ▶ Instead of integrating apprenticeships within the YTS, employers (who had always considered apprenticeships too expensive) took the opportunity to cut back further and to fit them within the shorter time-span and funding parameters of the YTS.
- ▶ Few ministers had been fully committed to the MSC’s vision and continued to see the YTS as a “special measure” whose primary purpose was to alleviate youth unemployment. For them, early leaving for jobs was a sign of success rather than failure, and was an opportunity to reduce the costs of the programme.

The programme was subject to persistent criticism from the political left that it was, at best, a poor substitute for real jobs and, at worst, cheap labour for unscrupulous employers. Continuing problems of quality did not help to allay these concerns; inevitably, as YTS was a major government programme, these were seized upon by the press.

So, although very many young people had a satisfactory period on the YTS and found jobs as a result of it, the programme never achieved the flagship status that its designers had had in mind. The public saw it as useful, but second best. The Government wound down the publicity campaigns, bore down on expenditure on the scheme and loosened its required features.

Nevertheless, the YTS survived as an important route into the labour market for young people well into the 1990s, and its basic structure – an individualized package of off the job training and work experience leading to a qualification, managed by a network of labour market intermediaries – formed the basis of subsequent youth programmes up to the present day.

## 5.4. Other special measures

While the CP and the YTS were the largest of the special measures, there were a number of others. The Conservative Government had discontinued the wage subsidy schemes of the 1970s, partly because they had large deadweight and substitution effects, and partly because of ideological objections to propping up failing industries. But it was attracted to measures to boost entrepreneurship and to support small businesses, and the MSC built these features into a number of its programmes.

There were many small-scale programmes in the 1980s, and also a number that failed to perform in one way or another. Among the more successful were:

- ▶ The Enterprise Allowance Scheme, under which unemployed people who started their own business and arranged a small capital contribution towards it were given a personal allowance for the first year of their venture. They also had access to business advice. Nearly 500,000 new businesses were supported in this way over a five-year period (not all, of course, succeeded).
- ▶ The Voluntary Projects Programme supported the overhead costs of NGOs in organizing worthwhile projects that unemployed people could participate in without affecting their entitlements to benefits.
- ▶ Job Training Schemes were the successors to the Training Opportunities Schemes of the 1970s (see section 3.3.), but were now focused largely on the unemployed, and attempts were made to link the training with projects supported on the CP. However, with few employment opportunities and lack of clarity about the types of jobs that might become available, the Government was reluctant to undertake speculative training in advance of need.

At their peak in the mid-1980s the SEMs had the effect of reducing the unemployment rate by around 2–3 percentage points at a gross cost (that is, not taking into account savings in benefits, etc.) of about 0.5 per cent of GDP.

## 5.5. Expansion of full-time education

Quite separately from these special measures, the 1980s saw a significant expansion of full-time education at the upper secondary stage. This was not a deliberate policy, though with high youth unemployment the Government was happy to accommodate it. The expansion seems to have been both a natural reaction of young people and their families to the poor prospects on the labour market and a result of a reform to the exams at the end of compulsory schooling which gave more young people the sense that they had achieved a real qualification and so raised their aspirations to continue to the upper secondary stage.

The proportion of 16–17 year olds (upper secondary cohort) in full-time education rose from under 40 per cent in 1985 to over 65 per cent in 1993 (Department for Children Schools and Families 2008). This naturally reduced the numbers participating in the YTS. If they could not find a job, young people and their families had to decide whether to continue in education, in which case they would not receive an allowance but would enjoy higher status than being on a “government scheme”, or whether to participate in the YTS, in which case they would earn some income, receive some dedicated training and get an introduction to an employer. It was the poorer families who opted for the latter course, which again tended to reinforce the perception of the YTS as an inferior route.

The influx of a new clientele into upper secondary schools and further education colleges raised the issue of what kind of curriculum they should study. The academic pre-university “A levels”, which had been the main offering in upper secondary schools were not suitable for all these new pupils. So, the previously part-time courses in further education colleges that had complemented apprenticeships (see section 3.2.) were increasingly converted to be on a full-time and self-standing basis. While this solved the colleges’ problems caused by the fall-off of the apprenticeships that had fed their part-time courses, there were doubts as to whether these courses could properly fulfil their function without complementary work experience.

The further education colleges at least had some offerings for the new clientele, but – in a competitive environment – the schools also wanted to retain pupils in the upper secondary phase. A succession of innovatory curriculums then ensued, some backed by the Department for Education and some by the MSC. Unlike many European countries, the United Kingdom did not have a tradition of technical or vocational schools, nor was it clear which department should be responsible for initiatives in this area.

So the search went on, and continues to this day, for substantial vocational courses that were:

- a. relevant to the labour market and valued by employers;
- b. suitable for a wide range of upper secondary students, whether in schools or in colleges; and
- c. capable of achieving a similar status as general education courses (which means offering a realistic prospect of entry to higher education).

The MSC was – controversially – given powers in the area of full-time education. In 1983 it launched a pilot programme to support four-year vocational courses in schools and further education colleges. This Technical and Vocational Education Initiative was extended nationwide in 1987, but instead of focusing on strictly vocational courses, it was used to promote a wide series of work-related developments within secondary education, including:

- ▶ short periods of work experience with employers; the modernization of technology and science curricula (including increasing the uptake of these subjects by girls);
- ▶ giving all students the opportunity to study a modern language; and
- ▶ formalizing records of achievements at school.

Following this encroachment into the world of education, in 1985 the MSC was given responsibility for a large share of the budgets for further education colleges, with the idea that it would use this financial lever to require them to become more responsive to employers. However, the MSC itself was not to survive long enough to make full use of this last instrument.

 **Box 10.** **Forms of initial vocational education and training (IVET)**

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From an international perspective we might distinguish three different practices in arranging vocational education for young people entering the labour market:

- ▶ **Apprenticeships:** Employers offer a specific contract to young people, undertaking to train them during the course of normal productive work, very often supplemented by classes of technical theory (and in some cases continuing general education) delivered off-the-job. This is the dominant mode of IVET in German-speaking lands, and is also quite widespread in France, the United Kingdom, Denmark and Australia. In a number of other countries it is present but operated on a small scale, often in the older manual trades (for example, construction, metal working).
- ▶ **School-based vocational courses:** These are typically two- to four-year full-time courses at upper secondary level (though sometimes spanning part of lower secondary). Usually they take place in vocational institutes equipped with practical facilities, and can incorporate short placements with employers. They sit alongside general upper secondary education tracks and, like these, often offer access to higher education. This model is common in Sweden, France, Southern and Eastern Europe, as well as in many countries in East Asia.
- ▶ **Vocational options within a unified curriculum:** A modular curriculum allows students to take a wide variety of courses within the upper secondary phase. Some of these options can be vocational in nature, allowing students not bound for higher education to acquaint themselves with different career possibilities and to undertake some basic preparation. This model can be seen in North America and in New Zealand.

In practice, though typically one model tends to dominate in a given country, elements of all three can often be detected, sometimes differing by sector (for example, health occupations tend to be school-based in Germany even though most other sectors operate with apprenticeships).

These models are very deep-rooted and there are a number of examples of countries attempting unsuccessfully to change their systems.

## ▶ 6. Delivering the programmes

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The Special Employment Measures needed to be delivered locally. As we have seen, the large programmes – the CP and YTS – were managed by networks of sponsors and managing agents (in fact sometimes an organization, perhaps an NGO or a local authority, would manage both the YTS and CP schemes).

The MSC had local offices that managed its relations with these sponsors. At first, these offices were part of the MSC's Special Programmes Division, which was separate from its Employment Division (responsible for Jobcentres) and the Training Division. However, with the advent of the much larger CP and YTS, the Special Programmes Division was abolished and the SEMs were re-allocated, with job creation for the long term unemployed falling to the Employment Division and the YTS joining other training programmes in the Training Division. Each had about 50 administrative offices situated in major towns and cities.

### 6.1. Local administration

The local MSC staff performed a number of functions:

- ▶ Planning numbers in their area in the light of labour market information and feedback from education services, careers offices and Jobcentres. Plans were agreed with head office to give a target for places and a budget.
- ▶ Marketing the various schemes to local employers, potential sponsors and stakeholders, which involved personal visits, information events and meetings.
- ▶ Explaining the rules of the programmes to sponsors, negotiating numbers of places and budgets, clearing queries and making representations to head office on scheme rules where these posed difficulties.
- ▶ Processing financial claims in accordance with the contracts.
- ▶ Monitoring the operation of programmes to ensure compliance with contracts; dealing with problems experienced by participants and friction with careers services, Jobcentres and benefit offices; and assessing the quality of what was being provided.

Local staff had frequent contact with agents and sponsors, including site visits at roughly monthly intervals; these enabled staff to talk with participants and their supervisors.

### 6.2. Contracts and finance

Following the models initiated under TOPs and the early JCP, the offices entered into contracts with providers. Apart from in a few government training centres<sup>7</sup>, the MSC did not provide any of the programmes directly. Contracts specified the numbers of places to be offered, the funding that could be claimed, the scheme rules that had to be complied with and the information that needed to be supplied.

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<sup>7</sup> These training centres (see section 3.3.) had been retitled Skillcentres. Despite the massive expansion of training programmes, the network was not increased after the 1960s and was eventually privatized in the early 1990s.



These contracts grew more elaborate as experience was gained and loopholes were discovered and closed. Some sponsors grew dissatisfied with them, claiming that they were one-sided and did not really allow any meaningful negotiation. There were particular concerns when the MSC (at the request of ministers) introduced clauses that constrained the ability of sponsors to participate in publicity that could “bring the schemes into disrepute”<sup>8</sup>. In time, sponsors formed national associations to negotiate the form of standard contracts with the MSC head office.

This form of funding by contracts was different from what local authorities and colleges were accustomed to. The authorities were funded by the Central Government through large grants (which supplemented their local tax-raising powers) and were subject to legislation that dictated the services they were obliged to deliver. Colleges were funded (by the local authorities) according to rates for approved classes along with allowances for materials, operating costs of premises and capital items. Both found it challenging, and sometimes irritating, to be asked to provide specific services for specific amounts of money. Employers and private trainers, however, were used to this style of doing business.

## ▶ **Box 11.**

### ▶ **Forms of contract**

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There were two basic forms of contract used by the MSC.

A costs-based contract involved the negotiation of all costs associated with a project and reimbursement of those costs against evidence that they had actually been paid. This was the usual model for training workshops under the YTS, and most CP schemes. In practice there were limits to what costs were allowable (for example, limits on payments to supervisors and for materials) and certain allowable margins (such as for administration) that did not all need to be certified by receipts.

The advantage of a costs-based contract is that it is quite flexible and tailors funds to the specific circumstances of a project. It is also transparent in the sense that all public funds are being paid for specific items that can be seen to be relevant to the project. However, the contracts are cumbersome to negotiate and require detailed record-keeping and checking. Administrative costs on both sides tend to be high. They also give no incentive for sponsors to reduce costs, as they do not benefit from doing so.

A block grant contract gave standard fees for specific events. For the YTS, for example, private trainers, colleges and employers received a set sum for every person starting and a standard amount for each month they remained in training (later a completion bonus was added when a trainee achieved a formal qualification). They needed to provide evidence of trainees being in training to justify these payments, but otherwise did not need to account for premises, materials or supervision costs. If they retained a margin after these costs, this was acceptable. If costs overran, they could incur a loss.

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<sup>8</sup> In a well-publicized incident, funds from the CP had been used to establish local centres for the unemployed that organized political campaigns against government policies.

The advantages of a block grant contract are that it is easy to administer and incentivizes sponsors to become more efficient and to use their marginal capacity (such as existing premises and supervisors). The standard rates were gradually reduced to reflect assumed productivity gains and when there were excess offers of places. On the other hand, some commentators were uncomfortable with the idea of private gain from public programmes, and it was not always easy to see when profits became excessive.

The local MSC staff had to match receipts against claims for cost-based contracts and to verify that participants for whom claims were made were actually on the schemes. This was done on a sample basis.

### 6.3. Quality assurance

There were extensive guidelines on how training should be conducted, particularly in the case of the YTS. These often ran a considerable way ahead of practice on the ground. Most local MSC staff had no professional background in training, and while some would engage the more enthusiastic managing agents in discussions about their approaches to training, most staff would confine their monitoring of scheme quality to observing whether premises and practices appeared safe, and that trainees were content, had received the mandated elements of training, and felt that they were making some progress. Health and safety was a constant concern, though local staff were not experts in this area.

While local staff were more concerned with spotting and preventing abuse than in promoting quality, networks of managing agents and sponsors did spring up and were used to share approaches and problems. The head office commissioned a large range of development projects, and many local agents and sponsors took part in these, often getting some supplementary funding.

As time went by it became apparent that local staff did not have the expertise to take an overview of the quality of training in the YTS, and that a more professional perspective informed by wide experience of different schemes was needed. Eventually, therefore, an inspectorate was recruited, consisting of about 40 professionally qualified staff. Clearly they could not visit every scheme regularly, so monitoring by local staff continued while the new inspectorate was able to appraise head office of the state of training quality generally.

### 6.4. Local governance and accountability

The local offices reported, via regional offices, to the MSC centrally. The local operation, therefore, was not subject to local politicians – indeed local authorities were often contractors to the MSC. There was, therefore, something of a vacuum of accountability at the local level that local politicians often drew attention to.

This problem had been identified early in the life of the SEMs, and the MSC had formed panels of local stakeholders to give opinions on the first JCP projects (see section 4.3.). This structure was formalized in the 1980s, when Area Manpower Boards were given oversight over all the locally-run SEMs.

Details of prospective schemes had to be presented to these boards, which gave opinions on their merits. Though technically the boards were advisory, any serious difference of opinion with local officials would be referred to head office.

The boards allowed some scrutiny and acceptance of SEMs by local stakeholders, and also provided a forum for the resolution of difficult issues. A further safeguard was a requirement that schemes that involved unionized workplaces should be discussed with relevant trade unions. In practice this meant that trade unions held a veto over at least some of the schemes. The presence of senior union officials on the area boards allowed local MSC staff a route of appeal if they considered a veto to be unreasonable.

## 6.5. Problems and controversies

The SEMs were often devised in haste. Quality and financial guidelines were subject to frequent change in the light of experience. And many of the local MSC staff, as well as those of the managing agents and sponsors, had little experience of this kind of programme. It was not surprising, therefore, that problems arose.

- ▶ The **youth guarantee** put great pressure on the whole system, particularly in the run up to the Christmas deadline. It naturally led to some over-provision of places. At the local level, officials would ensure that managing agents and careers offices were working closely to ensure that their records matched and that the more difficult to trace young people were identified and given offers.
- ▶ **Fraud and corruption** were a constant concern. There were major examples (such as whole schemes for which claims were made but which did not exist), but much more common – and difficult to identify – were minor issues such as claims for participants who were fictitious or who had left, the siphoning off of tools and materials, and undertaking gardening work for local councillors. Site visits helped deter malpractice, as did channels for reporting abuse through trade unions and careers offices. But it was often difficult to distinguish between deliberate abuse and poor administration by sponsors, many of whom had not run sizeable projects before, nor accounted for public funds.
- ▶ Some sponsors and agents **overstretched themselves**. This particularly affected NGOs, some of whom became over-dependent on government finance, which led them to experience financial problems when programmes were scaled back. Financial crises in NGOs triggered by poor management or cutbacks could cause political problems, both local and national.
- ▶ **Quality of provision** was a running sore. Practice on the ground frequently fell short of the increasingly ambitious guidelines issued from head office, which tended to be influenced by generously funded development projects. Complaints by trainees, workmates or parents were often seized upon by the local press.
- ▶ More immediately, **health and safety** was an issue, particularly in the case of young people. Inevitably given the numbers involved, there were some horrific cases. There were also uncertainties about legal liability, as most participants were not formally employed.
- ▶ Though much effort was made to cater for **disadvantaged groups**, there were some types of provision where they were unduly concentrated, such as the dedicated training workshops run by NGOs and local authorities. These tended to offer participants little exposure to employers or to real work disciplines, and may have inadvertently led to reinforcement of previous disadvantage.

- ▶ **Gender stereotyping** was common. Though it probably was no more acute than in industry generally, many expected government-funded schemes to set a better example.

As has been noted, the measures took place against a fraught political landscape and these issues were often amplified by local politicians, and exhibited as *causes célèbres* at the national level. However, at the local level such criticisms were offset both by the obvious concern of parents and families to secure opportunities for their children, and by the inclusion of many locally known personalities and organizations in the operation of individual schemes and on the Area Manpower Boards.

The result therefore, was broad local support for the measures combined with a poor national reputation – a curious mixture.



## ► 7. Towards active labour market policies

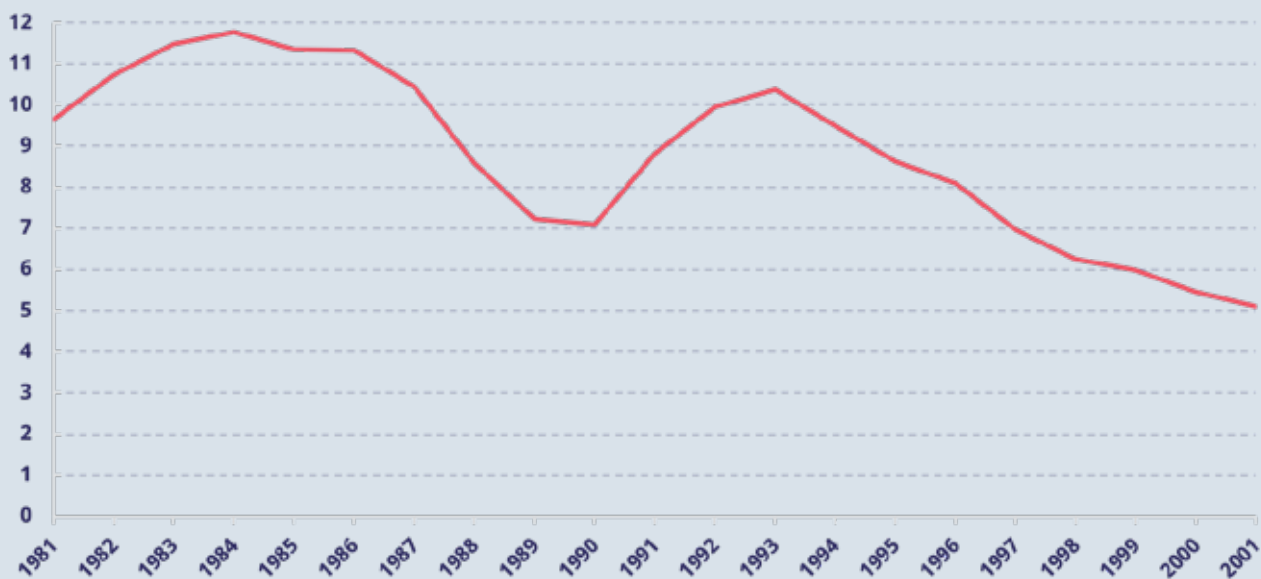
After 1987 unemployment started to fall. Despite a renewed rise in the early 1990s, due to an attempt to sustain an unrealistic exchange rate, the Government felt that it had weathered the storm of unemployment, and it grew less concerned with taking special measures to alleviate it.

Slowly, over the following decade the Government shifted its manpower measures from focusing on relieving unemployment towards increasing the country's productive capacity. From the problem being available but unused human resources, it became disengaged or underused manpower. Forecasts of a "demographic time bomb" – a future in which diminishing numbers of working age people would need to provide for increasing numbers of elderly – aided this re-evaluation of policy.

Though unemployment fell and became less prominent in political discourse, it remained high by historic standards. From a peak of nearly 12 per cent in 1984 it did not fall below 7 per cent – more than twice the levels of the 1960s – until the end of the 1990s. Despite an expanding economy and the achievement of many of the reforms that the Thatcher Government had aimed to bring about, unemployment remained stubbornly persistent. Here were people of working age who were not contributing to the economy – indeed who were being supported to remain idle. At last, "proper jobs" were being created, but many of the unemployed were not taking them, perhaps because they were demoralized, because their skills were no longer relevant, or because they were in the wrong places.

**Figure 7.**

### Unemployment rate (%), 1981–2001



Source: Bank of England n.d.

This shift in emphasis from policies of alleviation to policies of reactivation was not dramatic. It was masked by the fact that many of the instruments used were similar to those deployed to alleviate unemployment in the 1970s and 1980s, including the network of sponsors and the methodology of commissioning by contract. The transition of this way of working to the new environment meant that this infrastructure, which had been thought of as being temporary, had in fact become a permanent feature of British labour market institutions.

The main features of the new policies were:

- ▶ a re-examination of the system of unemployment benefits and work incentives;
- ▶ a focus on measures that would induce individuals to participate more actively in the labour market;
- ▶ a re-positioning of the system of youth training in the light of skills shortages and increasing participation in upper secondary and higher education.

However, these policies were not to be undertaken by the MSC, which had now outlived its usefulness.

## 7.1. The demise of the MSC

From its inception as a technocratic, corporatist body that managed two uncontentious and minor branches of government – Labour Exchanges and small scale government training efforts – the MSC had become the key actor in one of the major issues of the time: the battle against unemployment. The MSC's budget had grown fourfold in real terms since it was created in the 1970s (O'Brien 1988).

But its very size and significance brought problems. The Government took an intense interest in its affairs, and increasingly sought to direct them. At the local level, the MSC's operations had usurped functions that would normally be performed by local authorities. And we have seen (section 5.5.), from the mid-1980s the MSC had begun to become involved in education and schools. Large budgets can bring friends, but they can also breed resentment.

The principal cause of the MSC's demise was the desire of the Government to take a more direct control over its various manpower programmes, reinforced by increasing animosity between government and the trade unions. From the start, the Thatcher Government had made clear its opposition to tripartite corporatist approaches. It had also embarked on a programme of reducing many of the worker protections and trade union privileges that had grown up over the previous 50 years. It was no surprise, therefore, that the Government was uneasy about the trade unions playing a leading part in one of the largest and most politically sensitive public agencies.

The first step in the end of the MSC arose from the desire of the Government to integrate the Jobcentres with the benefit offices that had been separated from them when the MSC was formed (see section 3.1.). Bringing the two sets of offices together meant that the same staff who paid the benefits could directly observe the efforts made by their clients to find work. So a new Employment Service was formed, divorced from the MSC, and responsible for counselling, procuring employer vacancies, introducing people to jobs and paying unemployment benefits. The Employment Service was less concerned than the previous Jobcentre service in attracting employed people who wanted to change jobs, thus undoing one of the reforms of the 1970s (Price 2000).

The MSC continued for a short while after this<sup>9</sup>, but matters came to a head in 1987 when the Government asked it to move the CP from paying participants the “rate for the job” to an allowance (benefits plus) basis. The trade unions on the MSC saw this an assault on one of their core purposes – to negotiate and defend proper wages for proper work. They made it clear that they could not participate in designing any new programme that did this. The Government, which some suspected had been looking for a pretext to rid itself of the Commission, promptly disbanded the MSC and incorporated all of its functions directly under the Department of Employment.

These reorganizations opened the way for a number of changes that reflected a new emphasis in government policy towards the unemployed.

## 7.2. Work incentives

Underlying the changes in policy was a concern about whether unemployed people had real incentives to return to work. Many of the industries that had declined – engineering, mining, motor manufacture – had been heavily unionized and had offered relatively high rates of pay. Indeed, according to some in government, high pay and restrictive union practices were important reasons for their loss of competitiveness.

One underlying thought, therefore, was that British workers would need to become accustomed to lower wages in the new, more service-orientated economy. This thinking explains the Government’s reluctance to continue with the “rate for the job” wages that were a feature of the CP.

There was also concern that out-of-work benefits might be too high and act as a disincentive for the unemployed to take up low-paying jobs. This was a complex area, for benefits varied widely depending on family size: single people (or couples who were both available for work) would experience a reasonable increase in take-home pay if they took a low-paid job<sup>10</sup>, but people with large families or non-working spouses might not find the new jobs attractive.

Benefits payable to people with families in low-paid jobs had been introduced in the 1970s, but tapered quite quickly as pay increased. Allowances towards housing costs for poorer families were a separate benefit with different conditions and thresholds. And income tax and national insurance payments reduced in-work pay, but not benefits. There were probably very few families who were actually better off unemployed than in work, but there were undoubtedly many who would not gain much; a number experienced sharp marginal effective tax rates (that is, the combined effects of taxes and reductions in in-work benefits) of up to 90 per cent when they achieved any wage rise (Robinson 1996).

During the early 1980s when unemployment was high, the Government pursued two rather conflicting policies. The first was to constrain unemployment benefits by cutting their previous link to uplifts in wages. This was both to limit public expenditure but also to increase work incentives. The other policy, though, was to encourage those unemployed who were thought to be unlikely to find work to withdraw from the labour force entirely by becoming re-classified as long-term sick or disabled. Though these withdrawals did not reduce expenditure (incapacity benefits were more generous than those for unemployment), they did cut the politically sensitive numbers of unemployed.

With reductions in unemployment in the late 1980s the emphasis on work incentives increased and the emphasis on encouraging labour market withdrawal decreased. But it also became clear that a serious reform of work incentives would involve very difficult changes to a wide range of benefits, wages and taxes

<sup>9</sup> It should be noted that the MSC was at this point renamed as the Training Commission, but for the sake of simplicity and clarity the report will continue to use the term MSC.

<sup>10</sup> The United Kingdom did not have a national minimum wage until 1999.

that would affect very many people. In the main, therefore, the Government chose not to go down this route.

Instead, it started to introduce stricter conditions for those claiming unemployment benefits. These were more easily explicable to the general public and indeed met with support outside the areas where unemployment was most prevalent.

As a precursor to moves to tighten the conditions for receiving benefits, the government re-introduced a requirement that people drawing benefits should register for work with a Jobcentre. This condition had been removed when unemployment increased in the early 1980s on the grounds that the Jobcentres would be overwhelmed and were unlikely to be able to help many of unemployed anyway.

This merger of the benefits offices with the job-finding services enabled the Government gradually to introduce a "stricter benefits regime". Unemployed people were liable to sanctions (that is, reduction or withdrawal of benefits) if they declined a job or failed to actively seek work. Such sanctions became more common and lasted longer.

In parallel to the "stricter regime" for adults, unemployment benefits were withdrawn entirely from 16- and 17-year-olds on the grounds that they could take a place in the YTS and receive an allowance.

## ► Box 12.

### ► Attitudes towards the unemployed

Public attitudes towards those who are unemployed vary over time and are easily subject to stereotypes promoted by politicians and the media.

Of course, there is a natural sympathy towards those who supported their families in a decent job and who are suddenly made redundant through no fault of their own. Many people realize that this could happen to them and believe that it is right that the State should support the individuals concerned, particularly as they have paid taxes or insurance contributions to guard against this misfortune.

As time goes by, though, questions start to be asked about why the unemployed are not doing more to find work: Do they not have the skills? If not, why do they not take steps to improve themselves? Are they prepared to move to where the work is? One prominent employment minister of the 1990s told the unemployed to "get on their bicycles". Or are unemployed people in fact content to sit at home drawing as much in benefits as they would if they got work? In which case, cannot something be done to stop "scroungers" living idly at the expense of hard-working taxpayers? Perhaps they even have more children to enable them to draw more benefits?

It is tempting for politicians to amplify such feelings. And in order to maintain the public's faith in the system, sometimes they need to be seen to take action to prevent abuses of the system, even though only a very small minority are taking advantage of loopholes.



### 7.3. Encouraging active job search

The late 1980s and 1990s, therefore, saw both a reduction in unemployment benefits relative to wages and tighter policing of the conditions for drawing these benefits. This was combined with an increased focus on assisting those who were finding it hardest to get jobs.

Now that the unemployed had to attend Jobcentres and unemployment was falling, the way was open to make more systematic efforts to motivate them to apply for and prepare for jobs. Unlike the MSC's training and special measures divisions, the Jobcentre service had not prospered during the recession. There were few vacancies that it could attract from employers, and with unemployment high, the Government was not greatly interested in providing a service to employed people who wanted to change jobs. The Jobcentres' smart high-street premises looked out of place as expenditure restrictions cut heavily into other public services.

However, when it was realized that many long-term unemployed people were not only failing to benefit from the reviving labour market, but might also not be actively looking for work, it began to make sense to invest further in counselling staff to set the unemployed on the right path to finding jobs.

In 1986 a major programme of interviewing unemployed people began. This Restart Programme aimed initially to give interviews to those who had been unemployed for a year or more. A little later it was expanded to cover all those unemployed for more than six months, with follow-up interviews every further six months. By the late 1980s, nearly 2.5 million of these interviews were taking place each year (Disney et al. 1992). Their structure was refined over the years but typically involved:

- ▶ review of job search activities to date;
- ▶ consideration of whether the individual was fit for work, or should more properly be considered to be sick or disabled;
- ▶ discussion about the benefits of working (for example, was the individual fully aware of financial consequences, such as in-work benefits and tax allowances);
- ▶ guidance and plans for future job search activities;
- ▶ review of suitability for a range of support measures (see below).

The interviews resulted in a "Back to Work Plan" representing an agreement with the client about what actions they would take in their search for work. This plan might include referrals to one or more of the support measures.

It was compulsory for unemployed people to attend these interviews. If they did not, they could be subject to benefit sanctions. Sanctions could also be imposed if individuals did not satisfy the counsellor that they were actively seeking work.

▶ **Box 13.**

## ▶ **Support and policing – A fine balance**

The Employment Service had a dual function when dealing with unemployed people. On the one hand, it had a supportive counselling role – informing clients about opportunities and giving advice as to what was most suitable. On the other hand, it had a duty to protect public funds against abuse, which means detecting when people drawing benefits were not using their best efforts to find work or were declining to take advantage of the help offered.

Front-line staff often felt conflicted about this issue. Some were attracted to their role because it gave them the chance to help others. In the 1980s many were themselves opposed to the Government's policies towards the unemployed. Others were conscious that some of the unemployed were not serious about getting work or had become entirely demotivated, and displayed a more proactive and less sympathetic attitude towards their clients. Many staff had some mixture of these feelings.

It was left somewhat unclear whether attendance on the support measures was mandatory. While it was recognized that unwilling participants on training courses were unlikely to benefit, and could well disrupt the programmes for other participants, there could be suspicions that people who declined to attend might well be working surreptitiously in the “black” economy. Reluctance to attend the suggested support measures would prompt closer questioning in the next Restart interview, and clients would become aware that sanctions might be becoming in prospect.

Both staff and clients were aware of these issues and developed their own ways of navigating them.

There was a large, and evolving, range of support measures to which clients could be referred after a Restart interview. By the mid-1990s these included:

- ▶ **Job Search Seminars** providing guidance about preparing curriculum vitae, filling in application forms, interview techniques and tips for job search.
- ▶ **Job clubs** that followed on from the seminars, where groups of jobseekers were given facilities (such as telephones, printers) for their job search and for making applications, and where they supported each other in their job search activities.
- ▶ **Restart Courses** giving a week's intensive training designed to remotivate very long-term unemployed people and focusing on personal skills, presentation etc.
- ▶ **One-to-One**, wherein a demotivated long-term unemployed person had regular meetings with a counsellor over a six-week period with the aim of refining their job search methods.

- ▶ **Work Trials:** Employers were invited to offer three-week internships, with the unemployed candidate remaining on benefits.
- ▶ **Job Interview Guarantees:** Jobcentres made agreements with employers to guarantee an interview to any long-term unemployed person they recommended. The selected people would be vetted as motivated and able, usually after having taken part in some of the other preparatory activities.

The Restart interviews were conducted by Employment Service staff, but many of the seminars, Jobclubs and courses were contracted out to private agencies, colleges and NGOs – often the same organizations that had been involved in the CP or YTS.

These and other measures were constantly evaluated and tiered in a progressive way such that the simpler and cheaper measures were deployed earlier in an individual's spell of unemployment, with the more intensive ones later. By 1995 there was a throughput of over 1,000,000 on these various measures each year – many people of course attended more than one (Robinson 1996).

Together these measures gave a ladder of support, but also increasingly made it clear to unemployed people that being inactive while drawing benefits was not an option. The full-time nature of some of the measures meant that they would not be manageable for a participant who was secretly working while claiming benefits. The mere fact of being called for the initial Restart interview resulted in 10 per cent of those invited ceasing to claim benefits before their appointment was due (Disney et al. 1992).

## 7.4. Training for unemployed adults

In addition to these short, motivational and intensive measures, training programmes for the unemployed continued, though they changed their nature. Whereas the earlier adult programmes had been largely off-the-job, the new programmes aimed to include substantial periods of work experience with employers. The break with the principle of the 'rate for the job' made this possible. Participants were paid a small premium over and above their benefits.

In 1988 the CP was terminated, and a general training scheme – called Employment Training (ET) – instituted in its place. This, like the CP, was specifically for the long term unemployed and, in addition to placements with employers, incorporated the type of project work that had been undertaken under the CP, but supplemented with skills training. In many ways it resembled the YTS, being a lengthy programme combining on- and off-the-job training and seeking to give participants exposure to employers.

The initial targets for ET were very large, with a target of 600,000 per annum, but the programme did not live up to expectations for a number of reasons. Employers were less keen to offer work experience placements for adults than they were for young people in the YTS. In the late 1980s unemployment was in any case falling, and in addition ET had to compete against the shorter more cost-effective Restart offerings being made by the Employment Service.

At around this time the Government had replaced the local training offices and area boards with Training and Enterprise Councils (TECs) – employer-led, private, not-for-profit businesses that received funding to run the training programmes of the MSC and various business support measures of the Department for Industry. One of the ideas behind the TECs was to give local business people more control of the

programmes.<sup>11</sup> To allow this, the rules and guidelines of the adult training programme were loosened to allow more local flexibility, and funding schemes were adjusted to sharpen incentives for successful outcomes of training.

## ► Box 14.

### Funding for outcomes

What should governments pay for when they fund training? It is a simple question, but there are a number of possible answers.

One common solution is to pay for the approved costs (see section 6.2.), but this does not encourage efficiency or effectiveness.

Another is to pay a fixed amount for the period a participant spends in training. In many funding methodologies the amount varies between occupations or settings (for example, construction training, which needs materials and close supervision, costs more than training in bookkeeping, which takes place in a classroom). On the other hand, why should the State, rather than businesses, pay more for occupations where training happens to be more expensive than in others?

But what governments really want from training schemes is for the participants to get jobs and/or to complete and achieve full qualifications (that is, “outcomes”). Funding systems for adult training made increasingly large payments for outcomes, rising eventually to 75 per cent of total costs (Lourie 1996). This encouraged shorter durations and a focus on successful completion. But it also encouraged “creaming” (providers selecting only the most promising candidates, who were also perhaps the least likely to need help) and “gaming” (arranging for temporary jobs with employers to allow a claim to be made, or taking shortcuts to qualifications). Increasing efforts were needed by the funding agencies to counter this type of abuse.

Funding schemes need to be constantly reviewed and fine-tuned to prevent these kinds of unintended effects.

The TECs’ adult training programmes, re-titled “Training for Work”, grew to nearly 300,000 participants during the brief second phase of high unemployment in the early 1990s, but declined sharply thereafter as unemployment fell and the Employment Service’s interventions grew in variety and efficiency.

By the late 1990s a consensus had developed among policymakers that lengthy re training schemes were not the best way to tackle adult long-term unemployment.

<sup>11</sup> The TECs were deliberately modelled on Private Industry Councils, which had been introduced in the United States of America in the 1980s (Johnstone 1990).

## 7.5. Refashioning vocational preparation

As we saw in Chapter 5, the YTS had become a major route for young people to enter the labour market. A system of qualifications had been initiated that could cater for work-based training, and the new route had largely incorporated, or replaced, the older forms of apprenticeship, but it had not achieved consistent quality or full acceptance by the public.

The statutory Industry Training Boards (ITBs) of the 1960s had been abolished (in all but two cases) and their levy/grant schemes had been replaced with direct government funding for youth training. It was not clear what role, if any, sector bodies would have in the future.

More and more young people were staying on in full-time upper secondary education, in which the vocational options were novel and weak. The MSC had ventured into the world of education, but had not had any profound effect.

At the beginning of the 1990s, therefore, the tasks seemed to be:

- ▶ to determine what role should be played by bodies at a sectoral level;
- ▶ to consolidate and strengthen the YTS as a recognized and permanent route into the labour market; and
- ▶ to resolve the issue of whether there should be vocational routes other than the YTS within full-time education, and what these should look like.

This agenda started to be addressed in the 1990s, but in many ways the same issues are present 30 years later.

The new National Vocational Qualifications provided a role for sector bodies. The NVQs needed occupational standards (“competences”) to form their base, and quickly it was realized that these needed to be developed in a way which involved agreement on a sectoral basis. Though there was a centralized methodology for producing the standards, industry bodies were needed to validate these statements. Staff of the former ITBs were experienced in this kind of work and a network of industry bodies soon emerged, often clearly successors to former ITBs. The Government gave formal recognition of these groupings as Sector Skills Councils (SSCs)<sup>12</sup> and funded the development of occupational standards. A number of the SSCs began to expand their activities, such as undertaking careers promotion or awarding qualifications in their own right.

Immediately after the demise of the MSC the Government had acted to loosen the requirements for formal training in the YTS, reinforcing the perception that – unlike the MSC – the politicians saw the scheme primarily as a means of alleviating youth unemployment rather than as a permanent pathway to work. However, by the early 1990s there was a powerful force within government arguing for a strong skills training programme for young people.

This force was none other than the Treasury – which had challenged expenditure on the YTS and other MSC programmes for years. In its role as an economic ministry rather than as guardian of the public finances, the Treasury had become convinced that the United Kingdom had a longstanding shortage in the supply of technical skills. Far from seeking to make the YTS more flexible and cheaper, it was prepared to invest in a more structured scheme with fuller content, so long as employers would give it support.

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<sup>12</sup> A provisional designation as “Industry Lead body” was made where bodies did not have a formal constitution.

As a result, the Modern Apprenticeship initiative took shape, starting in 1993. This took the basic structure of the YTS – on- and off-the-job training, NVQs and delivery through managing agents – but strengthened it. In a significant move, the new scheme required all participants to be employed with a wage, rather than being classified as trainees with an allowance. This alone did much to enhance the scheme’s status, as no longer could it be seen as a stop-gap measure for those who could not find a job.

The new apprenticeships also involved the SSCs in formulating a “framework” for each of around 80 approved occupations. Not only the relevant NVQs, but also the content of off-the-job training, indicative durations and guidance on recruitment criteria were laid down at the national sectoral level. This replicated features of the much-admired German apprenticeship system.

Through the 1990s (and continuing into the twenty-first century) successive attempts were made to develop a vocational route within full-time education. It proved difficult to achieve consensus among educationalists about just what features this route should contain, and how it should relate to the established and prestigious pre-university “A levels”. Employers, too, were less inclined to endorse full-time courses than they were the work-based apprenticeships.

Nevertheless, young people continued the trend of attending upper secondary education and vocational options became more common. The continued expansion of higher education provided a progression route for advanced technical education.

The increasing number of options for education and training after school leaving age meant that careers advice became increasingly important. Significant new resources were devoted to this, with formal advice starting from the age of 13. The YTS guarantee was replaced by a concerted effort by careers services to track and engage with young people classified as NEET (not in education, employment or training).

The merger of the Departments of Education and Employment in 1995 meant that a more holistic overview could be taken of the transition from school to work, and put an end to some of the rivalries that had characterized the era of the MSC in the 1980s.



## ▶ 8. Reflections: Opportunities taken and opportunities missed

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This note has taken us up until the mid-1990s. The story continued with different administrations: The New Deal under the Labour Government of 1997 added to the efforts to re-integrate unemployed (and discouraged) workers back into the labour market. The Work Programme of the 2010 Coalition Government further elaborated the approach and a restructuring of benefits – Universal Credit – was much influenced by the desire to create stronger work incentives. Modern Apprenticeships continue, having been extended to include trainees of all ages. And there have been many attempts, none so far wholly successful, to establish a substantial vocational education stream within upper secondary education – the latest being “T Levels”. But the aims of policy and the patterns set down in the period 1975–95 remain essentially the same.

Let us remind ourselves of the main policy objectives that we have noted in this story:

- ▶ A natural reaction on the part of politicians to “do something” in the face of a rise in unemployment that – for one reason or another – they do not feel that they can prevent.
- ▶ A perception that unemployment – particularly long-term unemployment and unemployment in a person’s first years in the labour market – will do long lasting damage to an individual’s prospects and to society.
- ▶ The reform of a school-to-work transition route that was not keeping pace with trends such as increasing participation in education, the decline of large employers of manual labour, reduced trade union membership, and changing demand for skills.
- ▶ The search for mechanisms to activate reluctant, unconfident or simply poorly informed people to participate more fully in the labour market.

At the same time, we have noted a change in role of government over the period. At the beginning of it, government interventions in the labour market were typically undertaken through legislation or the provision of public services by directly employed staff. By the end of the period, the prime mode of implementing policy was through providing financial incentives and contracting intermediaries.

Looking back, we can note opportunities that were taken that advanced the progress towards better provision for youth and the long-term unemployed. They were not always taken solely for that purpose – the actors concerned often had other aims as well. These include:

- ▶ The newly formed MSC reacted positively and imaginatively to the Government’s dilemma in the 1970s about how it could respond to a sudden rise in unemployment. Their first schemes were risky and far from perfect. But this episode illustrates how public officials can be entrepreneurial and lay a claim to territory through speedy action that they can later consolidate. For the next ten years successive Governments turned to the MSC for innovative action in the labour market – and later in aspects of education too.
- ▶ MSC officials used the urgent need to alleviate youth unemployment to advance a longer-term agenda of reforming school-to-work transition. This went through a number of iterations, with a few steps backwards when it became clear that their ambitions had exceeded the preparedness of politicians to devote resources in this area. But persistence and a consistency of vision meant that progress was gradually made.

- ▶ Involving a wide range of local actors in the special measures of the 1980s meant that not only could action be quickly taken and at scale, but also that it was much easier to gain local acceptance of the schemes. Public services can be delivered in many different ways, and many different people (employers, NGOs, colleges, local governments) are prepared to help if they are given the resources and (though this was not always fully appreciated by policymakers) allowed to shape what they do.
- ▶ The measures of the 1980s were adapted to become menu-items for a more comprehensive back-to-work strategy and were complemented by more purposeful counselling and by changes in the work incentives of the benefits system. This demonstrated how policy can use the same instruments for changing aims.
- ▶ The programmes were constantly evaluated, using a common framework of how to account for costs and benefits. Though this framework can be criticized, and nowadays could be much improved, it did lead to less effective programmes being terminated and more effective ones being expanded. Evaluation and monitoring in “real time” is vital in new policy areas, and needs to be incorporated in programme design from the start.

But there were also opportunities that were clearly missed and actions that – with the benefit of hindsight – proved to be mistakes and needed to be rectified later.

- ▶ The ambition for a free-standing Jobcentre system of the 1970s, orientated towards servicing employers and people wanting to change jobs, did not in the end attract sufficient political support. The 1970s policy of separating it from the business of paying and policing unemployment benefits was reversed in the 1980s.
- ▶ The disbandment of the Industry Training Boards in the early 1980s, now looks to have been too hasty. Though the levy/grant system for apprenticeships had clearly had its day, this could have been discontinued without abolishing the ITBs. A new structure of Sector Skills Councils was encouraged in the later 1980s, but much disruption could have been avoided by a more careful strategy of transitioning statutory ITBs into voluntary SSCs.
- ▶ The attempt to incorporate the old-style apprenticeships within the Youth Training Scheme evidently failed. Instead of lending the new YTS the credibility of a recognized (though diminishing) training route, the new programme had the effect of entirely superseding old-style apprenticeships. A decade later the Government found itself re-inventing apprenticeships. With hindsight it would probably have been better to have retained a distinct identity for apprenticeships throughout, using a specific stream of funding and involving reformed ITBs.
- ▶ The 1980s saw significant changes both in the construction of a new work based route into the labour market through the YTS and in a sharp rise in participation in upper secondary education. More could have been done to align these developments with each other (for example, by having comparable qualifications, progression routes between them, etc.), but departmental rivalries stood in the way of doing so. There was little communication between the MSC and the Department of Education, and each side was dismissive of the other. Issues only started to become resolved with the unification of the departments in 1995.



- ▶ Efforts to establish a programme of adult re-training did not succeed. While the early Training Opportunities Scheme was successful in training people who were changing careers at a time of relatively full employment, it was not applicable to long-term unemployed people at a time when jobs were scarce. The later adult programmes failed to engage employers and were far more costly and no more effective than the shorter Restart options. The role of public funding in the provision of adult training was never fully resolved.

Subsequently some of the opportunities taken were built upon, and some of the opportunities missed were rectified – and in a few cases repeated. The United Kingdom’s experience during these years also informed practices in other countries. It is not difficult, for example, to trace the spread of ideas such as competence-based qualifications and occupational standards. Many countries have developed active labour market measures, and improved upon the British practice of the early 1990s.

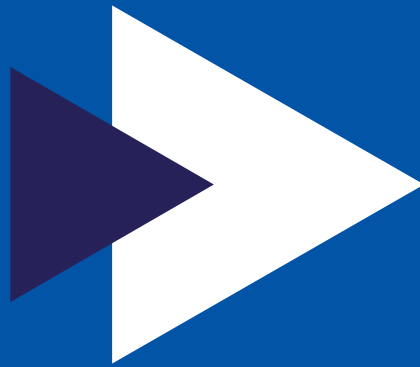
Countering unemployment, improving the transition between school and work, and assisting those at the margins of the labour market are all major issues of concern internationally and ones where cooperation and learning from others is widespread. The United Kingdom experience is only one of many. But it represents a significant story in the political as well as the technical response to unemployment.



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