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MR. SCHOLAR

UNEMPLOYMENT AND SUPPLEMENTARY BENEFITS -
AS THE CAUSE OF UNEMPLOYMENT

The DHSS Cohort Study of the unemployed, a sample of the inflow into registered unemployment of 2,300 men taken in the autumn of 1978, gives, at long last, a basis on which the effects of unemployment benefit etc on the supply of labour can be properly analysed.*

Although I believe there are some faults in the analysis, for the most part the paper maintains a very high standard of rigour and scholarship. I am sure that the main results are both correct and robust. This is important because one particular result is of momentous significance and is diametrically the opposite of conventional wisdom.

This main result arises because the analysis shows that variations in the unemployment benefit of the young have a large and significant effect on the amount of unemployment. Whereas variations in the benefits of older males, and particularly married men, have much less effect.

This result can be illustrated numerically by examining the effects, again entirely on the supply side, of reducing the unemployment benefits by 10%. Then the results show that the average duration of unemployment of a single teenager be cut by about 7½% (1.5 weeks), whereas that of a 25-34 year old, whether single or married, will be cut only by 2-2½%. Thus the percentage effect on teenagers is more than three times the effect on the older man.

Hitherto it has always been argued that since the unemployment pay of single teenagers was so very much less than their alternative wage (about 25-30% normally), then the reduction or increase in benefits would have little effect on unemployment. Whereas it was argued that since the married man with two children had enjoyed benefits about two-thirds or even three-quarters of the average wage, the effect of changes in benefits on him would be much larger. These results, however, show that exactly the opposite is true.

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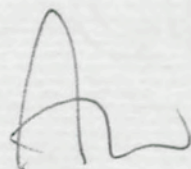
*Unemployment Benefits Revisited by W. Narendranathan, S. Nickell and J. Stern, March 1983; discussion paper number 153.

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The magnitude of the benefit effect on teenagers is, I believe, much higher than anyone had hitherto conjectured. The results are, fortunately, derived from 1978/79 period when there was, by normal standards, substantial unemployment. So we may expect that they would still apply under conditions of much higher unemployment today.

I think it would be sensible to use these results to illustrate the policy consequences of reducing unemployment benefit for the young.*



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*Note: All the calculations have been concerned with real benefits, not nominal benefits.

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