Special Employment Measures

Long-term unemployed and the young. Employment and Training Bill. Youth Services Review / Industrial training.

Part 5.

MANPOWER

Pt 1 : Jan 80

Pt 5 : July 81.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~20.7.81~~		31.10.87					
~~23.7.81~~		Ptends					
~~30.7.81~~							
~~31.7.87~~							
~~6-8-81~~							
~~17.8.81~~							
~~17.8.81~~							
~~20.8.81~~							
~~24.8.81~~							
~~25.8.81~~							
~~31-8-81~~							
~~7.9.81~~							
17.9.81							
~~2.10.81~~							
~~29-10-81~~							

PREM 19/526

PART 5 ends:-

S/S Education to CST 31.10.81

PART 6 begins:-

E(81) 31st mtg minutes Item 3 2.11.81

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
LCA to E (81) 25th Meeting, Minutes	15.7.81
MISC 59 (81) 1	21.7.81
E (81) 96	16.10.81
E (81) 97	16.10.81
E (81) 99	22.10.81
E (81) 98	23.10.81
E (81) 100	23.10.81
E (81) 106	26.10.81
E (81) 109	28.10.81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed GAWayland Date 19 July 2011

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard, 27 July 1981, columns 820-840
"Opposition Motion"

Signed C Wayland Date 19 July 2011

PREM Records Team

JT

cc AD

NBPM MLS

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Leon Brittan QC MP
Treasury Chambers
Parliament Street
LONDON SW1

31 October 1981

Dear Leon,

Thank you for your letter of 12 October about the Interim Statement of the Review Group on the Youth Service.

I trust that your fears are unfounded. As you will see from the attached copy of the Interim Statement, it has little in common with the garbled report which appeard in "Education" before it was published. In particular, there is no mention of a Ministry of Youth Affairs, nor of legislative pressure on local government and the emphasis on resources is based on the better deployment of what is already available. You will recall that the Group was set up to defuse the high expectations engendered by Trevor Skeet's Young Persons' Motion last year, and great care was taken to ensure a responsible and balanced membership from which we could expect realistic recommendations. I hardly need to say that I shall look closely and critically at the Group's financial recommendations when they make their final Report next summer.

I am copying this letter to the Prime Minister, the Secretaries of State for Employment, Social Services, Home Affairs, Scotland and Wales, and to Sir Robert Armstrong.

Yours,

Keith

REVIEW GROUP ON THE YOUTH SERVICE

INTERIM STATEMENT

1. The varied nature of the provision made by local authorities and voluntary bodies for young people in their leisure time, and the difficulty of simply defining its objectives and principles, make it vulnerable to two kinds of danger - on the one hand, a laissez-faire attitude disguised as 'voluntarism' and on the other hand a tendency to seek simplistic solutions. In carrying out the first part of our terms of reference ('To report on present provision, both statutory and voluntary') we propose to avoid these dangers if we can by taking as our starting point the situation in which young people find themselves today, then analysing their specific needs (bearing in mind the widely differing circumstances, traditions and beliefs of different communities), and assessing the extent to which these are met (or not met). It would obviously not be sufficient to describe the provision made for young people - we shall also assess the effectiveness of its many varieties and put forward suggestions for future development, including the financial and legislative implications.

2. Recent events in inner city areas may seem to give our work a certain topicality. But it would be a mistake to review Youth Service simply in terms of a rescue operation. The Youth Service exists for all young people to use at all times wherever they are, and its effectiveness in helping with the problems of particular communities must depend upon a correct adjustment to the needs of youth in general. We are surrounded by a 'cloud of witnesses'. Warnings have for years been uttered, by community leaders, the churches, social workers, and youth workers, about the degree to which young people, especially in inner cities but not only there, are alienated from society. In extreme cases their frustration and despair leads to a rage directed against the outward forms of social control; but the basic alienation is what matters most. If the causes of this are not sought out and dealt with, the national calamity which may result seems likely to transcend the immediate effects of particular outbreaks of violence.

3. Unemployment has often been cited as one of the influences which create this alienation; and indeed it is a very potent cause, but not the only one. What we see lacking in the lives of many of the younger generation, particularly in our inner cities is not so much employment as the whole range of experience which young people need in orde to recognise the rights and responsibilities of adulthood. By 'experience' we here mean circumstances which often pass unnoticed when present, but whose absence may later be felt in a calamitous way - the experience for example of being valued for ones own sake; of belonging to a peer group; of having to submit to exacting routines; of taking responsibility collectively and being answerable to and for other people; and (not least) of being totally absorbed in a pleasurable activity. The full quality and range of such experience, marking the passage from the dependency of childhood to the independence and interdependence of adulthood, come from many sources. Employment certainly plays its part because (as is widely and rightly recognised) a young person's first job encapsulates many types of experience in one, including a vital measure of financial independence and the ability to satisfy felt needs. Every young person must have some way of finding this independence. Alienation results when young people are deprived not just of employment, but of an appropriate mix of all these types of experience - secure family life, sustaining neighbourhood links, achievement in education, a social milieu in which they can take pride, financial independence, status in general.

4. All this we would expect to argue more fully in our final report. It may seem as th[illegible]h in advancing the above observations at this time we have anticipated the full and proper consideration of the mass of evidence which is now reaching us from local authorities, voluntary bodies, young people themselves and many organisations at national and local levels. Even a first perusal however suggests that though there are difference in language and also in priorities, there is a substantial degree of consensus on the needs of young people today. As we have said above there is no mystery about the links between the deprivation of essential experience and the alienation and the despairing violence which result from this. How to prevent this is another matter and one to which we shall have to give much more consideration.

5. Meantime, it seems useful to us to advance certain positions. In the first place, since the forms of deprivation are so many and various it seems clear that no one service or agency can deal with them all. An attack on a broad front will be necessary. One of the traditional roles of the Youth Service has been to supplement or in extreme cases provide substitutes for the providers of the formative types of experience referred to above. But today the Youth Service must stand alongside the employment service the Further Education and training services, schools, the social services, the probation services etc. All forms of social care must be brought into play. Secondly, it seems to us that while this pluralism is not only unavoidable but indeed of benefit in providing flexibility of response to an infinite variety of needs, nevertheless some form of focus is needed both at national and local level. We shall have to study the evidence in much more detail before we can recommend what form this focus should take; but somewhere, somehow the essential management functions of evaluating, making policy, assigning roles and monitoring performance must be carried out. Thirdly, and turning to the Youth Service itself, we believe that it follows from what has been said above about the experiential needs of young people, that the Youth Service must continue to offer the widest possible range of choice. The precise 'mix' of experience required differs from one young individual to another. It is important that young people themselves should be free to choose the form of experience which is suitable for them. No-one can or should make that choice for them. It is equally important that they should know what is available and have a say in determining what it should be. Many varieties of provision have been devised within the Youth Service in order to make that power of choice an effective one. We feel sure that the public generally does not appreciate how wide and varied that provision is; and we shall aim to document it in our report. It includes, for example - clubs in all their many forms, leisure time facilities, counselling services, adventure pursuits, enterprise groups, various forms of community service, and informal contact with adults other than family. All these varieties of provision are valuable in one way or another. Only one approach is and must be wrong: that is, to pick on one single variety - for example community service - and elevate it to the status of a universal medicine which can and should be administered to all. That would be the very negation of what the Youth Service should be doing.

6. Finally, we must affirm a belief in the need for a strong and effective presence on the part of the Youth Service, both nationally and especially in areas of acute social deprivation. There are many areas where this presence is manifest and effective and there are many areas where it is not. It is not always a question of the total amount of resources in money and buildings. It is often a question of choosing the right policy , of using resources to the best advantage, of taking steps to mobilise and encourage voluntary efforts of many kinds - in short, of arranging for the effective exercise locally of the management functions referred to above, both within the Youth Service and in relation to all forms of social care.

It should not be supposed that even a greatly enhanced Youth Service can alone supply all experiential needs of young people. In particular, work (however differently it may be defined in the future) is such a powerful provider of educative experience that it is difficult to see what could take its place with a great majority of young people. We welcome the emphasis placed on vocational preparation in the broad context of personal development in the MSC's 'New Training Initiative', on which we propose to offer comments shortly. But work cannot be all in all, anymore than the Youth Service can be. We affirm out belief that now, more perhaps than at any time, it is necessary to take seriously the informal and voluntary terms of social education of the young in order to preserve their confidence in themselves and in their society.

Department of Education and Science
Elizabeth House
York Road
London SE1 7PH

cc AD

Prime Minister

(4)

MCS 2/11

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/18078/81

Your ref:

30 October 1981

MF

Dear Secretary of State — with regret if required

Thank you for your letter of 6 October setting out your views on the best method of allocating the additional education resources we have agreed for the young unemployed.

For the reasons you set out, I am generally content with your conclusion that the consequential grant support should be passed through the Rate Support Grat System, rather than some existing or new specific grant machinery.

I was glad to see you have decided not to press the suggestion that the Block Grant machinery should be adapted to allow the recalculation of grant entitlements in the light of the extra provision authorities make during the course of the grant year. That proposition would have put us in a difficult position in the light of our earlier statements in Parliament and elsewhere on the nature of the GREs and the unhypothetecated nature of the Block Grant.

I have no doubt however that it is hightly desirable to be able to show that the additional resources have been allocated in a way related to the incidence of youth unemployment. I agree, therefore, with your proposal to use this in the construction of the GRE assessments; even though it will involve the addition of a further sub component of GRE and another factor in the overall formula.

I am incorporating your proposals in the grant exemplifications which are being prepared for the next meeting of MISC 21. If other colleagues to whom you copied your letter are content, I suggest that officials now arrange to inform the local authority associations of these decisions through the Grants Working Group.

I am sending copies of this letter to those who received copies of yours.

Yours

MICHAEL HESELTINE
(dictated by the Secretary of State and signed in his absence)

Rt Hon Sir Keith Joseph MP

Confidential

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Mr. Whitmore

Ministerial Committee on Economic Strategy

2 November 1981

The item on local government finance (interim rating measures) is shown last on the agenda for this meeting. But it must be dealt with at this meeting, and it might be prudent to bring it forward and take it first. This presents no problem vis-à-vis invitees: the Secretaries of State for Scotland and Wales have been invited for the entire meeting.

RCA 30. x. 81.

Ref. A05868

PRIME MINISTER

Special Employment Measures

E(81) 97

BACKGROUND

As recorded in the Chief Secretary's letter of 30 October, the Secretary of State for Employment has now agreed to drop a number of the proposals he had made in E(81) 97. Unless the Committee feel that the resulting package is either too big or too small, it should be possible to run through the proposals in E(81) 97, as amended, fairly briskly.

Youth Opportunities Programme

2. The Secretary of State for Employment and the Chief Secretary agree that the YOP allowance should be increased in November 1981 from £23.50 to £25.00. There are no other issues under this head.

Community Industry

3. The Secretary of State has withdrawn his additional bid for expansion of this scheme which gives employment to young people.

Longer Term Unemployed: Community Enterprise Programme and Layard Subsidy

4. Against the prospects that by 1983 there will be 800,000 people who will have been unemployed for over a year, the Secretary of State for Employment had proposed that the Community Enterprise Programme should be increased to 50,000 places. He now agrees that it should be maintained at 30,000 places and the Chief Secretary has accepted the net additional expenditure necessary of £33 million in 1983-84 and £34 million in 1984-85.

5. The Secretary of State has agreed to drop his proposal for adopting Professor Layard's idea whereby a subsidy of £50.00 a week would be paid to employers taking on additional employees from among the unemployed. This would have reduced the register by 6,000 in March 1983 at a relatively high net cost per person of £5,000.

Temporary Short Time Working Compensation Scheme (TSTWCS)

6. The two Ministers now recommend that the period of support under TSTWCS should be reduced from 9 months to 6 with effect from the end of September 1982 and that the scheme should be withdrawn from April 1984. This recognises that use of this scheme is already falling, and that it is better to give priority to encouraging recruitment to new jobs rather than to supporting existing jobs. It will lead to savings of £23 million in 1983-84 and £51 million in 1984-85.

Job Release Scheme

7. The two Ministers recommend withdrawal of the concession whereby civil servants can use the JRS even though their post is not filled by someone from the unemployment register, which is the standard condition for other JRS applicants. This would save £40 million in 1982-83 and £70 million in each of the following years. The Chancellor of the Duchy of Lancaster will not, however, have had an opportunity to consider it and so, in fairness to her, any approval should be conditional on her being able to consider the proposal in greater depth and come back to the Committee if she does not feel able to accept it.

Overall Expenditure Effects

8. The overall effect of these proposals, of the training measures, and of other smaller changes which have been negotiated bilaterally, are tabulated in the Annex to the Chief Secretary's letter. In summary, and taking account of the substantial package announced on 27 July, the Department of Employment's public expenditure programmes will have been increased this year as follows:

	£ million		
	1982-83	1983-84	1984-85
(i) March 1981 White Paper	1911	1875	1969
(ii) Now	2831	2909	2925

In short, if the Committee approve the proposals, the Government will since March have increased the public expenditure provision for training and employment measures by around £1 billion a year. The increase over the public expenditure totals proposed by the Chief Secretary in C(81) 51 is, however, fairly small (£90 million in 1982-83, £81 million in 1983-84 and £226 million in 1984-85).

HANDLING

9. You might ask the Secretary of State for Employment to introduce his paper briefly and then to take the Committee through each of the items in it drawing their attention to the changes which he has agreed with the Chief Secretary.

CONCLUSIONS

10. You will wish to record conclusions on each item as the Committee works through the paper. It would be reasonable to make any approval of the changes in the JRS scheme as it affects civil servants subject to the Chancellor of the Duchy of Lancaster having an opportunity to confirm that she is content.

RoA

ROBERT ARMSTRONG

30 October 1981

COPY NO 1

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Tebbit MP
Secretary of State
Department of Employment
Caxton House
Tothill Street
London SW1

30 October 1981

Dear Secretary of State,

EMPLOYMENT AND TRAINING MEASURES: PUBLIC EXPENDITURE ASPECTS

As your papers for E Committee (E(81)96-100) recognise, our current discussions of public expenditure are very relevant to consideration of proposals on employment and training measures. We have discussed this aspect over the past few days; and I am now writing to record the outcome. This letter accordingly sets out what we would both be prepared to support on policy grounds and regard as acceptable in the context of public expenditure. The policy decisions will, of course, be for E Committee on Monday.

Comprehensive Youth Scheme

I can support your proposals for a comprehensive youth training scheme, subject to one point, which you have accepted. Although I accept that 17-year olds should be eligible for the proposed scheme, I should be greatly concerned at the increased open-endedness of expenditure under the scheme if they were to be given a guarantee of places. You have therefore agreed that such a guarantee should not be offered; that it should be made clear that the public expenditure provision agreed for the scheme is considered to be adequate for the foreseeable needs of 17-year olds; and that any additional provision would be a matter for decision at the time in the light of available resources.

The new benefit and allowance regime would come into effect from September 1983; the YOP allowance will be uprated to £25 a week from November 1981.

Other Training Measures

I can support your proposals in this area - Unified Vocational Preparation, Open Tech, the New Training Initiative Development

Fund, and apprentice training. I understand that the additional provision required for the last of these items is £12 million in 1982-83 and £13 million in 1983-84 and not the slightly lower figures shown in the E papers.

Special Employment Measures

Given the very considerable additional expenditure entailed by the proposed youth training scheme, I do not feel able to accept any substantial additional expenditure on employment measures; and you have accepted that our priority should be youth training. You have, however, argued strongly - and I am prepared to agree - that places under the Community Enterprise Programme should continue to be provided at a rate of 30,000 a year, at an additional cost of £31 million in 1982-83, £33 million in 1983-84, and £34 million in 1984-85. You have most helpfully offered to offset the cost in 1982-83 by savings within the Youth Opportunities Programme.

Savings

This would still leave a substantial addition to the Department of Employment expenditure programme; and you have therefore offered a number of savings. For the most part, I need not trouble our colleagues with the details (about which I am writing to you separately); but I should draw their attention to two of the items.

First, it is proposed to withdraw the concession whereby civil servants can use the Job Release Scheme, even though their post is not filled, directly or indirectly, by someone from the unemployment register (the standard condition for other JRS applicants). This would save £40 million in 1982-83 and £70 million in each of the following years. I welcome this proposal, subject to any comments that the Chancellor of the Duchy may have.

Secondly, it is intended to reduce the period of support under the Temporary Short-Term Working Compensation Scheme from nine months to six with effect from the end of September 1982, and to withdraw the scheme from April 1984.

... For convenience, I attach a table setting out the public expenditure effects.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Duchy, the Secretaries of State for Scotland, Wales and the Social Services, the Lord President, the Chief Whip, other members of E Committee, Sir Robert Armstrong and Mr Ibbs.

Yours sincerely

JPS

LEON BRITTAN

(Approved by the Chief Secretary & signed in his absence.)

DEPARTMENT OF EMPLOYMENT PUBLIC EXPENDITURE

	1982-83	1983-84	1984-85
1. White Paper revalued (for 1984-85, 1983-84 total revalued by 5%)	1911	1875	1969
2. Agreed changes (excluding LA current) - mainly 27 July package	+648	+643	+494
3. Increased/reduced requirements on existing policies	+262	+127	-103
4. Bids accepted			
a. Comprehensive youth scheme	- 31	+284	+612
b. New Training Initiative	-	+ 23	+ 41
c. Additional provision for apprentice training	+ 12	+ 13	-
d. Community Enterprise Programme	+ 31	+ 33	+ 34
e. Winding up and other costs of ITBs	+ 30	-	-
f. Other	+ 20	+ 12	+ 7

	1982-83	1983-84	1984-85
5. Cuts			
a. Taper and eventually withdraw TSTWCS	-	- 23	- 51
b. Uprate YOP allowance by £1 a week less than existing provision	- 7	-	-
c. Withdraw concession to civil servants on JRS	- 40	- 70	- 70
d. Other	- 5	- 8	- 8
6. Net change	+920	+1034	+956
7. Proposed provision	2831	2909	2925

Memorandum

Bid withdrawn			
Community industry	+ 5	+ 7	+ 7

Ref. A05870

PRIME MINISTER

Industrial Training

E(81)96, 98-100, 106 and 109

BACKGROUND

The Secretary of State for Employment's proposals in his 4 papers are summarised in paragraphs 4 and 6 of E(81) 96; to help Ministers deal with this mass of paper, we have indicated on the agenda for the meeting that these paragraphs serve as an annotated agenda for discussion of this item. They should be read with the Chief Secretary's letter of 30 October to the Secretary of State for Employment, which summarises the package which he and the Secretary of State now jointly recommend (all the figures are summarised in the Annex). Broadly the Chief Secretary is willing to accept substantial additional bids for training, in particular for a comprehensive youth training scheme, in return for the Secretary of State for Employment's withdrawal of a number of bids for expenditure on special employment measures (the second item on the agenda).

2. The Secretary of State for Employment's 3 other papers, E(81) 98, 99 and 100 set out the details of his proposals; their conclusions do not need to be looked at in addition to those summarised in E(81) 96. The Secretary of State for Education and Science, in E(81) 106, summarises his objectives for teenagers in full time education and for the role of the education services in the development of training schemes. The Central Policy Review Staff in E(81) 109 offer their comments on particular proposals.

3. Since these proposals follow from earlier discussions by E in the summer, and they directly involve a number of Ministers, you agreed that they should be taken by E and not processed through the Home Secretary's MISC 62 Group. One of the main objectives of the meeting will be to

take sufficiently firm decisions on all the proposals for the outcome to be taken into account in the present public expenditure exercise. The agreement now reached by the Chief Secretary and the Secretary of State for Employment should considerably ease the task.

4. Public expenditure considerations apart, the Secretary of State for Employment wants to make a statement early in November on the financing and future of the Industrial Training Boards (ITBs), and to develop the details of his other proposals with a view to further consideration by Ministers leading to a general statement on the reform of training at around the turn of the year. This should mean that the Committee will be able to avoid going into details on particular proposals on Monday and can concentrate on the main issues and on the public expenditure aspects.

I. COMPREHENSIVE YOUTH TRAINING SCHEME

(NB. this is summarised in more detail in paragraphs 5 to 15 of E(81) 98).

5. Following the Committee's discussions last summer, additional provision was made to meet commitments to offer places under the Youth Opportunities Programme (YOP). In the debate on 27 July, you said that the Government was looking at the YOP to see how it could be improved and was considering further the provision of a better training scheme for the young which would eventually replace the existing programme; and that the aim was to reach the position where all young people on leaving school either move into further education, find a job or are given the chance of vocational training or community service. (Hansard Col 835).

6. The Secretary of State for Employment now recommends the introduction of a comprehensive youth training scheme from September 1983 with the following main features -

i. All 16 and 17 year olds unemployed on leaving school, or becoming unemployed during their first post-school year, would be eligible for up to one year's training (which in length and

quality would be intended to be a marked improvement on YOP). As agreed with the Chief Secretary, there would be no guarantee of places for eligible 17 year olds, so as to avoid the scheme being too open ended.

ii. Supplementary Benefit (SB), currently £15.25, would be withdrawn from all 16 year olds who -

a. when unemployed would be regarded as dependent on their parents who would draw Child Benefit (CB), currently £4.75, and

b. when on a training scheme, would get an allowance of £8 and £4.75 paid to them and not their parents.

iii. 17 year olds would get SB plus expenses - £20 in all, at current prices.

7. The Chief Secretary is prepared to accept these proposals. If they are approved, there will be no additional expenditure in 1982-83 and the position in the two later years will be (£ million)

	Additional	Total
1983-84	284	874
1984-85	612	1,020

These estimates assume that in 1983-84 there would be sufficient courses to take 300,000 young people off the register leaving a further 230,000 under 18s who could experience some unemployment.

8. The changes in the SB and CB arrangements would require primary legislation in the 1982-83 Session. The distinction between 16 and 17 year olds would be controversial, and resented by the former. There is a good case for paying young people in training relatively low

allowances, though there will no doubt be some complaints from the unions that they provide for cheap labour. As the CPRS point out, it is for consideration whether Child Benefit should be paid direct to 16-18 year olds in education, rather than to their parents, as a possible encouragement for children to stay on at school.

II. OTHER TRAINING MEASURES

9. The Chief Secretary and the Secretary of State for Employment are willing to agree on net additional public expenditure for these proposals of -

£ million		
1982-83	1983-84	1984-85
12	36	41

Further work will be necessary to put some flesh on the bones of these proposals and at this stage the Committee can probably deal with them relatively quickly.

10. There are two proposals for better training of young people in jobs -

4b proposes expansion of Unified Vocational Preparation (UVP) places. The CPRS question whether, without more financial incentive, employers will co-operate in providing more places.

4c is to provide for maintaining apprentice training support at around 25,000 places. This support would be made increasingly conditional on acceptance of greater flexibility in apprenticeship arrangements; the CPRS propose that companies and unions should be given a set timetable for this.

11. There are then two proposals for more expenditure on adult training which is seen as the best remedy to deal with potential skill shortages in the up-turn. These proposals (described in detail in E(81) 99) are -

4d for re-allocation of present resources and for some additional expenditure to provide for an Open Tech programme for technician training (NB. this will be run by a small unit and would not be a major institution on the lines of the Open University). The CPRS advise that the functions of the Open Tech, and its relations with ITBs, need further clarification.

4e is for some additional provision for the development of new training initiatives.

12. The Secretary of State for Employment recognises that these schemes, including the comprehensive youth training scheme, might not lead to the necessary voluntary response from employers with the result that the State would increasingly have to bear the burden. To deal with this he recommends, in his paragraph 6, further study of taxing employers who do not train. The CPRS point out that the acceptability of this would be greater if it coincided with a reduction in other tax burdens on industry.

13. Finally, the Secretary of State for Employment recommends, in paragraph 4f, linking education and training by introducing a national body which would be regularly consulted by the Manpower Services Commission (MSC) and by the Department of Education, and by development of local arrangements. Subject to working out the details, the Secretary of State for Education and Science believes this to be very much on the right lines. However, the CPRS argue (E(81) 109) paragraph 3e) that more fundamental changes are needed. It should not be necessary to have any detailed discussion of it at this stage.

14. More generally, the Secretary of State for Education and Science in E(81) 106 seems sympathetic to the Secretary of State for Employment's proposals, subject to two points -

i. When in due course he announces his public expenditure plans for education he wants to say that some of the total money agreed for the MSC will, if necessary, be transferred to his budget for the purpose of encouraging young people to stay in further education and to develop appropriate courses for them (his paragraph 6). This needs further examination, though if it is a matter of switching funds within totals it does not necessarily have to be settled at this meeting.

ii. He wants both the MSC and the Department of Education involved in the development of all the new training courses; this will need further examination (though not at the meeting) but it should be acceptable for DES to be closely involved in the setting up of the new arrangements.

III. INDUSTRIAL TRAINING BOARDS

15. The former Secretary of State for Employment announced last November the Government's aim to reduce statutory ITBs to a few key sectors and to phase out Government funding of operating costs. At his request the MSC published a sector by sector review in July as a basis for further comments by the end of September.

16. On the basis of these further consultations the Secretary of State for Employment recommends (paragraph 4g of E(81) 96 and in more detail in E(81) 100) that the number of ITBs should be reduced from 23 to 7 - namely, clothing, construction, engineering, hotel and catering, rubber and plastics, road transport and the offshore sector of the petroleum industry. These boards are to be retained because it is judged that for the most part voluntary training arrangements in their sectors would not work adequately. To ease the transition to the new arrangements, and the burden on employers who will be losing Exchequer support, the Secretary of State recommends, and the Chief Secretary accepts, additional provision of £30 million in 1982-83 to meet some transitional costs (he has been asked to find most of the additional money needed in 1981-82 from within his present programme). The Secretary of State warns that the proposed abolitions will come in for a good deal of criticism.

17. Subject to his consideration of any further views from the MSC, the Secretary of State for Employment invites the Committee to agree that he should announce these decisions as soon as possible in the new Session. Provided this proposal has the general support of the Committee I suggest that any details, including questions of the future of particular boards, might be dealt with separately by the Ministers concerned.

HANDLING

18. You might first remind the Committee that, in order to meet the timetable for the public expenditure exercise, they will need to take decisions during the meeting on the expenditure implications of all the training measures discussed in these papers, of the special employment measures in E(81) 97, and of the proposals on Regional Development Grants in the papers under the third item on the agenda. To do this, and to avoid the confusion of delving into all of the Secretary of State for Employment's papers, you propose to base the discussion on paragraphs 4 and 6 of E(81) 96 and with reference to the Chief Secretary's letter of 30 October. Since, with the exception of decisions on the future of the ITBs, the Secretary of State for Employment does not wish to announce anything on the other measures until the turn of the year, your aim will be to deal with them in fairly general terms at this stage and primarily with a view to clarifying the public expenditure implications. More detailed points on the arrangements can be discussed further, and separately, by the Ministers concerned. Most of the Committee's time in discussing this item should be given to the comprehensive youth training scheme.

19. You might then ask the Secretary of State for Employment to give a short explanation of the general background to his proposals and then to take the Committee through paragraphs 4 and 6 of E(81) 96. The Chief Secretary, Treasury, the Secretary of State for Education and Science and Mr Ibbs may each wish to make some general comments before the detailed discussion gets under way, but it would make for more manageable

discussion if they were to save particular points for when the Committee reached the proposal in question. It will be important to hear the views of the Secretary of State for Social Services on the comprehensive youth training scheme and the proposals with the legislation to change the Supplementary Benefit arrangements.

CONCLUSIONS

20. You will wish to record conclusions as the Committee works through the proposals, on each of the recommendations in paragraphs 4 and 6 of E(81) 96.

21. With reference to the Secretary of State for Education and Science's paper, E(81) 106 you will wish -

i. To clarify his proposal that he might indicate publicly that some MSC money will, if necessary, be diverted to the Education programme in 1982-83 for training purposes.

ii. To agree that the Secretary of State for Employment and the Secretary of State for Education and Science should consult closely in further work on the proposals to ensure that there is an effective partnership between the Education services and the MSC.

RGA

ROBERT ARMSTRONG

30 October 1981

CONFIDENTIAL

cc JVorcker
A Dugwid
A Walters

SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400 GTN 213
Switchboard 01-213 3000

for E folder

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1

29 October 1981

Dear Michael

FUTURE OF INDUSTRIAL TRAINING BOARDS (E(81)100) — with MS.

In his paper on the above subject my Secretary of State undertook to report the further views of the Manpower Services Commission, and I now attach a copy of a letter to him from the Chairman.

Essentially the position is that the TUC Commissioners (together with the representative of local authorities in England and Wales, and the representative of professional education interests) are against early action to abolish ITBs, whereas the CBI Commissioners (together with the representative of Scottish local authorities) think that there is enough evidence to take decisions now, and believe that a voluntary body which enjoys the support of most employers is better than a statutory body which enjoys only grudging acceptance.

The CBI have since confirmed that they do not consider voluntary training arrangements need be "tripartite" provided that they provide for appropriate consultation and agreement with employers, trade unions and educational representatives. They have also re-emphasised the statement in the MSC July report (para 6.6) that the decisions to be taken are essentially matters of judgement, and their own view that voluntary arrangements should be given the benefit of the doubt.

There was also omitted from part B of Annex 2 to the paper the material on the Chemical and Allied Products ITB, and this is now attached.

I am copying this letter to the Private Secretaries to the members of E Committee, and to the Secretary to the Cabinet.

Yours sincerely

John Anderson.

J ANDERSON
Private Secretary

MSC
Manpower
Services Commission

Selkirk House
166 High Holborn
London WC1V 6PF
Telephone 01-836 1213

Chairman: Sir Richard O'Brien

Our ref

Your ref

Date 28 October 1981

28 OCT 1981

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Caxton House
Tothill Street
LONDON SW1

Dear Secretary of State,

You wrote to me on 13 October inviting me to let you have the Commission's further views on future training arrangements as soon as possible.

At its October meeting the Commission considered evidence submitted to it by the TSD summarising proposals for future training arrangements and further comments put forward in response to the Commission's report "A Framework for the Future". I am sending you TSD reports on each of the board sectors very shortly.

It was agreed that future training arrangements should provide for effective tripartite bodies in each sector which are capable of maintaining training standards in the industries concerned and of securing progress in the implementation of the three NTI objectives; and which are developed in line with the other considerations mentioned in paras 6.5-6.9.

The Commission also agreed that it was important for firm decisions to be reached quickly in each of the sectors examined in the sectoral review.

In the light of the evidence available the Commission reaffirmed its recommendations for the retention of statutory boards in the following sectors: Ceramics, Glass and Minerals, Clothing and Allied Products, Construction, Engineering, Hotel and Catering, Road Transport and Rubber and Plastics Processing. The Commission also confirmed its proposals for future training arrangements in the 18 sectors not currently covered by statutory boards.

As regards the other board sectors a majority of the Commission (including those representing the trades union interests) considers that the alternative arrangements proposed do not fully meet the criteria in para 6.7 of our earlier report. Furthermore, they consider it essential first of all to reach an agreed view about what is required (e.g. in the way of statutory underpinning, powers to raise money to promote training) to achieve the NTI objectives. Only then will it become clear what role national, sectoral and local bodies should play, what form they should take, and what powers they need. Whilst they accept that there is room for

/improvement

improvement in the ITBs - as in other institutions - they judge that it would be wrong to dismantle existing bodies before an agreed strategy for moving towards the NTI objectives has been established. They conclude, therefore, that the Government should not take action to abolish ITBs.

A minority of the Commission (including those members representing employers' interests) judge that considerable progress has been made in developing proposals which could provide a satisfactory basis for a voluntary framework in a number of sectors. Whilst they accept that it is essential to safeguard training standards, they believe that a voluntary body that enjoys the support of most employers is to be preferred to a statutory body which enjoys only grudging acceptance. And they are clear that there is sufficient evidence now - in the evidence put before the Commission by the TSD - for the Government to reach decisions about those sectors where voluntary arrangements could secure progress towards the NTI objectives.

Whatever the Government's decisions on individual sectors, the Commission wish to re-emphasise the views which they expressed in para 6.18-19 of "A Framework for the Future" about the need for continued support from Exchequer funds for boards operating costs and for the net winding up costs of any boards which are abolished.

Yours sincerely,

Richard O'Brien

PASSAGE FOR ADDITION TO PART B OF ANNEX 2 TO E(81)100
(INDUSTRIAL TRAINING BOARDS)

Chemicals and Allied Products (439,000 employees)

This industry has significant training needs and has experienced skill shortages, especially of instrument maintenance workers. Most chemicals companies have a good training record, and are exempt from levy. The Board has lost the support of its industry.

Voluntary proposals have been made covering 90% of employees. They are as good as most others, but not quite as strong for this important sector as I would like. However the Board has lost the confidence of its industry, and it would be very difficult to turn the Board into an effective body against employer opposition.

HL

RF 3-11-8

29 October 1981

SDP job creation programme

Following Dr. David Owen's speech in the House yesterday in the Censure Debate, the Prime Minister has asked for a note on the SDP's "carefully costed package of £2-3 billion to create jobs in the short and medium term", Hansard Col. 908, 28 October. I should be grateful if you could provide this by midday on Tuesday 3 November.

MICHAEL SCHOLAR

Peter Jenkins, Esq.,
H.M. Treasury.

SP

cc Duguid
Walker
Vereker
Mayon

NBPM yet

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400 GTN 213

Switchboard 01-213 3000

Peter Jenkins Esq
Private Secretary to the
Chancellor of the Exchequer
Treasury
Great George Street
LONDON SW1

14 October 1981

Dear Peter,

ACTION TO COMBAT UNEMPLOYMENT AND TO IMPROVE THE LABOUR MARKET

Thank you for your letter of 8 October.

I understand that officials of our two Departments are working closely together on this matter. Quite a number of the ideas canvassed in the Treasury paper are the subject of papers that my Secretary of State will be putting to E Committee later this month or in November. This is so of the matters relating to industrial relations law, training and special employment measures, and wages councils.

We also already have in hand for MISC 14 a paper on relating labour supply to market needs (including the MSC role) which is highly relevant. We shall shortly be consulting Treasury, CPRS and the No 10 Policy Unit on a draft of that paper and it will thereafter be possible for the Treasury to indicate any further specific proposals that seem worth considering. It looks therefore as though it would be convenient to pull all this together by bringing to MISC 14 at the same time in November both this paper on the labour market and a report of the kind you mention, and we will work with the Treasury to that end.

I am copying this letter to the recipients of yours.

Yours ever

Richard Dykes

R T B DYKES
Principal Private Secretary

Prime Minister

MLS 13/10

manpower
cc J. Vereker
A Walters
A Dugmore

(4)

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Education
and Science
Elizabeth House
York Street
London SE1 7PH

12 October 1981

Dear Keith,

REVIEW GROUP ON THE YOUTH SERVICE

In view of our continuing problem of overspending by local authorities I am obviously concerned that we should not compound our difficulties by encouraging proposals which extend or impose new financial obligations on them. For this reason I wrote to Mark Carlisle on 8 July about the report of a review group he had set up on the legal basis of further education. (My officials have subsequently provided yours with some detailed comments and reservations). I am writing now to express a similar concern about the review group on the Youth Service.

will request if required

I understand that this group wishes to make an "interim statement" on the basis of their deliberations so far. I am not sure what they hope to accomplish by this - the draft hardly seems a model of clarity - and I fear their approach could be inappropriate and unhelpful in appearing to separate the first part of their terms of reference from the second part. For example, I see that there has already been a report in the magazine "Education" of 2nd October quoting from the draft statement and indicating that the group are thinking in terms of legislation to oblige local authorities to undertake "appropriate provision". There are also hints that this provision should be at a substantially enhanced level as well as the suggestion of a new Ministry of Youth Affairs.

I am aware that the group's terms of reference included a request to assess the need for legislation but their whole remit was related to assessing the deployment of existing resources and not intended as an invitation to encourage expectations of greater provision. Mark Carlisle's minute to the Prime Minister of 11 December 1980 explicitly acknowledged the need to avoid this kind of result and indicated that the review would be handled in such a way as to do so. Geoffrey Howe also stressed the public expenditure point in his minute to the Prime Minister of 17 December 1980.

See PEC

I am sure you will share my concern at seeing reports in the press which seem designed to pre-empt any unfavourable Ministerial response (I understand there was a similar case recently involving a draft Rayner scrutiny of HM Inspectorate) but in any case I wanted to point out how the group's line of thinking seems to be developing in a way which could damage our attempts to contain public expenditure.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Employment, Social Services, Home Affairs, Scotland and Wales, and to Sir Robert Armstrong.

LEON BRITTAN

Manfours special measures

2

Copy to A Dugwid

PRIME MINISTER

Unemployment and Early Retirement

You may wish to glance at this exchange of letters about ways of encouraging early retirement. Mr. Prior's proposal for a study by officials met a lukewarm response from Mr. Jenkin and outright opposition from Sir Geoffrey Howe. Mr. Fowler now revives the issues but makes no proposals.

The Policy Unit - and now also the CPRS - thinks that it should be studied further - despite Treasury concern about costs. Like Norman Fowler they doubt the Chancellor's argument that it would affect wage pressures significantly. The main advantage of more voluntary early retirement would be the political one of lower unemployment figures. But they also think that substitution of younger for older people at work could bring some other benefits that the Treasury may have discounted.

Content to leave this for further discussion between the Ministers concerned at this stage, or would you prefer to intervene?

Yes
No.

9 October 1981

MCS 9/10

Now. There is already a 5-year flexibility in retirement age.
60-65 for women
65-70 for men
which
the
retirement is deemed in any event

Macpherson

PRIME MINISTER

Unemployment and Early Retirement

You may wish to glance at this exchange of letters about ways of encouraging early retirement. Mr. Prior's proposal for a study by officials met a lukewarm response from Mr. Jenkin and outright opposition from Sir Geoffrey Howe. Mr. Fowler now revives the issues but makes no proposals.

MS

8 October 1981

cc Alan Walters
Andrew Dugmore
John Vereker

NBPM yet
MCS

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

8 October 1981

Richard Dykes Esq
Private Secretary
Department of Employment

Dear Richard,

ACTION TO COMBAT UNEMPLOYMENT AND TO IMPROVE THE LABOUR MARKET

At their meeting on 6 October, the Chancellor of the Exchequer and your Secretary of State discussed a range of possible measures to combat unemployment by making the labour market work more effectively. They agreed that these measures, along with related ideas already under review, should be examined further by officials of the two Departments, in close consultation with the No.10 policy unit and the CPRS. They agreed on the importance of the task, and of the need for close co-operation and collaboration between the officials and advisers concerned. The aim should be to prepare, perhaps for consideration in MISC 14 in November, a report surveying action in hand as it bore on the labour market and discussing the scope for a further package of measures.

I am copying this letter to Michael Scholar, John Hoskyns and Alan Walters in No.10, and to Robin Ibbs.

Yours ever
Peter

(x recognising & concern that some are already being actively considered)

P S JENKINS
Private Secretary

With the Compliments of

Q Thompson

CENTRAL POLICY REVIEW
STAFF

Cabinet Office
Whitehall London
SW1A 2AS

Telephone 01-233 3000

CONFIDENTIAL

DRAFT

Note to Secretary of State for
Employment

From: MR IBBS

MLS

UNEMPLOYMENT AND EARLY RETIREMENT

1. I have seen the recent correspondence on this subject.

2. I understand the Chancellor's reservations about measures of this kind. A mandatory reduction in the male retirement age would be very costly, even allowing for some offsetting benefit savings from a reduction in unemployment. It was for this reason that the CPRS, in its report on Unemployment and Young People, did not recommend any early changes to the pension age.

3. The Chancellor also points out that any reduction in the supply of labour tends to lead to upward pressure of wage rates; other things being equal, Ministers are bound to look for real growth and supply side improvements as the best way of reducing unemployment. But with the current and projected levels of unemployment, there must be some doubt whether the numbers likely to be involved in a flexible retirement scheme would have sufficient impact on unemployment to have other than a negligable impact on wage rates.

4. However the arguments about early retirement are not all one way, and I think there is some merit in exploring the possibility of introducing a degree of <u>flexibility</u> into the retirement age. There are advantages, in addition to the presentational one of some consequential reduction in unemployment, viz:

- it would introduce an extra degree of flexibility into the labour market, to enable it to respond better to changes in demand (just as the activity rates of married women allow another part of the market to respond);

- it would lead to some efficiency gains to the extent that older less productive workers were replaced by more productive younger ones - who would be in real jobs;

- by allowing a greater element of choice about when to retire, it would further the objective of reducing the degree of Government control over individuals' decisions;

- the resources of older people who retired would not all be lost to the economy - these 'younger' elderly could undertake voluntary work eg with the increasing numbers of older elderly, thereby easing the burden on public services. To an extent they would fill the gap left by the higher participation in the formal labour market by married women.

5. Thus I would suggest that, in the broader context of the points raised above, there would be some merit in officials exploring the possibility of greater flexibility in retirement age. If the analysis showed that the policy was not worth introducing, it would at least provide the case for resisting the pressure that will arise from the work of Social Service Select Committee.

6. I am sending copies of this letter to the Chancellor and the Secretary of State for Social Services.

p1 Mr Wolfson

MR WOLFSON

cc: Mr Hoskyns
Mr Vereker
Mr Scholar

without attachment

UNEMPLOYMENT

1. Sir Hector Laing recently asked Clive Whitmore to listen to James Cooke, the Chief Executive of the CBI Special Programmes Unit. Instead, I saw Mr Cooke yesterday. I also invited the two members of CPRS who are working on special employment measures.

2. Mr Cooke's first message is that he has actually talked to most of the big employers in the last few months. With very few exceptions, none of them believe that there will be an upturn during the next 18 months. More important, nearly all of them are quite clear that if there is an upturn, they will still not need to recruit on a significant scale. If there is not an upturn, they are likely to carry on shedding labour. Cooke says this overall impression is backed up by the more detailed studies he has done in several selected towns. His conclusion is that in another year's time or so, one in two school-leavers will be unemployed; in some towns and regions the proportion will be still higher.

3. Cooke argues that whatever the correct theoretical response to this, the Government will be obliged to come up with a palliative on a massive scale.

4. However, he also thinks that the present YOP approach, run by MSC, will be simply unable to deal with the numbers involved. He claims that companies and other employers could themselves take on the burden of organising the kind of programme that is needed. The key, he thinks, is organisation on a local basis.

5. Cooke says the willingness of employers to take on this organisation does exist, provided it is very heavily backed and promoted by Government. (This means people like him, with the wholehearted support of Ministers, going round talking to firms, helping them to set up locally-based schemes etc.) It also means Government funding for the young people themselves - perhaps the existing YOP allowance available for a longer period.

6. Somehow, Cooke sees this massive, locally-based palliative turning into a greatly improved training programme. I think there is a contradiction here. Indeed I think Cooke's ideas on the response of local firms, the reaction of both unions and employers to the substitution problem, are all heavily tinged with optimism.

7. The main value of this encounter with Cooke was that he was very convincing about the scale of the problem over the next few years. He was quite convincing that there was more scope for local initiative than has so far been allowed. But of course this conflicts with the problem of public accountability for Government funds and would throw up many conflicts of interest. For example, he enthused about how a local training workshop had designed and built a vehicle for the disabled - a classically commercially marginal product. But somewhere there may be a commercial company trying to break into this same market, who cannot compete with a subsidized operation.

8. CPRS found Cooke's input useful. We told him that his first priority should be convincing Mr Tebbit about the scale of the problem and his views on its solution. He and Sir Hector Laing will be seeing Mr Tebbit on Wednesday next week. He would clearly like an opportunity to explain his impressions to the Prime Minister, but I explained that she was in any case unavailable for some weeks to come, and that the future of YOP was a matter receiving Mr Tebbit's urgent attention. I expect he will get in touch again towards the end of next week.

ANDREW DUGUID
2 October 1981

MG

cc A Dugard
A Wallis

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE LONDON SE1 6BY
TELEPHONE 01-407 5522 EXT

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Great George Street
London SW1

2 October 1981

Dear Geoffrey.

UNEMPLOYMENT AND EARLY RETIREMENT

I read with interest your letter of 17 September to Norman Tebbit. I am sure you are right that there is no possibility of rushing into decisions on early retirement, and still less of making any early changes. This is an area in which there is a need not only for a good deal of public discussion and debate, but also for the development of a consensus based on better understanding of what is involved. It is in this light that I see the work of the Select Committee, and, as you say, we shall of course have to provide briefing and do a good deal of work in connection with that Committee's examination of the subject over the next few months.

I think we should remember what we said in the White Paper "Growing Older" which was published earlier this year:

> "... combining a common pension age with effective and worthwhile provision for flexible retirement, has attractions as a long-term aim and seems to offer the best prospect of an acceptable solution. Current constraints on spending preclude early changes. Nevertheless, the Government intends to keep such an arrangement in view as a long-term objective."

The fact is that early retirement, or more widely flexible retirement, is on the political agenda, and we need both to think about it and to be seen to be thinking about it. That thinking must of course take into account the whole range of employment and wider social and economic implications. Incidentally, Norman will have his own views on the employment implications of any move towards early retirement, but I am bound to say that for my own part I find it hard to envisage any very substantial impact on wage demands as a result of early retirement while unemployment is at two to three million or higher. What we shall of course have to consider, as we are in any case looking to the longer term in thinking of any change, is the contrast between what a change in policy might involve at the present time and what it might involve at a time when employment levels are very different from those we have at present. This is a point we have made consistently in response to questions about the net cost of bringing men's pension age down to 60.

E.R.

Now that the item is now so firmly on the political agenda (nationally, in the Community and in the ILO), there is no way that we can opt out of the thinking in which others are and will be engaged - indeed by trying to opt out we should be losing the chance to influence the way that the thinking of others goes, and this could be dangerous as well as unhelpful.

I am copying this to Norman and to the others who received your letter.

Yours ever

NORMAN FOWLER

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

25 September 1981

Richard Dykes, Esq.,
Private Secretary,
Department of Employment

MST(C)
MST(L)
Sir D Wa
Mr Burns
Sir A Rawlins
Mr Ryrie
Mr Byatt
Mr Cassell
Mr Barratt
Miss Keller
Mr Lovell
Mr Bridgeman
Mr Foyer
Mr Castell
Mr Ridley
Mr Christie
Mr Cropper
Mr Dixon
Mr Cardona
Mr Kitcatt
Mr Kemp
Mr Monger
Mr Robson
Mr Gilmore

Dear Richard,

ACTION TO COMBAT UNEMPLOYMENT AND TO IMPROVE THE WORKING OF THE LABOUR MARKET

Before going abroad for the CFM and IMF meetings, the Chancellor asked me to send your Secretary of State a copy of a paper prepared by Treasury officials covering a range of ideas, many of them considered before in one form or another, designed to free up the labour market, reduce labour costs or improve incentives to work. He felt it would be useful to prepare such a document bringing the various possibilities in this area together - though the list is not necessarily exhaustive - together with a brief assessment of the pros and cons of proceeding with them.

The Chancellor recognises that not all the possibilities included in the list can be regarded as practicable, but he feels that there are some which ought to be pursued further. He would be very glad of a word with your Secretary of State on this general subject after his return from Washington next week (1 October). He hopes the paper, and subsequent discussions of it, could be a useful input to the work already going on on ways of combating unemployment in your Department, as well as to the work on freeing up labour markets remitted to the Treasury and the CPRS at the Prime Minister's meeting on 23 September on Merseyside.

This paper has already been copied to No.10 and Robin Ibbs, and has been seen by the Prime Minister.

Yours ever,
Peter

P.S. JENKINS
Private Secretary

MEASURES TO PROMOTE EMPLOYMENT

Introduction

This paper considers a number of proposals, within the broad framework of the MTFS, aimed at increasing employment by making the labour market work more effectively. They are, broadly speaking, all designed to promote employment by putting downward pressure on wages and pricing more people into jobs.

2. Two broad objectives can be distinguished:

i) to help the transition to a lower rate of inflation. The more effective market forces are in setting wages, the faster inflation will fall and the less unemployment there need be during the transition process;

ii) to reduce unemployment and promote economic growth in the longer term by creating a more efficient and more responsive labour market.

3. Lowering real wages would make it possible to accommodate a higher growth in output within the constraints implied by monetary and fiscal policies (the national cash limit). Thus a reduction in the real cost of employing labour should in time lead to an increase in employment and therefore output. Real wages would be able to rise as the economy grew.

4. Although the longer term health of the economy requires a more flexible labour market and better ways of determining pay, the policies necessary to do this may do little to increase employment in the next year or so. It is arguable, however, that policies which could produce a rapid increase in employment without doing lasting damage to counter-inflation objectives simply do not exist.

5. The measures considered here can be grouped into those which are designed to:

I Attack institutional arrangements which underpin the present too-high level of real wages.

II Increase the effective labour supply, ie the numbers on the unemployment register, willing to work at a particular wage level. this will mean that more of the demand for labour is satisfied and will put downward pressure on real wages.

III Increase the demand for labour without putting upward pressure on real wages.

6. The measures vary in type; some have a PSBR cost, others no major PSBR implications. But none of them offers an easy political option. Indeed, some are highly controversial. In particular, because they are directed at getting real wages down, they are very likely to encounter strong union opposition. Also, taken in isolation, individual measures may do only limited good. But packages could be constructed where, from an economic point of view, different elements reinforce each other to produce significant benefits over the longer-term. It would also be possible to assemble them as important elements in a political programme of employment opportunity.

I. THE FUNCTIONING OF THE LABOUR MARKET

7. A number of institutional arrangements tend to underpin the existing wage structure and thus help sustain real wages that are too high. These vary considerably in type from the powers enjoyed by unions in collective bargaining and in controlling apprenticeship requirements, to statutory burdens imposed by Government fiat. The scope for removing, or reducing the impact of, some of these institutional obstacles to a more effective labour market are considered below.

Industrial Relations Legislation (Annex 1)

8. (i) This is already scheduled for discussion in 'E' this month and is not considered in detail here.

(ii) The objective must be to shift the balance of power in industrial relations more in favour of the employer. A strong degree of Ministerial commitment would however be necessary for action in this area. A package to attack the main immunities currently enjoyed by unions could be effective in limiting the powers of unions to enforce high wage settlements through major 'set piece' confrontations. To this extent it might be successful in putting downward pressure on certain benchmark wage agreements, eg. in the public sector, and hence real wages generally.

(iii) One idea worth pursuing in this area is discussed in Annex 1(A). It is suggested that a senior Ministerial Committee be set up to consider the ideas developed in the coal study for withstanding major public sector strikes.

Wage Councils (Annex 2)

9. (i) The wages set by these Councils to some extent represent a perceived minimum wage in the economy and thus exert upward leverage on wages generally.

(ii) E Committee has decided not to abolish or change the coverage of Wages Councils; and Ministers collectively are unlikely to wish to pursue this possibility further.

(iii) But there is every reason to encourage the Councils to take into account the consequences for employment in the trade concerned when setting wage levels. We suggest it is desirable to go further than issuing letters giving advice to this effect: we recommend that Orders be made to include such an instruction within the terms of reference of the Councils. It would not be consistent however to pre-set any restrictions eg. by stipulating a fixed proportional relationship between adult and youth wage rates.

(iv) Outside the Wages Councils there may also be scope for extending the principle of fixing wages on the basis of promoting employment. One such scheme would involve the experimental establishment of an 'Arbitral Court' which could determine wages on the basis of this criterion, when private sector wage disputes were voluntarily brought before it. The Court would have the power only to award either the employer's offer or the employee's claim, (but not to split the difference) according to this criterion.

(v) We have in mind a pilot scheme in the first instance in Merseyside where labour costs per unit of output are thought to be particularly high; (and the court would have to take into account this implied low productivity). Inevitably such an arrangement would be controversial. But where wages were settled amicably or by national agreement they would not be referred to the Court. It is more likely that small firms would be the main clients; and the Court could be useful in keeping down wages in such firms and thus making Merseyside a more competitive region. (Small firms in Merseyside

seem to have relatively weak vertical links with major UK industrial companies).

(vi) The scheme would probably involve minor public expenditure on administration expenses.

Plant Bargaining

10. (i) There is limited scope for plant bargaining where the Government is the direct employer - Central Government services and the National Health Services - because there are no identifiable profit centres to which local wages can be related. However there is a good economic case for setting regionally differentiated wage levels to reflect local labour market conditions. MISC 54 suggested that further work should be done on this idea.

(ii) In the private sector, it is very difficult for the government to achieve much - though an example set by regionally differentiated wages in the public sector might be instrumental in moving private sector firms in the same direction. But in the short term any impact would be minimal. There seems little scope for a useful Government initiative here.

Statutory Burdens

11. (i) One idea which has been put forward is that of suspending certain statutory burdens when agreed between employer and employee. This could only apply to new employees. Were such an arrangement introduced for existing employees it could lead to higher money wages as employees sought wage compensation for the removal of existing benefits.

(ii) The idea of a selective arrangement was covered in the preparatory work done on the enterprise zones. It was found to be simply impractical and politically unacceptable to suspend such statutory burdens as Health and Safety Regulations. We suggest that similar considerations apply to other burdens such as the redundancy arrangements or unfair dismissals procedures. Any attempt to create two classes of employee in identical jobs in the same factory would be most strongly resisted.

(iii) But changes in this type of burden for all employers do offer scope for useful initiatives. One idea is a modified redundancy pay arrangement for small firms. This could be particularly useful in removing the psychological constraint on employing more people which small firms argue is a feature of this scheme. A number of options are available: perhaps the simplest would be to confine redundancy payments in firms employing say less than 20 to the proportion curently contributed by Government. In other words whereas the employer and Government at present split the cost of a standard award based on length of service and pay, for small firms there would be an award limited to the present contribution from Government based on the same pay and service criteria. This would remove an important contingent liability on small firms (and has no public expenditure implications).

II. SUPPLY OF LABOUR

12. Measures to increase the incentive to work are designed to put downward pressure on wages and hence promote employment in the long-term. Raising the incentive to work increases the number of people on the register who are willing to work at a particular wage level. That in turn, for given labour demand, puts downward pressure on real wages.

13. This requires action in three main areas. First it means attacking institutional factors, which cause involuntary unemployment by raising the supply price of labour artificially. For example benefit levels can represent a de facto minimum wage; this prices out jobs (and hence people) where the value added by the labour is below the value of benefits and can exert upward distorting leverage throughout the wages spectrum with a similar effect. Second it means action to discourage 'voluntary' unemployment - prolonged searches for work, particularly by the newly unemployed, cushioned by the benefits available. And third it means action to improve the quality of labour supply by training so that more skilled people are prepared to work at any particular wage level.

14. While the present pattern of benefits, given the interface with the income tax regime, does discourage people from taking work in certain circumstances, not a lot is known about the scale of the problem. Most economic commentators do not believe it

is very large; but Professor Minford - focussing on the leverage/ minimum wage problem - believes that the effect is rather more substantial and has been growing in recent years (despite a falling benefit income ratio in the UK since the early 1970's). Moreover his work suggests that action to reduce benefit levels (taking into account the consequent scope for fiscal adjustment) could have a significant and fairly rapid impact. He concludes that a 10% across-the-board cut in the real value of benefits could reduce unemployment by 500,000 in 2 years. Other evidence suggests that the impact of such a reduction, via the incentive to work effect alone, would be to raise employment by 75-100,000 over a rather longer term period. We are uncertain about the size and timing of the further repercussive effects on real wages coupled with any scope for fiscal adjustment but doubt whether they would produce the orders of magnitude suggested by Professor Minford. (A separate note is being sent to you on this later).

15. But there is a case for action in this area despite uncertainties about size and timing. Two main proposals are considered here: a cut in benefit levels generally (with selective cuts in particular benefits examined separately) and the possibility of stronger action to enforce the availability for work rule as a condition for the receipt of benefits eg. by reviving the Beveridge principle. Another possibility - raising the tax thresholds - is being considered as part of the work on the macroeconomic strategy.

Cutting Benefit Rates

16. (i) The first proposal is an across-the-board cut in short-term benefit rates - specifically unemployment and supplementary benefits.

(ii) No action is possible on those benefits until the November 1982 uprating. The obstacles are well known and while it might be possible to make some cut in benefit levels and hence widen the gap between benefits and wages, it is difficult to envisage a major reduction in the benefit (even if accompanied by changes in tax and NIC thresholds).

(iii) It might be possible to cut SBs and not UBs as a second best alternative

An option would be to cut long-term supplementary benefits to bring them into line with unemployment benefits. But such a change would be highly controversial.

(iv) One useful change might be to bring child benefit rates and (the higher) SB payments for children into line. It would be politically unpopular to reduce child SB rates and cost ineffective to raise child benefits. The cost of a general increase in child benefits would be much less if they were made taxable; but this would be a step backwards in terms of simplifying the tax system and could well resurrect pressures to bring back child tax allowances. A more promising approach might be to concentrate help for families with children by improvements in FIS.

(v) Withdrawal of entitlement to SBs from 16 year olds would be a highly controversial policy change in its own right. If it were decided to go for a substantial expansion of training for this group however it could be defended as a necessary way of saving money by establishing a lower level of allowances. (Annex 3).

(vi) There are clear obstacles to action to reduce benefits in any way. But a longer economic term/objective however must be to widen the gap between benefit rates and the take-home pay of the low-paid

Stricter Availability for work rule (Annex 4)

17. (i) Beveridge envisaged that after a period of unemployment the conditions for receiving benefit would be much stricter. However if benefit was to be refused, he considered it essential that employment or a retraining place be available.

(ii) Beveridge never envisaged, however, that such a scheme could cope with large numbers unemployed for a considerable period of time. At present the high level of unemployment and the cost of providing retraining facilities would make it difficult to provide enough places (even just for the long-term unemployed, some 600,000 persons). The introduction of such a scheme - in the name of a return to the Beveridge principle - does not seem feasible, because of its high cost

(iii) A much more modest but promising proposal is to increase the number of Unemployment Review Officers (UROs) to give more force to the regulation that those registering must be available for work. A

recent Rayner Report on this subject recommended an increase of 300 in their number: but the Government opted for an increase of only 50 last month. The cost of employing the extra UROs is estimated at /£3.5 m/.

Training (Annex 5)

18. (i) The D/Em "options for reductions" in the public expenditure review include lower expenditure on training. In view of the importance we attach to training, such a cut would be counter-productive in supply side terms. But there is a potential conflict here between our general stance on the current expenditure review and other Treasury objectives. Any concession would thus need careful handling.

(ii) As recognised in the New Training Initiative, it is desirable to remove existing restrictive apprenticeship practices and introduce certain principles for training:

- objective standards (rather than time-served) as the basis of qualification;

- universal acceptance of these standards, irrespective of the form of training;

- the removal of age or other artificial barriers; and

- the length of training courses to be determined only on the basis of what is required to reach the objective standard.

(iii) The Government may be able to build on this 'New Training Initiative', in NEDC to secure these reforms. There may also be scope for action where Government itself is the employer - eg. MOD and the PSA.

(iv) However there could be local union opposition which might prevent anything concrete being achieved. But there may be scope for using the MSC's financial leverage, through its financial support for apprentice and other training, to secure desirable changes. Schemes involving a wage ceiling might be considered.

III. DEMAND FOR LABOUR

19. Previous sections of this paper have suggested that an increase in the number of training opportunities, while highly desirable in itself, cannot be undertaken sufficiently quickly or cheaply to hold out the prospect of a 'Beveridge-type' solution to the problem of the long-term unemployed. There are some 600,000 such people on the unemployment register; that number is projected to grow substantially over the next year. Inevitably there is pressure for more public expenditure to provide jobs for such people. Some Ministers are also pressing for labour subsidies as a solution to this particular problem.

20. In the past there have been two broad types of measures used to increase employment directly by raising labour demand - the creation of jobs in the public sector through public works schemes (often though not necessarily accompanied by a higher PSBR) and labour subsidies for private sector employers.

21. Pure job creation in the public sector does of course remove people from the unemployment register: but if those employed receive the going wage rate for a particular job, then such measures can have no helpful impact on the level of wages. Indeed the reverse is true: by taking people off the register and thus narrowing and tightening the labour market, such measures put upward pressures on wage levels. To that extent despite a positive short-term benefit, they can, in the absence of other measures to make the labour market more efficient, have an adverse longer-term effect on employment. Similar considerations apply in the case of labour subsidies to private sector employers: where the employer pays the going rate, there is no downward push on wages but rather upward pressure due to the tightening of the labour market.

22. Consequently in putting forward proposals for dealing with the long-term unemployed, we have tried to build on the Walters scheme and devise arrangements which not only do not have these perverse effects on wages but rather help to get real wages down. To do this a wage ceiling condition is an essential feature of such schemes - wages for the jobs created must be below the current going rate, they

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might for example be based on benefit plus £x. With such a condition incorporated, these schemes can have not only a beneficial short-term impact on employment but also put downward pressure on wage levels and hence promote employment in the longer-term*.

23. There are several attractive features to this type of arrangement. The schemes can be focussed on a specific target - for example the long-term employed. Second the schemes create jobs at low PSBR cost because only the margin above benefit rates (plus administrative, and overhead costs) represent additional public expenditure, although there may be some minor complications about FIS payments. Third, although some of the jobs under the scheme substitute for existing jobs, the new jobs created would carry lower wages than those for which they were substituting: The greater this substitution effect, the larger the impact on real wages in the economy. In short, the bonus with such schemes is that they promote employment in two ways: directly by creating jobs and indirectly by attacking the excessive level of wages.

24. The expected impact of such schemes in the long-term would be to reduce the real wages of the unskilled (who form the majority of the long-term unemployed) more than other people. We believe this would be particularly valuable: the large number of unskilled among the unemployed may be seen as an indication that their wages are too high.

25. But there are drawbacks. By subsidising unskilled labour, enterprises with low capital/labour ratios and unskilled employees may be kept going when the introduction of higher technology and reduced (more qualified) labour requirements would be in the long-term interest of the firms concerned.

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*Schemes which provide employment in either the public or the private sector at wages related to benefit rates represent a response to the "Len Murray point." But such schemes are bound to have some net cost. In the first place there will be additional administrative and overhead costs. Second there will be further net costs if it is decided to offer people some additional inducement over the above benefit rates in order to get them to accept the job. Third even if the enforcement rules were so strict that it was possible

(footnote continued at bottom of next page)

CREATION OF PUBLIC WORKS JOBS (ANNEX 6)

26. (i) The proposal is for the creation of public works jobs on a selective basis offering pay of benefit rates plus expenses and a modest incentive but significantly lower than would otherwise be the rate for the job to the long-term unemployed, who-to minimise resistance to the proposal - would be the only group eligible to take up the jobs.

(ii) Such a scheme would of course create employment directly, and given the proposed wage level, at a public expenditure cost, less than conventional job creation measures. To the extent that a "ring-fence" could be drawn around the projects concerned, there would be only a limited adverse initial impact on wages from a tightening of the labour market generally.

(iii) In time, however, the projects would begin to replace conventional public works programmes. The labour involved would in effect substitute for those receiving the going rate for the job and some useful downward pressure on real wages would also result with an eventual second-round gain to employment.

(iv) If introduced nationally, it would no doubt be quickly perceived as an attack on real wages and there is likely to be strong union opposition. But it could be mounted as an experimental scheme in the first instance, for example a new type of Community Enterprise Programme in the Liverpool area. The cost would be very limited: for 2,000 jobs, and on an average premium of £6 above benefit, it would amount to around £$\frac{1}{2}$ - $\frac{3}{4}$mpa plus administration and overhead expenses.

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*to pay people no more than they received on benefit, there would still be a net cost. This is because of the secondary effects on the labour market.

Whatever the scheme it is inevitable, therefore, that there is some net cost. On the other hand many schemes produce an output which can be set against this.

(v) Looking to the longer-term however, the morewide-ranging the scheme, the greater the beneficial secondary impact on real wages. In particular, if the jobs done under the scheme were identical in most respects to existing jobs in the public sector, there would be the greatest impact on real wage levels. There would however be stronger opposition from unions to a national scheme from unions. On the other hand, confining eligibility to the long-term unemployed might make the schemes more popular.

(vi) An objection to wider schemes is that jobs created by local authorities would undermine our attempt to reduce local authorities expenditure and manning levels. Even if schemes were funded wholly by central government, we might be accused of inconsistency. Similar arguments may apply to other sectors where these jobs could be created - the National Health Service, nationalised industries etc.

(viii) One further refinement would be to stop benefit payments for those who refuse to take jobs on these schemes. But this is probably an unrealistic proposition for a pilot scheme. Forcing people to choose between accepting a job at a rate of pay below the standard rate for that job or losing their benefits will be widely regarded as a penalty. Any such scheme would be controversial. But it is particularly unlikely to be politically acceptable if the penalty is applied less than universally - it would otherwise be seen as victimising the unemployed in a particular area. Unless the number of projects underway was sufficient (in association with the labour subsidies and any expansion of training) to offer all the long-term unemployed a place therefore this type of restriction is not feasible.

LABOUR SUBSIDIES (ANNEX 7)

27. (i) A scheme which would be closest to that proposed for the public sector would be one in which employers were encouraged to create new jobs at low pay - again and for the same reason as before - for the long term unemployed. The arrangement might be either that the employer paid the employee the benefit rate, plus an allowance for his extra expenses, while receiving a subsidy equal to the benefit rate from the Government, or that the Government continued to give the employee benefit with the employer merely topping up to cover expenses. A modest incentive could also be added.

(i) A subsidy on these lines would be unlikely to leak into higher wages. But the scheme wouldinvolve some displacement of existing workers by subsidised workers. Such substitution could be reduced, though not eliminated, if firms were required to show that the job was additional to the existing complement. On the other hand, the greater the extent of substitution the greater the downward pressure on the level of the real wage.

(iii)Another possibility is something closer to Professor Layard's proposal. A subsidy would be available to each firm which could show that its labour force had expanded during the period in question. However, as with the Young Workers employment subsidy, a ceiling would be imposed on the wages of workers eligible for the scheme. This might, for example, be set at some point within the lower quartile of earnings - which probably represents the sort of earnings which the long term unemployed would, in any case, expect. The object would be to stop at least part of the leakage of the subsidy into higher wages (whereby part of the subsidy payment to the employer was passed directly by him to the employee) and to reduce real wages. A scheme on these lines could be expected to lead to some overall increase in employment, albeit at significant public expenditure cost. Nevertheless it too would produce some substitution, and again this may be welcomed as a means of reducing real wages.

(iv)A scheme on the lines of the first variant could be applied on an experimental basis in a limited area. The second variant would most obviously be a national scheme. The cost of a Layard scheme - <u>without the wage ceiling</u>, which we are not recommending - is estimated at £250m by DE for the creation of 100,000 jobs. But a scheme incorporating a wage ceiling would cost considerably less.

RAISING OF LOWER EARNINGS LIMIT (Annex 8)

28. (i) The proposal is to raise the lower earnings limit at which employers NIC and NIS and employees NICs become payable.

(ii) There are two main economic arguments for raising the lower earnings limit. First, raising the threshold for employers NIC and NIS would reduce the cost of labour to the employer and hence bring

about more employment. Second employees' earning less than the raised LEL would find themselves better off: this would increase the incentive to work at the lower end of the labour market.

(iii)It would be necessary to raise the LEL by a considerable amount to bring about a large rise in the numbers earning less than this limit. Under present arrangements this would remove the entitlement to certain NI benefits for the persons concerned and so be highly controversial. Consequently a big increase in the LEL would probably have to be accompanied by measures to change the basis of the present system. Those who would otherwise lose access to NI benefit by this move would have to be allowed to retain their present entitlement Such a change however would weaken the link between contributions and benefits upon which the whole system now rests and this could prove expensive since it is the contributory principle which prevents universal payment of benefits.

(iv) Another administrative obstacle to a large change is the non-linearity obstacle. Under the present arrangement, someone earning £26 per week pays no NI contributions; at £27 per week contributions become due in every £1 earned. A big increase in the LEL would shift this problem higher up the wages spectrum. One solution to this would be to move to an incremental basis for contributions, so that they become payable on every £1 earned over the above the LEL only. This would be a very significant structural change in the national insurance contribution system and would require a substantial increase in contribution rates, coupled perhaps with an increase in the upper earnings limit to keep the NIF in balance. (This area has been under separate consideration in the work of the TASS Group) Such a change - excluding the effect of any increase in the LEL would mean that some £4 billion (equal to 8% on contribution rates) would be transferred from middle to low paid workers and thus affect incentives for middle management.

(v) A switch to an incremental scheme is however probably a essential condition for a large rise in the LEL; for the reasons given above that calls into question the whole proposal.

(vi) Raising the LEL and reducing rates (either on NIS alone or NIS & NIC) are alternative ways of reduing the NIS/NIC burden. Each £1 increase in the LEL cost; that is equivalent to a.01% reduction in the rate of NIS.

Conclusions

9. A package of measures, which might be called an employment opportunities programme, could be assembled from the measures set out in this paper. This should be done in a way such that they reinforce each other. There are several aspects to this:

i) It would be preferable to act on both the supply and demand for labour, rather than one or the other in isolation. Action on supply alone would have the beneficial effect of reducing real wages, but might tend to increase unemployment in the short-term. Action on demand alone, unless accompanied by the kind of wage ceilings we have suggested, would run the risk of raising real wages. It would be appropriate to put some measures designed to make the labour market work better into any package, but many of them will be controversial. It would, therefore, be wise to associate the whole package with other, more popular, measures.

ii) It would make political, as well as economic sense, to combine action to tighten up the job test for benefits with the greater provision of employment in public works, possibly an extension of job creation subsidies linked to a wage ceiling, and in so far as practicable, with additional training facilities. This could be presented as a response to the Len Murray question.

iii) It would be wise to associate some of these measures with wider policies such as any scheme for the regeneration of Merseyside. For example, expenditure projects designed to create jobs could be linked with labour market efficiency measures.

iv) It is worth considering ways in which these measures could be complemented by tax changes, such as a real increase in the NIC/NIS or income tax thresholds.
Real improvements in thresholds would reinforce the effects of changes in benefit on the supply of labour by improving the income: benefit ratio. Increases in the threshold for employers' NIC and NIS would reduce the cost of employing labour, especially the cost of employing relatively unskilled labour. Both would, therefore, reinforce the measures considered above, and would also sugar some of the pills.

v) Some of the measures might be experimental, initially at the local level eg. job creation in Merseyside.

30. Specifically, we recommend detailed consideration of a package of measures comprising:

a) the issue of orders to require Wage Councils to take account of the effect of its recommendations on employment in the trade;

b) an experiment with an Arbitral Court in an area, such as Merseyside, enjoying special government help, to act as an appeal body if employers and employees, either generally or in assisted activities, were unable to agree on wage rates. Such a body would be instructed to take account of the effect of a settlement on the prosperity (and hence employment) of the area;

c) the introduction of an element of regional differentiation in central government and NHS pay;

d) changes in redundancy pay arrangements to relieve small firms of their contingent liability for redundancies;

e) stronger enforcement of the eligibility test for benefits out of work. An increase in the number of unemployment review officers to the level recommended by Rayner;

f) an increase in the gap between pay in and out of work by:

i) a general, but probably small, reduction in benefit levels;

ii) some increase in child benefit if it were feasible to keep the cost down by confining the increase to lower income families, ie by clawing it back from the better off;

iii) raising of the lower earnings limit for NICs (combined with a real increase in income tax thresholds);

g) At least partial exemption of training programmes from public expenditure cuts (though this will need careful consideration in the context of the tactics for the whole public expenditure exercise);

h) public work job creation measures if linked to the payment of wages at levels equivalent to the payment of benefits plus work expenses, ie below the "rate for the job" (though if extended beyond the Merseyside scheme this might be seen as undermining our present tough stance on RSG and public expenditure generally).

i) the linking of any additional private sector employment subsidies to payment of wages at those levels.

31. The most attractive, in our view, would be items (h) and (i) above, both of which are designed for the long-term unemployed and both of which would incorporate some eligibility test. We see f(iii) as being effective and also popular, although rather expensive. It also raises the question of the contributory principle underlying the National Insurance Scheme. As a condition for implementing these measures, we think it would be right to insist on action on ideas, such as (a) and (b) designed to get more realism into wage determination. We also think it would be worth trying for (d), which we believe to be valuable in its own right.

BRIEF ON INDUSTRIAL RELATIONS LEGISLATION

Description

The objective is to reduce the ability of unions to obtain wages above market clearing levels by shifting the balance of power in wage bargaining more in favour of the employer. The most direct way of doing this would be to change the law governing the immunities enjoyed by trade unions; it is this immunity from legal redress which underlies their considerable economic power. Restricting those immunities correspondingly shifts the balance in favour of employers.

Implementation

2. It has already been agreed that there will be a Bill on industrial relations in the next session. A range of legal changes to constrain union behaviour are available from relatively minor tinkering on closed shop regulations (as Mr Prior would like) to highly contentious measures such as powers to enable the selective dismissal of strikers or the complete removal of unions immunities from liability to prosecution for civil conspiracy.

3. If the objective is to attack effectively the main source of economic power enjoyed by the unions, the following package of legal changes is thought to be the minimum required:-

(i) Amendment of section 14 of the 1974 Trade Union and Labour Relations Act to bring it into line with section 13. This is designed to make unions liable for any action of their officials to which immunities do not apply eg secondary action beyond that permitted in the Employment Act 1980;

(ii) Amendment of section 29 of this Act to narrow the definition of a trade-dispute where these restricted immunities would apply. A suitable amendment could restrict the definition to employee versus employer disputes ie take out inter-union squabbles and political strikes (where the position is unclear);

(iii) A new requirement that these restricted immunities for a more narrowly defined range of industrial action would only apply if agreed procedural arrangements had first been exhausted (or ACAS involved in the absence of such an agreement.)

4. Taken together, these legal changes would establish a regime of legally enforceable procedural agreements. Employers faced with an unofficial strike in breach of procedure would be permitted to sue the union concerned; (whether they

would choose to do so is another matter.) However were these changes implemented, the position would still stop short of that under the 1971 Industrial Relations Act which made collective agreements ie including the wage settlement, legally enforceable for registered unions. (It was not generally effective however because few unions registered). Legally enforceable collective agreements are standard in the US and many continental countries.

Assessment

5. This package is probably the minimum set of legal changes necessary to have any major impact on the present conduct of union/management negotiations.* There are of course other options not involving changes in the law such as a Government or CBI fighting fund or action to curb public sector strikes. But it is doubtful whether these would be as effective in shifting the power balance as the suggested legal changes.

6. There is considerable support for this type of legal package amongst employers. But that support is by no means unanimous:- several large companies have publicly voiced opposition to any such major legal changes, though their private views may be rather different. Last week the TUC promised outright opposition to any direct restriction of present immunities. The attitude of the general public is difficult to assess: but the extent of support for measures which might prove confrontational has probably fallen since early 1979, in the face of recent quiescent industrial relations linked to high unemployment.

7. However the problem lies not in implementing these legal changes but in gaining the public and union acceptance that is essential if the change is to be permanent. (The continental arrangements work because they are generally accepted and no longer challenged head-on.) Against a background of outright TUC opposition and half-hearted support from industry perhaps the best that can be hoped for is a troublesome transitional period before the new laws come to be accepted.

8. How vigorous the union opposition will be during such a transition and whether it will amount to outright refusal to comply with the new laws is difficult to assess. Ultimately a political judgement on whether a disruptive transitional period can be borne is required. But there is no reason why the 1972-4 experience should be repeated: actual opposition, leaving aside the stance in public, could well be muted not least because high unemployment will dampen its force.

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* Even then its impact should not be exaggerated: last years steel strike, the Civil Service dispute and the threatened Rail Strike have all been taken forward after the exhaustion of agreed procedures.

9. Two ways of helping to gain the necessary acceptance of these changes might be to continue with Mr Prior's piecemeal approach - for example by leaving section 29 of the 1974 Act untouched meantime at the cost of reduced impact on the conduct of industrial relations; and offering a major quid pro quo - for example on legislated industrial democracy.

ANNEX 1A

CIVIL CONTINGENCIES

Description of measures

An improved capacity to withstand industrial action by key bargaining groups would make a major contribution to achieving greater flexibility on pay, and therefore in the labour market. This is a difficult area, but better long-term planning of the Government's response to such action might help.

Implementation

2. The existing Civil Contingencies Unit (CCU) is oriented primarily towards the protection of life and limb in civil emergencies. This role obviously overlaps with the question of resistance to major strikes, but is distinct from it. Rather than seeking to expand the role of CCU, it would probably be better to establish new machinery to facilitate Ministerial oversight of measures designed specifically for strike resistance.

Assessment

3. CCU have plans to safeguard the population during strikes in the key industries, which are reviewed from time to time. But there is in practice little political or Ministerial input to the preparation of these plans, so that basic political questions, like the role of the armed forces and the organisation of the relevant industries, tend not to be fully probed. There is also a concentration (which is no doubt inevitable given the civil emergencies content) on short-term expedient rather than on laying long-term plans to deal with basic weaknesses in the capacity to resist.

4. The recent coal study has shown that there is a lot more useful work that can be done on the question of strike resistance beyond the normal CCU planning. This is not to say that such specific studies will necessarily give a more positive answer, at any rate in the short or medium term. But they are more likely to bring to light the sort of decisions which Ministers would have to take in order, ultimately, to get into a better rather than a worse bargaining position.

5. The choice of machinery would of course be a matter for the Prime Minister. But a senior Ministerial Committee to give regular direction to the work would seem to be a necessary ingredient. This would not

only put in hand new work, on the lines of the coal study, but would also provide a focus for any existing thinking on, for example, ways in which key parts of major industries might be kept running in a strike.

WAGES COUNCILS

Description of measure

The aim would be to ensure that Wages Councils took account of considerations of supply and demand in considering wages. In particular, they might be precluded from prescribing minimum wages for young people which were more than a specified proportion (say one half) of those applicable to adults doing similar jobs.

Implementation

2. The Government has already announced its intention to introduce a subsidy for employers who take on additional young people at wages less than £40 a week. This may in any case necessitate some modification of Wages Council legislation in respect of young people. It would no doubt be relatively straightforward to extend the necessary legislation so as to modify further the powers of Wages Councils to determine minimum rates of pay for young people. Alternatively fee-standing legislation could be promoted.

Assessment

3. Wages Councils specify rates of pay for young workers (16 and 17 years of age) and adult rates which apply in most cases from the age of 18 (though in some cases the adult rate does not apply until 19, 20 or 21 years of age). The adult rates vary from £42 a week to £54 a week (with the majority around the £46 to £50 mark). The rates for young workers vary from £32 to £40 at 16 and from £38 to £50 at 17.

4. The total number of young people (under the age of 18) covered by the Councils is not known, but cannot be more than a few 100,000. More important is how many young people are not working who could work if it were not for the Councils. This, of course, is not quantifiable.

5. It would probably be better to remove young people from the scope of Wages Councils entirely rather than to attempt to prescribe a specia new minimum for them. Wages Council rates for 16 year olds are already around three-quarters of adult rates. If this proportion were

substantially reduced it would be difficult to argue that Wages Councils offered any significant protection to young people, and there would therefore be little advantage in keeping them within the scope of Wages Councils at all. Complete freedom from restriction would also offer the maximum potential employment effect.

Conclusion

6. This measure overlaps with the Walters Scheme, and a cautious approach would be to see how the latter worked before moving further in the direction of deregulating young people's wages. But if a bolder approach were desired, the introduction of the Walters Scheme could be used as an opportunity to legislate toremove young people from the scope of Wages Councils.

REMOVING THE ENTITLEMENT OF YOUNG PEOPLE TO SUPPLEMENTARY BENEFIT IN THEIR OWN RIGHT

Description

Young people over 16, but less than, say, 17 would cease to be eligible, as they are now, for supplementary benefit. This proposal is already under consideration. It has evolved in the context of the suggested comprehensive scheme for unemployed people to replace the YOP. This note assumes that it is not for consideration as a free-standing change.

2. The comprehensive scheme has been specified on the basis of two options, A and B. Both envisage the withdrawal from 16 year olds of independent entitlement to supplementary benefit. (It is therefore not the case that Mr Prior has proved resistant to the proposal.) The difference between him and the Chancellor of the Exchequer concerns the level of allowance that would be paid to 16 year olds. Mr Prior favours option B which assumes that young people are no longer dependent on their parents after leaving school. They would therefore receive an allowance while on a training course sufficient to cover their living expenses. Because the allowance would also need to cover travelling expenses etc. it would be higher than the existing supplementary benefit rate of £15.25 (and perhaps as high as the existing YOP allowance of £23.50). If they declined to sign on for a training course, however, they would receive no State benefit.

3. Option A (which is favoured by the Chancellor), assumes that the young unemployed are dependent on their parents for the first year after leaving school at the minimum age. Parents would continue to receive child benefit and if appropriate, dependency additions. Trainess would therefore not need an allowance sufficient to meet living costs or a high as: supplementary benefit. The allowance might be fixed at around £8 (the current lead of the YOP allowance over basic rate supplementary benefit).

Administration

4. Legislation would probably be required to remove the entitlement of the selected age group to supplementary benefit. It would be difficult to put either Option A or Option B (but especially Option B) into effect unless appropriate training courses were pretty well universally available; and it would take time to achieve this. DEm and MSC consider September 1983 the earliest feasible date.

Assessment.

5. The case for removing the right of young people to supplementary benefit is strong, although it is likely to meet with significant political opposition. The main arguments in favour are:

(i) that young people are essentially trainees rather than independent economic units in their own right.

(ii) that it would reduce the financial discentive to staying on - or returning to - full time education.

(iii) that it would lower the wage level at which it became attractive for a young person to accept work.

(iv) that, as part of a comprehensive scheme, it would reasonably reduce allowances to young people in exchange for universal provision.

6. However, it is probably unrealistic to consider the proposal except in the context of greatly expanded training provision for young people. Such an expansion would cost large sums of money. The Manpower Group report gave the following estimates.

Full year gross costs at 1981-82 prices

Training Scheme with Option A:	£1030 m
Training Scheme with Option B:	
(i) training allowance £20:	£1164 m
(ii) training allowance £23.50	£1240 m
YOP with existing guarantees	£ 850 m

7. Mr Prior and the MSC have argued strongly that Option A is not feasible because of the opposition it would engender among young people and the trade unions. We consider these arguments exaggerated.

ANNEX 4

BEVERIDGE AND THE LONG TERM UNEMPLOYED

Proposal

1. The availability for work rule now applied to the unemployed seeking social security benefit is neither a particularly stiff test nor strictly applied. Beveridge, in his 1942 Report, certainly envisaged that after a period of unemployment the conditions for a receipt of benefit would be much stricter. To provide compulsory training to the longer term unemployed as a condition of continued receipts of social security benefit would to some degree be in line with what he envisaged; a reduction in the level of benefit after a lengthly period of unemployment would encourage job seeking and a more forceful approach to the 'availability for work' rule would help to remove the work shy from benefit.

Administration

2. If applied country-wide for all long term unemployed the proposal on training would require substantial resources:-

(April 1981 - thousands)	Unemployed over 26 weeks	Unemployed over 52 weeks
under 25s	228	105
25 - 54	280	250
all ages	594	489

If established initially in one region, say the North West, the numbers would be:-

under 25s	23	10
25 - 54	31	19
all ages	63	36

3. The scale of this scheme would probably prohibit adaptation of existing premises etc. It could, however, especially if applied to the young, replace some of the existing training schemes for the unemployed. The scheme would, presumably, need to be administered by the MSC. It is open to question how long a beneficiary would be required to remain in training. But to achieve anything positive it

would probably need to be at least 6 months. If paid only at the standard rate of social security benefit, there would be small benefit cost (though some of those in training might, presumably, otherwise have found work). There would, however be as yet unquantified capital and current costs for the provision of buildings and staff. The scheme would require major new legislation and a substantial logistical exercise in establishing the centres.

4. A reduction in the short term rate of Supplementary Benefit would provide a financial incentive for the unemployed to seek work more actively once entitlement to unemployment benefit ends after 312 days. This could be achieved either by not uprating Supplementary Benefit at the annual uprating exercise or by actually cutting the level of Benefit at that time. Either course would probably only require secondary legislation if it applied to <u>all</u> recipients of short-term Supplementary Benefit, but primary legislation if intended to discriminate, for instance, between those who received SB from the first day of unemployment (those without contribution conditions) and those who moved to it after receipt of UB.

5. To enforce the existing availability for work rules more strictly would require more staff. It might also be possible to introduce some more specific tests, paper evidence, for instance, that a claimant has seriously applied for jobs. The changes could probably be introduced administratively.

<u>Assessment</u>

6. It would not do to rest on Beveridge for justification of these measures. Beveridge makes the maintenance of employment and the prevention of mass unemployment a pre-condition of a satisfactory scheme of social insurance. However, while he says that payment of unconditional cash benefits as a right is satisfactory only for short periods of unemployment and therefore proposes a condition that after a certain period benefit should be conditional on attendance at a work or training centre he goes on to say that this proposal is impracticable if it has to be applied to men by the million or the hundred thousand. It is impracticable, he suggests, partly because

the only satisfactory test of unemployment is an offer of work, which breaks down in mass unemployment and partly because the cost may become insupportable. Beveridge suggests a six month period before training should become a condition, but also suggests that this period might be increased in a time of recession.

7. Nor would it do to rely upon him for a reduction in the short term rate of Supplementary Benefit. Beveridge envisaged that entitlement to unemployment benefit would have no time limit while an unemployed man was genuinely seeking work. So the prospect of moving to a lower level of benefit after a period of unemployment is not one he envisaged. But in any case, whether he intended a lower level for national assistance than for contributory benefits is rather unclear, at some points he seems to be saying that they should both be at subsistence levels and others that contributory benefits should be higher. However, at most he saw National Assistance for the great majority of beneficiaries as simply a chance of topping up the contributory benefits when there were exceptional costs.

8. Beveridge envisaged training as a way of restoring the morale of the unemployed, rather than having any economic objective. Compulsory training of this sort might well have that affect. But would not, in itself justify expenditure of the scale envisaged. What then would be the purpose behind the scheme? Potentially, such an arrangement could have a number of other purposes, for instance:-

(i) reduce the attractiveness, for the work shy, of unemployment;

(ii) provide genuine training in new skills (when it would enhance or replace exising more limited schemes).

Whether or not it satisfies any objective test of need, Supplementary Benefit is seen as a minimum support level and as such has been price protected. Cutting the level of Supplementary Benefit would have some rationale to justify abandonment of that level of support. This would involve establishing an objective test of the minimum level of support. This implies sponsoring some research into minimum standards of living.

9. The Rayner Report on payment of benefit to the unemployed noted that in practice the requirement to register for work was a mythical test of willingness - only 3% of claimants interviewed said that a Job Centre put any pressure on them to find work (5% in areas where jobs were still easy to find). The report therefore recommended that registration should become voluntary and as a test of availability, be replaced by more active intervention by increased numbers of Unemployment Review Officers. The Report recommended that the number of UROs should be increased by 300. The Government decision on this Report was announced on 30 July. In that statement the recommendation on voluntary registration and on tightening the test of availability was accepted, but the number of additional UROs was reduced to 50. This reduction accepted the view of the Manpower Services Commission that employment of an additional 300 UROs would be wasteful, objectionable, and at the expense of the positive functions of the employment service.

10. As a separate exercise, DHSS have extended their action to prevent fraud and abuse. This exercise has produced substantial savings. The additional 447 UROs employed are estimated to have saved £22.5 million in benefits. This is, however, less than was at first thought achievable and, with rising unemployment, the efforts are becoming less cost effective. There were protests at the time these measures were announced but additional staff employed on tax evasion would have a greater PSBR effect. It is argued that those forced into work by the UROs simply displace others. DHSS accept this displacement affect but think it is limited.

F

REFORM OF APPRENTICESHIPS AND SKILL TRAINING

There is widespread agreement that the system of skill training in the UK is rigid, conservative and slow to respond to the requirements of individuals or the economy. At a national level the need for reform is broadly accepted by the CBI and the MIC. But at a local level the attitudes of both employers and unions often represent a road block in the way of reform.

2. The problems are exemplified, but not limited to the apprenticeship system. In many cases this has become a form of restrictive labour practice, collectively agreed and maintained by the two sides of industry. The system itself is inflexible because of age barriers and qualification base on time served rather than achievement of standards. More than this, there is excessive emphasis on initial training at the expense of upgrading and retraining in later life. Access to some skilled jobs is artifically restricted to people who have had apprentice training whereas other, possibly cheaper ways of acquiring the same skill are potentially available.

What can be done to achieve reform?

3. The first option is to press ahead on a voluntary basis, attempting to persuade employers and unions that reform is in everyone's interest. This is essentially the approach embodied in the New Training Initiative on which comments have been invited by the end of September. It has been suggested that the momentum of this approach could be stepped up by involving the NEDC which has a good deal of knowledge and expertise in this area. This may well be an idea worth pursuing, provided any remit to NEDC called for suggestions and ideas rather than further analysis of the problem (there is no shortage of this). The effectiveness of NEDC involvement could be increased if the subject was put before the Council, and discussion was focused on the need to agree certain specific principles. These might be:-

i. the laying down of objective standards for skill training as the only basis for judging qualification

ii. acceptance that anyone who has achieved these standards, through whatever form of training, is universally accepted as qualified to do the work in question

iii. the content and length of training courses to be determined solely on the basis of what is required to meet accepted standards

iv. the removal of all artifical barriers (eg. age) against access to training or retraining.

4. A further way in which Government might be able to speed reform, without resort to legislation, would be to use its own involvement as trainee and employer more effectively. As the CPRS has pointed out[1] the apprenticeship system is as firmly entrenched in MOD? the PSA and HMSO as anywhere in the private sector.

5. A further option is the use of financial leverage within existing Government funded training provision. The most obvious candidate is the direct grants of around £40 million a year and channelled by the MSC through the ITB's to boost apprentice intake. It has always been hoped that such grants might encourage reform. But instead they have served to shore up the existing system. Consideration could be given to making the grants conditional on agreed reforms. The impact of this might, however, be little more than symbolic. Of the 350,000 young people currently serving apprenticeships only some 25,000 are covered by MSC grants.

6. Action to secure reform going beyond the sort of things outlined above would probably involve either the legislative stick or the financial carrot. There are major difficulties attached to both. An extension of legislation could involve the Government taking on an unacceptable degree of responsibility for the supervision of training and the setting of targets. However, the current review of the future of the ITB's, on the basis of which the Secretary of State for Employment will announce proposals later this year, could provide a framework for legislative change. The objectives of any new legislation might be to establish statutory machinery for determining standards and duration of apprentice type training courses; to compel to employers and unions to accept this; and to outlaw discriminatory eligibility for certain jobs based on age, form of training etc.

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[1] "Education, Training and Industrial Performance", 1980.

CREATION OF PUBLIC WORKS JOBS

Description

The proposal is for the creation of public works jobs on a selective basis, offering pay in excess of benefit rates but lower than would otherwise be the rate for the job. There might be penalties in the form of reduced benefit entitlement if a job was not taken up.

2. One such scheme, related to the availability for work rules and the Beveridge proposals is examined in a separate note.

Administration

3. The MSC could administer such a scheme (which has some similarities to their existing Community Enterprise Programme) under existing powers. If there were close links with the benefit regime (eg if refusal to accept a place entailed loss or reduction of benefit, or if payments by the MSC were based on individual benefit entitlement) there would need to be appropriate liaison arrangements with DHSS.

Assessment

4. A more limited scheme on similar lines to those in the proposal was recommended by the CPRS earlier this year. It would involve the redefinition and expansion of the existing Community Enterprise Programme (CEP). The CEP currently provides job opportunities on voluntarily sponsored projects for the long term unemployed over 18. Priority is given to areas of high unemployment and local authorities are the main sponsors. The MSC pays a grant to cover administrative costs, wages and some materials costs. Participants receive a negotiated rate for the job, not exceeding £ a week. There is currently provision for 25,000 places.

5. The scheme could be adapted to meet the proposal by a) changing its financial basis, and b) increasing the number of sponsored projects (presumably among local authorities if the criterion is the creation of public works jobs).

6. In principle, it should be possible to replace the negotiated wage under the existing scheme with a payment conceptually similar to the YOP allowance, i.e. benefit plus a relatively small premium to cover expenses etc. The CPRS estimated that with a £6 premium over benefit the average gross cost of a CEP place would be almost halved, thus releasing resources for a major expansion of the scheme. It is unlikely that, in practice, the premium could be as low

as this; the YOP allowance currently has a £8 lead over supplementary benefit. Determining the right level of premium presents considerable difficulties. It may be necessary to consider differential rates based on the benefit entitlement of individual participants.

7. The CPRS believed that many of the longer term unemployed would welcome the opportunity of a regular job benefitting the Community without the degree of financial incentive offered under the CEP. However, this view may well be optimistic and it could be argued that the offer of community work should be regarded as equivalent to the offer of a job for the purpose of testing availability for work. Refusal to accept Community work could then involve witndrawal of benefit. This would require legislation as described in the note on the Beveridge idea.

8. The reactions of the unions and the local authorities would be crucial to the success of such a scheme. The public sector unions are already sensitive about the idea of public jobs "fenced off" from the ordinary labour market, especially to the extent that the activities involved have been affected by public expenditure cuts. But there is a case for putting the unions on the spot and seeking to ensure that, if unconstructive attitudes are taken, the responsibility if known to lie with them rather than elsewhere. The reaction of the local authorities could potentially be more troublesome. The scheme would depend on a substantial build-up in the number of Community projects they were prepared to sponsor. They could not be compelled to do this without far-reaching new legislation. But some of them might be very reluctant to accede to overt central government interference in the wages they were able to offer and the penalties for non-acceptance. Many authorities might also refuse to pay less than 'the rate for the job'.

9. The costs of such a scheme would naturally depend on the number of places offered and the lead over benefit rates.

7. Further financial incentives would run counter to the principal that industry should accept greater responsibility for training. To achieve a universal impact would almost certainly entail a significant public expenditure commitment. But it might be worth exploring small scale pilot schemes, whereby grants (or tax or NIC rebates) were provided to manufacturing companies which agreed to take on new trainees on a more flexible basis. Such a scheme could be subject to a wage stop.

EMPLOYMENT SUBSIDY SCHEMES

Description

1. Professor Richard Layard has suggested that a subsidy should be offered to firms which expand their labour force and give jobs to the "long term" unemployed (ie those who have been out of work for more than 6 months). The scheme would have limited duration (perhaps 2 years), and would apply to the private sector only, and probably just to manufacturing. The main objective would be to reduce the total of unemployment, but the scheme would aim also to redistribute employment opportunities which would exist in any case so that more were taken up by the long term unemployed.

2. We have also considered two variants. The first aims to integrate the proposal with the schemes discussed earlier to put greater pressure on the unemployed to return to work. The second incorporates a wage stop in the manner of the new school leavers employment subsidy.

Administration

3. The scheme would be administered by the Department of Employment's regional offices in broadly the same way as the school leavers' employment subsidy. Extra staff would be required, though there would be some comparatively small offsetting savings in the benefit service.

Assessment

(a) The Layard Proposal

4. A marginal employment subsidy would no doubt encourage some firms to expand when they otherwise would not. It would without doubt be a better way of increasing output than a subsidy which was available on all employment. This is because it would produce a significant reduction in marginal costs, whereas the same expenditure on a general subsidy (or NI remission) would be spread much more thinly and would have the same, small, effect at the margin as on average. The fact that marginal costs were significantly reduced would mean that in markets where firms can discriminate between customers, or where they faced by a given

world price, their competitive position could be significantly improved. In particular, the subsidy would improve the position of UK firms in export markets and in competition with imports (though this would, of course, tell against it in the eyes of the EEC).

5. Professor Layard is right to suggest that the immediate net cost of the scheme would be less than the gross cost because of savings on unemployment benefits. But there would be secondary costs resulting from the need to finance the subsidy. Moreover part would inevitably be wasted, going either to people who would have been taken on in any case ("deadweight") or else to people whose employment will force others onto the unemployment register ("displacement"). The Department of Employment's own calculations suggest that at least half of the money will be wasted in these ways - and a higher figure than theirs could be suggested, particularly since in the short run those firms which would have expanded anyway are likely to dominate applications for subsidies. The Small Firms Employment Subsidy, which was conceptually similar, was estimated to have had deadweight and displacement amounting to 75% of the apparent reduction in unemployment. If the subsidy per head were reduced to take account of deadweight and displacement, it is unlikely that the net cost per person off the register could be much reduced, since a smaller subsidy would be likely to have a lesser impact on employment.

6. The Layard proposal is for a scheme lasting for only two years. If there were no time limit, it would be important to take account of its longer term effects. As we have seen, a marginal employment subsidy will produce an initial improvement in competitiveness, but as trade flows respond this will tend to be removed by an increase in the exchange rate. The need to finance the subsidy would then stop domestic prices from moving to restore competitiveness to its improved position, as would be the case if the initial improvement were the result of higher productivity. In the end, therefore, the initially beneficial effects will be removed, while some adverse effects, like the possibility that the subsidy will "leak" into higher wages, will remain.

7. Clearly, given the uncertainties about how it will work, it is extremely difficult to estimate the overall effectiveness of a scheme on these lines. One estimate from the Department of Employment, based on the theoretical model devised by Professor Layard, is that a £50 a week marginal wage subsidy would be

claimed on behalf of about 100,000 workers, and that the reduction in the unemployment register would be about 50,000. The gross cost would be in the order of £250m.

(b) Variants

8. The Layard scheme would do nothing about the need to secure a reduction in real wages: indeed the subsidy could itself be the cause of higher wages. We have examined the possibilities for schemes which seek to overcome these objectives by applying a wage ceiling to subsidised private sector jobs. Two variants have been considered.

9. The first relies on the stricter enforcement of benefit rules by UROs. It is the kind of scheme which could, if so desired, be introduced on an experimental basis in a limited area. The aim would be to get private sector employers to make job offers to the unemployed which they would have to take if they were not to lose their benefits. The employment would thus be provided on a basis analogeous to the public works jobs considered in the previous section. The administrative arrangements might be either that the employer paid the employee the benefit rate, plus an allowance for his extra expenses, while receiving a subsidy equal to the benefit rate from the Government, or that the Government continued to give the employee benefit with the employer merely topping it up to cover expenses. The subsidy would be paid for a limited time in respect of each employee, say a year.

10. In order to overcome union resistance these jobs should ideally be additional to those which already exist. However, it is inevitable that the scheme would offer opportunities for the displacement of existing by subsidised workers. At the very least the subsidised employee would tend to be replaced by a new recruit from the unemployment register at the end of a year. But in addition some firms would probably be able to disguise existing jobs as new ones. Such substitution could be reduced, though not entirely eliminated, by requiring stricter proof of additionality. On the other hand the greater the extent of substitution the greater the possibilities for putting downward pressure on the level of the real wage.

11. The second variant is closer to the Layard proposal. It would probably be a national scheme. A subsidy would be available to each firm which could show that its labour force had expanded during the period in question. However, a ceiling might be imposed on the wages of workers eligible for the scheme. This might, for example, be set at some point within the lower quartile of earnings - which probably represents the sort of earnings which the long term unemployed would, in any case, expect. The object would be to stop at least part of the leakage of the subsidy into higher wages which might otherwise be expected. A scheme on these lines could be expected to lead to some overall increase in employment, albeit at significant public expenditure cost. Nevertheless it too would also produce some substitution, though again this may be welcomed as a means of reducing real wages. Indeed the scheme could in effect be seen as one of the means of publicising the need for lower real wages.

12. There are, however, practical arguments against a wage stopped scheme. There would first be the difficulty that to avoid abuse the scheme would be applied to the whole of gross remuneration. But this problem apart, there would be much greater difficulties in setting a ceiling to a scheme covering the whole range of adult workers than, for example, in one covering young workers only like the school leavers employment subsidy.

It is clear that a single wage ceiling would introduce distortions. If it was set too low there would be the danger that only the least productive sections of industry would qualify. Indeed there is the possibility that within any one industry the effect of the subsidy would be to offset the market forces operating on the least efficient firms, in this case their more efficient rivals would be the losers.

RAISING THE LOWER EARNINGS LIMIT

Proposal

The lower earnings limit (LEL) for National Insurance contributions is the level of weekly earnings below which contributions are not levied (currently £27). Once this level of earnings is reached, however, contributions are levied on all earnings from the first £1. Thus for weekly earnings of £26 there is no contribution, for weekly earnings of £27 there is a contribution of nearly £6 (21.5%, made up of 7.75% (about £2.10) from the employee and 13.75% (about £3.70), including the Surcharge, from the employer.

Raising the LEL by more than that required by legislation would reduce employers' costs for the very low paid or part time earners and increase the net take home pay for that group of workers.

Administration

The LEL is set by Order each year and is, by the Social Security Pensions Act, 1975, related to the level of the basis State Retirement Pension. Thus when the pension rises to £29.60 next November the LEL would normally rise to £30 the following April.

Raising the LEL by more than the standard formula would mean breaking the link with the pension and would require legislation. If the LEL were to be raised from next April it would mean a time table something like that of the last Social Security Contributions Act, which received its first reading in late November and received royal assent on 29 January this year.

Raising the LEL by £1 would cost at least £10 million in lost revenue. There is not however, a straight line relationship. Raising the LEL by £ to £40 would cost more than this implies.

There would be a number of consequential affects. These are:-

(a) the full rate of contribution is levied on contracted-out contributions up to the LEL. Without some countervailing action this could bring in additional revenue of £32 million. We have, however, assumed that Ministers would not want to impose this additional cost on contracted-out employers and, for the purposes of calculating the contracted-out rate of contributions would leave the LEL alone;

(b) earnings between the LEL and the Upper Earnings Limit (UEL) (determined also by Order at between 6½ and 7½ times the LEL, currently £200) are used to calculate entitlement to the earnings - related element of the State Retirement Pension. Raising the LEL without countervailing action would reduce entitlement to that benefit. Raising the LEL by a relatively small amount might be tolerable, but if the LEL were raised by substantial amounts it would be necessary to adopt a different method of calculating entitlement to that benefit;

(c) raising the LEL would, under existing legislation also mean raising the UEL (which must be between 6½ and 7½ times the LEL). It is currently £200 p.w. It could be expected to be between £210 and £225 from April 1982. An increase in the LEL to £40 would increase the UEL to between £260 and £300 p.w. Raising the UEL by £10 could bring in additional revenue of about £100 million; but would add to the States' earnings related pension obligations, in the longer run, and increase the marginal tax rates of middle management;

(d) those workers who fell below the enhanced level of the LEL would be removed from entitlement to short term contributary benefits (such as unemployment and sickness benefit); would not build entitlement to the basis state retirement pension; and might also lose some entitlement to the earnings related element of the pension;

(e) it would also have the effect of making the drop in incoming and increased cost to employers once the LEL was reached more marked.

One way of coping with the last of these problems would be to make the LEL a slice exemption, that is, charge no contribution below the LEL and at the standard rate on each £1 of earnings above that. The cost of such a move, however would be very high indeed, of the order of £4 billion in lost revenue if the current LEL were retained, substantially more for a higher LEL. To recoup this loss of revenue to this NI Fund would require an increase in all contribution rates of 4 percentage points.

Assessment

Raising the LEL but at the same time protecting contributors and beneficiaries from the adverse consequences would create substantial

an alies with the present system. These anomalies are not necessarily, intolerable.

A simple increase in the LEL (ie. retaining the current arrangement for charging from the first £1 once the LEL was reached) by £10 from the £30 level likely otherwise to apply from next April to £40 would affect a relatively small number of employees and a small part of employers' NIC and NIS bills, unless changes in employment and wage levels for the very low paid had a knock-on effect on the better paid.

For those paid less than the new LEL there would of course be both increased demand for labour and an increased incentive to work, so that one would expect some extra employment. The effect on incentives, however would be quite small. The ratio of income out of work to income in work would only show a small change. Nor would the problem of the poverty trap be significantly eased: much the most serious problem is for those earning between £42 and £72 a week (at least for a couple with two children). Even if the LEL was raised as high as £72 the effective marginal rate of tax would only drop from about 104% to about 96%.

It is uncertain whether pre-tax wages would rise or fall: employers would be more eager to attract this type of labour, but employees would not require such a large gross wage to achieve a given net income.

Those earning wages as low as this are likely in the main to be young people and part-timers. So one would expect the extra employment to be amongst these groups. Conceivably this could be at the expense of adult full-timers: it would be cheaper for an employer to pay two part-timers £30 a week than one full-timer doing equivalent work at £60 a week.

The measure bears some similarities to the Walters scheme for a £15 subsidy to young people earning less than £40 per week, especially if £40 is where the LEL were to be set. The reduction in contributions is on a smaller scale - £8.38 (employers and employee together) for someone earning £39 a week - and there is no limitation on the age or experience of the employee. The measure is thus less "targeted" on a particular problem group. But one argument used in support of the Walters scheme was the knock-on effect on the wages of other groups.

On the same argument it is possible that those earning just over the new LEL might come under pressure for a reduction below it, or get be replaced with others prepared to work for less than it (indeed, employees ought to be indifferent between a wage of £42 and one of £39, just as now they ought to be indifferent between £25 and £27). This might in turn apply pressure higher up the scale. But it is hard to imagine why pressure of this sort should be expected to restore market-clearing wages if a recession of the scale we are currently experiencing is not expected to do so. This tends to suggest that even a very substantial increase in the LEL would have little beneficial effect on employment or real wages.

Especially if coupled with a matching increase in the UEL this might have some political attractiveness since it would tend to re-distribute income to the very lowly paid and would have a positive, albeit small, incentive effect. On the other hand it would create substantial anomalies within the Social Security System, would remove some from entitlement to contributory benefits (though in return for higher take home pay). The closer the LEL come to the level of full time adult male pay the more likely it would be to create substantial anomolies within the basic structure of pay and might have the effect of making two quite distinct bands of pay.

As far as concerns a move to a slice exemption for the LEL, the loss of revenue would be very high and would need to be re-couped for substantially higher rates of contribution (shifting the UEL upwards would probably not produce anywhere like the additional revenue needed) the burden of which would, necessarily, fall primarily on middle income groups. It is difficult to see that it would be worth retaining contributions as a test of entitlement when most low paid would pay little if any contribution. There would be little point in retaining a contribution distinct from tax. The pros and cons of a move away from contributions are displayed in the TASS report recently put to Ministers.

CONFIDENTIAL

cc A. Walters
A. Duguid
M Anyanwu

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000 17 September 1981

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Caxton House
Tothill Street
LONDON SW1N 9NA

Dear Norman

UNEMPLOYMENT AND EARLY RETIREMENT

I have seen a copy of Jim Prior's letter of 20 August to Patrick Jenkin about Jim's ideas for encouraging early retirement. I have also seen Patrick's reply of 7 September.

Schemes for early retirement such as those Jim advocates are bound to have an effect on the operation of the job market through their impact on the supply of labour and the costs of employment. I note for example that the earlier official study of the actuarial reduction in the retirement pension suggested that the additional pensions cost for a one year reduction would be £250 million a year. That would not only add to public expenditure, but if it were to be PSBR-neutral, it would involve an increase in National Insurance contributions. That would not only add to the direct cost for those still in employment, but the reduction in the supply of labour would tend to make for upward pressure on wage rates.

I do not therefore believe that proposals for reductions in the age of retirement are consistent with the Government's overriding economic policies. While I accept of course that briefing will have to be provided for the Social Services Select Committee, I therefore doubt the wisdom of inviting officials to undertake a new study which is unlikely to be fruitful, not least because expectations would be raised which would be difficult to dampen.

These points also have relevance to the proposals for encouraging early retirement under occupational schemes, and for the application of a strict 60 year retirement policy in the Civil Service. No doubt Norman Fowler and Janet Young will take them into account when considering how far they fit with their own priorities.

/I am sending copies

I am sending copies of this letter to the Prime Minister, Norman Fowler, Janet Young and Sir Robert Armstrong.

GEOFFREY HOWE

JP

CONFIDENTIAL

mrs pursc cc. A. Duguid
A. Walters.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE
LONDON S.E.1

TELEPHONE: 01-407 5522

The Rt Hon James Prior MP
Secretary of State for Employment
Caxton House
Tothill Street
SW1N 9NA

7 September 1981

Dear Jim,

UNEMPLOYMENT AND EARLY RETIREMENT

Thank you for your letter of 20 August about the need to consider other ways of helping those who wish to retire early to do so.

This fits in quite readily with the work we shall be doing for the Social Services Select Committee, who have decided to make the age of retirement their main social security topic for investigation in the next Session. Among the topics to be covered will be the one that you particularly mention, namely the possibility of permitting early retirement through an actuarial reduction of pensions. If it does prove possible to make a change along these lines, I would want to introduce it as soon as possible. I must warn you, however, that it might not be feasible by 1984. The timing will depend on whether the general level of pensions, including earnings related additions, will be high enough to allow reductions to be made for those retiring early without causing a substantial number of them to have recourse to supplementary benefits, and there must be some doubt whether we shall have reached that happy state by 1984.

As to the earnings rule, I am proposing in this year's public expenditure survey to defer the start of phasing out the rule until November 1984. In the meantime, however, I do not think we can continue much longer the freeze on the amount of the earnings limit.

I am copying this letter to those who received yours.

Yours ever

Patrick

CONFIDENTIAL

SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213...6400...GTN...213
Switchboard 01-213 3000

a Walters
Enquire.
Margaret

Rt Hon Nigel Lawson MP
Financial Secretary to
the Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

WN 2/9

31 August 1981

YOUNG WORKERS SCHEME

Thank you for your letter of 20 August agreeing to my proposals for the Young Workers Scheme.

We have done all we can to construct an effective scheme, but I fully accept that we should be ready to consider possible changes in the light of the results achieved.

I am sending copies of this letter to the other recipients of this correspondence.

LORD PRESIDENT OF THE COUNCIL

Mr Dyson
Mr Walters

MAP Manpower.

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

25 August 1981

Mr R Dykes
Private Secretary to
The Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1

YOUNG WORKERS SCHEME AND OTHER SPECIAL EMPLOYMENT MEASURES

Before he went on leave the Lord President saw your Secretary of State's letter of 18 August to the Chancellor about the Young Workers Scheme. He noted that it is expected that the staff required to administer the scheme will be about 350 by 1.4.83.

2. Against this there will of course be some savings in the staff required in your Department and DHSS in paying benefits to the unemployed because of the effect of the scheme on the live register of the unemployed. I understand officials in CSD are currently discussing with yours the staffing implications, both additions and reductions, of this scheme and the other special employment measures agreed with the Prime Minister on 24 July.

3. I am copying this letter to Mike Pattison (No 10), Peter Jenkins (Treasury), David Heyhoe (Chancellor of the Duchy of Lancaster's Office) and David Wright (Cabinet Office).

(Linda Butcher)

MISS L B BUTCHER
Assistant Private Secretary

WW 25/8 Manpower

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

24th August 1981

Minister of State

Rt Hon James Prior, MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London SW1

Dear Jim,

YOUNG WORKERS SCHEME

Thank you for sending a copy of your letter of 18 August and the enclosed draft announcement to Humphrey Atkins. In his absence on holiday, I am responding to your request for clearance of the proposed reference to Northern Ireland in the announcement.

As you may know, we had already announced our intention to introduce a parallel scheme in Northern Ireland. (For convenience I enclose a copy of Adam Butler's statement of 6 August). I suggest, therefore, a small amendment to your draft statement by deleting the existing two sentences in the penultimate paragraph and substituting the following:

> "This announcement deals with the scheme to be introduced in Great Britain. It has already been announced that a parallel scheme will be introduced in Northern Ireland and a separate Press Notice will be issued by the Northern Ireland Department of Manpower Services."

I should be grateful if your officials would keep the Northern Ireland Department of Manpower Services in close touch with any further developments on your plans, bearing in mind our need to announce the Northern Ireland details as quickly as possible after the GB announcement.

I am copying this letter to the other recipients of yours.

Yours ever
Michael

MICHAEL ALISON

IV

File 10/7/09

Northern Ireland Information Service

Stormont Castle,
Belfast BT4 3ST
Telephone Belfast 63011
Telex 74163: 74250: 74272

Great George Street,
London SW1P 3AJ
Telephone 01-233-4626
Telex 1918889

Ulster Office,
11 Berkeley Street, London W1
Telephone 01-493-0601
Telex 21839

6 August 1981

STATEMENT BY MR ADAM BUTLER, MP, MINISTER OF STATE, ON SPECIAL MEASURES TO COUNTER UNEMPLOYMENT IN NORTHERN IRELAND

Immediately following the Prime Minister's announcement of further Government measures to deal with the problems of unemployment in Great Britain, I said that I would expand the programme already operating in Northern Ireland, which benefits the jobless. I can now give the details of a package which is likely to cost over £4m this year, on top of what is already planned.

First of all, I want to give more help to young people; I have therefore decided to provide for a further 2,000 places in the Youth Opportunities Programme. This programme has demonstrated real benefit in providing both training and work experience. The effect of this additional expansion will be to increase the programme to 12,000 places by March 1982, which will mean 5,000 more places compared with March 1981. That will represent a striking 70% increase in a year. There will be more places in community based workshops (including the establishment of some new workshops), in Colleges of Further Education, in Government Training Centres and with employers under the Work Experience Scheme.

I am also very conscious that young people are facing difficulty in entering apprentice training at the present time and that some apprentices have been made redundant or are unemployed. I therefore intend to increase the grants payable to employers who recruit additional apprentices and to those recruiting replacement apprentices who are part way through their training.

The new youth employment scheme already announced for Great Britain will be introduced in parallel in Northern Ireland. There will be a weekly payment to employers of £15 per head in respect of every employee in the first year of employment who is under 18 and earning less than £40 per week.

The Government has also undertaken to strengthen the provision in schools and colleges in Great Britain to encourage more young people to stay on in education. My colleague, Lord Elton, is considering, in the particular circumstances of Northern Ireland, what further measures may be required here.

While the main thrust of the measures is directed towards alleviating unemployment among young people, there are other significant steps which will be taken in parallel with what has been announced in Great Britain to help reduce overall unemployment. The Job Release Scheme will be extended to March 1984 and age eligibility for men will be reduced from its present level of 64 to 63 in November 1981 and further reduced to 62 years of age in February 1982. In addition unemployed men over 60 who have been receiving supplementary benefit for 12 months will be enabled to retire early and receive supplementary benefit at the long term rates. There will be help to provide more opportunities for voluntary work by the unemployed.

The additional cost of these measures, which represent a real and determined step by Government to assist with the problems of unemployment is estimated to be over £4 million in 1981/82. The money is being provided from the Contingency Reserve and so is within the planned total of public expenditure.

Sgpp Sc Walters
Digwid
Manpower

FINANCIAL SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon James Prior MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1

MAP

20 August 1981

Dear Secretary of State

YOUNG WORKERS SCHEME

Thank you for your letter of 18 August to Geoffrey Howe. I am replying in Geoffrey's absence from the office.

I agree that you should go ahead as you propose. I should, however, say that I am not altogether persuaded by the arguments you advance for extending to those under 17 the concession of paying subsidy for jobs with wages between £40 and £45 a week, since such a concession is not necessary to deal with the Wages Council complication. I can see the force of the arguments you put forward on the other side; and I will not ask you to change your proposals at this stage. However, if there should be any indication that expenditure on the scheme was likely to be significantly greater than the current estimates, this provision would in my view be a prime candidate for review.

As I have implied, I am sure that it is necessary to make arrangements for montoring expenditure and evaluating the results of the scheme, and I welcome what you say in your letter on this point. It follows, of course, that we must be careful to avoid entering into commitments which would make it difficult to change any of the features of the scheme, if that seemed appropriate in the light of the evidence.

I am sending copies of this letter to the other recipients of yours.

Yours sincerely,
D. L. Willetts
NIGEL LAWSON
(approved by the Financial Secretary & signed in his absence).

SF

CONFIDENTIAL

NBPM ycc MAP 21/8/81

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400 GTN 213

Switchboard 01-213 3000

Rt Hon Patrick Jenkin MP
Secretary of State for
Social Services
Department of Health and
Social Security
Alexander Fleming House
Elephant and Castle
LONDON SE1

20 August 1981

Dear Patrick

UNEMPLOYMENT AND EARLY RETIREMENT

The Prime Minister's announcement on 27 July referred to two important developments designed to enable people to retire earlier where they wish to do so and withdraw from the labour market. These were the extension of the long term rate of supplementary benefit to those unemployed who are 60 or over and have drawn SB for a year or more, and the reduction of the age of eligibility of the Job Release Scheme for men. I was glad to see that you have taken steps to ensure that the SB change comes into force with the Social Security uprating in November. I shall be reducing the age of eligibility for JRS to 63 in that month and to 62 next February.

But as I made clear in my paper E(81)47 and in the subsequent discussions, I am sure we must pursue vigorously other ways of helping those who wish to retire early to do so. By such means we can often open vacancies for younger people. JRS is a very sensible short term measure, but we need to look further ahead and provide opportunities of this kind, with similar effects on unemployment, through adaptation of regular retirement schemes in line with our longer term aims. That was why in my paper I suggested that more thought should be given urgently to providing flexible retirement through actuarial reduction of pensions. I trust you will agree that officials should be asked to examine this possibility further on the basis of seeing what change could be brought in from 1984 when the latest extension of JRS is due to run out. There will be a continuing advantage on the unemployment front in encouraging more of the elderly to leave the labour force over the next few years.

If officials come up with any other ideas which do not involve actuarial reduction but which seem likely to have an effect on the numbers at work and fall well short of paying everyone their full pension early, they too would be well worth looking at. But my impression at present is that the method of actuarial reduction is likely to be the most practicable.

My paper also supported three other proposals by officials on this front intended to help with unemployment over the period ahead. One was that we should urge employers to allow early retirment under existing occupational pension schemes, as well as to include provision for it in new schemes. There is evidence that employees are not aware of the provisions for early retirement already open to them under existing occupational schemes. Another proposal was that we should go slow on abolition of the earnings rule for pensioners and allow the real value of the earnings limit to continue to fall. I hope you will seriously consider acting on both these proposals.

The third suggestion that I supported was that we should strive throughout the public sector where 60 is the normal retirement age to make this the actual age in more cases. I know that this situation is being reviewed by the CSD so far as the Civil Service is concerned and I hope that the Lord President will agree to see that full weight is given to the unemployment argument in this review, as well as to consider what scope there may be in other parts of the public sector for similar action to enforce the retiring age more strictly.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Exchequer and to the Lord President for my preceding paragraph; and also to Sir Robert Armstrong.

10 DOWNING STREET

From the Private Secretary

20 August 1981

The Prime Minister has seen a copy of your Secretary of State's letter of 18 August to the Chancellor, about the young workers scheme.

Subject to detailed comments from colleagues, she is content with the arrangements which Mr. Prior has in mind.

I am sending copies of this letter to Peter Jenkins (HM Treasury), Jim Buckley (Lord President's Office), David Heyhoe (Chancellor of the Duchy of Lancaster's office), David Wright (Cabinet Office).

M. A. PATTISON

Richard Dykes Esq
Department of Employment

CONFIDENTIAL

1.

dc Mr Wolfson
Mr Ounsted
Press Office

2 pps

Prime Minister
To note in particular points b & c at the bottom of this page.
Content with Mr Prior's proposals?
MJP 19/VIII.

Caxton House Tothill Street London SW1H 9NA
Telephone Direct Line 01-213 6400
Switchboard 01-213 3000
GTN 213

18 August 1981

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Great George Street
LONDON SW1

Yes MT.

Dear Geoffrey

YOUNG WORKERS SCHEME

Hansard Extract

When the Prime Minister announced on 27 July that we intended to introduce a new £15 weekly payment for young employees she said that full details of the scheme would be announced shortly. My officials have now drawn up the details, in consultation with officials at the Treasury, CSD and CPRS and I enclose a draft of a press notice that I propose to issue on Thursday 27 August, two days after the next unemployment figures are published.

It is important that we should publish details of the scheme before the end of August. We are now entering the normal recruitment season for school leavers and enquiries that my Department are receiving from employers suggest that some may defer recruitment until they know the details of the scheme.

The enclosed press notice incorporates explanations of particular features of the scheme. These are not intended for publication but to help us decide on what is recommended. The main features additional to those given to the House by the Prime Minister are:

(a) the proposed title of "young workers scheme";

(b) a reduced rate of £7.50 a week where gross earnings are £40 or more but less than £45. The £40 figure announced on 27 July already at April 1981 covered only 25% of young people and this proportion will continue to decline. Having an additional limit with a lower payment will encourage more employers to bring young people (particularly 17 year olds) within the scope of the scheme and will mean that nearly all current wages council minimum rates will lie within the earnings limits. I do not, however, wish to relate the upper limit solely to 17 year olds because this will introduce an explicit age differential which we have so far avoided with YOP and that I wish to avoid in the prospective new training scheme for young people;

(c) the exclusion from the scheme of the public services and domestic households.

I agree with the recommendations on these particular features of the scheme and with the other proposed details. I think we could have had a simpler scheme if we were not committed to the £40 limit and the requirement that it applies to young people in their first year at work but, given those necessary features of the scheme as it is now introduced, I support the detailed arrangements recommended.

I understand that it would now be feasible to bring this scheme into operation with effect from 7 December, but that would mean a more substantial cost than has so far been envisaged in 1981-82 which I understand the Treasury would prefer to avoid. I therefore accept that the scheme should be brought into operation with effect from Monday 4 January.

No termination date is given for the scheme but I envisage that it will be subject to review annually with the earnings limits in particular looked at next summer. I also envisage that we will need to mount an evaluation survey within the first year of the scheme and it would then of course be possible to review features of the scheme, such as whether it should be extended to part-timers.

The provisional financial allocations for this Scheme were £5 million in 1981-82 and £60 million in 1982-83 (both calculated without provision for staff costs). Excluding staff costs the arrangements now proposed will cost nothing in 1981-82 and £73 million in 1982-83. Although the 1982-83 figure is higher than the original guess, the estimate is highly uncertain: in particular, it makes to my mind the unrealistic assumption that all those eligible will apply. If take up were instead 75%, the cost would be£55 million. I am quite clear that we should not modify the Scheme simply in order to get within the provisional allocation.

It is thought that some 270 staff will be needed by April 1982 to operat the scheme rising to about 350 by April 1983. This will add an extra £0.7 million in 1981-82 and £3 million in 1982-83 to the costs shown above. A considerable staff cost is inevitable because most applications will cover only one young person. There will, however, be some offset from savings in the unemployment benefit service as employers respond to the scheme by creating new jobs, and by the end of three years this might approach about half the staff administering the scheme.

Since the Scheme will be run under the Employment Subsidies Act 1978, there is a statutory requirement to consult the CBI and TUC and to obtain a resolution of the House of Commons for the Scheme to come into operation. This means that we need a debate either in the spillover session or at the very beginning of the new session and I am therefore copying this letter to Francis Pym. In fulfilment of the consultation requirement I shall write to the CBI and TUC on the day the press notice is issued.

CONFIDENTIAL

I trust that I may have your agreement to making the press announcement on the details of the scheme in the proposed terms on 27 August. It will be most helpful in making the arrangements for that if you could let me have your agreement by next Friday 21 August.

I am sending copies of this letter to the Prime Minister, the Lord President and the Chancellor of the Duchy of Lancaster; and to Sir Robert Armstrong. I am also sending a copy to the Secretary of State for Northern Ireland with a request to let me know by next Friday whether he finds the reference to a scheme for Northern Ireland acceptable.

DRAFT PRESS NOTICE FOR THURSDAY 27 AUGUST

NEW "YOUNG WORKERS SCHEME" TO START ON 4 JANUARY

BUT SCHEME WILL APPLY TO ELIGIBLE WORKERS RECRUITED EARLIER

The new scheme to encourage employers to recruit more young people at realistic wage rates will start on 4 January next year. The "Young Workers Scheme", as it will now be called, was first announced by the Prime Minister on 27 July.

Employers will be able to claim for young people employed before the scheme starts, provided the young person is eligible on 4 January. In such cases employers will still be able to claim for the maximum 12 month period from 4 January. No employer therefore will lose under the scheme by recruiting this year's school leavers between now and its starting date.

The main proposals are as follows:

1) Employers can claim £15 a week in respect of each eligible employee whose gross earnings are below £40 a week.

2) They can claim £7.50 a week in respect of each eligible employee whose gross earnings are £40 or more but below £45 a week.

3) Employers can claim in respect of any young employee who is under 18 and in his or her first year of employment on the day from which payments are first claimed and whose earnings are within these limits.

4) The maximum period of payment in respect of each individual is 12 months.

As required under the Employment Subsidies Act 1978, the Government will consult the CBI and TUC on these proposals and will seek a resolution of the House of Commons.

The scheme applies to Great Britain. Consideration is being given to a similar scheme for Northern Ireland.

Further details about the working of the scheme are attached.

NOTE TO EDITORS:

On Monday 27 July in the House of Commons, the Prime Minister said:

"We propose to introduce a new scheme under which employers will be offered a weekly payment of £15 for all young employees under the age of 18 provided they are in their first year of work and provided their earnings are below £40 a week. Full details of the scheme will be announced shortly with a view to its introduction early in 1982".

Q1 WHICH EMPLOYEES CAN BE CLAIMED FOR?

A1 Employers can claim in respect of anyone in their employ:

(i) who is in his/her first year of employment on the date from which payment is claimed. The first year of employment is the period of 12 months from the date when the young person started his/her first full time job, whether or not with the employer who is claiming payment. A full time job is one of at least 35 paid hours a week and which lasts at least 8 weeks; and

(ii) who was registered for work with the Careers Service or the Employment Service of the Manpower Services Commission. If those otherwise eligible who are employed before the scheme starts have not been so registered, it will be necessary for the employer to provide evidence that the condition in (i) above is fulfilled. Guidance will be issued in due course on the nature of the evidence required; and

(iii) who was under 18 at the beginning of the period for which payment is claimed; and

(iv) who is earning less than £45 a week during the period for which payment is claimed (though the full payment can be claimed only in respect of those earning less than £40 a week).

[Comment - not for publication: Full time employment is defined as 35 paid hours in order to cover most occupations, while limiting the scope for employers to claim the payment simply by reducing the hours worked while the wage rate remains unchanged.

Registration with the careers service or the public employment service is necessary in order to provide an easy means of checking the date when the first year of employment began.]

Q2 WHAT ABOUT YOUNG WORKERS COVERED BY WAGES COUNCIL ORDERS?

A2 The Scheme does not exempt employers from any obligation they may have under a Wages Board or Council Order.

/Comment - not for publication: The rates set by the Councils, which are independent of Government, are set by the trades and for the trades, and Ministers have no power to intervene. The comment on Q4 below shows that the higher limit of £45 will mean that most employers of young people under 18 will not be prevented from benefitting from the Scheme by Wages Council Orders. At this level of subsidy the Scheme will exert considerable pressure on the Councils not to increase the rates further./

Q3 WHICH EMPLOYERS ARE COVERED BY THE SCHEME?

A3 All employers in Great Britain may apply for payments under the scheme except public services and domestic households. Consideration is being given to a similar scheme for Northern Ireland.

/Comment - not for publication: There is no point in the Government giving itself a financial incentive to reduce wages. Furthermore, it would be odd to allow any of the public services to benefit from a scheme to increase employment when the Government is committed to reducing their staff. Nationalised industries would, however, be free to apply.

In favour of including domestic service in the scheme, it could be argued that domestic service might be an area where the payments could create many new jobs and that it is undesirable to appear to discriminate against domestic service as a source of employment. On the other hand, there would be administrative difficulties in dealing with private households and there could be criticism which would give the scheme a bad name if wealthy individuals received subsidies for their domestic staff. Furthermore, whereas the payments would be taxable where the employer is a trading concern and offsets wages against profits, the payments would not be taxable in the case of a domestic household. And this would make the payments especially valuable to those in higher tax brackets. Moreover, excluding private households from the scheme is likely to bear particularly heavily on the employment of EC nationals and thereby largely exclude them from its operation, as we would wish but cannot explicitly provide.

Excluding domestic households does not mean excluding domestic service altogether, because commercial agencies who employ domestic staff would be free to apply for the payments in respect of eligible employees./

Q4 HOW MUCH CAN EMPLOYERS RECEIVE UNDER THE SCHEME?

A4 Payments will be at the rate of £15 a week for each eligible employee who is earning under £40 a week; and at £7.50 a week for each eligible employee earning £40 or more but under £45 a week. The level of these earnings limits will be reviewed next summer.

/Comment - not for publication: 25 per cent of all young people under 18 earn £40 a week or less as at April 1981. By the time the scheme is introduced, only about 15 per cent will be earning £40 a week or less. Without a higher £45 limit the scheme will be in danger of failing because many employers will regard the £40 limit as an unattainable target. Suggestions have been made for a sliding scale of subsidy, but this would be too complicated. All but 5 Wages Councils (and they are very small in terms of youth employment) have basic rates for 16 year olds of under £40. However, only 7 of the 35 Councils have rates below £40 for 17 year olds. The higher limit of £45 (with a lower payment) will mean that all Wages Council rates for 16 year olds will be within the limits and only 5 Council rates for 17 year olds will be above them. These will be the small Councils covering coffin furniture, Scottish dressmaking, laundries, rope and twine and wholesale mantle and costume. The Scottish Agricultural Wages Board rate for 17 year olds will also be above £45 as well as the rate set by the England and Wales Agricultural Wages Board for 17 year olds who have to look after dogs.

About 15-20 per cent of young people are covered by Wages Councils and addition of the £45 limit will mean that there will be few possible cases where employers can complain that an order prevents them from benefitting from the scheme. In those cases the defence will be that it is for Wages Councils (like employers) to take account of the scheme - it is proposed to draw the scheme specifically to their attention - and to set realistic wages for young people. The employers who complain will have to address themselves to the employer representatives on the Wages Councils concerned./

Q5 FOR HOW LONG WILL PAYMENTS BE MADE

A5 The maximum period of payments for any one individual is one year. Payments in respect of any one individual will therefore cease 12 months after the very first date for which payments were claimed in respect of him or her by any employer. Each individual thus has a "payments year". There will be no extension to this 'payments year' even if there are periods during the year when no payments are claimed for that individual (eg because he was unemployed or took a job at £45 a week or more).

Once an employer has established that a young person is eligible (para A1 above) he will be able to claim until the 'payments year' for that individual is over ie until 12 months have elapsed since the date from which the first employer claimed payments in respect of that individual.

This means that an employer who recruits an eligible young person in respect of whom no payments have previously been made can claim for the full 12 months period, so long as the young person's wages remain within the limit. Where an employer recruits a young person in respect of whom payments have already been claimed by a previous employer, the current employer will only be able to claim payments for the balance of the 'payments year' ie for the period starting on the date the young person began working for him at less than £45 a week and ending 12 months after the date from which payments were first claimed by any employer in respect of that individual.

/Comment - not for publication: The structure of the scheme is determined by the intention, as stated by the Prime Minister to help those in their 'first year of employment'. Under these arrangements, if the employee stays with the same employer for at least a year the employer can get the full 12 months payment. If, however, the employee loses or leaves his job after, say, 4 months and then is unemployed for 2 months before securing another job, the new employer can claim the payment for only 6 months ie the remainder of the 12 months from when he first starte a job attracting the payments.

The question may be asked why the 'payments year' should not be extended if the young person becomes unemployed after payments have been made for less than 12 months. Otherwise the young person could lose some of the benefit of the scheme,

especially in areas of high unemployment where jobs are scarce.

The answer is that the scheme is designed to help during the first year of employment and extending the payments year radically departs from this concept. There would also be greater difficulties in administering the scheme and explaining it to employers. Since it is employers whose behaviour the scheme influences, it must be a priority to make the scheme simple for them, even if this involves rough justice for individuals.

Nevertheless, the scheme does cater for young people who change jobs. First, where a young person has been unemployed or in employment before any employer makes a claim in respect of him or her, a full 12 months payment may still be made even though payments will then continue beyond the first year of employment. Secondly, if the young person changes jobs after some payments have been made, a new employer may still claim payments for the balance of the 'payments year'7.

Q6 HOW WILL PAYMENTS BE MADE?

A6 Payments will be made quarterly in arrears.

Earnings and working hours will be averaged over the quarter (ignoring absences through holidays and sickness). No payments will be made in respect of any quarter where working hours were less than 35 nor where average earnings are £45 or more.

Where average earnings over the quarter are less than £40 a week, a quarterly payment of £195 (£15 a week) will be made. Where average earnings are £40 or more but less than £45, a quarterly payment of £97.50 (£7.50 a week) will be made.

Q7 HOW LONG MUST EMPLOYMENT LAST BEFORE QUALIFYING FOR PAYMENTS?

A7 No payments will be made for any jobs which are intended to be casual or temporary or for any job which lasts less than 8 weeks.

/Comment - not for publication: If employers claim that they recruited a young person in good faith but that he or she left before 8 weeks - thus depriving them of the payments - the answer is that some threshold is necessary and 8 weeks has been selected to exclude temporary or casual jobs./7

Q8 WHAT ITEMS WILL BE INCLUDED IN THE EARNINGS LIMIT?

A8 Earnings will be assessed on the basis of gross money remuneration. This includes basic pay, overtime, shift payments, commission, bonuses, productivity payments, London or large town allowances, merit or skill payments and any other items included in the wage packet or pay slip.

/Comment - not for publication: The definition must be easy to administer while preventing employers from qualifying for the payments simply by changing the form of wages (eg by reducing basic rates but increasing a bonus).

Consideration was given to using the definition 'gross taxable earnings'. However, no usable simple definition exists and the use of 'taxable earnings' would mean that DE officials would be unable to advise employers what should be included, without referring them to Inland Revenue.

'Gross money remuneration' excludes perks such as luncheon vouchers. However, it is thought unlikely that many employers will seek to get within the limit by reducing wages and increasing perks. The scope for so doing in the case of first year school leavers is very limited/

Q9 WHEN WILL THE SCHEME START?

A9 The first week for which claims may be made will begin on Monday 4 January.

Q10 HOW SHOULD APPLICATIONS BE MADE?

A10 The scheme will be administered from the Regional Offices of the Department of Employment. Well before the scheme starts, leaflets will be available stating where application forms can be obtained and how applications should be made.

CONFIDENTIAL

vb
Manpower

bc John Hoskyns
Alan Walters

17 August 1981

The Prime Minister has read the Chancellor's minute of 11 August, with his preliminary thoughts about future employment measures.

She looks forward to discussing these ideas in more detail once a paper is available.

MAP

Peter Jenkins, Esq.,
H.M. Treasury.

CONFIDENTIAL

SECRET

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

PRIME MINISTER

EMPLOYMENT MEASURES

Although the package of employment measures which were announced on 27 July has, I think, been well received and should have its effect, there is no doubt that we ought to be thinking about other approaches it might be sensible to consider in the weeks and months ahead. We shall certainly be expected to take further action. I myself would be opposed to doing more of the sort of thing we have just announced; valuable though some of these schemes may be on a small scale, they change their character as they expand so that they can become a threat to our whole economic strategy.

2. Accordingly I asked the Treasury to consider alternative ideas which might help with employment, of a perhaps rather less orthodox nature. I have discussed these ideas with Robin Ibbs and John Hoskyns, who agreed that some of them are worth taking further. I shall be putting this in hand, but I had thought that meanwhile you might like to know what was in my mind.

3. Basically I want to look at three different sorts of areas.

4. The first of these is action to improve the workings of the labour market to ensure a greater mobility of labour and more rapid downward adjustment of real wages. Specific proposals to be looked at are:-

/ (a)

SECRET

(a) Inclusion in our Bill on industrial relations in the next session measures that attack the main immunities, and hence the economic power, enjoyed by the Unions.

(b) Measures to ensure that Wage Councils took account of considerations of supply and demand in considering wages. So far as young people are concerned, we might restrain them so that they could not recommend wages for young people more than (say) one-half of those of adults for similar jobs. We need to do something here anyway as a corollary of the Walters scheme.

(c) Encouragement of a shift towards plant bargaining, through the Government acting where it has the power - e.g. in the NHS and perhaps MOD industrials and the Civil Service generally.

(d) Making it possible, where both employers and employees agree, to opt out of parts of the more onerous statutory burdens that exist - for instance redundancy pay arrangements and unfair dismissal procedures.

(d) Press on with reform of apprenticeships and skill training.

Separately we might consider whether the Civil Service Contingencies Unit (CCU) should examine whether longer-term and more fundamental contingency planning - e.g. training the forces to drive trains, merry-go-round or otherwise - could be helpful.

5. The second area I would like to look at concerns measures affecting incentives to work, especially at the

/lower

lower end. I know we have looked at this before. But we should have another look. I would envisage covering:-

(a) A review of the rule requiring a person on benefit to be available for work and not unreasonably to refuse work, and a tightening up of the enforcement of existing rules. It is interesting to note that in his report of 1942 Beveridge envisaged tighter conditions here than I think now obtain.

(b) Creation of public works jobs - such as some of our colleagues have suggested - on a selective basis offering pay to a man in excess of benefit rates but lower than would otherwise be the rate for the job, with penalties by way of reduced benefit should he not take the job offered (this is a development of (a) above - and can again be traced to Beveridge foundations).

(c) Another look at the cash difference between child benefit payable to people in work and supplementary benefit children's rates payable to people out of work, in the hope that this difference might be narrowed or at least not allowed to grow.

(d) Press again the proposal that young people should not have access to supplementary benefit in their own right - an idea already on the table which so far Jim Prior has proved resistant to.

6. My third group of ideas operates to reduce the cost of labour to employers. Ideas I would like to look at here are:-

/ (a)

(a) Reduction of National Insurance Surcharge, so as to make labour cheaper for employers. The crucial objection to this, of course, is cost, but depending on the economic forecasts some of this could be achievable if we exercise proper restraint on public expenditure. This is a matter which will be covered in my paper for Cabinet in the autumn.

(b) Lifting the lower earnings limit for National Insurance contribution and National Insurance Surcharge. At the moment this stands at £27 per week, that is, up to that level no NIC/NIS is payable, whereas above that the combined rate of over 20 per cent becomes payable on the whole amount. Raising the level would undoubtedly make labour cheaper at the lower end. There would be a cost, but this might be met by raising the upper earnings limit too as necessary.

(c) Employment subsidy schemes designed as an alternative (or supplement) to the creation of public works jobs set out in 5(b) above, framed to reduce long-term unemployment and linked to tightening enforcement rules (5(a) above). Some elements of such a scheme have been proposed by Professor Layard.

7. There are other ideas which I have considered - e.g. Professor Meade's proposals which link promotion of employment directly with a reformed system of pay determination, and "conditional" policies which link reliefs of one kind or another with achieved reductions in level of pay settlements. For various reasons I do not think that these can help much in the short-term, but I would like to look into Meade's approach before writing it off entirely.

8. Clearly some of the ideas which I do want looked at further would be unattractive in some quarters - whether with Unions, employers or even some of our own colleagues. But others should prove more acceptable. My idea is to seek to design some kind of package which overall would represent an imaginative and cost-effective approach to our problems in the unemployment/pay areas, both long-term and short-term, which as a whole we might have a chance of achieving. Legislation would almost certainly be necessary, and one could imagine a single Bill with a title such as the "Employment Opportunity Promotion Bill".

9. I am asking my officials to work up these ideas - and what I suggest above is not necessarily exhaustive - with a view to preparing a note for discussion with you and some of our colleagues immediately after the holidays. There may of course be some interaction with our consideration of the question of Inner Cities in the light of Michael Heseltine's proposals following Merseyside, of which I have been given a brief outline.

10. I am copying this minute to Robin Ibbs, John Hoskyns and Alan Walters (who was not able to be at the meeting at which these ideas were discussed).

(G.H.)

11 August 1981

MR. LANKESTER

NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM, H.M. TREASURY ON THURSDAY, 6 AUGUST, 1981

Present:

Chancellor of the Exchequer
Chief Secretary
Sir Douglas Wass
Mr. Burns
Mr. Downey
Mr. Byatt
Mr. Bridgeman
Mr. Kemp
Mr. Cassell
Mr. Dixon
Mr. Ridley
Mr. Cropper

Mr. Hoskyns - No.10
Mr. Ibbs - CPRS

UNEMPLOYMENT MEASURES

The meeting had before it a minute dated 5 August by Mr. Downey to which was attached a note on action to improve the working of labour markets and to generate employment.

2. Mr. Downey said that the Treasury paper concentrated largely on ideas, many of them considered before, which were designed to free up the labour market, reduce labour costs or improve incentives to work. Brief notes were included on each of the measures designed to provide a basis for judging which were worth pursuing further.

3. Sir Douglas Wass said that the measures could be regarded as forming the basis for a possible inter-related package designed to improve the supply side of the economy, something which had been neglected in post-war Britain and which would complement the steps which had already been taken to foster small businesses. The basic aim was to make the economy more responsive to price signals and to remove obstacles to competition. It was important to strike a

balance between those measures which would be regarded by the Government's opponents as provocative and those of which they would either approve or in which they would acquiesce. But even so, some political flac was inevitable, since nearly all the measures could be seen as posing a fundamental challenge to the system of labour relations, and the legislation which backed it, going back to the beginning of the century.

4. The Chancellor, commending the paper, said that there was bound to be strong pressure in the new session for positive action to combat unemployment and it was tactically right that the Treasury should be in a position to put forward positive proposals. The aim should be to identify those measures which made political and economic sense and which were cost-effective, but which met the growing pressures for change; pressures which would be heightened and given impetus by Mr. Heseltine's proposals on his return from Merseyside.

5. He had suggested that two areas not covered in the paper should be included in the agenda for discussion; first the idea of a public works programme covering such areas as housing, construction, roads, railways and other infra-structure improvements and secondly, the proposal which had been canvassed in a minute by Mr. Ridley for making a reduction in the National Insurance Surcharge, or some other tax concession, conditional on the average outturn of growth in earnings falling below a certain figure. On the first point, he noted that the paper circulated before the meeting concluded that a public works programmes was not a good way of maximising employment, partly because of the long lag before employment effects came through, and partly because the cost per job tended to be high. Nonetheless it was likely that Mr. Heseltine would be returning with various "pump priming" proposals in this general area and the possibilities would have to be carefully appraised. He suggested that the NIS proposal should be discussed later in the meeting. The Chancellor added that it was important to bear in mind in considering the proposals in the paper the scope for implementing changes on a selective, even experimental basis rather than nationally. This would be an approach similar to that which lay behind the Enterprise

Zones; the aim would be to produce a package or packages which could be taken up by employers and workforce in particular locations.

6. Mr. Hoskyns said that one possibility he had discussed with Alan Walters was of voluntary agreements between employers and employees not to be bound by specified protective legislation and restrictions, for example the rulings of Wages Councils. The idea was that the greater the freedom to contract the better the market would work - and it might be possible for the employer either to pay a premium or to provide employment which he would not otherwise be able to do.

7. In a brief discussion of this proposal, it was doubted whether the economic impact would be significantly great for it to be worth the row it would cause. It would be argued for example that the whole purpose of protective legislation was to prevent employees being exploited, even willingly. There was a limit to which the package of measures as a whole ought to challenge or undermine existing rights, protections and privileges, and with this in mind it seemed more worthwhile to direct the attack elsewhere.

8. Discussion then turned to the proposals listed in Annexes A to E of the paper.

Annex A Action to improve the working of labour markets.

A1 Industrial relations legislation. It was agreed that this was an important area, but it was already under consideration in the context of Mr. Prior's Green Paper on trade union immunities. As Ministerial discussion would take place in the autumn on the basis of representations received, there was no need for separate action at this stage.

A2 A shift towards plant bargaining. There was general agreement with the assessment in the paper, and particularly with the last sentence ("But if the Government were to make the fragmentation of labour markets part of its general drive and publicity, it is possible that progress could be made"). It was noted that there might

be some scope for progress in the public sector, for example the NHS or the Royal Dockyards.

A3 A fighting fund for employers. It was agreed that it would not be appropriate for the Government to seek to sponsor such a fund. The CBI's last effort in this area had got nowhere.

A4 Action to weaken bargaining power of public sector unions. It was noted that these questions were under consideration elsewhere. The likelihood of negotiating viable "no-strike" arrangements at a price worth paying was thought to be slim. Certainly the price in effect paid in those areas where such arrangements obtained (the police and armed forces) was high. However, it might at least be worth considering the idea if the outcome of the Civil Service pay inquiry was a "committed" system. It was agreed that the whole question of the effectiveness of the Government's response to strike action in sensitive or strategic areas should be considered further. Too often the steps to train and equip the armed forces for particular contingencies seemed to be left until the strike action had begun, which was too late for it to be effective. It would be worth suggesting that the Civil Contingencies Unit should be asked to look again at this general question.

A5 Change unfair dismissals procedures. It was noted that following discussion in MSC 14 recently it had been concluded that there was little scope for doing anything in this area which would make a significant difference to the labour market in practice. However it was agreed that greater publicity could be useful, since many employers tended to assume that the rules were more severe than they really were.

A6 Change redundancy pay arrangements. Again this possibility had been recently considered by MISC 14, which had decided against action.

A7 Abolish or restrict wages councils. It was pointed out that overall, abolition of wages councils was unlikely to make a significant

difference, although a change would be psychologically valuable, and would be particularly useful in the case of young people. The Secretary of State for Employment was known to be very reluctant to contemplate change in this area. One possibility might be to seek to require wages councils to take more account of the balance of demand and supply in the labour market in fixing rates of pay. Another would be to provide that the minimum youth wage should not be less than the given percentage of the adult wage. It might be worth considering the ideas in the context of more general legislation to promote employment opportunities, e.g. an Employment Opportunities Act. It was agreed that no move should be contemplated in the areas of sex and race discrimination.

A8 Reform of apprenticeships and skill training. The importance of this area was generally acknowledged; so too was the difficulty of securing the necessary reforms, given union attitudes, particularly towards the apprenticeship system, on the one hand and a short-sightedness of many employers, e.g. on skills training on the other. It was felt that the MSC and industrial training boards were discouraged from serious reform by their desire to keep the co-operation and goodwill of the unions. It was pointed out that the NEDC had a good deal of knowledge and expertise in this area, and that they might be asked for suggestions and ideas. It might be worth airing the question in the Council.

Annex B

B1 Cuts in benefits to the unemployed. It was pointed out that contrary to popular belief the balance between unemployment benefit and wage rates had been moving in the right direction since 1971. Presenting reliable and representative statistics on this question was a problem; and factors like the cost of getting to work had to be taken into account. It was noted that legislative changes such as the removal of earnings related supplement, and the proposal to tax short-term benefits would prove very helpful. So too would the revalorisation of tax thresholds if this were possible were in the next Budget. It was agreed that there was no real scope for further legislative change, but that opportunities should be sought to

change the balance further in the right direction via the tax system.

B2 Redistribute family benefits to those in employment. It was agreed that the point about child benefit - that to increase it would improve the incentive to work because it was paid irrespective of whether the parents in employment - was an important one which should be kept in mind. The case for taxing child benefit might also be worth considering again.

B3 Benefit limit or wage stop. This idea, which had been frequently expressed by Ralph Howell, MP., was attractive but controversial, and the consensus was that it was too provocative to take further.

B4 Extend DHSS checking of fraud and abuse. There was a general feeling, in line with the arguments of Professor Layard, that the area which needed attention was not so much that of fraud and abuse, but the slackness with which the work test was applied in practice. There was some evidence that with increased unemployment less attention was paid to the willingness of those on benefit to take such jobs as were available.

B5 Raise the lower earnings limit. Raising the limit by more than the prices formula might encourage employers to take on more low paid and part-time employees and was felt to be a promising possibility. The main difficulty was that it removed entitlement to benefit.

B6 The Beveridge idea. The link between the idea of only paying unemployment benefit unconditionally for a limited period, and then requiring attendance at a work or training centre, was linked to the idea of improving the work test already discussed. A major difficulty in present circumstances would be finding the work training places or jobs for those subjected to the cut-off. However, a major political attraction of the idea was that it presented an answer to the Len Murray question. This was an area where some form of regional experimentation might be the best way forward - for example it might be possible to design a scheme in Merseyside for youths under 25 involving their employment at work centres in return for a wage set

at or just above the level of unemployment benefit. To make the scheme effective it might be necessary to deny access to benefits of those who refuse to take part.

B7 Removing access of young people to supplementary benefit. It was noted that this was already under consideration and that there were strong arguments for pursuing the possibility further.

B8 Raising the income tax threshold. It was agreed that there was a strong case for seeking to restore or even increase the real value of the basic allowances.

Annex C

C1 In a brief discussion of Professor Meade's proposals, it was pointed out that without a transformed system of pay bargaining in Britain it would be very difficult to make them work. The idea that there could be a binding national consensus in favour of rates of pay set so as to maintain full employment ran into the problem of human nature; however rational the case might be, it was difficult in practice to persuade pay bargainers to give up an immediate gain for themselves as individuals in return for a wider collective benefit. Moreover the lesson of the NEDC meeting on 5 August was that the kind of consensus which Professor Meade admitted was essential to his system did not at present exist. In practice the scheme would be likely to lead straight to the question of trade union immunities since the big unions would sooner or later decide to challenge the arbitral process. However if the scheme served the purpose of convincing waverers that action on trade union immunities was necessary, it might be worth contemplating. Certainly it should be kept on the table.

C2 Tax based incomes policies. This idea was felt to be unattractive though less so than other incomes policies or a pay freeze. A major difficulty was that the effect would be to give money to consumers rather than to the corporate sector.

C3 A pay freeze. There was general agreement with the assessment in the paper.

Annex D

D1 Reducing National Insurance Surcharge. It was agreed that this was an attractive proposal from the point of view of improving employment, although it was likely to be unhelpful on pay, since there would be a tendency for employers to seek to win for themselves some of the gain.

9. In a brief discussion of the idea put forward by Mr. Ridley of linking an NIS cut to a given outturn on pay, a number of serious difficulties were mentioned. On the one hand it would only be worthwhile if there were some certainty that a cut in the NIS would be right; then the problem would arise of being unable to make the change - which might in the meantime become even more desirable - if the requred outturn on pay was not delivered. Again there was the difficulty of seeking to influence individual behaviour by offering what was in effect a collective benefit; there was no certainty of response. More fundamentally, there were objections to conditional policies of this kind; it was much better for the Government to set the framework and then pursue it. On the other hand there was much to be said for making it clear to colleagues at least that a good result on expenditure and pay would make it easier to deliver desirable tax cuts such as a reduction in NIS. It was more a question of showing colleagues what could be possible given certain policies and the "right" outturn on pay and expenditure. It was agreed that the idea of explicitly linking an NIS reduction to a given outturn on pay should not be further pursued.

Annex E Cosmetic Changes

E1 Registering for work. The possibility of extending the categories of people who could be excused the need to register for work in order to qualify for means tested benefits had some attractions and should be kept open.

E2 Less encouragement for married women to seek work. It was agreed that this should not be further pursued.

10. The Chancellor, summing up the discussion, said the meeting had been useful in sifting the various proposals in the paper, rejecting some and according others their degree of priority. He would be grateful if Mr. Kemp would prepare a draft minute for him to send to the Prime Minister reflecting the discussion.

PJ

P.S. JENKINS
10 August 1981

Distribution

Those present
Financial Secretary
Minister of State (C)
Minister of State (L)
Mr. Monger
Mr. Corlett
Mr. Walters - No.10
Mr. Lankester - No.10

10 DOWNING STREET

Overtaken.

New D/emp proposals are due for circulation today.

MAD
17/VIII.

6 August 1981

MR LANKESTER

cc Mr Walters

Prime Minister

See below

THE WALTERS SCHEME

1. Department of Employment officials have sent me a paper on the details of the scheme which they are to discuss on Monday morning. There are a number of detailed technical points which I don't think need trouble No.10. They are hoping to announce the scheme more fully by the end of next week, because it is obviously very important that employers should not defer recruitment of young people while they wait to see whether the scheme would give them some advantage.

2. There is, however, one point on the scheme on which you may think we ought to consult the Prime Minister. Alan Walters originally proposed £40 as the qualifying wage level for the scheme. The Department of Employment economists advised that £40 and under represented roughly the lower quartile of wage-earners under 18. It therefore seemed logical to choose £40 for the Prime Minister's announcement.

3. Employment now point out that £40 and under could be the lower decile of wage-earners in the age group by April 1982. This will reduce the number of people eligible and make it considerably less effective. They therefore suggest that it might be better to pitch the scheme at £40 for 16 year olds and £45 for 17 year olds to qualify for the scheme.

4. In the interests of making the scheme effective, I think this proposal is acceptable. I have sent the papers to Alan Walters, but as you know he is in hospital at present. Do you think the Prime Minister would be content for the scheme to be a £40/£45 scheme?

5. Could you let the Department of Employment private office, or Richard Pratt (213 4630) know tomorrow or Monday, please? (I shall be on leave.)

ANDREW DUGUID

Prime Minister

You said in the House that the scheme would apply to youngsters "under the age of 18 ... provided their earnings are below £40 per week". Would you be content to raise the limit to £45 for 17 year olds? M.

Seen by MAP
Manpower

Department of Employment

PRESS NOTICE

Caxton House Tothill Street London SW1H 9NA
Telephone : Direct Line 01-213 7439 (24 hour answering service)
Exchange 01-213 3000 Telex 915564 DEPEMP

July 31, 1981

EMPLOYMENT AND TRAINING ACT 1981

The Employment and Training Bill today received Royal Assent, and became the Employment and Training Act 1981.

The main purposes of the Act are:

- to allow the Secretary of State for Employment to set up, abolish, or change the scope of an industrial training board after consultation with the Manpower Services Commission, but not as now only on their recommendation;

- to enable a board to finance its operating expenses from levy on employers.

Other provisions of the Act:

- widen the scope of possible criteria for exemption of an employer from levy imposed by a board;

- exempt establishments in Enterprise Zones from having to pay levy or provide information to a board;

- enable a board to use for its operating expenses money derived from past levies;

- clarify and extend the procedure for declaring a board in default if its proposals for levy, levy exemption arrangements, or grants do not satisfy the Manpower Services Commission or the Secretary of State;

- enable the Secretary of State to direct boards to publish information which they hold, subject to safeguards about confidentiality;

DE

- remove Ministerial control over the appointment and terms and conditions of board staff and of chairmen of any committee to which boards formally delegate their functions, and over most allowances paid to members of a board or a board committee.

The Employment and Training Act also confirms the present practice under which the Manpower Services Commission, the Health and Safety Commission and Executive, and the Advisory, Conciliation and Arbitration Service keep most of the money which they receive - thus reducing the need for Government grants - rather than paying all of it to the Government. It also abolishes the Employment Service Agency and the Training Services Agency. These agencies were subsidiaries of the Manpower Services Commission, and their functions were absorbed by the Commission sometime ago.

A number of changes were made to the Bill during its passage through Parliament. The effect of these was to:

- limit the amount of non-exemptible levy that a board may impose without there being either a consensus of employers in favour, or an affirmative resolution of both Houses of Parliament, to 0.2 per cent of an employer's pay bill;

- enable a consensus of employers to be used to support a second non-exemptible levy over 0.2 per cent of an employer's pay bill without the need to consult employers again;

- require that a board cannot decide a matter relating to the imposition of a levy unless the majority of employer members support it;

- extend the concession in the Act about Enterprise Zones to establishments situated mainly though not entirely in a zone;

- enable the Secretary of State, following consultation with the Manpower Services Commission, or on their advice, to restrict the scope of that concession;

- ensure that a levy order can impose a time limit within which an appeal against assessment to levy must be made;

- enable the Secretary of State, when making an order to establish, abolish or change the scope of a board, to amend an earlier order transferring establishments from the scope of one board to that of another;

- enable the trustees of the Industrial Training Boards' Combined Pension Fund to change the rules of the Fund with the consent of three-quarters of the boards only, instead of with the consent of all of the boards;

- enable the Secretary of State to pay pensions to the former chairmen of boards that have been wound up, and to make up all or part of any deficit in the Industrial Training Boards' Combined Pension Fund in respect of such boards.

Most of the Act came into force on Royal Assent. However, the provisions relating to the financing of operating costs of boards from levy, and Ministerial control over pay and allowances of board members and staff will be brought into effect by commencement order.

NOTES TO EDITORS

1 Mr James Prior, Secretary of State for Employment, said in the House on November 26, 1980 that, "It is the Government's present intention that Exchequer funding of industrial training boards' operating costs should be reduced in one way or another in 1981-82 and cease in 1982-83." In the light of this the Manpower Services Commission told industrial training boards last December to plan on the basis that Exchequer support of their operating costs would cease at the end of 1981. There is no provision in present public expenditure plans for the Government to contribute towards the operating costs of boards after that date, but the Secretary of State has said that he will consider the timing of the cessation of Exchequer support in the light of the review of future industrial training arrangements by the Manpower Services Commission.

2 The Manpower Services Commission published the report of their review yesterday. Mr Prior then said that he would need to study the report carefully and consider representations from those concerned but it was now very important to end uncertainty. He asked for views to be put to him and the Commission during September so that he could announce decisions early in the new session.

3 The new requirement concerning voting on a levy is in addition to the present requirement that a majority of those voting is needed. There must be equal numbers of employer and worker members on an industrial training board, and only such members can vote on a levy. Neither the education members nor the chairman (or deputy chairman, if any) of a board can vote on a levy.

4 Most of the Employment and Training Act 1981 amends the Industrial Training Act 1964, as amended by the Employment and Training Act 1973. This makes the legislation difficult to follow, and the Government has announced that the Industrial Training Act 1964 would be consolidated. It is expected that the Consolidating Bill will be published towards the end of this year, and enacted by next spring.

EMPLOYMENT AND TRAINING ACT - SECTION BY SECTION

Section 1 enables the Secretary of State to establish, abolish, or change the scope of an industrial training board by Order after consulting the Manpower Services Commission but without necessarily acting on its advice. It also amends the requirements for consultation by the Commission before making an Order so as to permit their consultation to be on a more general basis.

Section 2 alters the purpose for which an industrial training board may impose a levy so that it can use the proceeds to meet any of its expenses (including operating expenses). It also enables a board to use any money it already has from past levies for such expenses.

Section 3 provides that the criteria for exemption of employers from levy on the ground of adequate training need no longer relate solely to the needs of the establishment. The criteria might, for example, be related to the training needs of the industry as a whole for a particular occupation. Section 3 also enables a levy of not more than 0.2 per cent of an employer's pay bill to be imposed without exemption certificates conferring any exemption and without, as is at present required, there being a consensus of employers in favour of a non-exemptible levy. However, a non-exemptible levy of more than 0.2 per cent of an employer's pay bill needs to be either (as now) supported by a consensus of employers in the industry or approved by an affirmative resolution of both Houses of Parliament.

A consensus of employers in support of a non-exemptible levy over 0.2 per cent of an employer's pay bill can be used to support a second such levy without further consultation of employers being required, provided that the second levy order is made within two years of that support by the consensus, and its contents are not inconsistent with that consensus.

Section 3 also imposes a duty on a board to submit levy exemption proposals at or before the time when it submits proposals for raising a levy, except where there is to be no exemption from levy, and enables the Secretary of State and the Commission to issue guidance on the criteria for exemption.

Section 4 excludes an employer from liability to pay levy or to provide information to a board in the case of an establishment wholly or mainly in an enterprise zone. It gives the Secretary of State power, after consultation with the Commission or on its advice, to restrict the application of the provision by order.

Section 5 amends the Commission's powers to direct an industrial training board to submit proposals and the procedure leading to the Secretary of State's power to declare a board to be in default. Commission directions must include a time limit for the submission of a board's proposals. In the case where the Secretary of State has directed the Commission to direct a board to submit proposals a new procedure is laid down which enables the Secretary of State (not the Commission) to decide whether the proposals (and any fresh proposals) are satisfactory.

Section 6 provides for the modification of the Industrial Training Act 1964 in the ways set out in Schedule 1. Schedule 1 removes Ministerial control over the appointment and the terms and conditions of service of staff of an industrial training board, and of the chairman of a committee of a board to which functions are delegated. It also removes such control over allowances (other than allowances for the loss of remunerative time) paid to members of a board or a committee of a board. It empowers the Minister to require a board to publish information subject to safeguards about confidentiality, whether in its annual report or otherwise, and requires the Commission in the case of an application from an employer to transfer an establishment of his from the scope of one board to that of another, to transmit the request to the Secretary of State, together with its recommendation. It enables the Secretary of State, when making an order to establish, abolish or change the scope of a board, to amend an earlier order transferring establishments between boards. It ensures that a levy order can impose a time limit within which any appeal against assessment to levy must be made.

Schedule 1 also provides that no matter relating to the imposition of a levy may be decided by a board without the agreement of a majority of the employer members of the board. It enables the Secretary of State to pay pensions to the former chairmen of boards that have been wound up, and to make up all or part of any deficit in the Industrial Training Boards' Combined Pension Fund in respect of such boards.

Section 7 provides that clauses 1-6 of the Bill do not affect the application of the Industrial Training Act 1964 to the Agricultural Training Board.

Section 8 permits the trustees of the Industrial Training Boards' Combined Pension Fund to change the rules of the Fund with the consent of three-quarters of the boards.

Section 9 provides for the aboliton of the Employment Service Agency and the Training Services Agency, and Schedule 2 contains amendments consequential on their abolition. (The functions of these agencies are now carried out by divisions of the Manpower Services Commission).

Section 10 provides statutory authority for the Manpower Services Commission, the Advisory, Conciliation and Arbitration Service, the Health & Safety Commission and the Health & Safety Executive to retain their receipts, where the Secretary of State and the Treasury agree. It also provides that any receipts by those bodies not so retained shall be paid into the Consolidated Fund.

Section 11 enables certain provisions to be brought into force by commencement order. These are:

(a) Section 2 - which concerns the purpose for which a levy may be imposed, and for which money already raised by levy may be used;

(b) Paragraphs 1, 7 and 8 of Schedule 1 - which concern Ministerial control over the appointment and terms and conditions of boards' staff and of chairmen of committees to which functions are delegated, and over allowances paid to members of a board or a committee of a board.

(The rest of the Act came into force on Royal Assent.)

From: THE PRIVATE SECRETARY

Manpower.

HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

31 July 1981

Dear Brian,

PL 317

The Home Secretary has seen Mr. Nott's letter of 16 July about the Services' ideas for providing adventure training for young people.

The Home Secretary was grateful for the opportunity to consider the proposals in more detail. He has commented that their possible effect on unemployment amongst young people is more for the Secretary of State for Employment than for him, and that if the scheme was to be taken further it would be necessary to consider not only that, but also whether the funds required were best spent on such a scheme, bearing in mind the other possibilities, including the measures which have been agreed since the proposals were first put forward, and announced by the Prime Minister.

I am sending a copy of this letter to Tim Lankester at No.10.

Yours ever,

J. F. HALLIDAY

B. M. Norbury, Esq.

CONFIDENTIAL

File
cc: CO MOD
HO DOE
FCO CDL
HMT DES
IND SOC. SERV. DHSS
LPO SO
EMP IND(Min of State
MAFF Alan Walters
TRADE
EN
CH SEC HMT

HS.

10 DOWNING STREET

30 July 1981

From the Private Secretary

Dear David.

MISC 59

The Chancellor of the Duchy's MISC 59 group was set up by the Prime Minister to examine the possibilities for a package of employment measures. In the event, the Prime Minister has of course already announced such a package, and she accordingly feels there is no longer any need for the group to meet unless any particular new issue arises. There is some outstanding work to be done, but the Prime Minister believes this can be done outside the group. In particular, it is for the Chancellor of the Exchequer and the Secretary of State for Employment to arrange for officials to work out the details of the scheme to encourage the employment of school leavers and to examine any problems arising from the interaction of the scheme and the wage minima required by the wages councils. The Secretary of State for Employment will wish to develop his proposals for a new twelve-month training scheme with a view to putting proposals to E Committee. And the various proposals coming forward for employment investment - including those already made by the Secretaries of State for the Environment, Industry and Energy - can best be considered in the context of the public expenditure review.

I am sending copies of this letter to the Private Secretaries to members of E Committee and MISC 59.

Yours ever.

Tim Lankester.

David Heyhoe, Esq.,
Chancellor of the Duchy of Lancaster's Office.

CONFIDENTIAL

BK.

CONFIDENTIAL

Prime Minister 1

Content that Misc 59 should be wound up, as proposed in para 3? Yes PL 27/7

Ref. A05334

MR WHITMORE

MISC 59

The work of the Chancellor of the Duchy of Lancaster's MISC 59 group, which was set up to examine the possibilities for a package of employment measures, has been largely overtaken by the decisions which the Prime Minister will announce today.

2. I doubt whether MISC 59 has a role to play in the work which remains to be done:

(i) It is for the Chancellor of the Exchequer and the Secretary of State for Employment to arrange for officials to work out the new subsidy to encourage the employment of 16 year olds (the Walters' scheme) and to examine any problems arising from the interaction of this scheme and the wage minima required by the Wages Councils.

(ii) The Secretary of State for Employment will wish to develop his proposals for new 12-month training schemes with a view to putting proposals to E Committee (and he does not wish for the time being to pursue his proposals for expanding the Community Enterprise Programme).

(iii) The various proposals coming forward for employment generating investment - including those already made by the Secretaries of State for the Environment, Industry and Energy - can best be considered in the context of the public expenditure exercise; the Chancellor of the Exchequer may wish to discuss the general approach to these proposals in the further paper on the 1981 Public Expenditure Survey which he is now preparing for Cabinet, and they could then be considered in more detail in the ongoing discussions on the Survey.

I will show you the minutes as soon as they come in.

The Chancellor of the Exchequer's MISC 14 group accepted at their meeting on 23 July the Secretary of State for Employment's recommendation in MISC 14(81) 6 that there was insufficient justification at this stage for making further amendments to the employment protection legislation.

3. Subject to the Prime Minister's views, I recommend that you should write to the Private Secretary to the Chancellor of the Duchy of Lancaster with copies to Private Secretaries of Ministers who are members of E and MISC 59 and also to the Private Secretary to the Secretary of State for Wales to indicate how the outstanding issues will be dealt with and that, unless any new issues arise which might benefit from examination by the group, there will be no need for MISC 59 to take further action.

RA

ROBERT ARMSTRONG

27 July 1981

CONFIDENTIAL

W.R Seen

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

27 July 1981

Tim Lankester, Esq.,
Private Secretary,
10, Downing Street

Dear Tim,

UNEMPLOYMENT MEASURES: TERRITORIAL COVERAGE

Points may be raised during the debate this afternoon about the territorial consequences of the measures being announced.

The Chancellor would suggest that he should be guided by the following principles, if he needs to refer to this aspect in winding-up.

Where the Government are announcing changes in eligibility in a scheme, such as YOP and the JRS, the presumption is that a parallel change will be made in Northern Ireland. This will lead to some addition to the cost, since the present estimates are on a Great Britain basis. The details of the extension will be for the Secretary of State to announce in due course.

Where the Government have decided to make a specific additional sum available for a specific purpose, such as the £60 million for further education, that should be regarded as being on a United Kingdom basis, covering all four countries, the allocation to be decided in the usual way.

Copies of this letter go to the Private Secretaries to the Secretaries of State for Scotland, Wales, Northern Ireland, Employment, Education and Social Services.

Yours ever,

Richard Gozney

A.J. WIGGINS

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SUBJECT

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Marpaper.

NOTE FOR THE RECORD

Mr. Heseltine telephoned the Prime Minister at 1945 on Saturday 25 July. He said that he was aware that the Prime Minister would be announcing a package of youth unemployment measures during the Censure Debate on Monday 27 July. He wanted to put on record his view that the Prime Minister should not commit the Government to any expansion of the Youth Opportunities Programme in its present form. In his view, the YOP only provided "cosmetic" jobs. He suggested that the Prime Minister's speech should include a passage saying that the Government was looking at how these schemes worked so as:

(a) to ensure value for money;
(b) to employ the maximum number of young people;
(c) to create real and not cosmetic jobs; and
(d) to establish projects of lasting, and not temporary, value.

Mr. Heseltine said that he had collected a good deal of evidence in Liverpool to show that YOP schemes did not provide real jobs. One constraint was that the Government appeared to be coy about letting the private sector profit from the YOP scheme. He had been working on a scheme of his own, the gist of which was as follows. When the public sector put out building contracts to the private sector, one of the conditions would be that the contractor should employ a much higher ratio of apprentices to craftsmen than at present. This could add as little as £1,000 to the cost of a house, while increasing employment, providing houses, and training young people.

Mr. Heseltine went on to say that the Departments spending public money in Merseyside were not coordinating their activities properly. The Department of Industry was giving grants to firms based in the attractive industrial estates on the outskirts of Liverpool. The Department of Employment was paying benefit to the unemployed in the inner city areas. And the Department of the Environment was spending money to try to bring the inner

/city

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city areas up to the standards of the outskirts.

Mr. Heseltine added that he considered the behaviour of the police in Liverpool 8 to be quite horrifying. They were not acting in a racialist fashion. They simply treated all suspects in a brutal and arrogant manner. He felt that there were too many young police recruits in the area, and that the local Commander was displaying a "fortress" mentality. He had explained his concerns to the Home Secretary.

Finally, Mr. Heseltine said that he would probably be remaining in Liverpool for the next two weeks, and possibly longer. He hoped that he could be excused attendance both at the Censure Debate on Monday and Cabinet on Thursday. He would be putting a report to colleagues in the week of 3 August, and this would probably include his proposals on youth unemployment.

The Prime Minister said:

(a) she would include a passage in her Censure Debate speech, on the lines suggested by Mr. Heseltine, indicating that the Government would be reviewing the operation of the YOP schemes;

(b) that Mr. Heseltine should discuss his own youth unemployment scheme with Mr. Prior;

(c) that she might mention in her Censure Debate speech the lack of coordination in the spending of Government money in Liverpool. In her view, it might also be worth considering whether the Ministry of Defence should do more to place its procurement contracts in the UK, even where cheaper equipment could be obtained overseas;

(d) that Mr. Heseltine should speak to the Chief Whip about whether he could miss the Censure Debate. She was quite happy for him to miss Cabinet on 30 July.

OP

From: THE PRIVATE SECRETARY

W R Seen

HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

27 July 1981

Dear Tom

UNEMPLOYMENT MEASURES: PRIME MINISTER'S MEETING ON 24 JULY

The Home Secretary has seen from your note of 24 July that in the discussion on the problems of unemployment it was decided to allot £4m to the DHSS to provide opportunities for the unemployed through voluntary work in the personal social services. As you know, he would be grateful if the following sentence were added at the end of paragraph 15 of the draft speech for the Prime Minister:

> "The Department will be discussing with the Voluntary Services Unit of the Home Office how the money should be applied."

Bearing in mind the other bids he is obliged to make for additional expenditure, the Home Secretary would not wish to bid for the VSU itself to be given some share in this allocation of funds. He recognises the immediate and pressing needs of the health and social services. They are not an exclusive field for the development of voluntary services, however, and a great and sudden increase in the number of volunteers, particularly if drawn from the unemployment register, will require careful planning. For this purpose it may be necessary to strengthen Councils of Voluntary Service, Volunteer Bureaux and the like, and the Home Secretary hopes that the possibility of some of the funds made available being needed for this purpose will be kept in mind.

I am sending copies of this letter to Peter Jenkins (HM Treasury), Richard Dykes (Department of Employment), Mike Tully (Department of Health and Social Security), and to David Wright (Cabinet Office).

Yours sincerely

(C J WALTERS)

T P Lankester Esq

CONFIDENTIAL

FILE

RA

Mary Powers

10 DOWNING STREET

From the Private Secretary

26 July, 1981

Unemployment Measures

I enclose a revised version of the text which I circulated on Friday afternoon, as amended by the Prime Minister.

I am sending a copy of this letter and enclosure to John Wiggins (HM Treasury), Peter Shaw (Department of Education & Science) and Don Brereton (DHSS).

T. P. LANKESTER

R Dykes, Esq
Department of Employment

CONFIDENTIAL

c. Mr. Whitmore
Mr. Vereker
Mr. Hoskyns

PRIME MINISTER

UNEMPLOYMENT MEASURES

I attach a draft passage for your speech on the unemployment measures package. I prepared this in consultation with Peter Kemp (Treasury) and Donald Dirks (Employment) following the meeting this morning.

The draft has been seen by Departments, though not in every case by any means by their Ministers. Agreement has more or less been reached on it, subject to any further points Ministers may have over the weekend.

The one outstanding issue of any significance concerns paragraph 17. Mr. Prior, who has had the text read over to him in Cardiff, is insisting that the full additional cost of the measures should be mentioned - i.e. about £700 million in 1982/83. He says that, in view of all the speculation in the press that the Government has been considering a package amounting to £1 billion or more, the figure of £380 million (which excludes the money for fulfilling the existing YOP guarantees and for the youth employment "subsidy") will give the impression that we are only "playing" with the problem. He is not prepared to accept a figure of £430 million, which would include the youth employment "subsidy". The Treasury are equally adamant that, for the sake of market confidence, they don't want the figure of £700 million to be mentioned.

We will need to discuss this point on Sunday, and you may need to resolve it personally with the Chancellor and Mr. Prior. The Department of Employment have submitted a compromise draft which gives support figures for fulfilling the YOP undertakings and for the new measures - this is at Flag A. Mr. Prior is apparantly quite happy with this, because there is no difficulty in adding the two figures to £700 million. The Treasury say they are prepared to look at it. (I have put to the Treasury the possibility of showing the total gross costs at £700 million, and the net costs at about £400 million

/after allowing

after allowing social security and tax offsets; but they are not prepared to accept this because, they argue, it would open the way for all Departments to argue their case for extra expenditure in net terms.)

Other points are:

i. Mr. Prior does not like paragraphs 9 and 10 on the improved training scheme which would follow YOP. He would like something a good deal more forthcoming. He is prepared to swallow it, but only on condition that no attempt is made by us or by the Treasury to weaken the passage further. The Treasury at official level are content with the present text.

ii. Paragraph 6 says that young people's wages are too high because of unrealistic wage bargaining over the years. It does not mention wages councils because that would be a red rag to Mr. Prior. I have done some further research on how important the wages council point is. 18½% of 16 and 17-year old employees are covered by wages councils. The minimum wage for practically every wage council for 16-year olds is below £40. The minimum wage for practically every wage council for 17-year olds is below £45. This means that, if the youth employment "subsidy" is applicable to those earning £40 or below, the existence of wages councils will have only a very small impact on the scheme indeed. Employment have suggested that we might consider a £40 ceiling for 16-year olds and a £45 ceiling for 17-year olds, which would remove the wage council problem altogether. This is not to say we should not try to get rid of the wages councils, at least insofar as they apply to youngsters; but it does suggest that it is not worth pressing the point with Mr. Prior over the next 48 hours - knowing as we do from this morning's meeting how strongly he feels about the issue. I should add that the

/draft

draft does not give the details of the scheme, because one or two points still have to be worked out - for example what the earnings ceiling should be (see above), and how the scheme should apply to young people taken on between its announcement and its coming into effect.

iii. The Scottish and Welsh Offices have put in a bid for part of Mr. Carlisle's £60 million. DES have now agreed that the £60 million will cover Wales, Scotland and England.

iv. The Voluntary Services Unit of the Home Office would like to have had some of the £4 million allocated to DHSS for voluntary work; but the Home Secretary is not pressing the point. They are prepared to go along with the allocation to DHSS provided DHSS discuss the allocation of the money with them - and this is reflected in the draft (paragraph 15). We may also get a claim from the Scottish Office for some of this voluntary money; I hope DHSS and Scottish Office can sort this out between themselves.

v. There is a further small point about Mr. Carlisle's £60 million - whether this is additional <u>public expenditure</u> (which would mean that the local authorities would have to raise some of the money themselves under the normal RSG ratio arrangements) or whether it is a £60 million addition to the RSG itself. In either case DES say they can ensure that the extra money is spent on education. My impression was the £60 million was to be an addition to the RSG or a specific grant; we can leave this, I hope, for the Treasury and the DES to sort out on Monday morning.

T.L.

<u>24 July 1981</u>

CONFIDENTIAL

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cc Mrs Lankester
Wolfson
Wilkes
Ingham
Peretz

10 DOWNING STREET

From the Private Secretary

24 July 1981

UNEMPLOYMENT MEASURES

I attach the record of the meeting held here at No. 10 this morning to discuss measures to deal with unemployment.

As you know, the Prime Minister has decided that she will announce in the Censure Debate on Monday the package of measures which has been agreed. I am also enclosing with this letter a draft passage for the speech on the package. I propose to submit this to the Prime Minister later today, subject to any comments which Departments may have. I should therefore be grateful if you and other copy recipients could let me have any comments by 1900 hours at the latest.

I am sending a copy of this letter and its enclosures to the Private Secretaries to the Ministers who were present at the meeting, and also for information to the Private Secretaries to other members of Cabinet, as well as to David Wright (Cabinet Office).

T. P. LANKESTER

Richard Dykes, Esq.,
Department of Employment.

CONFIDENTIAL

SUBJECT

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Note of a Meeting held at 9:45am
on Friday 24 July at 10 Downing Street,
to discuss Measures to deal with unemployment.

PRESENT:

The Prime Minister

Chancellor of the Exchequer

Chancellor of the Duchy of Lancaster

Secretary of State for Employment.

Secretary of State for Social Services.

Chief Secretary, Treasury.

Sir Robert Armstrong.

Mr D J L Moore.

THE PRIME MINISTER said that she wished to announce, in her speech in the Censure Debate on Monday 27 July, a number of measures which the Government were taking to reduce unemployment. These would include the three measures already approved by the Ministerial Committee on Economic Strategy at a gross cost of £145 million in 1982-83: expansion of the Youth Opportunities Programme (YOP) to enable existing commitments to places to be met (£113 million); increased support for long term skilled training (£11 million); and provision for the long term unemployed aged over 60 who had been drawing supplementary benefit for more than one year to be eligible for the long term supplementary benefit rate. (£21 million).

The meeting discussed the following additional measures:-

(a) It was agreed that to enable around 50,000 more young people to stay on in further education there should be provision of an extra £60 million in 1982-83 rising to £100 million in 1984-85. The Secretary of State for Education and Science was considering separately how the money should best be advanced to local education authorities: through the Rate Support Grant, or by a specific grant.

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(b) It was agreed that it should be announced in general terms that, to encourage employers to take on more young people at realistic wage levels, they would be offered a weekly subsidy for all young employees in their first year at work and earning less than a prescribed amount, probably £40 a week. In the longer term this might be operated by remission of the employers' National Insurance contribution, but it was not practicable at present for the Department of Health and Social Security to carry out the necessary checking to operate such a scheme. It would, therefore, probably be necessary for the Department of Employment to pay a direct subsidy. It was agreed that this should be £15 a week at an estimated cost in 1982-83 of about £60 million. The impact of this scheme was uncertain: the Department of Employment had estimated that it might create new jobs after two years in the range of 15-60,000. The cost per additional job in the first year would be high because much of the money would go to those young people already employed (the dead-weight effect). It was noted that there was a risk that employers might either refuse to bring down young peoples' wages below £40 or do so and then pay back some of the subsidy to the young person. It was, nevertheless, worth going ahead with a scheme on these lines in order to provide real jobs and to encourage a wider differential between the wages of young people and of adults. The scheme would be complementary to the other measures under consideration.

(c) A reduction in the present age limit of 64 for the Job Release Scheme (JRS) would be helpful in encouraging people to retire and make way for those who were at present unemployed, including those who would not benefit from the schemes directed at 16 year olds. The Secretary of State for Employment's original proposal of reducing the age limit to 60 from February 1982 was, however, very costly; it was unrealistic to assume that the limit could then revert to 64 in March, 1983. It was agreed that instead the limit should be reduced to 63 by November, 1981 and to 62 by February 1982. On the assumption that it would not revert to 64 before March, 1984 the additional cost in 1982-83 would be about £150 million.

(d) It was agreed that to develop opportunities for voluntary service by unemployed people a further £8 million should be made available through the Manpower Services Commission (MSC) in 1982-83, and that about £4 million should be made available for voluntary schemes for which the Secretary of State for Social Services was responsible.

(e) It was noted that there would be additional costs in 1982-83 of £283 million to provide places for those becoming eligible in that year for YOP. Since this sum was in respect of existing guarantees for places it should be differentiated in the statement from the costs of new measures: otherwise the total effect of the measures announced could have an adverse effect on the financial markets.

(f) It was agreed that no decisions should be taken at this stage on the future development of the Community Enterprise Programme for the long term unemployed.

(g) The opportunity should be taken to press home the message that a wider differential between the wages of young people and of adults would open the way to more employment for the former. There was a particular problem over the minimum wage limits for the 200,000 or so young people covered by Wages Councils which ranged from £32-40 for 16 year olds and £38-50 for 17 year olds. Further thought would have to be given to how best to reconcile the apparent anomaly whereby, while the Government was introducing a new scheme to encourage the payment of wages of less than £40, employers could be prosecuted for such payments if they fell below the minima set by Wages Councils. In the last resort it might be necessary to consider legislation to provide for a lower floor for the Wages Council minima; it was noted that the Secretary of State for Employment was very strongly opposed to the possibility of such legislation which, in his judgement, would bring little practical advantage in return for considerable political criticism and opposition from the unions.

THE PRIME MINISTER, summing up the discussion, said that the meeting had agreed that in addition to the three measures already approved by the Ministerial Committee on Economic Strategy, she should announce in general terms the Government's intention to introduce a new form of subsidy to encourage the employment of 16 year olds, an amendment of JRS, further provision to enable some of the long term unemployed to work for voluntary organisations, additional provision for further education places, and additional provision in 1982-83 for YOP places under existing guarantees. The total gross additional costs in 1982-83 would be about £700 million, and there would also be further costs in 1981-82 and in the later years. She would need to present these figures with care in order to avoid an adverse reaction from the financial markets and to differentiate between the costs of new measures and the costs of meeting present undertakings for the YOP scheme. She would discuss the draft of this part of her speech further with the Secretary of State for Employment and with the other Ministers directly concerned.

THE MEETING -

- took note with approval of the Prime Minister's summing up of this discussion.

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Manpower Services Commission
Employment Measures
7.23

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

MBPM

PL

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Tim Lankester Esq
10 Downing Street
London SW1

23 July 1981

Dear Mr Lankester

I understand that the Prime Minister would be interested to see the Chief Secretary's recent correspondence with the Chairman of the Manpower Services Commission and with the ... Langbaurgh Borough Council. Copies are enclosed.

The Chief Secretary has asked me to say that Lord Normanby wishes to remain anonymous.

yours sincerely

pp T F MATHEWS
Private Secretary

Manpower Services Commission

Selkirk House
166 High Holborn
London WC1V 6PF

Telephone 01-836 1213

Chairman: Sir Richard O'Brien

Our ref MSC/CC/260/1981

20 May 1981

The Rt Hon Leon Brittan QC MP
House of Commons
LONDON
SW1A 0AA

Dear Mr Brittan,

Thank you for your letter of 14 April about Lord Normanby's request to extend the number of places on some of the work experience schemes he is sponsoring under the Youth Opportunities Programme. I apologise for the delay in replying but I wished to go into the matter fully with my York Area Office who had turned down the proposal.

I appreciate how difficult it must be for Lord Normanby to understand the MSC's reasons for doing this. However, if we look at the current position as regards schemes currently unfilled in the Whitby area, the reason does become clear.

At present only two of the existing eight work experience places on the Estate are occupied. While there is a country-wide problem of unemployment the situation varies very much from area to area. In the Whitby area for instance there are at present 48 unfilled work experience places including Lord Normanby's. In fact my local office reports that there is currently no need for extra places. The greatest need for schemes will occur in late Summer and Autumn when the Summer school leavers are coming on to the employment market seeking their first job. It is anticipated that this year there will be fewer jobs available and we are trying now to build up a stock of places on the Programme to cater for this. It is very possible therefore that once the remaining places on Lord Normanby's estate have been taken up we shall be glad to reconsider and accept his offer of additional places.

I want to make it clear that the decision not to take up Lord Normanby's offer at the present time implies absolutely no criticism of the way his schemes have been run. The decision was based purely on the present lack of suitable unemployed young people to fill the existing places. I am sorry that this was not made clear in the letter from my York Area Manager to Lord Normanby's agent Mr C D Shepherd. I understand, however, that the whole question of the increase in places and the reasons for non-approval had been discussed with Mr Shepherd, on the telephone, and the letter was just meant to confirm this.

I should like to thank Lord Normanby for the help he has so far given to the Youth Opportunities Programme and I hope we will shortly be able to take up his offer of the additional places.

Yours sincerely,

Richard O'Brien

FROM: THE RT HON LEON BRITTAN QC, MP

HOUSE OF COMMONS
LONDON SW1A 0AA

21st May 1981

Thank you for your letter of 20th May 1981 about Lord Normanby's request to extend the number of places on some of the work experience schemes he is sponsoring under the Youth Opportunities Programme.

I do see that there is no point in extending the number of places if the existing places cannot be filled. But I am absolutely astonished that it is not possible to fill the existing places in the Whitby area. As you know, the level of unemployment in Whitby is extremely high. It has been for many years, and is, not surprisingly, particularly high at the moment. The number of young people who are unemployed is correspondingly high.

In these circumstances, I cannot understand why the existing work experience places are not filled. I would be very interested to know what efforts have been made to fill them, and in particular how many unemployed young people have been offered places and have refused them.

It does seem to me that the situation disclosed in your letter raises some very fundamental issues about the operation of the Work Experience scheme, and I am therefore particularly anxious to know whether there has been some local problem in bringing the places to the attention of unemployed young people, or whether the problem is a more fundamental one.

Sir Richard O'Brien
Chairman
Manpower Services Commission
166 High Holborn
London WC1

Manpower
Services Commission

Selkirk House
166 High Holborn
London WC1V 6PF

Telephone 01-836 1213

Chairman: Sir Richard O'Brien

Ref MSC/CC/382/1981

Your ref

Date 26 June 1981

The Rt Hon Leon Brittan QC MP
House of Commons
LONDON
SW1A OAA

Dear Mr Brittan

Thank you for your letter of 21 May following my earlier one explaining why we were unable at the time to accept Lord Normanby's offer to increase the number of places on work experience schemes he was sponsoring under the Youth Opportunities Programme. I am sorry it has taken so long to come back to you.

You will be interested to learn that since I wrote to you all of the vacant places on Lord Normanby's schemes have now been filled. As I said in my letter, it is very likely that as more summer school-leavers come on to the employment market we shall be very glad to make use of Lord Normanby's offer of additional places.

In order to answer your enquiry about the current unemployment position in Whitby I have sought the advice of the Local Authority Careers Service. They have informed me that in the Whitby area there are at present 42 boys and 29 girls registered as unemployed. There are 3 vacancies and 42 places available under the Youth Opportunities Programme which have been garnered in readiness for the summer school-leavers. However, apart from the few Easter school-leavers who are just becoming eligible for the Programme after the usual six week waiting period, practically all those who are registered as unemployed have already been on one Youth Opportunities Programme scheme and in most cases two, which is all they are normally allowed.

We are finding that there is unfortunately growing cynicism about the Programme among the young people of 17 and 18. Some have found that with the generally high level of unemployment, the Programme does not automatically lead to a job and after 6 months or a year on work experience schemes they are back on the unemployment register. There is no compulsion on young people to accept places on the Programme or to stay on schemes if they do not like them. Another deterrent factor is the allowance which has not been increased since November 1979 and is not substantially more than the rate of supplementary benefit normally paid to the young person while registered as unemployed.

In North Yorkshire there is also the difficulty of limited transport facilities in what is largely a rural area making it almost impossible for even the best motivated youngster to consider a place on some of the remoter work experience schemes. This, of course, is a problem that we face throughout the country wherever communications are bad. In Whitby town itself and its immediate vicinity there is as you will know a substantial seasonal flavour to the employment situation and this naturally affects the take up of Youth Opportunities Programme places by young people at certain times of the year.

/It

It is not possible to tell you how many youngsters have actually refused offers of places under the Programme. The problem of mismatch between young persons and schemes available is a general one, though each area will have its own special difficulties. The greatest need is for schemes for young people leaving school without any qualifications or special skills and probably minimal motivation. Staff in each of our Area Offices try to achieve a balance of schemes to suit the many different abilities and interests of the young people expected to come on to the employment market.

I believe it is important that young people not be submitted to opportunities for which they would be unsuitable, since this could result in a waste of employers' valuable time and resources, and would not really benefit the young people themselves. In the case of Lord Normanby's schemes, for example, I understand that a substantial degree of physical fitness and stamina was called for, and it would have been inappropriate to have submitted young people who could not fulfil these demands.

In conclusion let me say that we are happy that the Scarborough Division of the Local Authority Careers Service is doing all it can to interest young people locally in the Programme and to persuade them to accept suitable places where they will gain useful experience and, with luck, learn some basic skills.

Yours sincerely,

Richard O'Brien

P.S. Perhaps I should add that there were more than 10,000 refusals by school-leavers last financial year as against 234,000 school-leaver entrants. School-leavers are not of course the only ones who enter the Programme and it is probable overall the rate of refusals is somewhat higher than that implied by these figures. Nevertheless, we know that refusals by 16 and 17 year olds represent a very small percentage of those entering the Programme.

Borough of LANGBAURGH

Langbaurgh Town Hall,
Fabian Road,
South Bank,
Middlesbrough,
Cleveland.
TS6 9AR.

Telephone (0642) 468141 Ext. 209

Chief Personnel Officer T.C. Ellison A.C.I.S. M.B.I.M.

The Rt. Hon. Leon Brittan, Q.C., M.P.,
House of Commons,
LONDON.
SW1A OAA.

Please ask for: Mr. T.C. Ellison
Our Ref: TCE/SMB/10/46
Your Ref:
Date: 18th June, 1981

Dear Mr. Brittan,

Manpower Services Commission

This Authority has recently proposed under a Manpower Services Commission Scheme to provide two jobs for 52 weeks at the Kirkleatham Conservation Area. In order to provide this limited employment the Authority is required to complete application forms which are quite detailed and to obtain the approval of the trade unions and the Manpower Services Commission.

I enclose herewith a copy of each form for your information and I have been instructed by the Authority to convey their dissatisfaction at the cost of the bureaucracy of the Manpower Services Commission, not to mention the considerable work involved for the departments of a local authority merely to provide temporary work with no future for the participants.

The Council's concern occurs in an atmosphere of pressures upon it for severe cuts and enforcements of cash limits which are causing a reduction in permanent jobs, whereas millions of pounds are being spent on the setting up of new sectors of central government expenditure such as the Manpower Services Commission, the expenditure of which does not provide one permanent job.

Yours sincerely,

T.C. Ellison

Chief Personnel Officer

enclosure

Scheme Reference Number

SPECIAL PROGRAMMES

PROPOSALS FOR SPONSORSHIP

BY _____

PLEASE COMPLETE AND RETURN TO:

SP 2 (Rev.)

SPONSOR'S DETAILS

Scheme Reference No.

Name of sponsor LANGBAURGH BOROUGH COUNCIL

Sponsor's postal address	Scheme address *(if different)*
Langbaurgh Town Hall,	Kirkleatham Conservation Area,
Fabian Road,	South Redcar,
South Bank,	Cleveland.
Middlesbrough, Cleveland.	
Tel. No. Eston Grange 468141	Tel. No. Saltburn 22013
Contact *(name and status)* Mr. T.C. Ellison, Chief Personnel Officer	Contact *(name and status)* Mr. A.D. Dodds, Chief Rec. & Amen. Officer

Nature of business Local Authority

DESCRIPTION OF SCHEME

Name of scheme *(if appropriate)* Kirkleatham Conservation Area Environmental Improvement

Brief outline of proposed scheme *(NB detailed programme to be given on Part B)*

Continuation of Scheme and environmental improvements in outstanding conservation area (Scheme based at Kirkleatham nurseries).

Number of places: a) young people *(under 19)* --; b) adults 2

Duration of scheme *(weeks)*: 52 weeks

Hours of attendance: from 7.30 (am) to 12.00 and from 12.30 to 4.00 (pm)

Days of attendance: Monday to Friday

Proposed provision for further education *(eg training courses, day release)*:

On job training will be given as and when required

Health and Safety. *(Please specify particular hazards, if any, and indicate arrangements for the health and safety of all participants)*:

Training will be given in use of equipment and operation of tasks

Please state the name of the insurance company providing your Employers' Liability *(Compulsory Insurance)* cover:

Municipal and Mutal

Do you have Public Liability insurance cover? YES ☑ NO ☐

FACILITIES AVAILABLE

Canteen YES ☐ NO ☑ Mess Facilities available

Protective clothing. YES ☑ NO ☐

If 'YES' please specify Waterproof clothing, safety boots/wellingtons, protective gloves etc.

Special transport arrangements *(if any)*: from ..... to ..... at ..... am

Non from ..... to ..... at ..... pm

Arrangements in case of adverse weather *(where appropriate)*:

When possible inside work will be found

Any other facilities:

No

INFORMATION

If your current employees are members of a relevant Trade Union, please state which Trade Union(s):

[redacted] and Municipal Workers' Union and National Union of Public Employees.
Transport & General Workers' Union

Has approval of the Trade Union(s) been obtained for the scheme? YES ☐ NO ☐

Has approval of any Employers' Association(s) been sought? YES ☐ NO ☐

If 'YES' has approval been obtained? YES ☐ NO ☐

Please state the name(s) of the Association(s): .....

.....

Will the scheme affect your normal recruitment and training arrangements? YES ☐ NO ☑

If 'YES', please give details:

Could the scheme commercially impair any other existing company or business or lead to private gain? YES ☐ NO ☑

If 'YES', please give details on a separate sheet and enclose with this proposal.

Are you receiving funds under any other central or local government scheme? YES ☐ NO ☑

If 'YES', please give details:

SPONSOR'S ORGANISATION

(PLEASE TICK APPROPRIATE BOX)

1	☐	Private sector employer	6	☐	Other public body
2	☐	Local education authority	7	☐	Voluntary/ charitable organisation
3	☑	Local authority	8	☐	Other group *(set up for the purpose of sponsoring a scheme)* or private individual
4	☐	Health authority	9	☐	ESD/ TSD
5	☐	Nationalised industry	0	☐	Government Department

SIZE OF ESTABLISHMENT IN WHICH SCHEME WILL OPERATE *(No. of employees)*

(PLEASE TICK APPROPRIATE BOX, EXCEPT IN CASE OF BOX 1)

1	☐	1 – 20 employees *(show actual no.)*	4	☐	501 – 1000 employees
2	☐	21 – 100 employees	5	☑	1001 – 5000 employees
3	☐	101 – 500 employees	6	☐	Over 5000 employees

Is this a branch or subsidiary of a larger organisation? YES ☐ NO ☑

TYPE OF BUSINESS *(Main activity)*. To be completed by private sector employers ONLY

(PLEASE TICK APPROPRIATE BOX)

1	☐	Agriculture, forestry and fishing	5	☐	Distributive trades
2	☐	Engineering and metal industries	6	☐	Financial and professional services
3	☐	Other manufacturing	7	☐	Miscellaneous services
4	☐	Construction and mining			

ANY OTHER USEFUL INFORMATION

In completing this form and where appropriate the PART C FINANCE DETAILS, I certify that in my opinion all the criteria specified in the appropriate Special Programmes Guide for sponsors have been satisfied.

Authorising signature ..... Date .....

cc.

Signature ..... Date .....

Signature ..... Date .....

342 8013465 20CM 12/79 HGW 152

PROGRAMMES

Scheme Reference No. | | | | | | | | |

PART B – SCHEME DETAILS (Please type if possible)

Area Office copy

Name of sponsor Langbaurgh Borough Council

Please give details as appropriate:

WEEP – Programme of work experience and arrangements for off-the-job training/ further education.

EIC, STC, RC – Syllabus of course

PBWE, CS, TW – Programme of activities and arrangements for off-the-job training/further education.

STEP – Schedule of work

PERIOD OR % OF TIME	DETAILS
5 - 10%	General Induction Programme (see attached sheet) Special Induction - related to the job as and when necessary
10%	Planting of shrubs, trees, hedging within the conservation area
40%	Aiding the establishment of previously planted stock; clearance of scrub herbage interfering with growth; removal of deadwood; treatment of pruning wounds on existing stock within the conservation area
40%	Estate management works including the erection, repair and treatment of fencing and gates; excavation and clearance of ditches; construction and reinstatement of woodland footpaths.

SP 2B (Rev)

PROGRAMMES

Scheme Reference Number

C – FINANCE DETAILS

Name of Sponsor Langbaurgh Borough Council

NOTE: Please complete ONLY for Project Based Work Experience, Community Service and Special Temporary Employment Programme schemes.

1 Please give the Scheme Reference Number(s) of any other current or previous schemes or projects sponsored under the Commission's Special Programmes, Work Experience Programme or Job Creation Programme:

Joint Scheme with County and Community Task Force.

2 Have all the necessary consents required for the work proposed been obtained (eg planning permission)? Please give details:

Yes

3 Finance summary (complete from details overleaf):

			ALL OTHER COSTS		
	ALLOWANCES	WAGES	OPERATING COSTS	CAPITAL COSTS	TOTAL
Project total cost	(a) --	(b) 7308	(c) 800	(d) --	(e) 8108
Less revenue generated (see note 4(i))					--
Less MSC contribution requested	--	7308	800	--	8108
Balance (see note 4(ii))	--	--	--	--	--

4 (i) Give details of revenue expected to be generated:

No

(ii) How will the balance be funded (eg internal urban aid)?

Internal

MSC

SP. 2C (Rev)

INSUFFICIENT SPACE FOR ANY OF THESE SECTIONS PLEASE GIVE ADDITIONAL DETAILS ON A SEPARATE SHEET

E DETAILS FOR THE FINANCIAL YEAR ENDING 31 MARCH 19 ....

LOWANCES

1	2		3		
NO. OF PEOPLE	ALLOWANCE RATE		WEEKS		
	£			TOTAL ALLOWANCES	(a) £

WAGES

1	2	3	4	5		6		7		8		9	
CATEGORY OF EMPLOYEE	NO. OF EM-PLOYEES	NO. OF WEEKS	TOTAL EM-PLOYEE WEEKS (2 x 3)	WEEKLY WAGE RATE		EMPLOYER'S NI CONTRIBUTION NOTE: Reduced NI contributions are payable by registered charities		SUPER-ANNUATION (where applicable)		TOTAL REMUNERATION (5 + 6 + 7)		TOTAL WAGES (4 x 8)	
				£	p	£	p	£	p	£	p	£	p
Assistant Gardener	2	52	104	61	80	8	47	--	--	70	27	7308	08
											TOTAL WAGES	(b) £ 7308	08

If your business is registered as a charity, please give your registered charity number ....

INSUFFICIENT SPACE FOR ANY OF THESE SECTIONS PLEASE GIVE ADDITIONAL DETAILS ON A SEPARATE SHEET

OPERATING COSTS

	DETAIL	£	p		DETAIL	£	p
Rent				Transport and Travel	Delivery of Materials and transport costs of supervision	114	00
Rates				Insurance			
Heating, lighting power				Bank charges/ Audit fees			
Cleaning				Postage			
Telephones				Other Costs	Plant Stock	436	00
Materials	Materials and Equipment i.e. hand tools and protective clothing	250	00				
					TOTAL OPERATING COSTS	(c)£ 800	00

ALL CAPITAL COSTS

	DESCRIPTION	£	p
Furniture and fittings			
Office equipment			
Other			
	TOTAL	(d)£ 0	00
	GRAND TOTAL	(e)£ 8108	00

PLEASE SEE OVER

S INSUFFICIENT SPACE FOR ANY OF THESE SECTIONS PLEASE GIVE ADDITIONAL DETAILS ON A SEPARATE SHEET

OPERATING COSTS

	DETAIL	£	p		DETAIL	£	p
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Rates				Insurance			
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Cleaning				Postage			
Telephones				Other Costs	Plant Stock	436	00
Materials	Materials and Equipment i.e. hand tools and protective clothing	250	00				
					TOTAL OPERATING COSTS (c)£	800	00

ALL CAPITAL COSTS

	DESCRIPTION	£	p
Furniture and fittings			
Office equipment			
Other			
	TOTAL (d)£	0	00
	GRAND TOTAL (e)£	8108	00

PLEASE SEE OVER

CONFIDENTIAL

Manpower SUBJECT

NOTE FOR THE RECORD

Unemployment Measures

The Chancellor of the Duchy called on the Prime Minister yesterday morning at 1000 hours. He reported on the meeting of MISC 59 held the previous day. It had not been possible to make much progress because - for understandable reasons - the Chief Secretary had not been prepared to indicate how much money might be set aside for the package. However, the general feeling of the group was that something on the lines of Mr. Prior's Comprehensive Youth Scheme was needed (CYS) (although further work needed to be done on it to ensure that real training was provided), and that Mr. Carlisle's proposal to provide additional funds to local education authorities to enable more young people to stay on in education should be accepted. There was also some support for the Walters Scheme. On the other hand, the group had felt that the proposal to reduce the age for the job release scheme was of relatively low priority.

In order to help focus the group's thinking, he had invited Mr. Prior to circulate the draft of a statement that might be made on the package. This was due to be discussed later that day. However, the Opposition had now put down a Censure Motion, and it had been decided that the debate should be the following Monday. In the circumstances, he felt that, if a package were to be announced before the recess, it should be announced by the Prime Minister in her speech in the debate. But this would mean a different timescale for reaching decisions, and the Prime Minister might prefer to consider the draft statement herself with the Chancellor and Mr. Prior.

Mr. Pym said that, notwithstanding the Chancellor's difficulties and the possible drawbacks in Mr. Prior's proposals, in his view the announcement of a major package before the recess was a political necessity.

.....

/ The Chancellor of the Exchequer

CONFIDENTIAL

The Chancellor of the Exchequer and the Chief Secretary called on the Prime Minister at 1330 hours.

The Chief Secretary said he had grave misgivings about CYS. It was extremely expensive, and it was far from clear where the resources for it would come from; and he doubted whether it had been properly worked out. He did not think the training element in the scheme was likely to be significantly better than under YOP. Furthermore, contrary to what Mr. Prior claimed, CYS was a far cry from the German scheme. The latter involved real training for real jobs; it had a much greater private sector involvement; and in contrast to Mr. Prior's Option B under which CYS participants would be paid £20 per week, under the German scheme participants were treated more as if they were still dependent on their parents. Nonetheless, he accepted that the political pressures were such that the early announcement of some measures was necessary. One possibility might be to announce the Walters scheme along with some additional money for public investment. Rather than take a hasty decision on new training measures, it might be better to spend some extra money on public investment so as to "buy off" Mr. Prior. Several Ministers had suggested both at E and in MISC 59 that extra spending on public investment projects would be a better way of taking people off the register than Mr. Prior's proposals, particularly if labour-intensive schemes could be found.

The Chancellor said that he could not possibly accept CYS. Much more work needed to be done on it. At the same time, Mr. Prior should be asked to look again at those factors which were hindering youth employment - in particular, Wages Councils and the Employment Protection Act. In addition, Mr. Prior should consider the right of the unemployed to refuse job offers and yet, too often, to continue receiving dole money. Improvements could also be made to the redundancy scheme; at present, there was evidence that a lot of money was being paid out unnecessarily. Finally, provided the practical difficulties could be sorted out, the Walters scheme

/ for exempting

for exempting young people from national insurance contributions below a certain age and a certain wage should be introduced. One possibility would be for the Government to introduce measures covering all of these areas under a single Bill.

Following discussion, it was agreed that there would have to be some compromise with Mr. Prior. It was agreed that the Prime Minister would put to Mr. Prior a possible package on the following lines:

i) The Walters scheme

ii) Confirmation of an extra £93m in 1981/1982 and £113m in 1982/1983 for the expansion of YOP.

iii) Mr. Carlisle's proposal for keeping youngsters in education.

The Prime Minister would go on to say that she was prepared to consider a major initiative on training, but that further work was needed on it; and in return, Mr. Prior must show willing to consider in a constructive way the hindrances to youth employment on the lines mentioned by the Chancellor.

.....

Mr. Prior called on the Prime Minister at 1630 hours.

The Prime Minister said that she was prepared to spend quite a bit of money on a package for announcement in the Censure Debate. But she was worried about CYS as proposed by Mr. Prior. It was expensive, it would do nothing to reduce wage costs, it was doubtful whether it would improve the prospects for real jobs, and most of those joining the scheme would all too likely come back onto the unemployment register around the time of the Election. If CYS were announced in its present form it might be well received for

/ a day or two,

a day or two, but the commentators would then quickly criticise it for what it was - a cosmetic palliative. She was prepared to consider new training measures, but they had to be properly worked out and there had to be a greater private sector involvement. Thus, she did not think it would be possible to announce CYS or a variant of it by next week. Instead, she suggested the package should consist of -

i) Mr. Carlisle's scheme

ii) Expanding YOP

iii) Exempting youngsters in employment from the national insurance surcharge. Further work was needed on the practicalities, but she hoped Mr. Prior could go along with it. This measure would be linked with a campaign directed at the CBI and Chambers of Commerce to persuade their members to take youngsters into permanent jobs following YOP experience.

While further work on longer term training measures was necessary, she also hoped Mr. Prior would consider once again some of the major hindrances to employment such as Wages Councils and the Employment Protection Act.

Mr. Prior said that a major package was a social and political necessity. He did not believe the Prime Minister's proposals matched up to the problems the Government had to cope with. He was prepared to look at his longer term training proposals again: they were not necessarily perfect; but he had to warn the Prime Minister that major extra spending would be needed. The Chancellor could not be allowed to win on this issue. If need be, the PSBR should be allowed to increase. Interest rates were likely to go up anyway because of developments abroad. He was prepared to look at the Wages Councils and the Employment Protection Act again; but he did not believe there was much mileage in tampering with either of these. The employment benefits would be minimal and the

/ political risks

political risks very considerable. He was not prepared to accept that there should be any announcement that Wages Councils and the Employment Protection Act were being reconsidered. As for the specific proposals, he would of course go along with Mr. Carlisle's proposal. If the Walters scheme were confined to simply exempting employees from the national insurance surcharge, the effect would be miniscule. If anything were to be done on these lines, the whole of the national insurance contribution would have to be abated. But even this would have an uncertain and probably small effect compared with its cost. The scheme was expensive because it would have to apply to all those youngsters who would have been employed anyway. His Department had estimated that the Walters scheme would cost £225m in a full year and would result in only an extra 20-60,000 jobs. He was prepared to go along with something on the lines of the Walters scheme, but only as a complement to other measures. The package proposed by the Prime Minister would have to include, in addition, his proposal to reduce the age for JRS. To do less would not be politically saleable. Furthermore, it was absolutely essential that unemployment should be on a downward path for eighteen months or so before the Election. The JRS proposal would have a crucial role in making this proposal.

The Prime Minister commented that the JRS proposal would be expensive - and especially so, if it proved impossible, as seemed all too likely, to reverse it. She understood that, without reversal, the cost could rise to £1,000 million by 1986.

Mr. Prior said that the net cost per person off the register through JRS, at £1800, was not excessive. He also pointed out that simply to maintain YOP with existing guarantees was going to cost an extra £310 million in 1983/84.- over and above the existing PESC provision. So even without a major new training initiative on the lines of CYS, substantial extra spending would be required.

.....

The Chancellor of the Exchequer called on the Prime Minister again at 2000 hours. The Prime Minister said she would take a meeting on Friday morning with the Chancellor and Mr. Prior, and possibly other Ministers closely concerned, to try to reach agreement on the package. In preparation for the meeting, the Chancellor said he would look again at the costs of the JRS proposal and at the practical problems of the Walters scheme.

TL

23 July 1981

CONFIDENTIAL

c/c J Vereker
A Burgner
A Wiltshire.

Prepared

PRIME MINISTER

R 417

EXTENDING THE LONG-TERM RATE OF SUPPLEMENTARY BENEFIT TO UNEMPLOYED PEOPLE AGED 60 AND OVER

I have seen the Secretary of State for Social Services' minute to you of 17 July.

2. Following E Committee's agreement to this proposal I confirm that the expenditure in 1981-82 will be met from the Contingency Reserve. Expenditure in subsequent years will involve additions to the DHSS public expenditure programme. I have asked my officials to ensure that the sums mentioned in the Secretary of State's minute are registered as additions to that programme so that they can be taken into account when preparing advice for Ministers on the Public Expenditure Survey which we shall be discussing in the autumn.

3. I am sending copies of this minute to the Secretary of State for Social Services, other members of E Committee, the Lord President, the Chancellor of the Duchy of Lancaster, and the Chief Whips of both Houses.

L.B.

LEON BRITTAN
23 July 1981

CONFIDENTIAL

PRIME MINISTER

Meeting on Unemployment Measures

The following have been invited:

The Chancellor of the Exchequer
The Chancellor of the Duchy
The Secretary of State for Employment
The Secretary of State for Social Services
Chief Secretary
Alan Walters
Sir Robert Armstrong.

You might like to read my internal record of your separate discussions with Mr. Pym, Treasury Ministers and Mr. Prior yesterday to remind yourself where we have got to (Flag A).

I think it is agreed that the package should include:

(i) the cost to employers of employing young people below a certain age and wage should be reduced, possibly by exempting them from paying National Insurance contributions (NIC). ?

(ii) Confirmation of an extra £93 million in 1981/82 and £113 million in 1982/82 so as to fulfil the existing YOP guarantee. /

(iii) An extra £60 million in 1982/82, and more in subsequent years, for local education authorities, to enable 50,000 more young people to stay on in school or college. /

(iv) Some indication that we are going to move to an expanded training/work experience scheme in 1983.

The issues for discussion would seem to be:

/ (i)

(i) how would the remission of NIC for young employees work? Up to what age would it apply and to what wage? Mr. Jenkin will advise that legislation will be required. He will express a preference for paying a subsidy, which would not require legislation; but that of course would mean higher public spending (though the PSBR effect would be no different). NIC remission would only mean a "subsidy" of about £5, whereas Alan Walters was suggesting a subsidy of around £15 (ie NIC remission plus £10 subsidy). It is also relevant that the old youth employment subsidy, which was phased out several years ago, was £10. It may be unrealistic to announce a figure lower than this. Also, should there be a campaign directed at the CBI and Chambers of Commerce to persuade them to take youngsters on in return for the "subsidy"? With a wage ceiling of £40 per week and with eligibility confined to school leavers in their first year, Mr. Prior says that a £15 subsidy could cost £225m in a full year. But that is if everyone took advantage of it. The actual cost would probably be closer to £100m.

(ii) Should Mr. Prior's job release proposal be accepted? Instead of reducing the age for JRS to 63 in November and to 60 next February, we could perhaps reduce it to 63 in November and go no further. This would mean half the cost of his proposal. Other variations are of course possible. The Chancellor should have with him alternative costings.

(iii) What form of words should be used to indicate our thinking about new training/work experience in the longer-term? This is likely to be the crucial issue. Mr. Prior will want a strong form of words, as close as possible to paragraph 7 in the draft which he circulated (Flag B). The Chancellor (and you) will want to press for as vague a formulation as possible - without commitment to numbers off the register or finance. In return for this, you will want a firm assurance from Mr. Prior that he will look constructively again at some of the hindrances to employment such as wages councils and the Employment Protection Act.

/(iv)

(iv) are there any other concessions which should be made - possibly as an alternative to a strong form of words on longer-term measures and/or accepting Mr. Prior's full JRS proposal? Paragraph 9 of the draft statement includes provision for an extra £4 million for the Community Enterprise Programme. Paragraph 10 says that we will be examining the scope for creating job opportunities in the review of capital programmes.

If agreement can be reached on the package, you will then have to ask us to go away and prepare a draft passage for inclusion in your speech, which will need to be cleared - preferably in the course of Friday - with other Ministers concerned. We would also need to circulate it to other Cabinet colleagues for information.

Finally, you will need to decide how further work on all this should be pursued. The main outstanding issue is likely to be how the longer-term training measures can be worked up and improved. But there are also the proposals from some spending Ministers - for example Mr. Howell and Mr. Heseltine - for employing young people on their pet schemes. This work can presumably be continued in the group chaired by Mr. Pym.

T.P. LANKESTER

23 July 1981

CONFIDENTIAL

SUBJECT

cc Sir R. Armstrong
Mr Walters
Mr Wolfson

cc Master

NOTE FOR THE RECORD

Unemployment Measures

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CONFIDENTIAL

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23 July 1981

CONFIDENTIAL

23 July 1981

Policy Unit

PRIME MINISTER

MEASURES ON UNEMPLOYMENT

We are sure you are right to resist any commitment to the full-scale Jim Prior package at this stage. A few supporting points:

1. There seems to be a slight mood of panic with some of the colleagues. So it's the worst possible time for a decision on anything beyond a minimal commitment. You and all colleagues are under great time pressures with little time to stop and think. The whole mood, in Cabinet, the House and in the country, could be very different by September, after the holidays.

2. Francis Pym seems to have misrepresented the mood of MISC59. Alan's and my impression was that there was not much support for CYS, and considerable support for the Walters plan. In fact, the Walters plan looks better on closer inspection with Treasury and Employment officials.

3. But we do need to think before acting. For example:

(a) To have any impact, Alan's scheme must be on the right scale. The 1976 Youth Employment Subsidy was worth £10 in "then money" per head. If Alan's scheme is confined to about £5, it could look derisory and yield no wider benefits. It should be at least £10, preferably £15 per head.

(b) Of Jim's other measures, we think extending the Community Enterprise Programme would be better than expanding JRS.

(c) If we do expand JRS, why not bring the age down to 63 only, and think further about bringing it down to 60 in February 1982, depending on how public sector pay is going?

(d) A better sop for Jim could be some selective spending following Michael Heseltine's Merseyside visit - since some spending seems unavoidable there.

(e) Trading Wages Councils/EPA in return for oral commitment on CYS could be a bad deal. The CYS money would be spent. The Wages Councils/EPA would mysteriously run into the sand.

CONFIDENTIAL

4. If you say on Monday that you are considering a major initiative on training, it will be very difficult to get off that hook later. Once on that hook, the floodgates would be open. If spending £1bn is <u>good</u>, colleagues will argue, then why not spend more? But it would be safe for you to say that the <u>emphasis</u> of YOP will increasingly be on training.

5. Finally, challenge the assertion that a big package is a "social and political necessity". Exactly why is this so? What would happen if the package was not forthcoming?

I am copying this minute privately to Geoffrey at No.11.

JOHN HOSKYNS

MR DYKES

cc Mr Hodgkins
Mr Gardner
Mr Whybrew

Mr Shepherd

SPECIAL MEASURES: MEETING WITH PM TOMORROW

You have separately received from Mr Whybrew the additional cost information for No 10 on JRS and YOP. I now attach, in replacement of the drafts submitted earlier today, modified drafts of the announcement and table of costs and employment effects of a possible alternative package - some of the figures have changed in the process.

2. I should like to draw the S of S's attention to the following points which emerge from these papers:

(a) Walters' subsidy: official examination is continuing, but it does look as though the net cost per job would be high in the first year at £5-10,000 and falls to £2-2500 only after the first two years of the scheme because it would take time for the second stage effect to take place. This is the effect deriving from employers reducing wages of existing employees to below £40 per week or replacing them with others.

There is a danger in early announcement of a subsidy that employers may hold off recruiting. They ought not to do so in this case because they will, under the scheme as it stands at present, get the subsidy for anyone eligible who is in their employment, as well as for those they recruit after the scheme begins. But there is often misunderstanding among employers and it is usually good practice not to announce a subsidy until shortly before its introduction. In this case that will not be before February 1982 because it takes six months to set up a completely new scheme.

(b) DES bid: this is more considerable than £60m which covers only two terms in the first year. The table shows that they then want £100m in each of the following two years. This is to meet the usage costs of spare capacity but also

/is

is to restore cuts eg in teaching staff. The case seems good in principle, but the costs are high in relation to the S of S's alternative proposals and the highly uncertain effect on the numbers of young people who will stay on.

(c) JRS: the table shows the costs of reducing JRS to 62 and not to 60 as the S of S wishes. This is simply because the table was typed before your message from Cardiff. The footnote gives the age 60 figures.

On either base the JRS figures are high in absolute terms and the S of S may wish to know the comparable costs of simply reducing to age 63 until March 1984. The additional costs (over and above existing PES) would be £23m in 1981-82, £79m in 1982-83, £114m in 1983-84 and £32m in 1984-85. The additional register effect in March 1983 would 19,000.

(d) YOP: the note sent to No 10 has merely pointed out that around £300m of the additional £600m shown in the S of S's paper as the costs in 1982-83 of developing YOP towards the new training scheme are needed simply to meet the existing guarantees at the higher level of youth unemployment. In the attached table we have cut the development costs back from £300m to £150-200m simply on the basis that, if the new training scheme is not to be introduced in 1983, the development of YOP towards it can be slower.

The S of S will note the footnote to the table which shows by how much YOP costs would be reduced to take account of the impact of the Walters' subsidy and DES expenditure. It is a very wide range, but the offset could be as little as £20m. It would be particularly dangerous, therefore, to let the YOP figures be scaled down in relation to the highly optimistic estimates of the impact of these other two schemes.

3. Total Costs: The S of S will note that the total cost in 1982-83 of what the PM has in mind is estimated at £283m. But the cost of expanding YOP to meet existing guarantees is an absolutely essential addition and, if any reference to moving towards a new training provision is to be credible, there must be some funds for its development in that direction next year. That brings the total costs in 1982-83 to

/around

around £750m, with a register impact of 450-500,000.

4. If JRS is added even at age 62 this takes the 1982-83 figure to around £870m and to the magic £1 billion in 1983-84. If JRS is reduced as originally proposed to age 60 that raises the 1982-83 total cost to about £900m and moves the totals to around £1.3 billion in each of the following two years. This is back in the area of the S of S's original proposals.

D J DERX

23 July 1981

CONFIDENTIAL

MR DYKES

cc Mr Derx
Mr Hodgkins
Mr Brand
Mr Kahan

SPECIAL MEASURES

You asked for some additional cost information for No. 10.

1. JRS

	1981/82 £m	1982/83 £m	1983/84 £m	1984/85 £m	Additional Register effect in March 1983 '000s	1984 '000s	1985 '000s
Existing PES (bid)	129	126	142	165	34	40	39
Option 1 reducing to 63 in Nov 1981 and to 60 in Feb 1982 until March 1984 would need an additional	58	303	578	655	110	177	135
giving a total cost of	187	429	720	820	144	217	174
Option 2 reducing to 63 in Nov 1981 and to 62 in Feb 1982 until March 1984 would need	37	150	333	385	43	91	61
giving a total of	166	276	475	550	87	131	100

2. YOP with existing guarantees

To retain YOP at present quality with existing guarantees but at the higher levels of youth unemployment forecast for future years would cost in addition to existing provision and approvals £283m in 1982/83. The figure of £600m in the S of S paper to E for developing YOP towards a comprehensive scheme embraced this £283m and a further £320m for increasing the training content at the expense of work experience, increasing the average length of stay from 23 weeks to 32 weeks and experiments in a few places to provide universal coverage for 16 year olds.

Ted Whybrew

EP(M)B

E G WHYBREW
23 July 1981

Costing if we go down to 62 until Mar '84.

01 211 6402

The Rt Hon Francis Pym MP
Chancellor of the Duchy of Lancaster
Privy Council Office
Whitehall
London SW1A 2AT

22 July 1981

Dear Francis

MEASURES TO REDUCE UNEMPLOYMENT

I am writing to urge that MISC 59(81) should consider the very real potential for stimulating employment through boosting energy conservation programmes in both the domestic and the industrial sectors.

A significantly enlarged energy conservation programme would have major advantages not only because increased energy efficiency is at the heart of our energy policy but also because it would lead to a marked improvement in industrial competitiveness and profitability and have a positive impact on employment. There was general agreement in E Committee last week, that we could with advantage consider employment measures going beyond those proposed by Jim Prior; and colleagues generally stressed the importance of looking at measures which would lead to productive investment as well as to an increase in real employment.

Against this background I am sure we must look at the potential for stimulating energy conservation investment. The need is very clear: in industry, the examples of deferred investment in energy conservation are legion and I am regularly seeing new evidence that industry is not investing in worthwhile conservation projects with higher internal rates of return than other investments, mainly because of cash flow problems and the uncertainty about longer term profitability (or survival). Our Regional Energy Conservation Officers throughout the country report on diminution in energy conservation investments and commitments, and postponement of worthwhile schemes. To take only two examples, neither ICI Petro

Chemicals Division nor GKN is proceeding with energy conservation projects with paybacks over one year.

In the domestic sector there are still over 4½ million homes wholly without insulation and another 4½ million with inadequate insulation. Many of these are in our inner cities and tenanted by the disadvantaged who are less able to respond to the pricing signals we have established. Yet local authority expenditure on conservation in public sector homes has been drastically reduced (by 50% since April 1980) and already some authorities have exhausted their allocation under the Homes Insulation Scheme for this financial year.

The measures I have in mind are, in the industrial sector a conservation loan scheme to bring forward energy saving investments (along the lines of our previous proposals considered in MISC 56). The potential saving is 30% of energy usage in industry alone; and it would do much to improve industrial efficiency so that industry is in a better possition to take advantage of the end of the recession, as well as equipping it for the costly energy future which we face. It would also stimulate employment in the boiler making and associated industries and other conservation industries - around £1 billion of investment brought forward would involve a peak of 50,000 jobs, by the fourth year of operation, at a cost in the first three years of some £94 million.

In the domestic sector I have already proposed a scheme for insulating the homes of the disadvantaged using the young employed in the context of CEP. (H(80)53) (This would have yielded 2,500 jobs at a net cost of £25 million and insulated nearly ½ million homes). However, I think that we should seriously consider going further on the lines of the RIBA proposal to establish task forces on a region by region basis to carry out insulation work concentrating particularly on the inner cities. A five year programme employing 5,000 people could be expected to insulate around 4½ million homes, (ie approximately half of our housing stock without insulation or with inadequate insulation). Initially, this is probably the highest level at which such a programme could operate, but we might consider ways of further extending it later, perhaps through the MSC together with the local authorities, particularly those in the inner city partnership and programme areas. The total cost (at 1980 prices) should be £64 million gross and £50 million net (ie after employment benefit savings had been discounted).

We shall of course all need to consider very carefully the means of financing our various proposals in the context of future public spending priorities, the fight against inflation and the need to consider new employment generating investment proposals. Taking all aspects into account, my proposals for industry are very largely offset by their positive effects not only on unemployment benefit but also on the Coal Board's stocking costs (because they would result in a significantly increased coal burn). My proposals for the domestic sector would in the longer term be partially offset by savings in fuel supplement to the needy - and by dovetailing with them our other schemes such as the Homes Insulation Scheme. In addition of course their political impact would be considerable.

Like the other schemes MISC 59 is considering, implementation of these proposals would require some extra Civil Service manpower. I take it that this will be dealt with as a general issue and that the extra manpower needed for the overall package which is ultimately approved will be provided and appropriately allocated.

I am copying this letter to the Prime Minister, the members of MISC 59(81) and Sir Robert Armstrong.

Yours ever

David

D A R HOWELL

JY

CONFIDENTIAL

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

Rt Hon James Prior MP
Secretary of State
Department of Employment
Caxton House
Tothill Street
LONDON
SW1N 9NA

22 July 1981

Dear Jim,

MISC 59: DRAFT STATEMENT ON SPECIAL EMPLOYMENT MEASURES

I have seen the draft which your office circulated yesterday. Much of it is admirable, but I should like to strengthen the last two sentences of paragraph 5: our policy will be seriously defective unless we make it clear that we are committing extra resources to education as well as to training. I suggest:-

> "The Government accordingly intend to increase public expenditure by £60m in 1982-83, and more in subsequent years, by adding to the resources available to local education authorities to meet this particular demand, and to make appropriate provision in the rate support grant. We hope that as many as 50,000 more young people will stay on in school or college as a result."

As a consequence, paragraph 12 would begin "The cost of these additional measures will amount to some /£170m/ in the current financial year and, including the extra resources for local authorities, /over £1 billion/ in 1982-83."

I am copying this to those who had your Private Secretary's letter.

Yours ever

Mark.

MARK CARLISLE

CONFIDENTIAL

CONFIDENTIAL

MR LANKESTER

cc Mr Wright

MINISTERIAL GROUP ON MEASURES TO REDUCE UNEMPLOYMENT (MISC 59)

The Chancellor of the Duchy of Lancaster held the first meeting of his Group, MISC 59, yesterday afternoon.

2. The Secretary of State for Employment made clear that he regards it as politically essential for him to make a comprehensive statement before the Recess on the measures the Government intends to introduce. This would cover not only the additional provision to provide places on the Youth Opportunities Programme which E Committee has already approved but also the development of YOP into a Comprehensive Youth Scheme (CYS) for training 16 year olds, amendment of the age limit for the Job Release Scheme (JRS) and relatively modest proposals for using some of the longer term unemployed on voluntary work. He wants to refer to a review of the Community Enterprise Programme for the long term unemployed but he is now more attracted by the possibility of dealing with this group through selective public sector investment and some pump priming to stimulate private investment; he would want to indicate this possibility was under review. He also supports the Secretary of State for Education and Science's proposals for extra provision to find places for those wishing to stay on in further education. He regards this package as complementary to schemes on the lines proposed by Professors Walters and Layard: to the extent that the latter were successful there would be less demand for training schemes.

3. The Chief Secretary repeated the arguments put forward by the Chancellor of the Exchequer at the discussion by E: namely, it would be very difficult, and positively damaging to market confidence, to

announce a £1 billion plus package in advance of discussion of the 1981 Public Expenditure Survey. The Chief Secretary declined to give the Group any guidance on what amount of money might be made available.

meeting now cancelled, but docts attached.

TL

..

4. To enable the Group to focus more sharply on the Secretary of State for Employment's proposals for a statement, the Chancellor of the Duchy of Lancaster invited him to circulate a draft of his statement for discussion at a meeting of the Group at 4:30pm today. You have a copy of this draft which was circulated under cover of Mr Dykes' letter of 21 July. This request does not imply any commitment to support the Secretary of State for Employment in his case for making a statement. The Group felt that they would be better able to form a judgement, however, if they saw a draft; a statement in general terms, without commitment to particular amounts of money or to details would obviously be more manageable than something which was firm and precise.

5. On the merits of the Secretary of State for Employment's proposals, the Group is provisionally sympathetic to CYS provided it can be shown to offer soundly based training and not just to be a cosmetic device for getting young people off the register. They rate JRS as very much a second priority; and they have noted that the costs would be even higher, by substantial amounts, if the age limit were not increased once more in March 1983. They go along with the modest proposals for finding more job opportunities from the voluntary services for the long term unemployed. They are sympathetic to the Secretary of State for Education and Science's case for providing sufficient extra further education places to prevent young people from being turned away.

6. The Group has commissioned, for discussion on Monday evening, 27 July:-

(i) A paper from the Chief Secretary, based on further work by officials, setting out the pros and cons of the various alternatives

on the table including Walters/Layard type schemes and further public investment and pump priming.

(ii) A paper by the Education Secretary on how his proposal might be implemented in practice.

8. It will obviously be necessary to think further about the timing of reports, and possibly a discussion by Cabinet, following the various meetings which the Prime Minister is having with those concerned today.

D J L MOORE

22 July, 1981

CONFIDENTIAL

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400 GTN 213

Switchboard 01-213 3000

David Hayhoe Esq
Private Secretary to
the Chancellor of the Duchy of Lancaster
Privy Council Office
Whitehall Place
LONDON SW1

21 July 1981

Dear David.

MINISTERIAL GROUP ON MEASURES TO REDUCE UNEMPLOYMENT (MISC 59)

Following the discussion at this morning's meeting my Secretary of State was asked to circulate for tomorrow's meeting a draft of the announcement that he wishes to make before the Recess. This was requested to serve as a focus for further consideration.

Mr Prior has asked me to circulate the attached draft. It takes account of matters raised in this morning's discussion, notably the reference by the Secretary of State for Education to the need for more resources next year to enable more young people to stay at school or in further education. My Secretary of State wishes to emphasise that this is very much a first draft to indicate the scope of the announcement that he thinks it necessary to make and he would wish to look further at the tone and presentation.

I am sending copies of this letter and enclosure to Tim Lankester (No 10), the private secretaries to members of MISC 59, to Mr Ibbs (CPRS), Professor Walters and Mr Hoskyns (No 10), and David Wright and David Moore (Cabinet Office).

Yours ever
Richard Dykes

R T B DYKES

Principal Private Secretary

DRAFT OF POSSIBLE STATEMENT ON SPECIAL EMPLOYMENT MEASURES BY THE SECRETARY OF STATE FOR EMPLOYMENT

INTRODUCTION

The creation of more jobs depends on keeping up our efforts to make ourselves fully competitive in world markets. The scale of present unemployment is a measure of the task. There are no short cuts.

2. But we can and must mitigate the effects of high and prolonged unemployment on those who are hardest hit, preferably through measures which will improve the longer term prospects for the individuals concerned as well as for the economy as a whole.

YOUNG PEOPLE

3. The Government is particularly concerned about the prospects for young people. We stand of course by the guarantees I announced last November that every unemployed school leaver this year will be offered a place on the Youth Opportunities Programme by Christmas, and any other young person who remains unemployed for more than three months will be offered a place within three months. I have accordingly today informed the Manpower Services Commission that we are prepared to provide the necessary resources to enable around another 100,000 young people to be taken on the Programme this year compared with the 440,000 originally planned. Unfortunately, fewer this year will be able at the end of it to go straight onto a job, but all will have been given something more to offer by way of work experience and training.

4. We are also, as I have already announced, increasing to a total of some £40m both this year and next the support provided by the MSC to industry for longer term skill training of young people.

5. This is not enough. There is evidence from many areas of an increase in applications to stay on in school or college. It is clearly of the greatest benefit if young people do choose to follow

appropriate courses, many of a vocational nature, and in many cases to obtain qualifications that will assist them to secure jobs and improve the quality of the labour force. The Government are accordingly reviewing the resources available to local education authorities in order to ensure that this increased demand can be met in 1982. We hope that it will be possible to enable as many as 50,000 more young people to stay on in school or college next year as a result.

6. But we must go much further than this and provide properly at last for those who leave school for work and fail to find it. This country badly needs a thorough foundation of training and planned work experience for all young people if they are to get and retain jobs in the 1980s. We lag behind our competitors in such provision and our young workforce is generally ill-equipped to meet the changing demands of modern industrial society.

7. It is time for us to move well beyond the Youth Opportunities Programme to a permanent new scheme. The Government accordingly intends to make arrangements for the introduction of such a new scheme so that by September 1983 no 16 year old school leaver need be unemployed. From that date every young person of that age who does not have a job or is not continuing in full time education will be offered up to 12 months training vocational preparation or community service. The details of this programme will be developed in the light of responses to the proposals in the document "A New Training Initiativ published by the Manpower Services Commission last May with full Government backing. I plan to make a further statement later this year both about the new scheme and the development next year of the Youth Opportunities Programme towards it.

OLDER WORKERS AND THE LONG TERM UNEMPLOYED

8. At the other end of the age range of our working population, exceptionally large numbers of people will be reaching normal retiremen age in the mid-1980s. We could, by bringing forward that peak of

retirements, release jobs to people who are at present unemployed. To this end the age for the Job Release Scheme will be lowered from 64 to 63 this November and to 60 from February next year. This will be additional to the new scheme, also operative from November this year and recently announced by my rt hon Friend the S of S for Social Services, whereby those aged 60 and over who are unemployed and have been drawing supplementary benefit for a year or more will be able to retire on the higher long-term rate of supplementary benefit.

9. I am also keeping under review with the MSC the provision made under the Community Enterprise Programme for the long-term unemployed. In particular, I believe we should develop opportunities for voluntary service for unemployed people by funding more organisers in the societies concerned. Subject to further consultation with the MSC, the Government is prepared to provide up to another £4 million for this purpose this year.

CAPITAL PROGRAMMES

10. The Government will also be examining, in the course of the public expenditure review of Capital programmes, the scope for opportunities to create new jobs, especially in the areas of greatest need. We are also considering the possibility of making it a condition of provision of launch aid or public procurement support that the companies concerned should maintain apprenticeship programmes at a satisfactory level and participate wherever possible in the provision of places under the Youth Opportunities Programme.

NUMBERS AND COSTS

11. The special employment and training measures are currently assisting some 300,000 people who would otherwise be unemployed. As we reach the bottom of the recession the numbers covered by the Temporary Short Time Working Compensation Scheme are declining, but with the measures I have announced today the total figure will rise to some 400,000 by March 1982 and well over half a million in the following year

12. The cost of these additional measures will amount to some /£170m/ in the current financial year and are currently estimated at /just over £1 billion/ in 1982-83. These are gross costs. Some 40% would be offset by direct flowbacks on social security and tax and there would be additional support from the European Social Fund.

Telephoned to Monkbello 7.15pm. 20/7.

X/SF 21.7.81

MR. WHITMORE

c. Mr. Vereker
Mr. Duguid
Mr. Walters

I thought the Prime Minister ought to see rightaway Mr. Prior's minute in which he argues that an announcement should be made before the recess on the unemployment measures package.

The group of Ministers under Mr. Pym are having their first meeting at 1130 tomorrow. However, Mr. Prior is not expecting a response from the Prime Minister before that meeting. I suggest that he discusses this with the Prime Minister when he comes to see her on Wednesday evening.

X/

My own view is that it will not be possible to make an announcement before the recess unless we simply adopt Mr. Prior's package. The Treasury are strongly opposed to early decisions and it will take a little time to refine the other options suggested at E.

Having said all this, Mr. Prior is perfectly correct when he says that he told E Committee, at the end of last week's meeting, that he would want to bring all this back to Cabinet before the recess.

TPL

TPL

20 July 1981

Seen by Mr C.P. 20/vii

Prime Minister

I am sure X| is right. Agree?

MW 20/vii

MR. WHITMORE FROM TIM LANKESTER

I hope the Prime Minister will see rightaway Mr. Prior's minute in which he argues that an announcement should be made before the recess on the unemployment measures package.

The Group of Ministers under Mr. Pym are having their first meeting at 1130 tomorrow. However, Mr. Prior is not expecting a response from the Prime Minister before that meeting. I suggest that he discusses this with the Prime Minister when he comes to see her on Wednesday evening.

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Having said all this, Mr. Prior is perfectly correct, when he says that he told E Committee at the end of last week's meeting, that he would want to bring all this back to Cabinet before the recess.

TL

20 July 1981

SECRETARY OF STATE FOR EMPLOYMENT TO THE PRIME MINISTER

MEASURES AGAINST UNEMPLOYMENT IN 1981-82 AND BEYOND

I have now seen the record of our discussion at E Committee last Wednesday E(81)25th meeting on this subject.

I am afraid the minutes do not adequately reflect my view of the degree of urgency which we need to give to these issues. Towards the end of the meeting, When it became clear that further work would need to be put in hand, I said I was only prepared to agree to the formation of a special Ministerial Group on the understanding that the issues would be brought to Cabinet in time for decisions to be taken and announcements made before the House rises for the summer recess.

If this timetable cannot be met I shall be placed in the position of having to announce only the expansion of YOP which we have approved for this year. This would be taken as a very weak response by the Government to a problem which is increasingly being perceived by our supporters and, I believe, in the country as a whole as of paramount importance.

I do hope, therefore, you will be able to agree that the Ministerial Group should report to Cabinet on these issues quickly and that we should aim to announce before the recess whatever measures are decided upon, even though the detail may, in some cases, have to wait until the autumn.

Minutes copied to E Committee, Chancellor of the Duchy, Secretary of State for Scotland, Secretary of State for Wales, Secretary of State for Social Services, Secretary of State for Education Chief Whip and Sir Robert Armstrong.

SW

CONFIDENTIAL

cc J. Vereker
A Duguid
A Walters.

PRIME MINISTER

MEASURES AGAINST UNEMPLOYMENT IN 1981/82 AND BEYOND

I have now seen the record of our discussion at 'E' Committee last Wednesday (E(81) 25th Meeting) on this subject.

LCA with TL?

I am afraid the minutes do not adequately reflect my view of the degree of urgency which we need to give to these issues. Towards the end of the meeting, when it became clear that further work would need to be put in hand, I said I was only prepared to agree to the formation of a special Ministerial group on the understanding that the issues would be brought to Cabinet in time for decisions to be taken and announcements made before the House rises for the summer recess.

If this timetable cannot be met I shall be placed in the position of having to announce only the expansion of YOP which we have approved for this year. This would be taken as a very weak response by the Government to a problem which is increasingly being perceived by our supporters and, I believe, in the country as a whole as of paramount importance.

I do hope, therefore, you will be able to agree that the Ministerial group should report to Cabinet on these issues quickly and that we should aim to announce before the recess whatever measures we decide upon, even though the detail may, in some cases, have to wait until the Autumn.

I am sending copies of this minute to members of 'E' Committee, Francis Pym, George Younger, Nicholas Edwards, Patrick Jenkin, Mark Carlisle, Michael Jopling and to Sir Robert Armstong.

J P

20 July 1981

CONFIDENTIAL

Manpower.

10 DOWNING STREET

From the Private Secretary

20 July, 1981.

Dear Mike.

Extending the Long-term Rate of Supplementary Benefit to Unemployed People aged 60 and over

The Prime Minister has considered your Secretary of State's minute of 17 July. This is to confirm that she is content with the line he proposes - and in particular, that a Draft Order should be published before 1 p.m. today.

I am sending copies of this letter to the Private Secretaries to the Members of E Committee, to Jim Buckley (Lord President's Office), David Heyhoe (Office of the Chancellor of the Duchy of Lancaster), Murdo Maclean (Chief Whip's Office), and Michael Pownall (Whips Office in the Lords).

Yours ever.

Tim Lankester.

Mike Tully, Esq.,
Department of Health and Social Security.

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10 DOWNING STREET

From the Private Secretary

20 July, 1981.

Dear Richard.

This is to confirm that the Prime Minister is content for your Secretary of State to announce by way of a Written Answer tomorrow the decision to increase support for long-term skilled training, as proposed in your letter of 17 July.

I am sending copies of this letter to the Private Secretaries to the Members of E Committee, to David Heyhoe (Office of the Chancellor of the Duchy of Lancaster), Godfrey Robson (Scottish Office), John Craig (Welsh Office), Mike Tully (Department of Health and Social Security), Peter Shaw (Department of Education and Science), Murdo Maclean (Chief Whip's Office), and David Wright (Cabinet Office).

Yours ever,

Tim Lankester.

Richard Dykes, Esq.,
Department of Employment.

CONFIDENTIAL

CONFIDENTIAL

Prime Minister

Content?

RL

17/7

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400 GTN 213

Switchboard 01-213 3000

Tim Lankester Esq
Private Secretary
10 Downing Street
LONDON SW1

17 July 1981

Dear Tim,

MEASURES AGAINST UNEMPLOYMENT IN 1981/82 AND BEYOND

We spoke this afternoon about the announcements that will need to be made next week on those firm decisions that Ministers came to on this subject at the meeting of 'E' Committee last Wednesday.

My Secretary of State proposes to arrange for a Written Parliamentary Question to be answered next Tuesday on increased support for long term skilled training so that the Manpower Services Commission and Industrial Training Boards can get ahead quickly with the necessary preparatory work. I understand that the Secretary of State for Health and Social Security is minuting the Prime Minister separately on the long term supplementary benefit rates for those unemployed aged over 60 who have been drawing Supplementary Benefit for over 12 months.

Mr Prior is anxious that these announcements should be treated separately from the other measures that are still under consideration and proposes, therefore, to make no announcement for the time being of the approval that has already been given to the further expansion of the Youth Opportunities Programme this year.

I am sending copies of this letter to the Private Secretaries to members of 'E' Committee, David Hayhoe (Chancellor of the Duchy's Office), Godfrey Robson (Scottish Office), John Craig (Welsh Office), Mike Tully (DHSS), Peter Shaw (DES), Murdo McLean (Chief Whips Office) and David Wright (Cabinet Office).

Yours ever

Richard Dykes

R T B DYKES
Principal Private Secretary

CABINET OFFICE

With the compliments of

Sir Robert Armstrong KCB, CVO

Secretary of the Cabinet

C. A. Whitmore, Esq

70 Whitehall, London SW1A 2AS
Telephone: 01-233 8319

CONFIDENTIAL

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref: A05287

CHANCELLOR OF THE DUCHY OF LANCASTER
AND PAYMASTER GENERAL

You will remember that the Ministerial Committee on Economic Strategy, at its meeting on the evening of Wednesday, 15th July 1981, took note that the Prime Minister would make arrangements for a group of Ministers to consider further and make recommendations on the various suggestions for longer-term measures to reduce unemployment that were before that meeting but were held over for further discussion.

2. The Prime Minister would be very grateful if you would agree to be the chairman of the group, and if the following Ministers would agree to serve as members of it:

Secretary of State for Employment

Secretary of State for Defence

Secretary of State for Scotland

Secretary of State for Social Services

Secretary of State for Education and Science

Chief Secretary, Treasury

Minister of State, Department of Industry (Mr. Tebbit)

3. She suggests that each Minister should be accompanied by one official to the meetings; the officials concerned could sit as a group as required. She further suggests that the CPRS, Professor Walters and Mr. Hoskyns should be invited to attend.

4. The Secretaries of the group will be Mr. D.J.L. Moore and Mr. D.S. Bostock, Cabinet Office.

5. I am sending copies of this minute to the Ministers invited to be members of the group (paragraph 2), and to Mr. Whitmore, Mr. Ibbs, Professor Walters and Mr. Hoskyns.

ROBERT ARMSTRONG

17th July, 1981

YDS

CONFIDENTIAL

Prime Minister

EXTENDING THE LONG-TERM RATE OF SUPPLEMENTARY BENEFIT TO UNEMPLOYED PEOPLE AGED 60 AND OVER

We decided at E Committee on Wednesday as part of the package of measures to help the unemployed, to enable unemployed people who reach their 60th birthday and who have been receiving supplementary benefit at the ordinary rate for 12 months or more, to receive the long-term rate of supplementary benefit in return for ceasing to register as unemployed. Those who wanted to continue to register would be free to do so, but they would stay on the short-term rate. The Committee decided that effect should be given to this decision from the date of the next up-rating of supplementary benefit on 23 November 1981.

I think that most of those eligible for the long-term rate will take it, and I estimate the net cost to the Government of the change at about £6 million in the part-year 1981/82; in the full-year 1982/83 the estimated cost will be £21 million, rising in the two following years respectively to £23 million and £24 million. It has been agreed that the additional expenditure this year will come from the contingency reserve. Officials are discussing the way in which the increases should be reflected in my public expenditure programme in subsequent years.

The change will also carry with it a manpower cost but preliminary estimates suggest that it will be outweighed by DE staff savings resulting from the reduction in work at unemployment benefit offices. I shall get my officials to raise the question of an adjustment between the manpower budgets of the two Departments.

I would like to get the necessary regulations debated at the same time as this year's up-rating regulations, which are to be debated in the Commons on 28 July; I therefore need to announce and publish a draft order before 1 pm

CONFIDENTIAL

on Monday 20 July so that it can be taken by the JCSI on Tuesday. May I have your approval to proceed accordingly?

I am sending copies of this minute to members of E Committee, to the Lord President, the Chancellor of the Duchyof Lancaster, and the Chief Whips of both Houses.

PJ

17.7.1981

P J

Mr Lyon's SUBJECT

CONFIDENTIAL

File AH

cc Mr Walters
Mr Hoskyns

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

LONGER TERM MEASURES TO REDUCE UNEMPLOYMENT

You saw the Prime Minister this morning to discuss your minute A05258 of 16 July about the proposed group of Ministers to study and make recommendations on the various suggestions for longer term measures to reduce unemployment. As I have since reported to you, the Prime Minister also discussed the matter at a subsequent meeting with the Home Secretary and the Chancellor of the Exchequer.

As a result of these discussions the Prime Minister has decided that the group should be chaired by the Chancellor of the Duchy of Lancaster and as I told you, she would be grateful if you would see Mr Pym to let him know this. We discussed how we might use the CPRS to support Mr Pym in his role as chairman of the group.

The Prime Minister has also decided that the remaining membership of the group should be as follows:-

Secretary of State for Employment
Secretary of State for Defence
Secretary of State for Scotland
Secretary of State for Social Services
Secretary of State for Education and Science
Chief Secretary, Treasury
Minister of State, Department of Industry
(Mr Tebbit)

Other Ministers, such as Mr Stanley, may be invited to attend meetings of the group as necessary.

The Prime Minister is also content for officials, including the CPRS, Mr Walters and Mr Hoskyns, to attend.

AJW.

17 July 1981

CONFIDENTIAL

CONFIDENTIAL

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7022~~ 218 2111/3

MO 21/8/11

16th July 1981

Dear David,

YOUTH UNEMPLOYMENT: HELP BY THE ARMED SERVICES

I regret that, in the haste, one of the figures in the Note at Annex to my letter to Clive Whitmore of 15th July was mistyped.

In paragraph 1/1, "Regular Army Recruiting" the opening should read:

> "Recruiting target for this year for all three Services has been cut already to 28,000 ....."

I am sending copies of this letter to Clive Whitmore and the other recipients of my letter of 15th July.

Yours ever
Brian Norbury

(B M NORBURY)

D J Wright Esq

CONFIDENTIAL

Ref: A05258

CONFIDENTIAL

Prime Minister

I suggest that you discuss this with Sir Robert Armstrong when he comes ~~to discuss~~ about business at OPRS tomorrow.

15 VII

PRIME MINISTER

The Ministerial Committee on Economic Strategy agreed yesterday evening that you should set up a group of Ministers to study and make recommendations on the various suggestions for longer term measures to reduce unemployment.

2. I am sure that you must not chair it yourself. You have more than enough else to do in the next two weeks. In any case, you need to keep yourself in reserve to resolve disagreements.

3. The Chancellor of the Exchequer would be the obvious person to chair it; but the Secretary of State for Employment would probably feel that that was loading the pack against him.

4. The Home Secretary, the Chancellor of the Duchy, the Secretary of State for the Environment and the Secretary of State for Defence are too busy. The Secretary of State for Industry is going into hospital. I do not think that this is a job for theLord President.

5. I therefore recommend inviting the Secretary of State for Trade to chair the group. He is a long way down the order of precedence, but he commands much respect. He would be accepted as fair-minded and sensible; and at the same time he would bring to it a proper sense of the public expenditure considerations. He has no significant Departmental interest. An alternative could be the Secretary of State for Scotland; but it is usually difficult for the "national" Secretaries of State to spend enough time in London for this sort of purpose.

6. For membership I propose -

Secretary of State for Employment ✓

Secretary of State for Defence ✓

Secretary of State for Scotland ✓

~~Secretary of State for Wales~~

Secretary of State for Social Services

~~Secretary of State for Education and Science~~ ✓

Chief Secretary, Treasury

CONFIDENTIAL

Minister of State, Department of Industry (Mr. Tebbit or Mr. Baker)

Minister of State, Department of the Environment (Mr. Stanley)

That is quite large enough, and even so leaves out some Ministers with an interest (e.g. the Secretary of State for Energy, the Minister of State, Home Office - who will be in Merseyside). If you wanted to make it smaller, you could take off the Secretaries of State for Scotland, for Wales, or Defence and Education.

7. Each Minister would be allowed to bring one official; and the officials concerned could sit as an official group as required. Also invited to attend would be CPRS, Professor Walters and Mr. Hoskyns.

8. The Group would invite suggestions and contributions from all Ministers, and could invite other Ministers to attend as appropriate.

9. The agenda would include:-

(i) the Secretary of State for Employment's proposals left over from yesterday evening;

(ii) the Layard and Walters proposals: the Treasury might be asked to convene a group of officials to examine costs, benefits and feasibility, and to report;

(iii) wealth or employment-creating proposals for capital investment: in particular, the proposals of the Secretaries of State for Industry and for the Environment.

I think that the Secretary of State for Defence's proposals can and should be pursued separately with the Treasury and the Department of Employment.

10. I do not see how this work can be completed before the Recess, but it would be prudent (vis-a-vis the Secretary of State for Employment) not to say so yet. I suggest therefore that nothing should be said openly about the date by which the Group should report, but that the understanding with the Chairman should be that the Group's Report should be first business for the Cabinet (or the Ministerial Committee on Economic Strategy) in September.

11. If you are content, I will ascertain whether Mr. Biffen is content to take the chair, and make sure that Mr. Prior will accept that, and then go ahead with getting the group to work.

RA

Robert Armstrong

16th July, 1981

16 July 1981

MR LANKESTER

FOLLOW-UP TO E ON YOUTH UNEMPLOYMENT

1. I have seen Sir Robert Armstrong's advice on the composition of a mixed Ministerial/official group. I think the idea of John Biffen as Chairman is a good one, for the reasons he gives.

2. As I see it, the purpose of this group is to try and design the most cost-effective way of freeing-up the labour market. In this task of devising a fresh solution, the smaller the group the more effective it is likely to be. Obviously, it does need to include each of the main Departments involved - Employment, Education, Treasury and maybe Industry. I also think the principle of joint Ministerial and official representatives is a good one for this kind of work - not least because it can allow the officials to meet in between meetings of the full group, with no loss of continuity.

3. Sir Robert anticipates that the Prime Minister may want a smaller group. His full list would number 22. I suggest that the Prime Minister could delete John Nott, Patrick Jenkin, George Younger, Nicholas Edwards and John Stanley - plus, of course, their officials. That would reduce the number by 10. That still leaves us with a rather larger committee than I would like to see, but it should be manageable. We could in fact probably drop Norman Tebbit as well, bringing the number down by 12 in all. We can still call on those dropped to attend, if we find it necessary.

JOHN HOSKYNS

c/ J Vereker
A Duguid
A Walker

c/ Mr Knight (C.O.)

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 21/8/11

16th July 1981

Dear Willie.

YOUTH UNEMPLOYMENT

Following last night's meeting of E, I am working up the various suggestions I put forward yesterday for MOD assistance with the youth unemployment problem. Meanwhile, in view of your own current concerns with disturbances involving young people I thought it might be helpful if I were to expand a little on the Services' ideas for providing large-scale adventure training.

The basic idea would be to provide short courses, lasting two to three weeks, along Outward Bound lines. A variety of typical activities would be included depending on the range of instructors and facilities available, such as sport, physical fitness, first aid, outdoor pursuits of one sort or another - all designed to provide an element of challenge. There would be no overtly military training (for example, with any weapons).

I would have to lay down certain conditions for participation: for example, I would wish to limit the schemes - at any rate initially - to boys between the ages of 16 and 19, and there would

The Rt Hon William Whitelaw CH MC MP

Ann Austin
These proposals for providing 'adventure training' can be considered along with the other MOD proposals.
MM
17/7

need to be a fitness check. We visualise that volunteers should apply through - or be directed to - the nearest appropriate Service recruiting office, where the necessary medical and other arrangements for joining the courses would be managed.

The Services would reckon to provide, in addition to the medical check, travel warrants to and from the boy's home at the beginning and end of the course; free accommodation and food; and the loan of suitable clothing. They would not, however, provide any pay or pocket money.

Taking the Services in turn:-

a. The Royal Navy would run 16 courses a year, each for 200 boys, in a ship in harbour at Portsmouth. One week would be spent with the Royal Marines at either Poole or Plymouth. The first batch of 200 could be accepted from about mid-November.

b. The Army could also run 16 two-week courses a year, each for up to about 600 boys, in parallel with some form of limited (nine-month) military engagement scheme; up to 1,000 boys might be accommodated each time if the Army's commitment were confined to adventure training alone. The location of the courses has still to be decided; they could, however, probably start in September.

c The Royal Air Force would run two week courses for a total of 2,600 boys per annum at regional centres in the Scottish Highlands, North East England, the Midlands and the South West to provide a range of adventurous training. These could start in October.

Between them, the Services could manage adventure courses for a total of about 15,000 boys in a year combined with a scheme for limited military service in the Army, or 22,000 otherwise. The cost (paragraph 4 above) would be of the order of £8-9M a year, depending on the numbers taken by the Army.

I would welcome your views on the value of such a sheme and in particular whether, if we go ahead, priority should be given to particular regions or to boys from areas of social deprivation; - which the Services would be happy to do, though they would hope for a fairly general spread, which would I think be better socially as well as helping to avoid problems of management for us.

I hope that the above helps, rather than adds, to your current burdens. Of course, it all depends upon Geoffrey Howe coming up with the money; and, as I made clear yesterday, I see it - if the Ministry of Defence is to make the best contribution possible - as just one of a number of measures the Services might take. X

I am copying this to the Prime Minister.

Yours ever.
John.

John Nott

X Ite "employment" measures were set out in my note to "E" Committee yesterday.

CONFIDENTIAL

bcc Hoskyns
Wallers

cc DOE
HMT
CO

HL

10 DOWNING STREET

From the Private Secretary

15 July 1981

Dear David,

This is just to confirm the outcome of the discussion which the Prime Minister had with your Secretary of State after the meeting of E Committee this morning. The Prime Minister asked Mr. Nott to prepare a note setting out various options for taking on unemployed youngsters into the services. The Prime Minister said that he should think in terms of a scheme costing £10-25 million. Mr. Nott said that he would certainly prepare such a note. It would cover the following: stepping up recruitment, reviving the scheme which he had earlier prepared as an adjunct to the Youth Opportunities Programme, which had been sabotaged by MSC, and taking on several hundred youngsters per month for "adventure training".

I am sending a copy of this letter to John Wiggins (H.M. Treasury) and David Edmonds (Department of the Environment) since the Chancellor and the Secretary of State for the Environment were also present during the discussion. A copy also goes to David Wright (Cabinet Office). As I told you on the telephone, it would be helpful if the note could be circulated by the early evening to all those attending tonight's E Committee meeting on measures to combat unemployment.

Yours ever,

Tim Lankester.

David Omand, Esq.,
Ministry of Defence.

CONFIDENTIAL

CONFIDENTIAL

Ref. A05261

PRIME MINISTER

Measures against Unemployment

(E(81) 74-77)

I sent you my supplementary brief of 13th July before I had seen the minutes of that date from the Secretary of State for Industry and the Secretary of State for Defence. The Secretary of State for Industry has now circulated a further minute of 14th July.

2. In his minute of 13th July, the Secretary of State for Industry is concerned with the problem of getting across the message that unemployment could be reduced if there were higher productivity and hence higher profits and more investment. He recommends, in his paragraph 7, that there should be a series of very small meetings between Ministers and individual business representatives, journalists and interviewers to persuade them of this analysis. This is a point which you might pick up at the end of the discussion and on which the Chancellor of the Duchy of Lancaster will have views.

3. In his minute of 14th July the Secretary of State for Industry argues that, if additional public expenditure were to be made available, it would be better to direct it not to temporary employment measures but to programmes which would generate a net increase in employment and which would be worth while in their own right. He suggests that it might be made a condition of the provision of launch aid for an industrial project or public procurement support that the beneficiaries should maintain apprenticeship programmes and help in the Youth Opportunities Programme. This approach is likely to chime in with the Secretary of State for the Environment's thinking, and Annex 5 at the back of the second report by officials attached to E(81) 74 lists a number of housing and environmental projects which might be candidates. You will wish to ask the Chancellor of the Exchequer to comment on the public expenditure implications of this; if the Committee are sympathetic to the idea, it could be developed further in the forthcoming public expenditure discussions.

CONFIDENTIAL

Prime Minister

There is also a further letter from Defence on the options for taking measures with the unions. (Flag F)

12 (157)

below — Flag D — Flag B — Flag C —

4. The Secretary of State for Defence is generally sympathetic to Professor Walters's ideas and he proposes, in particular, that young persons should be removed from the scope of Wages Councils for an experimental period of three years. The Secretary of State for Employment can comment on this but you will recall that the future of Wages Councils was discussed in some detail by the Ministerial Committee on 8th April (E(81) 14th Meeting, Item 2). It was then agreed that, while Wages Councils served little or no useful purpose, it would not be practicable in the foreseeable future to introduce legislation providing for abolition of the system or of exclusions from its scope of young people or of part-timers. Instead the Secretary of State for Employment was invited to press ahead as quickly as possible with his proposals for securing reductions in the number of Wages Councils and improvements in the system. He was further asked to take the opportunity of consultations on industrial training to press the case for widening the differential between rates of pay for young people and for adults.

5. As you know, the meeting arrangements had to be changed at short notice in order to secure the best possible attendance for this important discussion. The meeting was first planned for last Thursday but had to be postponed because of Cabinet's extended discussion of the riots. You decided not to hold it on Tuesday morning because the Home Secretary and the Secretary of State for Scotland could not have been there. Of the alternatives before you go to Ottawa, tonight was the least inconvenient and all the Ministers invited will be there apart from the Foreign and Commonwealth Secretary and, if he is detained by the Finance Bill, the Chief Secretary, Treasury. The alternative of Friday morning would have meant a number of Ministers cancelling major official and political engagements and, on balance, the general preference was for cancelling dinner engagements tonight.

RCA

ROBERT ARMSTRONG

15th July, 1981

JU371

Cc Brigid Walters Vereker

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Manpower

Secretary of State for Industry

Rt Hon Leon Brittan QC MP
Chief Secretary
Treasury
Great George Street
London SW1

15 July 1981

R 17/7

Dear Leon,

OPERATING COSTS OF INDUSTRIAL TRAINING BOARDS

1 I share the concern Jim Prior expresses in his letter to you of 6 July to meet the pressure from the CBI for a longer transitional period in the phasing out of Exchequer funding of the ITBs. Jim's proposal to fund the Boards during the rest of this financial year would provide a short breathing space in which the future arrangements for training in this country could be worked out in a constructive atmosphere. We must get these arrangements right.

2 As Jim says, we shall have to leave the question of funding for the next financial year until later; our decisions in the Autumn on the future of individual ITBs will clearly be relevant. The CBI have a strong case for Exchequer funding of any costs of winding up.

3 The question of finance to help the new arrangements get off the ground, whether in the form of a subsidy to the statutory boards which survive the review or pump priming grants for the new voluntary arrangements which emerge, is more difficult. I would hope that the review will result in a training system which is more responsive to industry's needs for skills, rather than to others' perceptions of those needs. A critical test of this will be whether industry values the new system enough to be prepared to pay for it in some way or other.

4 When we have the results of MSC's review we will need to consider the question of finance with an open mind. Modest judicious support here of the training of those in employment could help our industrial competitiveness (and hence help reduce the unemployment in the long term) incomparably more than the much larger amounts spent on special employment measures for the unemployed.

5 I am sending copies of this letter to the other members of E Committee and to Sir Robert Armstrong.

Yours ever, Keith

f

CONFIDENTIAL

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7022~~ 218 2111/3

MO 21/8/11

15th July 1981

Dear Clive,

YOUTH UNEMPLOYMENT: HELP BY THE ARMED SERVICES

In the light of the agenda for E this evening my Secretary of State has had a quick first look at what contribution the Ministry of Defence could make to alleviate youth unemployment if his colleagues thought that such a contribution would be useful, and if additional funds could be provided, for the current financial year and, as a minimum, the succeeding two financial years.

Broadly speaking he considers that a contribution could be made under the following four main heads:

a. an immediate increase in recruitment for the Regular and Reserve Forces;

b. the introduction, again with almost immediate effect, of short term Service engagements (for an initial term of 9 months);

c. the provision of short adventure training courses giving about 11,000 people each a three week course over a 12 month period; and

d. an intake, beyond MOD needs, of civilian apprentices.

C A Whitmore Esq

The Annex to this letter explains what could be done, at a total cost over three years of approximately £75 million. (All the figures, of course, are subject to refinement.) Up to 15,000 people a year could in this way be given short or longer term training/employment (and an insight into Service life).

If E thought such a package worth approval in principle (and the Treasury could make the extra funds available) a suitable reference could be made in the debate in the House of Commons tomorrow; and officials could, urgently, flesh out details.

I am sending copies of this letter to the Private Secretaries to the members of E Committee, and the Chancellor of the Duchy of Lancaster, the Secretaries of State for Scotland, for Wales, for Northern Ireland, for Social Services and for Education and Science; and Murdo Maclean (Office of the Chief Whip) and David Wright (Cabinet Office).

Yours ever

Brian

(B M NORBURY)

ANNEX

YOUTH UNEMPLOYMENT: HELP BY THE ARMED SERVICES

1. Recruiting

1.1 Regular Army recruiting

Recruiting target this year for all three Services has been cut already to 28,000 (compared with an intake of about 50,000 last year) and is being reduced further due to budgetary pressure. An extra 350 soldiers could be recruited into the Army immediately (suitable candidates are already in the pipeline) at a cost of £9M over 3 years.

1.2 Reserve Forces recruiting

An expansion of the Territorial Army by 16,000 (and increased emphasis on naval and air reserves) has been announced as part of the Government's reshaped defence programme. The rate of recruitment could be significantly speeded up at a cost of £15M over 3 years.

2. Special Short Military Service

The Army could take in 1,500 young men in 1981/82, rising to 3,000 in 1982/83 (and halting thereafter) on a short, nine month engagement. These would be soldiers in all respects ie. they would be in uniform and subject to military discipline. They would be given a short period of general military training followed by an attachment to regular Army units at home and overseas. The total cost of £18m over 3 years.

There could also be additional intake into the other two Services.

3. Adventure Training

3.1 Navy

Using a harbour training ship the Royal Navy could offer 16 adventure training courses a year (of 3 weeks each) to batches of 200 young people (ie 3,200 places a year in all). One week would be spent with the Royal Marines. Total cost would be £9M over 3 years.

3.2 Army

Using a central location the Army could offer 12 adventure training courses (of 3 weeks each) to batches of 600 young people (ie 7,200 places a year in all). Total cost would be £8.7M over 3 years.

3.3 RAF

A similar scheme to the Army is under consideration, at an estimated cost of £5M over 3 years.

4. Civilian Schemes

4.1 Apprentices

MOD could recruit 350 civilian apprentices (aged 16-17) over and above its defence needs, on full indentures They would not count against MOD civilian numbers. Recruitment of these apprentices could take place over the next four weeks at 20 MOD establishments throughout the UK, particularly in the Dockyards at Devonport and Rosyth. Many would be trained in nationally scarce skills such as electronics. The apprentices would enter the labour market as fully qualified craftsmen in September 1985. The total cost would be £6.3M over four years (1981/82 to 1984/85).

4.2 RAF extension of civilian YOP scheme

The RAF could contribute more fully to the current civilian YOP scheme by giving assistance to an extra 1,000 young people annually at RAF stations and establishments in the UK, in jobs such as catering, motor transport, painting and workshops. Total cost would be £4M over 3 years.

Note

Total estimated cost of the above package would be £75M over the next 3 years.

14 July 1981

MR HOSKYNS

cc Mr Walters
Mr Wolfson
Mr Lankester

YOUTH TRAINING

1. Alan's paper for the E discussion on unemployment measures explains that implicit in his proposals is a view that real work experience is more valuable for young people than artificial training packages.

2. Of course, helping young people to get real jobs is cheaper than training, and that is one perfectly good reason for preferring it. Also, if one believes that their contribution can expand national output - rather than simply supplant someone else's job - then that is a reason for preferring real work too. Alan uses both these arguments, with which, of course, I agree.

3. But I think we should all be clear that the argument that work is actually more valuable experience for young people will be seriously challenged by Mr Prior - and perhaps by the CPRS and others, too. The attached article expounds the MSC view that young people need to be given a kind of foundation year in the world of work. This is a deliberately somewhat contrived year in which they learn a range of skills, so as to be more adaptable in the future. In particular, you should read the brief inset describing initial occupational training in France - which MSC and Mr Prior obviously see as something of a model. The whole idea here is to add a new level of training/experience to the normal pattern by which people go from school and then on to jobs.

4. Of course, the enthusiasm for this new training element in our industrial work force is mixed up with the essentially cosmetic convenience of getting a large slug of people out of the ranks of the unemployed. We have attacked (rightly) the cosmetic motive. But I must point out that we have also - a couple of months ago - endorsed the case for a foundation year in industrial training. Indeed, we were even prepared to contemplate it being compulsory.

5. I still think the training year idea does make sense. Alan probably does not. But even if one believes in the idea of a training year, one could still believe that Alan's scheme would be a worthwhile supplement to YOP-type training schemes. This would be on the grounds that:

(a) People should be free to choose between the training year and a real job.

(b) It could exert a useful general downward pressure on wages.

(c) It appears cost-effective.

(d) The capacity of the MSC and employers to generate the right kind of training scheme on a universal scale must be limited. An attempt to expand too quickly will dilute the quality of places being offered. Therefore, we need to expand gradually. But the need for new measures which will reduce youth unemployment is urgent.

ANDREW DUGUID

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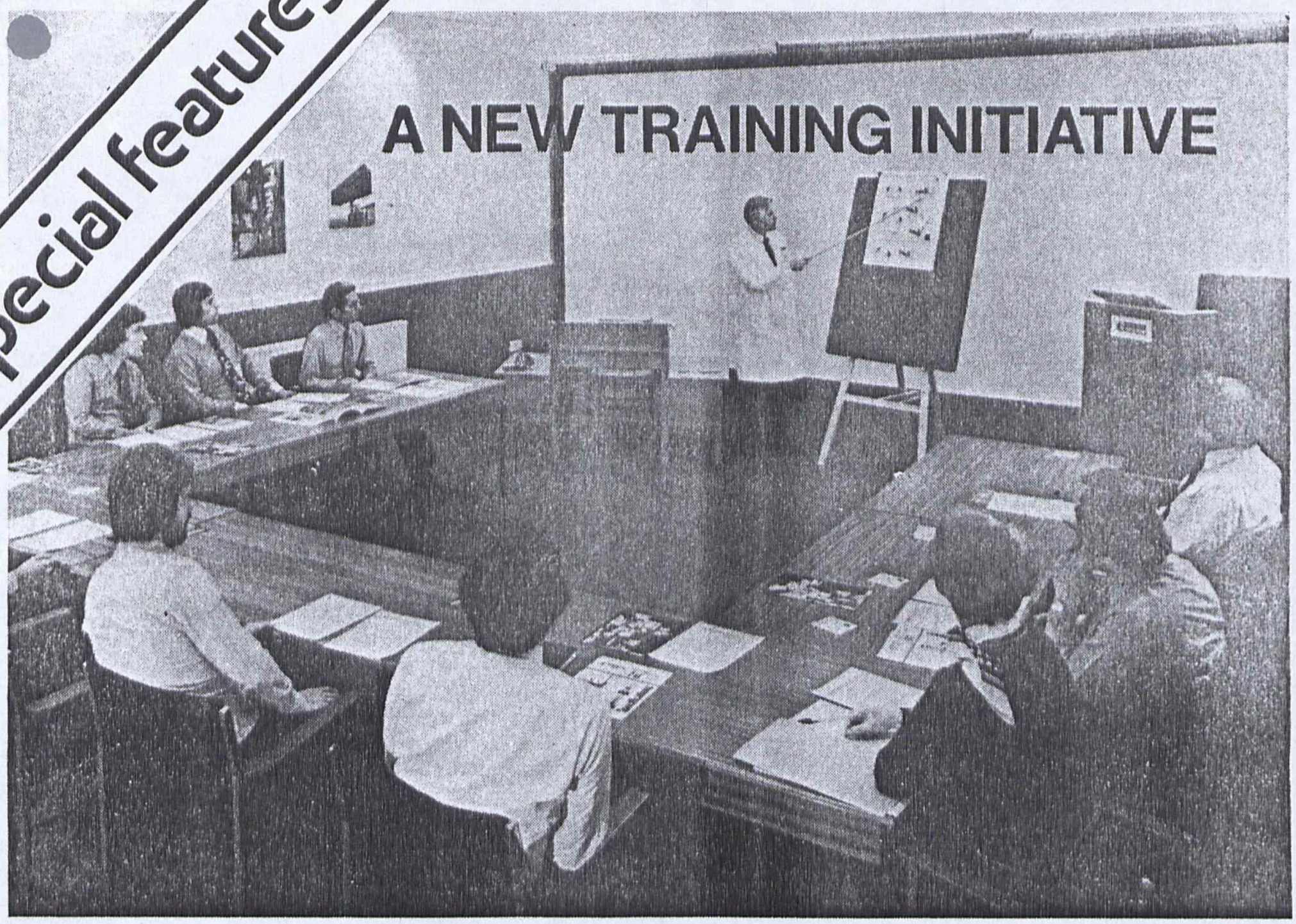

by

Steve Reardon

Editor

Employment Gazette

"Training is simply not given sufficient priority in Britain. Like other investment, it requires sacrifice now in return for future gains. But the pay-off is rarely immediate and individuals' and companies' perspectives tend to be short. We have to break through this barrier. We are in a world where people and companies must be ready to adapt quickly to change—changes of new technology, the emergence of new industrialised countries, the rise and fall of whole industries, products and processes."—*James Prior*, May 21, 1981

Quite simply, the Manpower Services Commission's (MSC) consultative document *A new training initiative*, which came out last month, is saying we must not only train to survive as an industrial nation but we must train in a new way, a less narrowly defined way, and in a way which provides people with the ability to adapt to change and grow with their organisation.

Training has always been vital to industry and its importance is growing. Those jobs requiring very limited skills have been disappearing rapidly: 600,000 were lost between 1971 and 1978 and even more are predicted to go over the next five years. White-collar jobs will outnumber blue-collar jobs by 1985. Equally significantly, traditional craft jobs have been diminishing, while at the same time there has been a marked increase in the demand for technicians and technologists requiring a higher level of broad-based competence than can be achieved simply by serving time on the shop floor. Alongside these changes has come the steady decline of jobs in manufacturing industries and the growth of employment in the service sector.

The effects of these changes are already being felt, says the MSC, and many firms are not finding it easy to cope with their lack of key technical and professional skills particularly in new growth sectors.

Already these firms are realising that the new technologies and products require a different structure in the workforce. They need a much larger number of professional and technical staff, supported by a range of relatively highly-trained personnel performing not one, but a variety of tasks: people involved in a process as a whole rather than repetitive assembly or making only a part of a product.

The MSC's document is quick to point out that the picture is not entirely bleak. Supported by their industrial training

boards, many companies have been making a more systematic appraisal of their training needs, replacing outdated categories with new grading structures reflecting a wider spectrum of skills. Many firms now provide a substantial period of training off-the-job followed by planned work experience. In this way, trainees, including apprentices, obtain both a wider range of skills and a foundation of theoretical knowledge.

Gaining ground too, is the "modular" approach to training, which builds a range of skills bit by bit and on a variety of patterns according to need.

Yet for all this, says the MSC, it has had in recent years to give financial support to no fewer than 165,000 apprentices and other young people training for technical skills, just to ensure a future supply of the key skills employers are going to need.

The MSC and the education departments have been running the Unified Vocational Preparation programme experiment for some years. The results show that young people who would not otherwise have received much training in their jobs are better motivated and achieve higher performance. The employers concerned with the experiment, who have contributed to its costs, consider it money well spent. But despite a planned expansion from the three-and-a-half thousand young trainees who took part in the programme last year, the MSC recognises that only a small proportion of those who could benefit are likely to be covered.

Premium

Employers clearly place a premium on motivation and work experience, as witness their support for the Youth Opportunities Programme, where they have provided two-thirds of the places available, and in many cases have gone on to recruit the young people involved into the full-time workforce.

Taken together with the other efforts currently being made, the achievement is substantial, says the consultative document. The aim of this country should be, it suggests, to bring about urgent and radical changes: There are three major and inter-related aspects to the task:

1 to develop skill training including apprenticeship in such a way as to enable young people entering at different ages and with different educational attainments to acquire agreed standards of skill appropriate to the jobs available and to provide them with a basis for progression through further learning,

2 to move towards a position "where all young people under the age of 18 have the opportunity either of continuing in full-time education or of entering training or a period of planned work experience combining work-related training and education;

3 to open up widespread opportunities for adults, whether employed, unemployed or returning to work, to acquire, increase or update their skills and knowledge during the course of their working lives.

Arriving at a system which enables everyone to acquire a range of basic skills, which can be developed and adapted as the need arises, means that employers and trade unions would have to reach agreements on training standards, the consultative document points out. These would cover the range of skills and knowledge as well as the level of performance required.

These new arrangements, plus those providing skill training and further education beyond the age of 18, and opportunities for adults, would have to be recognised and accepted by all concerned. They should also take account of the fact that different people have different learning speeds; "What matters," says the MSC, "is that an individual can demonstrate the necessary competence."

Skills required

Already, a good deal of work has been done on identifying the broad foundation of generic skills required. Not only should it be an integral part of any apprenticeship, but it is also becoming vital for young people preparing to start work in a world where so many unskilled jobs are disappearing. For the most part, these basic skills and knowledge are not academic but "severely practical", because when academic knowledge is required by employers, it is familiarity with, and some competence in, its practical applications that they are looking for.

The lesson from recent developments in apprenticeship and technical training among other things, as well as the proven experience of a number of other countries, is that employers recognise that workers are more likely to adapt to change if they have a grounding in a range of related skills rather than only being able to perform one task in one context. (See box.)

Also highlighted in the consultative document are the needs of adults which cannot be met immediately by the proposals aimed at the younger end of the labour market. There are the growing numbers of adults with relatively few or restricted skills, who are increasingly needing to make a fresh start. The Training Opportunities Scheme shows what can be done but that alone is insufficient to cope with this scale of problem. There are, too, adults whose skills have become rusty, including the large numbers of married women seeking to return to the labour market. In addition there are those skilled craftsmen looking to upgrade their skills in order to retain or regain employment or to achieve promotion. Where technology and products are already changing within firms, for instance, existing employees at a variety of levels are needing rapidly to acquire computer skills and to add modules to existing ones.

Opportunities

All this means there is a need for much wider training opportunities for adults. The consultative document mentions not only the possibility of training at the workplace, but also away from it now that technology makes distance learning and computer-assisted learning increasingly available and practicable.

Looking at the question of bearing the cost of any new training objectives, the MSC says that it is fair to expect that employers should remain major contributors since they gain much of the benefit. They do, of course, already spend a good deal of money each year on training. What is being outlined in the consultative document would require more

Initial occupational training in France

☐ In France there is a national responsibility for the vocational training system, including the initial and subsequent training of young people and adults entering or already established in the employment field. The content and organisation of training are laid down by the national government, much of it by law, but with considerable involvement of the social partners at regional and local level, and reflecting agreements reached at national level between employer and trade union federations. Under laws of 1971 and 1978, all employees in France have the right to paid leave for education and training purposes.

Provision for 16 to 18-year-old school leavers who have not yet found work, and all unemployed workers over 18, is the responsibility of the state both in terms of facilities and finance. All other vocational training is financed jointly by the state and employers. Employers contribute through mandatory payroll taxes, one for training in general and the other specifically for apprentice training. In both cases, the employer may be exempted from paying the tax if certain criteria are satisfied.

Much vocational education and training for young people is provided through the French school system. In 1978, 67 per cent of young people eligible to leave school continued in full-time education, 27 per cent receiving general education and 40 per cent obtaining vocational education. A further 14 per cent of young people entered apprenticeships, during which indenture, registration, day or block release at state run and financed training centres and final examinations are all compulsory. Only 19 per cent of school leavers went directly into work or unemployment.

The French government is particularly concerned to extend provision of vocational training to those young people who leave school with poor qualifications and little vocational orientation. Recent measures for this group (and some older workers) include state funded vocational preparation courses, 90 per cent state funded periods of practical in-firm training and state subsidised "contracts of employment with training". Trainees under the first two measures above are not granted employee status during training.

The French government has recently introduced legislation which will be fully implemented from January 1, 1982, for a system of vocational training for young persons up to the age of 23 and for other workers who have been employed for less than two years in the preceding five years. The aim is to provide systematic training at various levels in occupations by progressing through alternating periods of education/study and work training/experience, hence the title of the scheme: "Alternance". Participants will include both employees and jobseekers (the latter financed by the state) and the scheme will be funded by government grants and revenue from increased taxes on employers.

Activities of young people after compulsory school period

Per cent

	Year	Full-time general education	Full-time vocational education	Apprenticeship	Work or unemployment
France	1978	27	40	14	19
Great Britain	1977	32	10	14	44

resources, but should also provide a much greater return on investment. But the wider implication of the public benefit which there would be in terms of the increased national stock of skills also has to be taken into account, and an obvious area for discussion will be the scale of the resources needed and the extent to which these should be contributed by employers or by means of public funding.

Lower rewards

The Government will also have to take into account such things as those areas where training would otherwise not exist, as in the case of provisions for the unemployed, or where it would be inadequate. Trainees may well also need to contribute by accepting—as many do now—lower rewards during their training in return for the prospect of bigger rewards on completion.

In terms of the organisation and institutions required to implement the initiative, a number of points are made. A prerequisite for progress is the agreement between employers and trade unions on arrangements best suited to their own particular circumstances. Decisons will also have to be made on the best use of the existing framework of statutory industry training boards, coupled with the various voluntary industry training organisations.

The question of setting and monitoring acceptable, agreed standards also brings into the discussion bodies like the City and Guilds of London Institute, the Royal Society of Arts, the Councils for Technician Education and Business Education, as well as the industry training boards and some employer associations.

Local organisations

Some local organisations will be required, since training needs arise in localities. The MSC suggests that possibilities for local organisation already exist in their own special programmes area boards with their links with the education services and local employers and unions. Other possibilities could include a developed role for the MSC's district manpower committees or some new machinery linked to local education authorities.

All these issues raised by the consultative document are addressed, says the MSC, to everybody with an interest in training in Britain; not only managers in industry, commerce and the public services, but to trade union officials and members, educationalists, all existing training organisations and many others. Because, says the document: "Unless we choose the right objectives and everybody concerned with training is committed to doing something about them, little will change". ■

Copies of the consultative document, *A new training initative*, are available free from New Training Initiative, Freepost, Manpower Services Commission, 166 High Holborn, London WC1V 6PF. Comments should be sent to Mr J M Lancaster, Manpower Services Commission, Training Services, 168 Regent Street, London W1R 6DE.

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon James Prior MP
Secretary of State
Department of Employment
Caxton House
Tothill Street
London SW1H 9NA

14 July 1981

Dear Jim,

OPERATING COSTS OF INDUSTRIAL TRAINING BOARDS

Thank you for your letter of 6 July. I note that you intend to bring forward proposals on the future of the Industrial Training Boards in the autumn on the basis of the MSC's sectoral review. We will need to consider then, in the context of the public expenditure review, whether to defer the transfer of ITB operating costs or to meet the winding-up costs of Boards which would otherwise require terminal levies. At this stage I would only say that the case for concessions on this point will have to be weighed against other priorities and that, given the pressures for extra expenditure - not least elsewhere in your own programme - I doubt whether the case is strong enough.

In these circumstances, I cannot agree to an immediate decision to defer the transfer of operating costs to the end of the financial year. Not only would this involve a claim of £15m on the Contingency Reserve, which is under heavy pressure from other sources, but also it would encourage industry to step up their campaign in the autumn for further concessions. At this stage, it would be best simply to confirm that we will be considering the timing of the transfer of operating costs when the sectoral review has been completed and when we know what Boards will remain, what firms they will cover, and what voluntary arrangements may need to be set up. It will be important, in doing so, not to raise expectations of a change in policy.

I am sending copies of this letter to the other members of E Committee and to Sir Robert Armstrong.

Yours ever,
Leon

LEON BRITTAN

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JU382 CC Mr. Walters
Mr. Duguid

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I.C.S. Paper

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PRIME MINISTER

EMPLOYMENT MEASURES

At E we shall be discussing Jim Prior's proposals for increased spending on employment and training activities. I recognise that political imperatives may make it necessary for us to take some action to respond to the growth of youth unemployment in particular. Nevertheless, even assuming that the expenditure can be offset by savings elsewhere, I believe it would be wholly wrong to make a large increase in spending on programmes chiefly aimed at temporarily reducing the numbers registered as unemployed. Assuming that the money for extra or alternative spending is to be made available, I would argue in favour of spending in productive rather than unproductive ways.

2 While I would certainly welcome a move in the direction of a training regime for young people closer to that in Germany, it seems clear that an important element in our present youth unemployment is that, while real unit labour costs are too high to clear the labour market, real unit labour costs for young employees have become too high in relation to those of adult workers. We should move in the direction of increasing the differential between youth and adult earnings rather than providing a state subsidy towards the cost of temporarily employing young people. Subsidies of this kind can only be provided at the expense of higher taxes and hence job losses elsewhere in the economy.

3 I do not want at this stage to propose specific alternative expenditure programmes. However, I and other colleagues are cutting back or could readily expand a number of programmes which could generate a net increase in employment as well as providing a useful stock of productive assets. In Michael Heseltine's field I would see industrial advantage in a stimulus to private housebuilding, particularly for rental, perhaps by the same effective means as the Chancellor used last year to stimulate workshop building. Apart from being quick-acting, labour

intensive and a boost to manufacturing industry, such a stimulus could contribute to labour mobility. If it could contribute to inner city regeneration as well that would be a further gain. In my own field I would think particularly of an increased stimulus to enlightened public purchasing, the investment programme of British Telecommunications and launch aid for new aircraft and engines.

4 To over-simplify I think it more important to provide funds for these sorts of activity which will help to secure the availability of real jobs in future years and an efficient infrastructure than to cycle young people through MSC programmes only for them to find few jobs available for them and disillusion at the end of it. In order to fit more closely into the political pressure for action in the field of training and youth opportunities I would be very ready to make it a condition of the provision of launch aid or public procurement support that the beneficiaries should maintain apprenticeship programmes at a satisfactory level and otherwise participate in the provision of youth opportunities.

5 I am sending copies of this minute to the other members of E Committee, to Professor Walters and to Sir Robert Armstrong.

K J

14 July 1981

Department of Industry

Ashdown House

123 Victoria Street

Ref: A05250

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PRIME MINISTER

Measures Against Unemployment
(E(81) 74, 75, 76 and 77)

Since Mr. Le Cheminant sent you his brief of 8th July on these papers, Mr. Lankester has circulated Professor Walters's comments on the Secretary of State for Employment's memorandum (E(81) 74).

2. You might ask the Secretary of State for Employment and the Chancellor of the Exchequer each to give their reactions to Professor Walters's ideas when they introduce their own papers. Professor Walters's wish to tackle the problem via lower wages for young people is very much in line with the Chancellor's own thinking.

3. The Committee will wish to be clear, however, how Professor Walters's scheme (for remitting the National Insurance contribution for any 16 year old earning less than, say, £40 a week and perhaps paying a small grant) fits in with the Secretary of State for Employment's proposals for a comprehensive scheme building on the present Youth Opportunities Programme scheme. In his paragraph 13 Professor Walters suggest that his scheme 'could be introduced alongside YOP on the present scale'. It is not clear whether he means YOP with the present scale of financial provision or YOP with sufficient finance to honour the present commitments to places. If the former, it would mean breaking the undertakings given and would lead to a system which, unlike the Secretary of State for Employment's proposals, would not guarantee some form of training for all 16 year olds not in employment. If the latter, it would be necessary to look more closely at the cost effectiveness. The remission of National Insurance contributions would apply to those 16 year olds earning less than £40 who are already employed; so there would be a substantial cost irrespective of whether the concession led to a reduction in unemployment. How much impact might the change have on the unemployment register? How would the total cost compare with the Secretary of State for Employment's proposals? Would unions and young people accept the lower wages envisaged?

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4. The two main questions arising from this paper on which you will wish to record conclusions seem to be:-

(i) Whether there should be further work to analyse the costs and benefits of Professor Walters's proposals.

(ii) If so, whether or not this should be on the assumption that the present commitments to provide YOP places by a specified time should stand.

J. Wright

Robert Armstrong

(Approved by Sir R Armstrong and signed on his behalf)

13th July, 1981

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RESTRICTED

PRIME MINISTER

Parallel to our consideration of the proposals to reduce unemployment, may we also consider a renewed effort to explain to the country where new real jobs come from and how people can co-operate to accelerate the process?

2 We are all saying time and again the same thing - investment and expansion depend upon profit; profit depends upon competitiveness; and competitiveness depends upon good management, co-operative, adaptable workforces and keeping unit labour costs low. We all stress that competitive unit labour costs do not mean low earnings because they can be achieved by rising productivy.

3 Most people probably still do not see how to turn these perceptions into new jobs. The assumption is still that money from the taxpayer - regardless of the jobs destroyed in raising it - is the panacea.

4 We need to convey to people not only that jobs now endangered could by saved by changes in work practices but also that many projects actual or potential now aborted because of assumptions

about high unit labour costs and work attitudes might be implemented if work groups and trades unions undertook to offer sustained high productivity.

5 When there is a NISSAN in the offing, offers of co-operation are commonplace. There are some less dramatic projects now going ahead on the basis of such undertakings. But if we could increase the awareness of this approach we would remove barriers to expansion and investment in many fields.

6 While I believe that speeches explaining this thesis are essential and might be useful, I think that we should try to persuade business representatives and leader writers and interviewers of the analysis in the hope that union leaders and politicians who put the responsibility for reducing unemployment only on the Government might much more often than now be met by shrewder questioning.

7 What I am suggesting would involve a series of very small meetings between Ministers and individual business representatives, journalists and interviewers.

8 I am copying to the members of E Committee, the Chancellor of the Duchy, Mr Ibbs and Sir Robert Armstrong.

for K J

Department of Industry

13 July 1981

CONFIDENTIAL

MO 21/8/11

PRIME MINISTER

TACKLING YOUTH UNEMPLOYMENT

I have read with great interest Alan Walters' paper on youth unemployment, circulated by your office on Friday. I am sure it is correct that the institutions of our labour market are not well adapted to adjusting pay rises to what employers can afford to pay young people and that the failure of the real wage to fall is resulting in higher levels of youth unemployment. I believe that more money for the MSC and extending the level of joint subsidised state training for unemployed school leavers is the wrong way of tackling the fundamental problems of the labour market.

2. I would support, therefore, more direct and effective measures of reducing unemployment in young persons. The most cost-effective immediate step that I can suggest would be to remove young persons from the scope of the Wages Councils, for an experimental period of, say 3 years. We would thus remove the barrier to employment arising from the obligation to pay minimum wages. There would be no net cost to the Exchequer - even a small reduction, following a cut in the amount of inspection required to enforce minimum wages.

3. The effects would be far reaching. Some 15% of the working population are covered by Wages Councils. I do not have the precise figures for young people but on a pro rata basis some 200,000 youths may currently be affected by Wages Councils' regulations.

4. I would also support the idea put forward by Alan Walters for lowering the real price of young labour through changing the National Insurance arrangements. His scheme seems

unnecessarily complex, and it might be simpler to base it on age rather than on income (applying to all youths aged 16, 17 and 18). As with my idea on the Wages Councils, the National Insurance change could apply for an experimental period of 3 years.

5. I attach a letter which I wrote on 11th April 1980 which sets out my thinking more fully.

6. I am copying this minute to the members of E Committee, the Chancellor of the Duchy of Lancaster, the Secretaries of State for Scotland, Wales, Northern Ireland, Social Services, Education and Science, the Chief Whip and to Sir Robert Armstrong.

J.N.

Ministry of Defence

13th July 1981

JENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London, SW1E 6RB

11 April 1980

Dear Secretary of State,

WAGES COUNCILS

Jim Prior sent me a copy of his letter on this subject of 26 March to you, and I have seen the report of the review by officials. This issue has far-reaching implications for our economic strategy, and I hope we can discuss Jim's proposals collectively, either in E(EA), if you judged that to be the appropriate forum, or in E if the Prime Minister wished to take it there.

I agree with Jim Prior that we should rule out any form of national minimum wage, and that we have to choose between abolishing the Wages Councils (or at least their statutory powers) and reforming them. In my view the economic arguments are decisively in favour of abolition.

We need to see this question in perspective. We all recognise that the main threat to our economic strategy of squeezing inflation out of the system is that the institutions of our labour market are not well adapted to adjusting pay rises to what employers can afford to pay: and hence that we may see a dangerous rise in unemployment before the strategy succeeds. This means that one of our most urgent tasks is to remove the sources of "stickiness" in the labour market wherever we can, so that pay is more responsive to competitive and monetary developments.

From the Secretary of State

Wages Councils, with their statutory power to fix minimum wages for 3 million workers, are only one aspect of this task, but an important one, that does lie in Government control. I do not believe their influence is confined to those workers who are paid the statutory minima. Even though I accept that the Wages Councils follow rather than lead collectively bargained pay settlements, they nevertheless tend to raise the floor on which the structure of differentials is built: and they tend, as the officials' review hints (paragraphs 27-28), to underwrite excessive collectively bargained wage rates in inhibiting competition which might otherwise undermine the market power of trade unions.

We cannot ignore that some of the industries which are prevented by these arrangements from adapting their costs to what their markets will bear are those which are under the greatest competitive pressure even now. For example I receive repeated requests for the introduction of trade protection for the clothing industry, whose employees are covered by the wage determinations of Wage Councils. I cannot grant such requests and have to tell those who make them that it is their own responsibility to keep their costs in line with the prices their customers will pay. But when we ourselves are sponsoring statutory arrangements which inhibit them from doing so, our position is not easy to defend.

It is argued that Wages Councils are there to protect workers who lack access to a competitive market for labour. But this looks like a mere post hoc justification: it can hardly be the explanation for the collection of sectors which Wages Councils now cover (for most of which I am the sponsoring Minister, eg distribution, retailing, hotels and catering and high street services). These are far from the industries in which local monopolies of employment exist, or whose workers lack access to a large and competitive labour market (there is no shortage of shops, or clothing firms). The problem in many of these industries is that the number of jobs is declining:

From the Secretary of State

but this is precisely the reason why we must avoid measures which restrict their ability to adjust their costs to what their markets will bear.

Moreover I see that the officials' report finds that Wages Councils are not an effective means of tackling poverty: only a small proportion of the low paid are covered by Wages Councils, and only a small proportion even of these are the main support for poor households, most of the poor belonging to households in which no-one is going out to work. This means we must take even more seriously the danger that statutory wage-fixing reduces the numbers of employment opportunities (especially, as the officials' report says (paragraph 43) for the young and unskilled) and thus tends to exacerbate the problems of unemployment and poverty which we are likely to face in the future.

Clearly we face a dilemma, arising out of the power of the unions to keep real wages and hence unemployment higher than we would wish in unionised industries. This means that in non-unionised industries there is a choice between either letting wages be established at levels that will seem by comparison to be inequitably low, or sponsoring administrative arrangements such as Wages Councils to act as surrogates for trade unions, and thus making ourselves directly responsible for some of the forces keeping unemployment so high.

Whatever the economic arguments, I can see the political difficulty that abolition would entail. It is the statutory powers to set enforceable minima that I think we should be most concerned to abolish, rather than necessarily the Wages Councils themselves, which could have a continuing role as consultative and advisory bodies. But if we conclude that we cannot at this stage remove the statutory powers, then I think we must go for a radical reform of the way they are used, designed to avoid adding to the pressures forcing up unemployment. Option 6 in the officials' report suggests giving Wages Councils an overriding duty to fix wages so as to maximise employment in their

From the Secretary of State

industries and hence to take account of market forces rather than to try to work against them. If we are to keep the statutory powers I am sure we need something on these lines.

I am copying this letter to the Prime Minister, the other members of E and E(EA), and Sir Robert Armstrong.

Yours sincerely,

Nicholas McLynes

JOHN NOTT

(Approved by the Secretary of State and signed in his absence.)

PART 4 ends:-

TL to Hm Travels 10.781

PART 5 begins:-

S/S Defence to Pm 13.7.87