

PREM 19/1311/1

Part 1 of 2

~~SECRET~~
Part One

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Strategy for Industry and Employment

MANPOWER

Cheques seminar on employment and
follow-up action.

Attempts to reduce the Burden
of Regulation on the Economy.

Part 1
February
~~July~~ 1983

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PART 1 ends:-

Policy Unit to PM 30-3-84

PART 2 begins:-

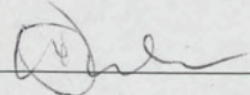
AT meeting record 2-4-84

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

| Reference | Date |
|----------------|------------|
| MISC 14 (83) 4 | 16/02/1983 |
| MISC 14 (83) 3 | 15/02/1983 |
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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

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Date 01/01/2013

PREM Records Team

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30 March 1984
Policy Unit

PRIME MINISTER

The Policy Unit has now completed its work on the subject of jobs. We have visited Merseyside, Consett, Corby, the Scottish Development Agency area, London Docklands and the Highlands and Islands Development Area. The distillation of our thoughts in this paper may be of some assistance in Sunday's meeting and thereafter in discussions with Tom King.

The long-term solution to unemployment is the creation of an economy where markets function properly. Companies have to respond to demand, have to find it profitable to invest, need to draw on skilled people for design, marketing, production and management; and people need a relatively free labour market so that they can move around with ease.

Much of the work under way within Government will help in this task. The Youth Training Scheme and technical and vocational initiative should help in training people into jobs. The MSC initiative to make training more relevant should be pursued vigorously. The Budget has begun the process of removing bias in the tax system against employment and in favour of capital investment. The changes already undertaken in trade union law, and the modifications to the Employment Protection Act are helping create a freer labour market, but much more remains to be done, and Tom King's Inquiry into the next steps is vital. The competition policy initiative can also assist in encouraging new business and creating new opportunities.

Policies towards small companies, international trade and the lowering of administrative burdens also need carrying further, and are a vital part of any programme to make markets work. For example, there are too many local authority licensing regulations; tax is still too bureaucratic and complex for small employers; Wages Councils are troublesome; the Employment Protection Act has not been sufficiently neutered; and the small business measures need rationalising. Similarly, the housing market needs improvement so that more rented accommodation is available in areas of better job prospects.

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Job-Creation in the Regions

In our visits to some of the most intractable problem areas in the UK, we were looking to see if there were any common threads underlying both success and failure in generating new activity. We saw nothing that persuaded us that direct Government involvement, by offering large subsidies or inducements to companies, would work. Indeed, on Merseyside part of the problem was the inducement offered to firms like BL and Ford to set up plants in relatively hostile conditions which could not stand the test of time. Our investigation of Enterprise Zones did not encourage us to believe that they offered a great deal, and many features of the Urban Programme represent the worst kind of expensive tinkering. Whilst there was evidence of some success in the Scottish Development Agency's area of activity, this seemed to owe more to their persistence and their dedication in hammering home the message that their area was a good place for electronics companies to locate, than to their role as a kind of Scottish NEB.

The main lessons which emerged from our survey of local projects were:

1. The attitude of the local authority to the regeneration of the region is all-important. Where a sympathetic local authority was prepared to work with any other bodies and assistance that came from Government action - as in Corby - the results could be most impressive. Where the local authorities were hostile to the whole endeavour - as in London and on Merseyside - success could only be achieved by setting up an independent corporation able to cut through the red tape and the planning controls imposed by the unsympathetic local authorities. The first question to ask in any area where the Government wishes to intervene is how the local authority is going to respond. Where hostility is at all likely, the best way of achieving progress is the establishment of a Development Corporation with strong planning powers over a limited area.
2. Scattering subsidy and assistance over a very wide area without clear targets is a bad way of proceeding. Regional assistance for the whole of Merseyside has achieved little.

3. We found inadequate monitoring of the effectiveness of measures in creating jobs which might be self-sustaining. It is important that the jobs are not just subsidy-dependent, so we need to know how the companies fare in the longer run. Few of the organisations we visited did this thoroughly.
- There is also a complete lack of comparable statistics between the different programmes of Government attempting to address the same issue.

We therefore recommend:

- i. That subsidies for wide areas should be phased out. The current review of regional aid should be used to squeeze the sums of money involved still further, as it does not give a good return. Similarly, the current review of the Urban Programme should take a robust view of many features in it which are ineffective.
- ii. Departments should be required to show that adequate monitoring arrangements for the long-term viability of jobs are built into any scheme.
- iii. Each proposed scheme for a given local area should include an assessment of the attitude of the local authority.
- iv. The Treasury should be asked, in conjunction with the departments, to set up a proper cross-programme monitoring system capable of giving Ministers good information about the costs relative to the benefits on the range of schemes aiming to tackle similar problems. This should include the Job Subsidies - reviewed below.

B. Job Subsidies

The Government believes that any attempt to bring about real reductions in unemployment by offering permanent job subsidies will be self-defeating. This is correct. Our review of the costs and benefits of job subsidies is designed to help in controlling public spending on this large area, and to assist in winding down some of the more costly and unhelpful programmes of job subsidy that have been established by long user.

The theoretical problems with subsidising jobs are well known. The cost imposes additional burdens on the taxpayer, and tends to raise public borrowing. This can have an impact in reducing other kinds of private demand and in raising interest rates, which contracts other parts of the economy. Subsidy can also serve to undermine the attitudes needed in a successful economy to respond to the challenge of change in an enterprising way.

We accept that there may be a social and presentational case for offering temporary support for jobs that would in the long run turn out to be self-supporting; and there may be an additional case for making individuals more employable by giving them a morale-boosting period of relief from unemployment, which may be linked with the gaining of new skills and disciplines. The analysis set out in the tables in the Annex, and based on consultation with a range of Government departments administering subsidy programmes, have led us to these conclusions:

1. Measures to help individuals are generally cheaper and better than measures to help whole industries or companies.
2. Some aspects of regional policy and Enterprise Zones are very bad value for money.
3. Certain examples of subsidy to nationalised industries involve an unacceptably high cost-per-job.


We therefore recommend:

- i. As with our conclusions based on area reports, that the Government take a tough attitude towards the total cost of regional aid when coming to decisions following the review.
- ii. Nationalised industries' claim for subsidy - particularly when based on a job-protection or creation argument, should be analysed most sceptically, as it is likely to offer very bad value for money.
- iii. The Voluntary Projects Programme should be turned into a cheap benefit-plus scheme, which would enable participants to be taken off the unemployment register. More use should

be made of VPP and the Job Splitting Scheme, as these offer the best value for money. More people could be used in a Clean-Up Britain campaign of benefit-plus work geared to the renovation and restoration of our urban fabric.

- iv. When presenting the Government's policies, it should be made clear that there is no inconsistency of purpose between the general drive to create jobs by making markets work, and the measures being taken to alleviate particular distress or to help individuals get back into the employed world. Ministers could help publicise successes in places like Silicon Glen and Corby, where temporary subsidies have helped to create jobs that will be self-sustaining in the long run against the original odds of the region; they could help publicise those schemes in places like Sheffield, Bristol and London where the Community Programme and the VPP are giving individuals welcome temporary occupations and making a useful social contribution at the same time; and could draw attention to the excellent work of the Docklands UDC in London in completely transforming a whole area which had been left as a wasteland through the planning controls of hostile local authorities.

The attached Annex sets out some of the more detailed points to be considered in trying to compare the different schemes.



JOHN REDWOOD

JOB SUBSIDIES COSTS AND BENEFITS1. Costs

Three forms of subsidy appear to be particularly cheap: Agricultural Support, the Job-Splitting Scheme, and the Voluntary Projects Programme. These have gross Exchequer costs of £3,000 or less for each person "employed" each year.

Most other subsidies appear to have gross Exchequer costs of between £3,000 and £5,000 per person per year, though the measures to help individuals seem to be generally cheaper than the measures to help industries.

Three types of subsidy appear notably expensive: support for some nationalised industries, eg the merchant division of British Shipbuilders; Enterprise Zones; and some glamour projects, eg the A320 Airbus. These appear to have gross Exchequer costs of more than £5,000 per person per year. Indeed, the A320 costs a gross £9,000 for each person employed each year.

2. Incidental Benefits and Defects

Each measure may also have side effects which may help or hinder social or economic progress.

Our impression is that three of the measures - the Voluntary Projects Programme, the Young Workers' Scheme, and the Enterprise Allowance - are markedly superior in this respect. None of them distorts wages or investment decisions; the Voluntary Projects Programme brings considerable social benefits; the Young Workers' Scheme helps to price youngsters into jobs; and the Enterprise Allowance Scheme stimulates the creation of new businesses.

Most of the other measures appear to be neutral in their side-effects, either because they are harmless, or because defects are matched by offsetting advantages.

Two measures stand out for their undesirable side-effects: Agricultural Support and Regional Policy (in this case including Enterprise Zones). It may be argued that these bring social

gains, but only at the cost of sustaining high wages, misdirecting investment, and encouraging gold-plated projects, without any compensating economic benefits.

3. The Measures

In the following tables, we provide brief descriptions of the various job subsidies, together with estimates - where possible - of the costs per person and of the likely economic and social side effects.

The analysis of side effects is necessarily crude. Information is sparse, and the subject needs far more study.

The costs per person are approximate. To make the comparison feasible, we give gross sums, making no allowance for SB/UB savings (and adding a figure for SB/UB to the cost of the VPP, since the scheme does not disqualify people for benefit). In the case of subsidies to industry, we simply divide total costs by the number of jobs maintained: this will yield, if anything, too low a cost per job, since some of the employees would almost certainly be retained if subsidies were removed. (This strengthens our conclusion that industrial subsidy is bad value for money.)

Our sources for costs are as follows:

- for the nationalised industries, as current-year EFL divided by the number of employees in each;
- for Regional Policy, as in Cmnd. 9111, assuming that the jobs created last 10 years;
- for Enterprise Zones, as in the analysis recently published by Roger Tym & Partners;
- for Agriculture, as total current-year subsidy divided by the number of employees;
- for Special Employment Measures, as in figures provided by the Department of Employment.

TABLE 1. MEASURES TO HELP INDIVIDUALS

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| | COMMUNITY PROGRAMME | VOLUNTARY PROJECTS PROGRAMME | YOUNG WORKERS' SCHEME | JOB-SPLITTING SCHEME | JOB-RELEASE SCHEME | ENTERPRISE ALLOWANCE SCHEME |
|------------------------|--|--|--|--|--|---|
| Nature of the scheme | Subsidy for socially beneficial work for long-term jobless | Subsidy to voluntary agencies for socially beneficial work | Subsidy to under 18s for low-wage jobs | Subsidy to hire 2 part-time workers instead of 1 full-time | Subsidy for early retirement to let a new man do the job | Temporary subsidy for unemployed person setting up his his own business |
| No. of jobs p.a. | 112,000 | 16,000 volunteers plus 945 supervisors | About 106,000 | 800 part-time | About 90,000 | About 25,000 |
| Cost p.a. to D/Emp | About £400m | About £6.5m | About £58m | About £600,000 | About £250m | About £24m |
| Estimated deadweight | 15%, or 17,000 jobs | Not applicable | About 80% | Official view is nil | 5% | About 65% |
| Cost per person pa | About £4,500 | About £3,000 | Over £3,000 | About £750 | About £4,000 (full-time) | About £2,000 |
| Wage distortions | Probably helps to sustain union rates | Probably none | None | May marginally increase part-time rates | Probably none | Probably none |
| Investment distortions | Probably none | Probably none | None | Probably none | Probably none | Probably none |

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TABLE 1. (Cont.)

| | COMMUNITY PROGRAMME | VOLUNTARY PROJECTS PROGRAMME | YOUNG WORKERS' SCHEME | JOB-SPLITTING SCHEME | JOB-RELEASE SCHEME | ENTERPRISE ALLOWANCE SCHEME |
|--|--|------------------------------|---|---------------------------------------|-----------------------------|--------------------------------------|
| Economically beneficial effects in long-term | None | Probably none | Creates pressure for more realistic youth wages | May counter prejudices vs part-timers | Encourages early retirement | Considerable: creates new businesses |
| Social benefits | Renovation of buildings, care for old people etc | As for Community Programme | None | None | None | None |

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TABLE 2. MEASURES TO HELP INDUSTRY

| | Regional Assistance | Support for Innovation | Small Firms' Support | Subsidies to Nat Industries | Subsidies to Agriculture |
|-----------------------------|---|--|---|--|--|
| Nature of Scheme | Capital assistance towards qualifying industrial projects in Assisted Areas (AAs) | Grants towards industrial adoption of new technology and processes | Advice, Grants and Loan Guarantees to Small Firms | Loss funding and capital expenditure financing | Price support and production assistance |
| Cost to Exchequer (1983/84) | £474m | c. £250m | £30-50m | £2.5 billion | £1.2 billion via CAP, plus £0.8 billion in UK measures |
| No of jobs pa | c. 25,000 pa over 20 years <u>in the AAs</u> | Not known - not explicitly job creating | Not known | <u>600,000</u> employees maintained in the subsidised industries | <u>750,000</u> employees in the industry |
| Estimated deadweight | Very high - most jobs would have arisen anyway | Probably high - firms have to put in own funds, so most would have gone ahead anyway | Probably low | Some, but no estimate made | Probably very high |
| Cost per person | £3,500 pa before allowance for deadweight, very much higher afterwards (For Enterprise Zones, about £6,000) | Not known but probably very high | Not known | Average = <u>£4,000</u> Examples: British Steel £4,600 British Rail £4,800 NCB £5000 Merchant Shipbuilding £5,500 (NB A320 £9,000) | £2,700 |
| Wage distortions | Some - not easily answerable | Not known but probably low | Probably low | Severe | Severe |

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TABLE 2. (Cont.)

| | Regional Assistance | Support for Innovation | Small Firms' Support | Subsidies to Nat. Industries | Subsidies to Agriculture |
|---|--|--|--------------------------------|---|---------------------------------------|
| Investment distortions | Considerable - not easily measurable | Probably considerable - encourages undue emphasis on production and/or R&D processes | Probably considerable | Severe | Severe |
| Economically beneficial effect in long-term | Probably none | May create long-term real jobs | May create long-term real jobs | In some cases, a rescue-operation for fundamentally viable industries | Probably none |
| Social benefits | Has probably dampened regional differences in unemployment rates, though these remain considerable | Probably none | Probably none | Dampens rate of decline in contracting industries. Should ease process of industrial structure change | May keep up population in rural areas |

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MISS THOMAS

26

Just to let you know that there is going to be a working seminar at Chequers on Sunday 17 June. The meeting will start at 1700 hours and will be followed by a working supper. Everyone should be away by 2100 hours.

I know this is the weekend that you are planning to have off, but it is the only Sunday when we can get all the necessary Ministers together.

cf

30 March 1984

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PRIME MINISTER

The discussion/dinner at Chequers on Sunday is to be informal and no papers have been circulated. I have spoken to the participants to explain the background, indicating that you will want to cover the following ground:

- (i) whether employment and unemployment will continue to rise together
- (ii) the demographic background
- (iii) the impact of technology; can labour shedding continue at the rate of the recent past
- (iv) what Government has so far done to improve working of Labour market and encourage enterprise and jobs
- (v) what more needs to be done and what priorities are.

As background you might like to look at the note the Policy Unit has prepared. This came out of a remit from the last seminar and can be tabled for the one in May. Also in the folder is a Department of Employment paper circulated to NEDC.

You might like to glance at the summary in paras. 54-66 and at the table and charts.

I will bring with me the briefing folder on unemployment.

(Andrew Turnbull)

30 March 1984

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National Economic Development Council

THE UK LABOUR MARKET

NEDC(84)29
27 March 1984

Memorandum by the Secretary of State for Employment

1 For their meeting last month the Council had before them a paper prepared by my officials describing employment trends in six leading industrialised countries, including the UK. This provided some of the factual background to the Council's consideration of "where will the new jobs be?" A further contribution to the ground work for the "new jobs" programme is in the attached officials' paper which gives more detailed information about UK labour market developments. The paper should also be read in the context of those presented to the December 1983 Council by the Chancellor and the TUC, both of which described trends in the UK labour market.

2 Since therefore much of the ground has already been covered in some depth, the present paper seeks to avoid repetition by referring back where appropriate to the previous paper. It concentrates on topics which have so far received less attention and for which useful information is readily available.

3 Within this conception, the paper's opening section surveys long run trends in labour force participation and in the pattern of employment in different industrial sectors. The next section touches upon the present industrial, occupational and geographical distribution of employment. Section 3 discusses various work patterns, including hours of work, part-time employment, relationships with establishment size, self-employment, the 'black economy' and ethnic patterns. Finally some projections are attempted in Section 4. The most significant features of the UK labour market reported in the paper are then summarised in paragraphs 54 to 66.

4 My colleagues on the Council are invited to take note of this further factual background and may wish to comment on major features.

THE UK LABOUR MARKET

INTRODUCTION

1 This paper surveys trends and patterns in the UK labour market giving emphasis to those areas which have received least attention in earlier papers in the "where will the new jobs be?" programme. There are five sections:-

(i) OVERVIEW

Long run trends in participation in the labour force and the mix of industry.

(ii) WHERE WE WORK NOW

Industrial, occupational and geographical location of workers.

(iii) HOW WE WORK NOW

Hours of work, size of establishment, self employment, the black economy and ethnic patterns of work.

(iv) SOME PROJECTIONS

Labour force projections and possible future changes in patterns of working.

(v) SUMMARY OF SIGNIFICANT FEATURES

SECTION ONE

OVERVIEW

2 LONG RUN TRENDS IN LABOUR FORCE PARTICIPATION

Labour force participation depends on a number of interdependent factors. Technical and economic factors influence the labour intensity of the processes of production. Social factors influence the extent to which increased affluence is taken as leisure. The outcome is the result of a complex interaction.

3 By the mid nineteenth century a pattern of total labour force participation had been established which has changed remarkably little to the present day. Table 1 and Chart 1 show the number of economically active people and the population of working age since 1891, with a similar series since 1861. The table shows that the aggregate activity rate has been within two per centage points of 60% for nearly a century, possibly 120 years, though a decline in male activity has been offset by an increase in female activity.

4 In the 122 years shown on table 1 the labour force has more than doubled, increasing from around 10½m in 1861 to 26½m by 1983. In every decade since 1861 the labour force seems to have risen up by at least about a million workers. The proportionate rate of growth was highest around the turn of the century and has been relatively low in the last couple of decades.

5 The increase has been proportionately much more substantial for women than for men. The faster growth of the female labour force arose in part from a slightly higher growth in the number of females than males in the population and in part because of differences in participation rates. Female participation rates have increased virtually throughout the period with the fastest rate of increase taking place since 1961. Male participation rates have decreased, with the fastest rate of decline occurring since 1961. The result has been that females comprised between a quarter and a third of the workforce between 1861 and 1961 but by 1983 this proportion had increased to two fifths.

6 Table two and Chart 2 show the data for the 1970s and projections to 1991, taken from an article in the February 1984 DE Gazette. Although the total participation rate has been virtually unchanged for a century this hides two very different trends.

7 The different changes in male and female activity rates arise from a variety of possible causes. Growing affluence may induce older men to seek work less actively than in earlier years. Increasingly complex technological processes may encourage younger people to spend longer in formal education or training. The increased participation of females may reflect changes in both supply and demand - new social patterns on the one hand and employers' preferences for relatively cheap and flexible workers on the other.

LONG RUN TRENDS IN INDUSTRY MIX

8 The pattern of employment by industrial sector has changed substantially during the 140 years for which data is readily available (see chart 3). Male employment has changed much more than female. There has been a substantial reduction in importance of agriculture as a source of male employment, taking nearly a third of the work force in 1841 and less than one tenth of this in 1981.

9 Female employment in services has increased virtually continuously and services are now a more important source of female jobs than manufacturing. Since 1840 the decline in female employment in agriculture has been proportionately much less than that of male employment.

10 The gradual post war shrinkage of manufacturing has been noted in previous papers. This longer run of data shows that the very fast growth of manufacturing had probably ceased by 1911 and, apart from cyclical spurts, the growth rate of manufacturing employment was not very high over the ensuing fifty year period, until employment peaked in the mid 1960s. Services have been an ever growing source of employment.

SECTION TWO:- WHERE WE WORK NOW

- 11 Each of the earlier papers in this programme have paid some attention to the analysis of employment by industry and occupation. Consequently these topics are touched upon only briefly in this section.

INDUSTRIAL DISTRIBUTION OF EMPLOYMENT

- 12 The TUC Paper (NEDC(83)59) charted in Figure E the relative growth rates of broad bandings of industry over the period 1961 to 1980. The authors noted the different patterns between the various sectors. The only industry groups which expanded employment were in the service sector. Table 4 in this paper shows employees in employment by industry since 1971 on the base of the 1980 Standard Industrial Classification. There was again a decline in employment in every SIC-level classification of industry in the Index of Production grouping between 1971 and 1983. Textiles and the metal manufacturing and using industries suffered the largest proportionate contraction.
- 13 Employment in most services expanded fairly rapidly until the middle of the 1970s, the only exception being transport and communication, where it declined. Since about 1975 growth of public sector service employment, outside the medical sector, has ceased. Financial services and hotels and catering have continued to expand. Transport has contracted.
- 14 Examination of data for industries as defined under the minimum list headings of the SIC shows an even wider divergence of growth rates. The Chancellor's paper (NEDC(83)58) highlighted MLH industries which expanded employment between the cyclical peaks of 1973 and 1979. The only industry with much over 5% annual growth was petroleum and natural gas and this was from a tiny base. The striking feature of the Chancellor's tables is that all but four of the industries which expanded employment by more than 10,000 are in the service sector.

- 15 Examination of Index of Production industries at MLH level shows the inter industry variation of the contraction of employment. Between 1971 and 1983 contraction was experienced by all manufacturing sectors as defined by SIC orders, but between MLH industries the variations were considerable. For example, the Mechanical Engineering Order (on the 1968 SIC) contracted in total by around two fifths but individual MLH industries within this order varied from a 12% employment expansion in the case of ordnance and small arms, to nearly 75% contraction in textile machinery and accessories.

OCCUPATIONAL DISTRIBUTION OF EMPLOYMENT

- 16 Other papers in the series have looked at certain aspects of changes in occupations and their current distribution. Table 5 in this paper summarises the broad occupational composition of the workforce in 1961, 1971 and 1981. This shows a marked increase in the proportion in professional occupations (from 2.5% of total employment in 1961 to 4.1% in 1981) employers and managers (9% in 1961 and 12.7% in 1981), and other non-manual occupations (26.4% in 1961 and 33% in 1981). At the same time the proportion of manual workers has fallen (62.1% in 1961 to 50.3% in 1981). The increase in female employment has been aided by the growth of employment in other non-manual occupations, where females predominate.
- 17 Another aspect of occupation which has not been examined so far is the variation in broad patterns by sex. Table 5 presents summary statistics from the Population Censuses of 1961, 1971 and 1981. Total non manual employment has grown over the period for both sexes but the proportionate growth rates have been substantially higher for females than males. This is most noticeable in the professional group where the number of females virtually trebled in twenty years whilst the number of males increased by little more than half. In the other two non manual groups the number of females increased in substantial proportion. The number of male "employers and managers" increased but the number of males classified as "other non manual" fell. The net effect of these changes was that by 1981 there were more females than males in non manual occupations.

- 18 In this twenty year period the total number of manual workers has declined but the proportionate fall for females has in aggregate been smaller than for men. This, and the fast proportionate growth for non manuals, reflects the general growth of female employment. In semi skilled and unskilled manual work females now occupy nearly as many jobs as men. This evidence does not necessarily suggest that women have replaced men in jobs: it merely shows that the number of jobs occupied by females has varied in a different manner from the number of jobs occupied by males.

GEOGRAPHICAL DISTRIBUTION OF WORKERS

- 19 Since 1971 the number of people working in services has increased in all regions whilst the number of people in manufacturing has contracted. As a result services now provide more jobs than manufacturing in all regions including the Midlands where in 1971 manufacturing provided more jobs than services. See Table 6.
- 20 The growth in the relative importance in services as a source of jobs has come about in different ways in the various regions. In the West Midlands the main change has been the loss of nearly 400,000 jobs in manufacturing of which over a quarter of a million were lost in the metal goods, engineering and vehicles industries. By way of contrast, in the East Midlands the contraction in manufacturing has been relatively less, about 18%, but service sector jobs have expanded by more than a third. Services in the South West also grew by more than a third whilst in East Anglia the growth was little short of 30%. Whilst the new jobs in services appear to have located more than proportionately in regions with relatively easy access to London the reduction in manufacturing employment has largely reflected the distribution of industry in 1971.

- 21 Those travel to Work Areas (TTWA's) whose labour market mismatch is greatest tend to be concentrated in areas where a dominant industry has contracted substantially. Thus, for example, the problems of certain TTWA's in the West Midlands reflect the contraction of the metal using industries. What is as yet far from clear is the extent to which balance will be restored to such areas by the development of new industries, the resurgence of the old industries, or by migration. Influences on labour mobility are due to be considered later in the programme.

SECTION THREE HOW WE WORK NOW

HOURS OF WORK

- 22 The previous Department of Employment paper (NEDC(84)24) noted the reduction in average weekly hours which has taken place in recent years throughout OECD countries. The longer run of UK data presented here in Table 7 suggests that part of the reduction noted there may have been due to cyclical factors since the most recent data indicate that hours worked in manufacturing are now almost back to the level of 1975.
- 23 Nevertheless, it is to be expected that part of the rewards of increasing affluence should have been taken as extra leisure. The reduction in the hours worked during life has manifested itself in a shorter working week, reduced weeks worked per year and reduced years of active labour force participation. Charts 4 and 5 reproduced from a 1983 OECD paper "Working Time Adjustments Consistent with Full Employment" by Sir Bruce Williams, analyse the reduction of life hours of work into these components.
- 24 For males it can be seen that since the second World War the reduction in years worked has been as important a contributory factor as reduced hours per week to the total reduction in life hours worked. For females the story is totally different. Average hours per week have plummeted, largely because of the increase in part time work but total life hours have hardly shrunk at all since 1950 because increased participation rates have broadly offset both the reduction in hours per week and the reduction in weeks per year. Changes in working hours (including the effects of overtime and shiftworking) are due to be considered further in a later paper in the NEDC programme.
- 25 Overtime and shiftworking are important aspects of the total picture of hours of work. The average number of hours per operative working overtime in manufacturing has changed little since the 1960s, fluctuating around $8\frac{1}{2}$ hours a week. However there has been greater

variation in the percentage of operatives working overtime both as a result of cyclical influences and a trend increase between the early 1950s and the mid 1960s, when the proportion rose from around a fifth to a third. Since the mid 1960s there has been no other obvious trend. In 1983 an average of 31.5% of manufacturing operatives worked overtime.

- 26 Pattern of shiftworking are in general very poorly documented. Surveys conducted in 1954, 1964 and 1978 showed that 12%, 20% and 34% of all manual workers in those years respectively were shiftworkers (reported in "The Spread of Shiftwork in the European Community - United Kingdom" published by European Foundation for the Improvement of Living and Working Conditions). These surveys also showed that by 1978 nearly half a million people were working double day shifts, with nearly 440,000 on three-shift systems. Nearly 100,000 worked permanent night shifts whilst about 86,000 people worked twilight or other shifts. All types of shift work were more common in 1978 than 1954 with the biggest proportionate increase being for double day shifts which grew five fold over this period.

PRODUCTIVITY

- 27 Manufacturing output per person averaged $3\frac{1}{2}$ per cent growth per annum between 1960 and 1973; productivity growth in the economy as a whole over the same period was more modest at $2\frac{1}{2}$ per cent per annum. These productivity growth rates compare favourably with any other period of UK history. The mid 1970's represented a break in this pattern. Productivity growth fell back over the 1973-9 cycle to a rate nearer to that experienced in the inter-war period, both manufacturing and whole economy productivity growing by about 1 per cent per annum.
- 28 Productivity performance since 1979 has been unusual in that the manufacturing sector has experienced a rapid increase in output per head, averaging $6\frac{1}{2}$ per cent growth per annum since 1980 Q4, whilst output was more or less stable. Compared with the productivity trough of 1980 Q4, manufacturing output per head was over 20% up in 1983 Q4. Manufacturing output per person hour is less affected by cyclical patterns than output per head but it too has risen, by 17%, since the productivity trough of 1980. Outside manufacturing, productivity growth is much closer to its trend rate of 1973-9.

PART TIME EMPLOYMENT

- 29 In recent years part-time employment has become an increasingly important means of labour force participation by females. Table 8 shows that in 1981 over two fifths of females in employment were employed part time. In Distributive Trades and Miscellaneous Services over half of female employees worked part time. In manufacturing the proportion was a little over a fifth.
- 30 Over the ten years covered by the table, the service sector saw a consistent increase in both the absolute number of part time female employees and the proportion of part time to full time. In manufacturing both of these measures fluctuated. Making longer term comparisons is difficult because of shortages of, and inconsistencies in, the data. However, it seems fairly safe to assume that the proportion of part timers in total female employment in services has increased fairly consistently since at least 1961. In manufacturing the fastest growth of part time female employment as a proportion of the total occurred in the 1960s. Returns from employers show an increase from 11.7% to 17.7% between 1959 and 1966. The 1971 Census of Employment reported 20.1% as the corresponding figure. By 1974 the figure rose to 24.9% but fell back by 1981 to 21.9%.
- 31 These differing patterns of growth in the proportions of part time females employed in manufacturing and services may possibly illustrate the various attractions to employers of part time workers. The growth in part time female employment in manufacturing in the 1950s may have been in response to manufacturers' needs to expand their labour forces rapidly and finding that part time females were a flexible and relatively cheap source of supply. The hypothesis that one determinant of the demand for part time female employees is the need to adjust workforces quickly is supported by the apparent cyclical tendency for the proportion of women who work part time in manufacturing to increase or decrease as the total number of female employees increases or decreases. In addition to being a flexible response to expansion, the growth of female part time employees in service industries may be a reflection of the irregular hours or peak load problems experienced in services.

- 32 Part time employment of males appears to have increased as a proportion of total male employment from 1.1% as reported in the 1961 Population Census, to 5.8% in the 1981 Census of Employment. This development is partly attributable to an increase in the proportion of part time men in individual industries and partly to the increasing proportion of men employed in services. However differences in definition may cast some doubt on its magnitude.

SIZE OF ESTABLISHMENT

- 33 Table 9, based on the Census of Production, shows that in broad terms the proportion of employees working in establishments with more, or less, than 100 employees (the usual cut off point for a definition of small firms) has not changed much over the last twenty years. From 1930 to 1975 an increasing proportion of the workforce was employed by very large firms (over 500 employees) but this trend seems to have been reversed between 1975 and 1980, when there was some reduction in the proportion of the workforce reported to be working in the largest size band (over 1000 employees). In recent years there has also been an increase in the proportion of people working in establishments with less than 100 employees, from 18.4% in 1970 to 22.3% in 1980.
- 34 The importance of any particular size band of establishment in the job generation process cannot be readily determined from these figures since individual establishments change from one size grouping to another over time.

SELF EMPLOYMENT

- 35 In 1981 rather more than two million people were classified as employers and self employed. They comprised just under 7.9% of the working population. The 1951 Population Census recorded in the same category 1.65 million people who at that time comprised around 7.3% of the working population (though slight changes in definitions imply that these figures should only be regarded as indicative of the order of magnitude of the change).

- 36 The intervening years saw first a fall in the number of self employed - the 1966 Census found 1.59 million or 6.4% of the working population - followed by a gradual rise from that date onwards.
- 37 Table 10 shows the number of self employed divided into industry orders. Distributive trades (with 467,000 jobs) is the single largest category followed by miscellaneous services and construction (which have 390,000 and 389,000 jobs respectively.) Agriculture and professional and scientific services are the other orders with large numbers of self employed. The self employed are not well represented in manufacturing except in the timber and furniture sector (included in other manufacturing industries in the table).
- 38 There have been few major changes in the industry-order location of the self employed in the last twenty years. Some decline in the numbers working in agriculture and distributive trades has been recorded and an increase in the number working in the various categories of services. Construction is the one industry to have changed substantially. The number of self-employed construction workers increased by around 150% between the 1961 Census and the early 1970s since when there has been some fall back in numbers.
- 39 The self-employed constituted two fifths of the workforce in agriculture and about a quarter of the workforce in construction in 1981. In most other industrial sectors except timber and furniture the self employed constitute rather small proportions of the total workforce. The borderline between employment and self employment and new forms of contract of employment are issues for later consideration.

THE BLACK ECONOMY

- 40 The black economy can be defined as that part of the production of goods and services exchanged for money (or money equivalent) which is not declared to the authorities, and where there is underpayment of tax or overpayment of social security benefits. Participation in the black economy is illegal so it follows that any relevant statistics must be obtained by far less precise methods than the headcounts which underlie most of those used in this paper.

- 41 The Chairman of the Inland Revenue made an "informed guess" to the Public Accounts Committee that the black economy may amount to 6-8 per cent of GDP. Since part of this represents underpayment of PAYE and VAT by traders whose existence is known it seems probable that the undercounting of employment in employment statistics will be much less than this. The main sources of undercounted workers will be "moonlighters" (ie people whose second job is not declared) and "ghosts" (ie people whose sole job is not declared). The net effect on estimates of the working population and the number of registered unemployed of these two groups seems likely to be small.
- 42 Other authors have produced both higher and lower estimates. For example, Dilnot and Morris in an article entitled "What do we know about the black economy" in the March 1981 issue of Fiscal Studies suggested that transactions in the black economy might amount to between 2.3 and 3 per cent of GDP. At the opposite extreme the July 1981 Journal of Economics Affairs contained an article by Fiege entitled "The UK's unobserved economy" which suggested the black economy might amount to 15% of GDP. Again, the total number of labour force participants would be increased by less than the estimated proportion of GDP represented by the black economy.

ETHNIC PATTERNS OF EMPLOYMENT

- 43 Surveys have shown variations in ethnic patterns of participation in the labour force and in different industries and occupations. The 1982 Policy Studies Institute survey reported in table 11 shows 43.8% of respondents in the minorities sample to be full time employees, compared with 34.9% of the white sample, of whom, however, a much higher proportion (11.3% as compared with 2.6%) were over the age of 64. All groups of minority ethnic origin, except the Bangladeshi, had a higher proportion of respondents in full time employment than the white sample. The West Indian sub sample had the highest proportion with 50.1% in full time employment. Part time employment was most heavily concentrated amongst white females. Self employment was most common amongst people of Africa-Asian origin, 12.4% of the sample, and lowest amongst West Indians at 2.4%. Unemployment was higher amongst all ethnic minority groups, except the Sri Lankans, than amongst the whites.

- 44 The 1981 Labour Force Survey, table 12, shows the industrial distribution of employment by ethnic origin. Agriculture, Forestry and Fishing have a heavy concentration of white workers. West Indian males are more than proportionally represented in "Metal goods, engineering and vehicles" and "Transport and communication". Pakistani or Bangladeshi males are most disproportionately represented in "Other manufacturing industries". All minority group males except West Indians are heavily represented in "Distribution, hotels and catering, repairs."
- 45 The employment distribution of minority group females is also somewhat different from that of the white population. 57.7% of female West Indian or Guyanese were employed in "Other Services" compared with 38.4% of the white females. Indian and Pakistani or Bangladeshi females were more heavily represented in "Manufacturing" than the white females.
- 46 The Labour Force Survey also shows that, in general, non-white minorities are more heavily concentrated in manual work than the white population. This is especially true for West Indian or Guyanese males of whom 86% are employed in manual work compared with 58.4% of white males. An exception to this generalisation arises in the case of the professional socio-economic group where Indian and Chinese, African, Arab mixed or other minority males and all non white females except the West Indian or Guyanese are more than proportionately represented than whites.

SECTION FOUR: SOME PROJECTIONS

- 47 Any future views of employment depend on a set of assumptions about causal factors such as output, productivity, relative wage changes, the exchange rate and mobility in the work force, both occupational and geographical. Many of these factors are within our own control. There is thus nothing inevitable about the future and the projections reviewed here have been used for illustrative purposes only. In particular, there is room for a better manufacturing employment outcome than has been suggested.
- 48 Labour force projections were presented in the DE Gazette in February 1984 and summarised as Table 2 here. It is estimated that between 1981 and 1991 the total civilian labour force will increase by about three-quarters of a million. This figure results from a combination of increase in population of working age offset, to some extent, by a reduction in activity rates.
- 49 There are different patterns as between the sexes. Both show increases in population of working age but only male activity rates are expected to fall and that in the 55 and over age groups, with little change in the activity rate of men aged 25-54. Women aged between 20 and 54 are expected to participate rather more actively in the labour market in the future.
- 50 Possible future trends in industrial and occupational employment patterns have been discussed in previous papers. All the available evidence from both cross section and time series studies would support the contention that consumption of services will increase as people become more affluent. In spite of productivity developments associated with the adoption of new technology the general conclusion that employment in services will grow seems irrefutable. Employment forecasts, in manufacturing are much more uncertain. The Warwick Institute of Employment Research (IER) Summer 1983 forecasts* reported

* The only available detailed projections by sector and occupation.

in the TUC paper, suggest a small fall in employment in most sectors of manufacturing. But uncertainties over the future path of such important variables as productivity and the exchange rate, are such that this forecast must be subject to a wider margin of error than the forecast for services employment.

- 51 The IER forecasts predict a decline in manual employment amongst the less skilled groups largely offset by an increase in non-manual occupations. This reflects past trends which may or may not be continued into the future. If however manufacturing output and employment are more buoyant it is likely that we will observe a further reduction in the proportion of low skilled manual operatives in the workforce even if the decline in absolute numbers is less than the IER forecast.
- 52 There are no systematic forecasts of changes in other features of the labour market described in this paper. The most realistic assessment may be to assume a continuation of recent trends where these are clear. Hours of work are likely to fall somewhat. This is possibly more likely to manifest itself as an increase in holidays than a reduction in the working week if only because a noticeable increase in time away from the job can be obtained more easily by taking the extra leisure all at one time rather than as a few minutes per day.
- 53 Some increase in self employment seems likely, because during a period of relatively high unemployment self employment is likely to be seen by some people as a preferable option to unemployment. Of the people that take up self employment for this reason a number will be successful and choose to remain in self employment even when paid employment becomes available again.

SECTION 5: SUMMARY OF SIGNIFICANT FEATURES

- 54 In the last two decades the labour force has been increasing at the rate of over 1m each decade. This increase is entirely due to growth in population of working age since the other factor determining the size of the labour force - the proportion of population of working age in employment or seeking work - has been surprisingly constant over a very long period at about 60%. However, this constant total activity rate is the outcome of changing age and sex specific activity rates. In general, declining male activity rates are balanced by increases in female activity rates.
- 55 As a result of these contrasting trends in the activity rates of males and females, the composition of the labour force has changed significantly. In 1951 females comprised 31% of the labour force and this proportion rose to 33% by 1961, 37% by 1971, and 40% in 1981.
- 56 Interdependently with changes in the labour supply, the industrial and occupational distribution of employment has also changed. In general, employment in the service industries has been increasing while employment in production industries and agriculture has been on a downward trend. Employment has declined since 1971 in all Index of Production industries and construction, and increased in the service industries with the exception of paper products, printing and publishing, postal services, and transport. In retail distribution employment in 1983 was broadly similar to that in 1971. Industries with large employment growth in the private sector were financial services, and hotels and catering while much of the employment growth in the public sector - education, public administration and medical and other health services - has slowed down in recent years.
- 57 The change in industrial employment was accompanied by a change in the occupational distribution of those in employment. There has been a marked increase in the proportion in professional occupations (from 2.5% of total employment in 1961 to 4.1% in 1981) employers and managers (9%

in 1961 and 12.7% in 1981), and other non-manual occupations (26% in 1961 and 33% in 1981). At the same time the proportion of manual workers has fallen (62.1% in 1961 to 50.3% in 1981). The increase in female employment has been aided by the growth of employment in other non-manual occupations, where female workers predominate.

58 The geographical distribution of employment closely reflects the changes in industrial employment. Disproportionately large falls occurred in the North-West, North and West Midlands regions while employment in the South-West, East Anglia and East Midlands regions actually increased. The contraction of manufacturing industries, with a loss of 30% of jobs in the period, affected all regions but in particular the North-West, West Midlands and Wales; and the large increases in the employment in service industries occurred in the South West, East Midlands and East Anglia.

59 For males the hours of work during a lifetime have declined, with reductions in the working week, working year and working life. For females, the large increase in participation rates balanced the big fall in the average number of hours worked per week and per year with the result that since the 1950's input of hours of work during a lifetime has been stable. Overtime and shiftworking have become more significant in the total pattern.

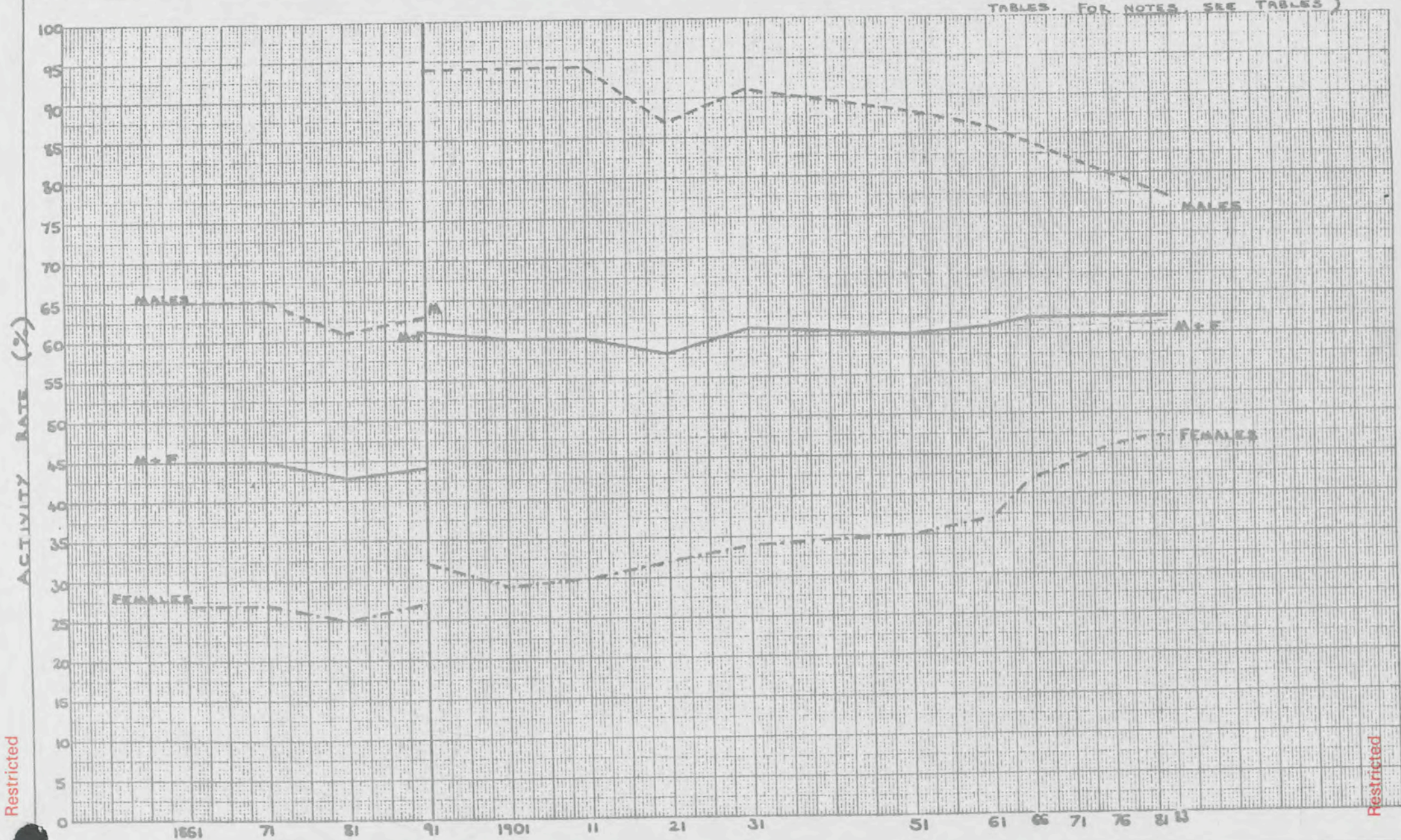
60 The large fall in the average number of hours worked per week by women is due to the increasing proportion of women working part-time. In fact all of the increase in female employment over the last ten years has been in part-time work while the number of women in full-time work has slightly declined. Few men work part-time but the proportion is increasing. Most part-time work is in the service industries.

61 Between 1935 and 1970, the proportion of employment in smaller firms (under 100 employees) was falling. The trend was reversed in the 70's, showing an increase from 18.4% in 1970 to 22.3% in 1980. At the other extreme the proportion of workers in firms with over 1000 employees fell in the 1970's. These changes, though interesting, are not very large and may not signal an established new trend.

- 62 There has been an increase in the number of self-employed in the UK since 1966 but this is the net result of decrease in some years and increases in others, notably since 1979, and not a continuous upward trend. Self-employment is concentrated in some service industries, in agriculture and in construction.
- 63 Some activity in the economy is unrecorded, the so called black economy, and may account for some unrecorded employment. There are a wide range of "guesstimates" of how important this activity is and to what extent it is growing. In terms of numbers in employment the effect of the black economy is much less than its proportional effect on GDP, since a considerable part of this activity is in additional work by people who are already recorded as in employment.
- 64 Survey information from a sample in 1982 indicates that unemployment was higher amongst all ethnic minorities, except Sri-Lankans, than amongst the whites. All ethnic minorities, except the Bangladeshi, had a higher proportion in full-time employment than the white sample, largely as a result of age differences in the ethnic and white samples. Self-employment was most common amongst people of Africa-Asian origin.
- 65 Future views of employment depend upon a range of assumptions, many of which are within our own control. Detailed projections of the UK labour force to 1991 are provided showing that between 1981 to 1991 the civilian labour force is estimated to grow by some three quarters of a million. Contributing to this are an increase in population of working age, an increase - at a slower rate than in the 60's and 70's - in female participation rates and a continued decrease in male participation rates.
- 66 A continued growth of employment in the service industries and in non-manual occupations is expected, though prospects for manufacturing and for manual employment are less certain. On past trends, hours of work are likely to continue to fall, but little is known about the likely future rate of decrease. The recent increase in self-employment may be sustained.

CHART 1 ACTIVITY RATES BY SEX, 1861 - 1983

(SOURCE: BLS HISTORICAL ABSTRACT AND DE GAZETTE, FEB 1984; AND OPCS HISTORIC TABLES. FOR NOTES, SEE TABLES)



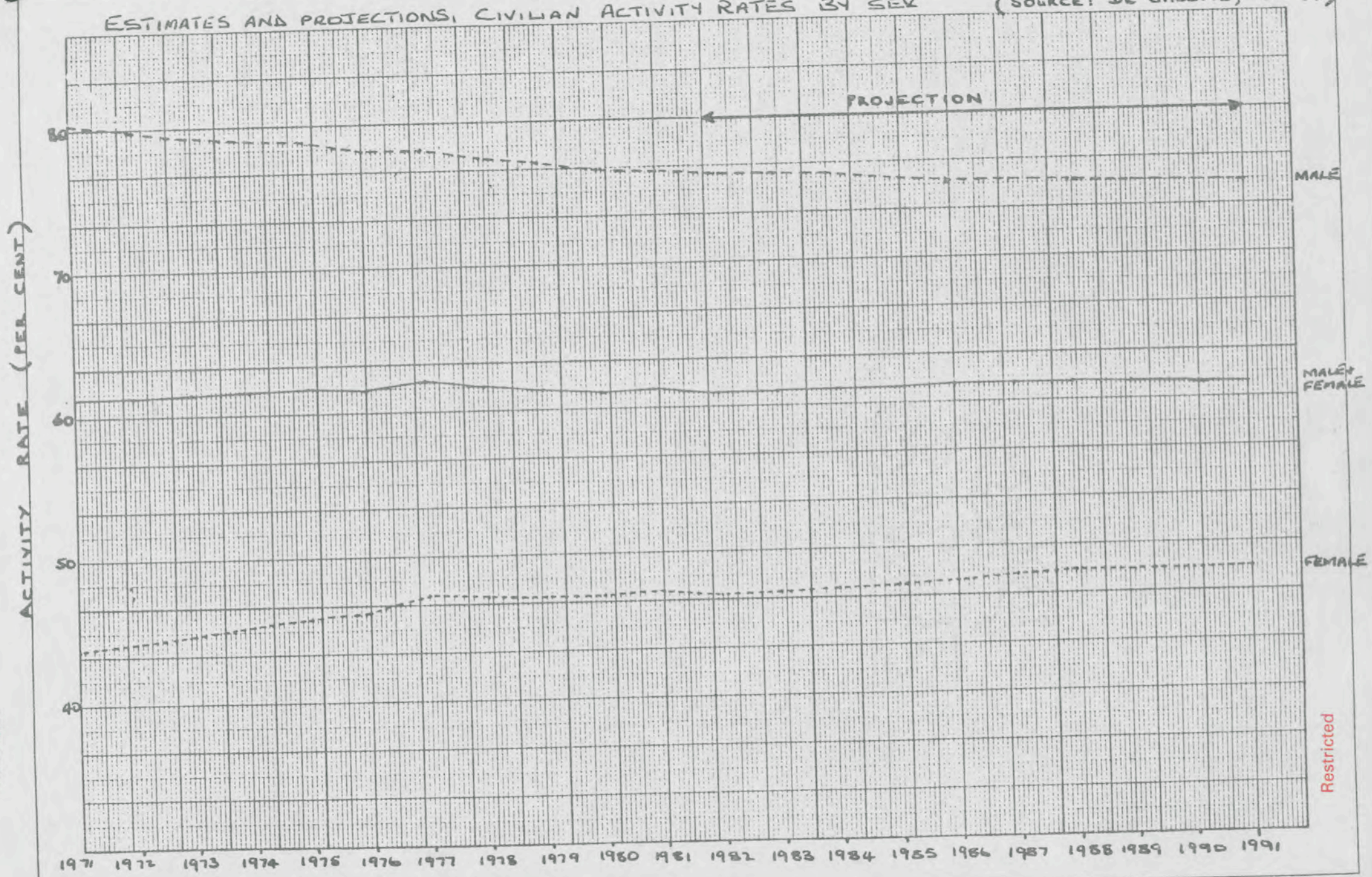
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CHART 2

ESTIMATES AND PROJECTIONS, CIVILIAN ACTIVITY RATES BY SEX

(SOURCE: DE GAZETTE, FEB 84)

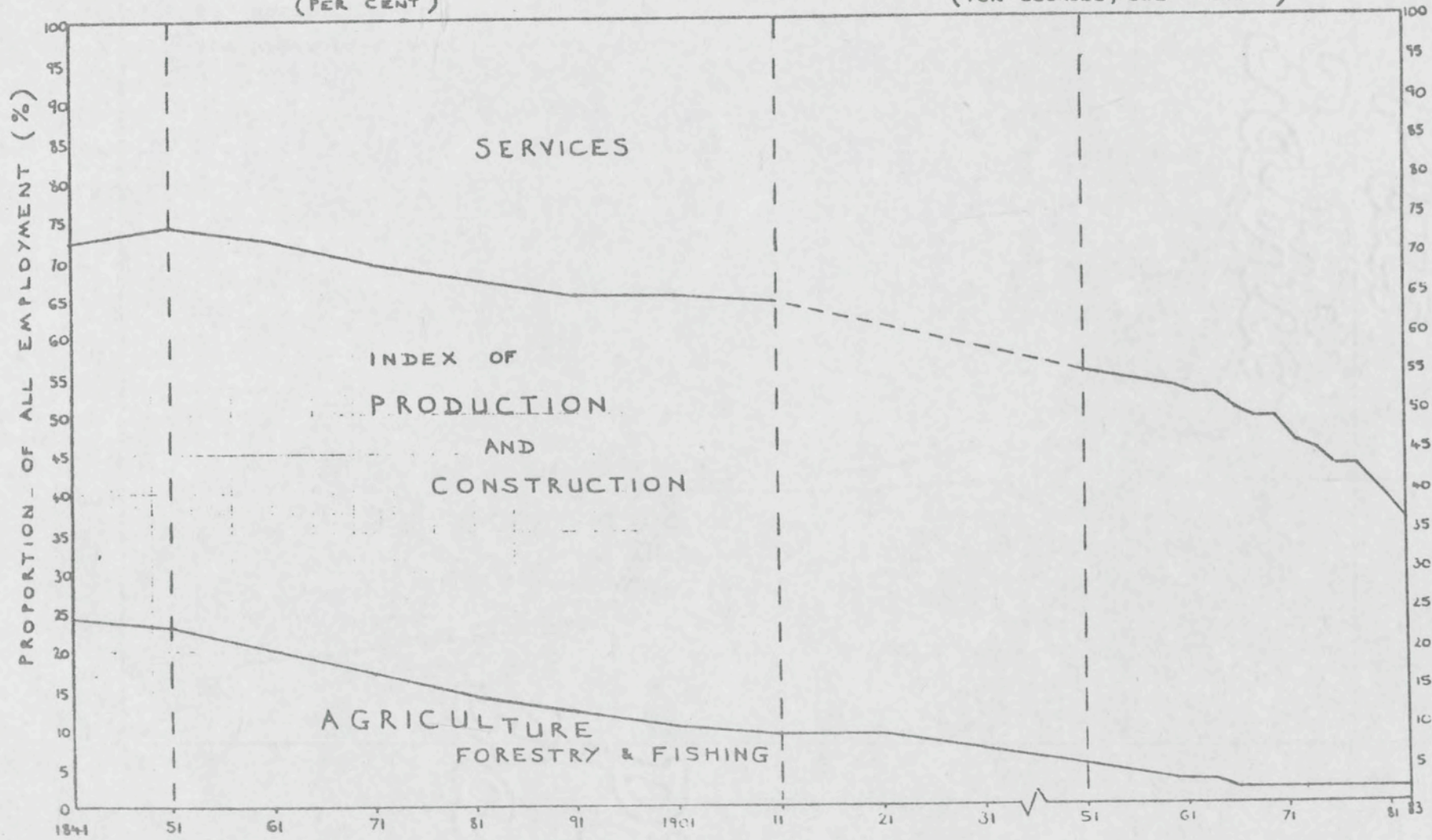


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CHART 3

PROPORTION OF GB EMPLOYMENT BY INDUSTRIAL SECTOR, MALES AND FEMALES
(PER CENT)
(FOR SOURCES, SEE TABLE 3)

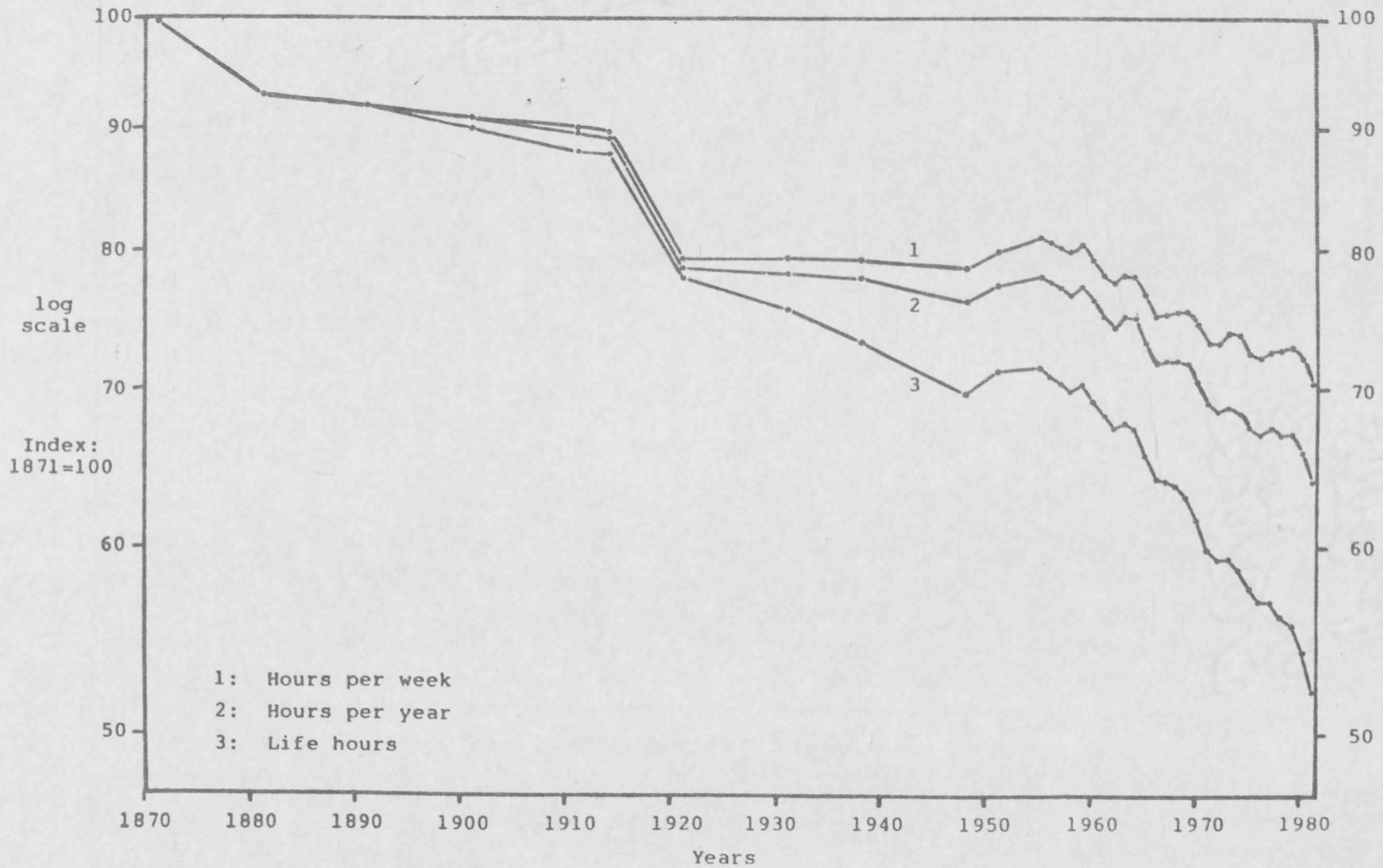


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CHART 4

Components of reduction in male life hours of work



Source: Working Time Adjustments Consistent with Full
Employment by Sir Bruce Williams (OECD, 1983)

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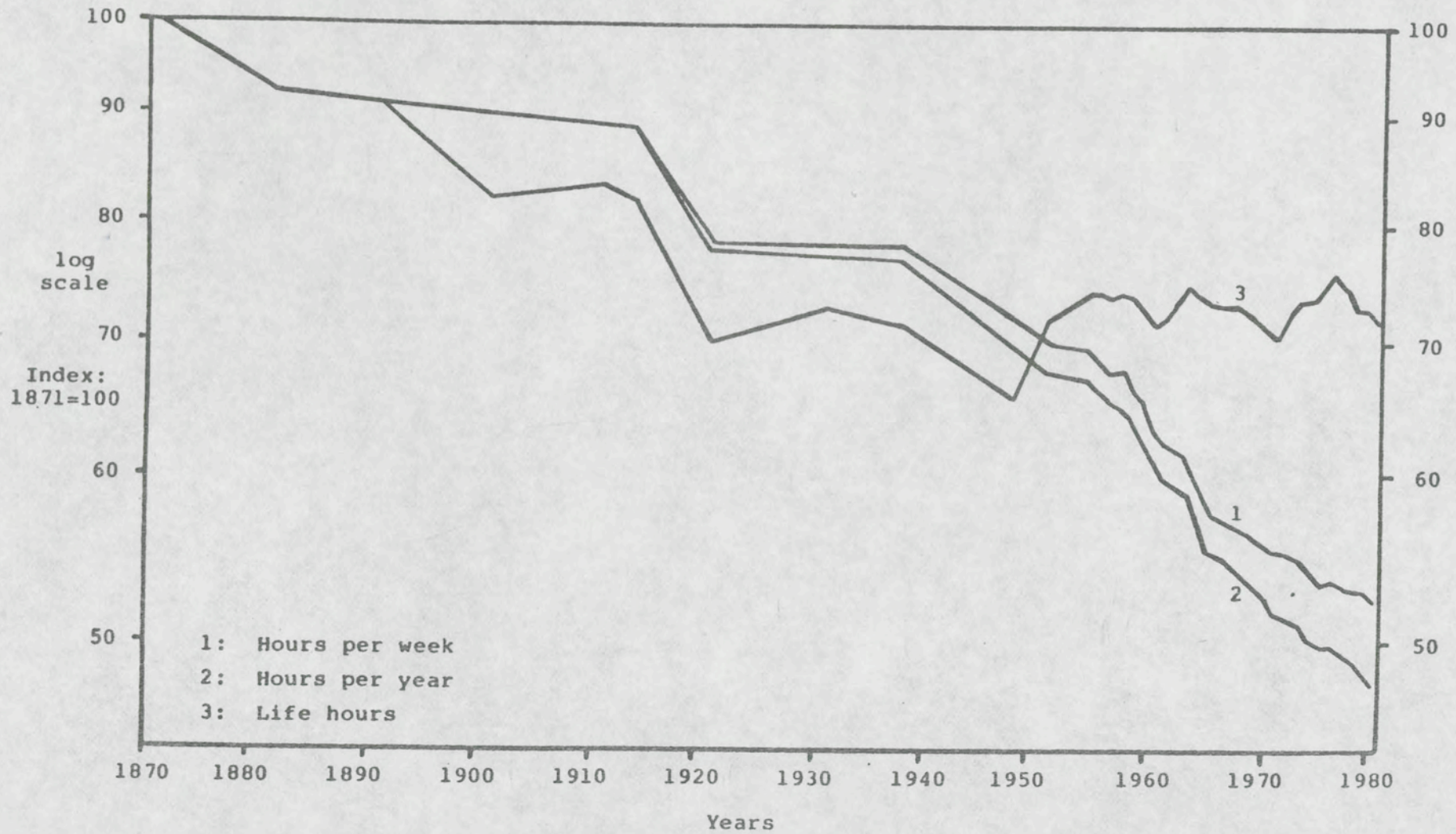
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CHART 5

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Components of reduction in female life hours of work



Source: Working Time Adjustments Consistent with Full Employment by Sir Bruce Williams (OECD, 1983)

TABLE 2

ALL PERSONS CIVILIAN ACTIVITY RATES

GREAT BRITAIN

| | LABOUR FORCE 16+ (THOU) | POPULATION 16+ (THOU) | ACT. RATE (%) | |
|----|-------------------------------|-----------------------------|------------------|-------------|
| 71 | 24,868 | 40,602 | 61.2 | |
| 72 | 24,926 | 40,730 | 61.2 | |
| 73 | 25,096 | 40,886 | 61.4 | |
| 74 | 25,213 | 41,011 | 61.5 | |
| 75 | 25,343 | 41,163 | 61.5 | |
| 76 | 25,454 | 41,366 | 61.5 | |
| 77 | 25,855 | 41,613 | 62.1 | |
| 78 | 25,837 | 41,862 | 61.7 | |
| 79 | 25,870 | 42,120 | 61.4 | |
| 80 | 25,970 | 42,426 | 61.2 | |
| 81 | 26,150 | 42,685 | 61.3 | |
| 82 | 26,150 | 42,906 | 60.9 | PROJECTIONS |
| 83 | 26,283 | 43,134 | 60.9 | ↓ |
| 84 | 26,444 | 43,334 | 61.0 | |
| 85 | 26,565 | 43,526 | 61.0 | |
| 86 | 26,684 | 43,695 | 61.1 | |
| 87 | 26,795 | 43,868 | 61.1 | |
| 88 | 26,865 | 43,988 | 61.1 | |
| 89 | 26,902 | 44,051 | 61.1 | |
| 90 | 26,901 | 44,063 | 61.1 | |
| 91 | 26,879 | 44,050 | 61.0 | |

SOURCE: DE STATISTICS BRANCH C5

TABLE 3

| | TRENDS IN INDUSTRY | | PERCENTAGE OF WORKERS | | | |
|-------------------|-----------------------------------|------------------------------|-----------------------|-----------------------------|----------|--|
| | NUMBER OF WORKERS | | | | | |
| Males and Females | All Industries and Services (000) | Agriculture Forestry Fishing | Manuf. | Production and Construction | Services | |
| 1841 | 6,857 | 24 | 39 | 48 | 27 | |
| 51 | 9,310 | 23 | 41 | 51 | 25 | |
| 61 | 10,405 | 20 | 41 | 52 | 28 | |
| 71 | 11,628 | 17 | 41 | 52 | 31 | |
| 81 | 12,617 | 14 | 40 | 53 | 33 | |
| 91 | 14,365 | 12 | 40 | 53 | 35 | |
| 1901 | 16,104 | 10 | 40 | 55 | 35 | |
| 11 | 18,065 | 9 | 41 | 55 | 36 | |
| 21 | 19,136 | 9 | 33 | 45 | 47 | |
| 31 | 20,866 | 7 | 31 | 42 | 50 | |
| 51 | 22,032(20000) | 6(5) | 32(38) | 42(50) | 51(45) | |
| June 1960 | 21,450 | 3 | 38 | 50 | 46 | |
| 62 | 22,006 | 3 | 38 | 49 | 48 | |
| 64 | 22,302 | 3 | 37 | 49 | 49 | |
| 66 | 22,787 | 2 | 37 | 48 | 49 | |
| 68 | 22,186 | 2 | 36 | 47 | 51 | |
| 70 | 21,993 | 2 | 37 | 47 | 51 | |
| 72 | 21,650 | 2 | 35 | 44 | 54 | |
| 74 | 22,297 | 2 | 35 | 43 | 55 | |
| 76 | 22,048 | 2 | 32 | 41 | 57 | |
| 78 | 22,273 | 2 | 32 | 41 | 58 | |
| 81 | 21,385 | 2 | 29 | 37 | 61 | |
| June 83 | 20,615 | 2 | 27 | 34 | 64 | |

NOTES

1. These figures should be regarded as showing broad trends rather than precise estimates. Prior to 1960 the figures are based on Population Census estimates and include all workers. Later figures, including the bracketed 1951 figures, are for employees only. There are some small changes in industrial classifications used.
2. The proportion of total employment in each sector is based on all employment in industries and services, excluding those employees not classified by industry.
3. In June 1983, figures include an allowance for under-estimation.
4. Figures for 1960-70 are based on the 1971 Census figures for 1971.

SOURCES

HISTORICAL ABSTRACT Tables 102, 103, 136, 137

DE GAZETTE March 1975 and February 1984

Annual Census of Employment 1974-8 and 1981

TABLE 4

EMPLOYERS IN EMPLOYMENT BY INDUSTRY (SIC 80)
(Thousands) Males and Females

[SOURCES: DE GAZETTE, FEB 1984 and DE Statistics Branch C3

NOTE: For 1982-3, the first 5 columns include a supplementary allowance

| Years (June) | All Inds & Services | Index of Production & Constr. | Index of Production Industries | Manuf Industries | Service Industries | Apri- culture Forestry, extr. & Fishing | Coal, Oil nat Gas extr. & Processing | Elec, Gas Other Energy | Metal Man ore, mineral extraction | Chemical man-made Fibres | Mechanical Engineer- ing | Office Machinery and electrical engineering | Motor Vehicles & Parts | Other transport equipment | Metal Goods nes | Food, drink & tobacco |
|-----------------|------------------------|-------------------------------------|--------------------------------------|---------------------|-----------------------|---|---|------------------------------|--|--------------------------------|--------------------------------|---|------------------------------|---------------------------------|-----------------------|-----------------------------|
| 1971 | 21,648 | 11,034 | 9,867 | 7,910 | 11,361 | 421 | 400 | 388 | 822 | 436 | 1,125 | 1,018 | 503 | 433 | 576 | 774 |
| 1972 | 21,650 | 10,794 | 9,592 | 7,640 | 11,640 | 416 | 383 | 366 | 787 | 424 | 1,048 | 983 | 489 | 412 | 549 | 761 |
| 1973 | 22,182 | 10,970 | 9,692 | 7,693 | 12,068 | 421 | 368 | 353 | 789 | 426 | 1,040 | 1,000 | 509 | 407 | 562 | 759 |
| 1974 | 22,297 | 10,907 | 9,675 | 7,737 | 12,217 | 404 | 352 | 354 | 782 | 438 | 1,053 | 1,035 | 496 | 411 | 565 | 771 |
| 1975 | 22,213 | 10,514 | 9,297 | 7,365 | 12,524 | 388 | 356 | 360 | 753 | 429 | 1,042 | 964 | 456 | 410 | 532 | 733 |
| 1976 | 22,048 | 10,266 | 9,054 | 7,131 | 12,604 | 382 | 350 | 360 | 716 | 421 | 1,012 | 917 | 447 | 404 | 505 | 721 |
| 1977 | 22,126 | 10,244 | 9,067 | 7,183 | 12,679 | 378 | 353 | 355 | 728 | 428 | 1,012 | 932 | 463 | 391 | 516 | 721 |
| 1978 | 22,274 | 10,195 | 9,024 | 7,147 | 12,877 | 373 | 358 | 348 | 707 | 431 | 1,025 | 934 | 470 | 388 | 520 | 714 |
| 1979 | 22,639 | 10,257 | 9,041 | 7113 | 13,239 | 359 | 356 | 356 | 683 | 427 | 1,011 | 946 | 433 | 432 | 516 | 715 |
| 1980 | 22,458 | 9,953 | 8,737 | 6,840 | 13,370 | 352 | 357 | 360 | 637 | 414 | 986 | 931 | 412 | 407 | 490 | 707 |
| 1981 | 21,386 | 9,022 | 7,910 | 6,100 | 13,132 | 343 | 344 | 355 | 543 | 379 | 889 | 857 | 355 | 365 | 414 | 666 |
| 1982 | 20,945 | 7,490 | 6,463 | 5,790 | 13,110 | 345 | 329 | 344 | 509 | 363 | 838 | 815 | 319 | 344 | 396 | 644 |
| 1983 | 20,615 | 7,130 | 6,152 | 5,506 | 13,146 | 339 | 313 | 333 | 466 | 340 | 768 | 795 | 307 | 325 | 365 | 611 |

| | Textiles Leather, Footwear, etc | Timber Wooden Furniture Publishing | Construct- ion | Wholesale distrib- ution & repairs | Retail distrib- ution | Hotels & Catering | Transport | Postal Services & Telecom. | Banking, Finance, Insurance | Public Admin | Education | Medical & other health services | Paper Products Printing & Publishing | Other Services |
|------|--|---|-------------------|---|-----------------------------|-------------------------|-----------|----------------------------------|-----------------------------------|-----------------|-----------|--|---|-------------------|
| 1971 | 1,016 | 614 | 1,167 | 964 | 1,951 | 691 | 1,091 | 435 | 1,318 | 1,733 | 1,260 | 939 | 592 | 979 |
| 1972 | 992 | 618 | 1,202 | 983 | 1,983 | 733 | 1,068 | 434 | 1,345 | 1,790 | 1,315 | 976 | 576 | 1,013 |
| 1973 | 981 | 647 | 1,278 | 1,021 | 2,063 | 795 | 1,047 | 436 | 1,422 | 1,839 | 1,387 | 1,002 | 571 | 1,054 |
| 1974 | 952 | 648 | 1,232 | 1,023 | 2,048 | 808 | 1,031 | 434 | 1,473 | 1,865 | 1,450 | 1,028 | 586 | 1,057 |
| 1975 | 881 | 603 | 1,217 | 1,024 | 2,048 | 830 | 1,038 | 439 | 1,468 | 1,941 | 1,520 | 1,108 | 562 | 1,110 |
| 1976 | 846 | 602 | 1,212 | 1,014 | 2,023 | 854 | 1,012 | 422 | 1,472 | 1,939 | 1,567 | 1,137 | 539 | 1,163 |
| 1977 | 854 | 602 | 1,177 | 1,034 | 2,050 | 867 | 1,017 | 411 | 1,496 | 1,938 | 1,548 | 1,146 | 534 | 1,172 |
| 1978 | 824 | 598 | 1,171 | 1,061 | 2,061 | 887 | 1,036 | 406 | 1,548 | 1,947 | 1,554 | 1,167 | 538 | 1,206 |
| 1979 | 809 | 595 | 1,216 | 1,102 | 2,133 | 938 | 1,039 | 413 | 1,638 | 1,947 | 1,591 | 1,186 | 547 | 1,249 |
| 1980 | 722 | 557 | 1,216 | 1,137 | 2,134 | 966 | 1,034 | 428 | 1,688 | 1,917 | 1,574 | 1,209 | 541 | 1,279 |
| 1981 | 618 | 502 | 1,112 | 1,103 | 2,051 | 937 | 974 | 429 | 1,627 | 1,849 | 1,548 | 1,243 | 512 | 1,284 |
| 1982 | 587 | 471 | 1,027 | 1,090 | 1,991 | 952 | 925 | 425 | 1,723 | 1,813 | 1,535 | 1,266 | 493 | 1,281 |
| 1983 | 567 | 462 | 978 | 1,075 | 1,978 | 923 | 886 | 419 | 1,730 | 1,827 | 1,535 | 1,268 | 474 | 1,255 |

Restricted

TABLE 5

PERSONS IN EMPLOYMENT BY SOCIO-ECONOMIC GROUP & SEX. GB 1961, 1971, 1981
Census of Population

| SOCIO-ECONOMIC GROUP | 1961 | | 1971 | | 1981 | |
|------------------------------------|------------|-----------|------------|-----------|------------|-----------|
| | MALES | FEMALES | MALES | FEMALES | MALES | FEMALES |
| Professional (3,4) | 533,494 | 32,594 | 689,063 | 46,280 | 824,010 | 96,820 |
| Employers and Managers (1,2,13) | 1,715,004 | 337,535 | 1,955,486 | 453,709 | 2,224,000 | 625,950 |
| Other non-manual (5,6) | 2,503,989 | 3,486,822 | 2,604,376 | 4,271,017 | 2,484,510 | 4,917,530 |
| Skilled manual (8,9,12,14) | 6,091,841 | 824,710 | 5,765,506 | 749,497 | 5,025,230 | 613,140 |
| Semi-skilled manual (7,10,15) | 3,104,571 | 2,284,167 | 2,580,963 | 2,428,619 | 2,171,950 | 2,135,480 |
| Unskilled (11) | 1,286,265 | 510,656 | 1,088,076 | 628,714 | 687,060 | 644,230 |
| Armed forces/no reply (16, 17) | 513,297 | 113,756 | 348,081 | 123,224 | 340,010 | 113,870 |
| TOTAL ALL IN EMPLOYMENT | 15,748,460 | 7,590,240 | 15,031,550 | 8,701,060 | 13,756,770 | 9,147,020 |
| TOTAL CIVILIAN EMPLOYMENT | 15,235,163 | 7,476,484 | 14,683,469 | 8,577,736 | 13,416,760 | 9,023,150 |

(SEG GROUPS 1980)

SOURCE : DE STATISTICS BRANCH C4

Restricted

TABLE 6

EMPLOYEES IN EMPLOYMENT BY REGION

SIC 80

(000s)

| | TOTAL EMPLOYEES | | | MANUFACTURING EMPLOYEES | | | METAL WORK & CHEMICAL EMPLOYEES | | | METAL GOODS, INCR & VEH EMPLOYEES | | | OTHER MANUFACTURING EMPLOYEES | | | SERVICES EMPLOYEES | | | BANKING, INSURANCE FINANCE EMPLOYEES | | | CONSTRUCTION EMPLOYEES | | |
|------|-----------------|------------|------------------|-------------------------|-----------|----------|---------------------------------|-----------|----------|-----------------------------------|-----------|----------|-------------------------------|-----------|----------|--------------------|------------|----------|--------------------------------------|-----------|----------|------------------------|-----------|----------|
| | JUNE 1971 | SEPT 1983 | % CHANGE 1971-83 | JUNE 1971 | SEPT 1983 | % CHANGE | JUNE 1971 | SEPT 1983 | % CHANGE | JUNE 1971 | SEPT 1983 | % CHANGE | JUNE 1971 | SEPT 1983 | % CHANGE | JUNE 1971 | SEPT 1983 | % CHANGE | JUNE 1971 | SEPT 1983 | % CHANGE | JUNE 1971 | SEPT 1983 | % CHANGE |
| GB | 21,648,339 | 20,701,000 | -4.4 | 7,910,259 | 5,510,000 | -30.3 | 1,258,370 | 803,736 | -36.1 | 3,655,084 | 2,551,306 | -30.2 | 2,996,805 | 2,123,155 | -29.2 | 11,360,820 | 13,194,000 | 16.1 | 1,317,650 | 1,794,902 | 32.4 | 1,167,454 | 990,295 | -15.2 |
| SE | 7,352,854 | 6,968,698 | -5.2 | 2,215,451 | 1,550,881 | -30.0 | 245,455 | 175,330 | -28.6 | 1,114,467 | 799,433 | -28.3 | 855,529 | 576,118 | -32.7 | 4,542,201 | 4,914,948 | 8.2 | 689,548 | 863,601 | 25.2 | 357,871 | 310,451 | -13.3 |
| EA | 606,741 | 666,162 | 9.8 | 162,766 | 170,068 | 11.8 | 18,368 | 17,281 | -5.9 | 81,348 | 70,397 | -13.5 | 93,050 | 82,390 | -11.5 | 315,387 | 409,278 | 29.8 | 29,004 | 45,477 | 56.8 | 37,914 | 34,084 | -10.1 |
| SW | 1,324,968 | 1,509,555 | 13.9 | 422,148 | 363,193 | -14.0 | 40,829 | 39,621 | -3.0 | 202,657 | 181,678 | -10.4 | 178,662 | 141,894 | -20.6 | 740,337 | 995,276 | 34.4 | 62,070 | 118,509 | 90.9 | 83,461 | 73,391 | -12.1 |
| MP | 2,206,663 | 1,911,210 | -13.4 | 1,108,575 | 716,193 | -35.4 | 190,208 | 118,316 | -37.8 | 696,816 | 431,112 | -38.1 | 221,551 | 166,765 | -24.7 | 905,321 | 1,028,940 | 13.7 | 86,850 | 124,115 | 42.9 | 98,820 | 83,366 | -15.6 |
| EM | 1,351,764 | 1,412,687 | 4.5 | 599,565 | 489,015 | -18.4 | 76,474 | 58,167 | -23.9 | 237,714 | 184,310 | -22.5 | 285,377 | 246,538 | -13.6 | 554,755 | 745,879 | 34.0 | 50,250 | 78,894 | 57.0 | 63,818 | 58,250 | -8.7 |
| YMH | 1,893,020 | 1,759,105 | -7.1 | 779,130 | 525,244 | -32.6 | 182,023 | 105,920 | -41.8 | 266,421 | 180,586 | -32.2 | 330,686 | 238,738 | -27.8 | 856,602 | 1,011,821 | 18.1 | 76,692 | 106,573 | 39.0 | 97,032 | 86,345 | -11.0 |
| NW | 2,718,608 | 2,319,254 | -14.7 | 1,151,115 | 709,318 | -38.4 | 179,974 | 111,166 | -38.2 | 462,566 | 299,407 | -35.3 | 508,575 | 298,745 | -41.3 | 1,335,351 | 1,423,460 | 6.6 | 140,003 | 169,434 | 21.0 | 131,401 | 109,552 | -16.6 |
| N | 1,228,974 | 1,041,511 | -15.3 | 442,562 | 295,168 | -33.3 | 113,358 | 65,739 | -42.0 | 188,880 | 129,229 | -31.6 | 140,324 | 100,200 | -28.6 | 584,086 | 611,207 | 4.6 | 44,586 | 60,644 | 36.0 | 82,776 | 60,962 | -26.4 |
| M | 961,925 | 893,686 | -7.1 | 323,529 | 214,401 | -33.7 | 120,681 | 57,153 | -52.6 | 117,616 | 90,066 | -23.4 | 85,232 | 67,182 | -21.2 | 473,542 | 555,042 | 17.2 | 37,028 | 47,461 | 28.2 | 63,841 | 47,001 | -26.4 |
| SCOT | 2,002,822 | 1,896,984 | -5.2 | 675,418 | 444,716 | -34.2 | 91,000 | 55,043 | -39.5 | 286,599 | 185,088 | -35.4 | 297,819 | 204,585 | -31.3 | 1,051,238 | 1,210,146 | 15.1 | 101,619 | 130,194 | 28.1 | 150,520 | 126,887 | -15.7 |

NOTE

National totals for all employees, manufacturing and services (cols 1,2,6) in 1983 include a supplementary allowance for underestimation
 SOURCES: Census of Employment (1971) and March 1984 DE Gazette

TABLE 7

AVERAGE WEEKLY HOURS OF MANUAL MEN
BY MANUFACTURING INDUSTRY

(1968 SIC)

| INDUSTRY | 1906* | 1924* | 1935* | October 1938 | each year since 1924 | | 1955 | 1960 | 1965 | 1970 | 1975 | 1980 | 1983 |
|------------------------------------|-------|-------|-------|--------------|----------------------|------|------|------|------|------|------|------|------|
| | | | | | 1946 | 1950 | | | | | | | |
| FDT | 55 | 46 | 48.5 | 49.4 | 48.7 | 48.5 | 49.4 | 49.1 | 47.7 | 46.8 | 46.2 | 45.5 | 45.3 |
| Coal & Petroleum | - | - | - | - | - | - | - | - | - | 44.0 | 42.6 | 44.2 | 45.3 |
| Chemicals | 56 | 47.9 | - | 48.4 | 48.3 | 48.0 | 48.9 | 47.3 | 46.0 | 44.9 | 42.7 | 42.9 | 43.0 |
| Metal Manuf | 55 | 47 | - | - | - | 48.0 | 48.8 | 47.3 | 46.0 | 45.1 | 41.9 | 41.6 | 42.2 |
| Engineering and Shipbuilding Inds: | 53 | 46 | 48.2 | 48.0 | 48.0 | 47.8 | 49.3 | 46.6 | 46.1 | - | - | - | - |
| 1 ME | | | | | | | | | | 44.9 | 42.6 | 41.5 | 41.9 |
| 2 IE | | | | | | | | | | 44.1 | 42.0 | 41.9 | 41.4 |
| 3 EE | | | | | | | | | | 44.4 | 42.2 | 41.6 | 41.9 |
| 4 SME | | | | | | | | | | 45.3 | 43.9 | 41.8 | 42.8 |
| Vehicles | - | - | - | - | - | 46.4 | 47.8 | 44.8 | 43.6 | 42.4 | 41.4 | 40.1 | 40.7 |
| Metal Goods | - | - | - | - | - | 47.5 | 49.0 | 47.8 | 46.4 | 45.2 | 42.1 | 41.1 | 42.1 |
| Textiles | 54 | 45 | 47.7 | 47.7 | 48.2 | 48.0 | 48.4 | 48.0 | 46.7 | 44.7 | 42.4 | 42.2 | 43.8 |
| Leather | 55 | 46.2 | 48.8 | 47.4 | 47.4 | 46.3 | 47.4 | 47.7 | 46.1 | 45.0 | 43.7 | 42.5 | 43.1 |
| Clothing | 52 | 44 | 45.4 | 44.2 | 44.0 | 44.3 | 44.9 | 44.3 | 43.0 | 41.5 | 40.5 | 40.1 | 41.5 |
| BPGC | 54 | 47 | 48.0 | 48.7 | 48.3 | 49.0 | 50.4 | 50.2 | 48.7 | 46.9 | 44.5 | 43.2 | 44.5 |
| Timber, Furniture | 54 | 46 | 48.3 | 46.9 | 45.1 | 47.0 | 46.4 | 47.0 | 46.5 | 45.6 | 43.1 | 41.7 | 43.5 |
| Paper, Printing, Publishing | 53 | 47 | 48.6 | 46.1 | 46.0 | 46.4 | 48.0 | 47.5 | 46.5 | 45.3 | 42.4 | 42.5 | 42.1 |
| OMANUF | - | - | 48.2 | - | - | 48.5 | 49.8 | 48.2 | 47.0 | 45.5 | 42.5 | 41.7 | 43.0 |
| ALL MANUF | - | - | - | 47.8 | 47.7 | 47.5 | 48.6 | 47.4 | 46.1 | 44.9 | 42.7 | 41.9 | 42.6 |

NOTES: Where whole numbers of hours are shown, these represent unweighted averages of the hours of several constituent industries within the order group; figures for the industrial order group as a whole are not available.

* Males and females.

SOURCES: BLS HISTORICAL ABSTRACT tables 36, 39, 43, 44 and 45
DE GAZETTE table 5.4

Restricted

Restricted

TABLE 7 (continued)

AVERAGE WEEKLY HOURS OF MANUAL WOMEN
BY MANUFACTURING INDUSTRY

| INDUSTRY | Oct - | 1906 | 1924 | 1935 | 1938 | 1946 | 1950 | 1955 | 1960 | 1965 | 1970 | 1975 | 1980 | 1983 |
|----------------------------------|-------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | | | | | | | | | | | | | | |
| FDT | | | | | 45.8 | 43.4 | 43.1 | 42.9 | 41.4 | 39.1 | 38.5 | 37.7 | 37.9 | 39.0 |
| Coal & Petroleum | | | | | - | - | - | - | - | - | 39.2 | 38.6 | 38.4 | 39.4 |
| Chemicals | | | | | 44.0 | 42.8 | 42.5 | 42.4 | 40.7 | 38.9 | 38.7 | 37.9 | 38.9 | 38.4 |
| Metal Manuf | | | | | - | - | 41.7 | 41.1 | 39.6 | 37.6 | 37.4 | 36.7 | 38.0 | 38.3 |
| Engineering and Shipbuilding: | | | | | 44.2 | 42.8 | 42.3 | 42.1 | 41.4 | 39.5 | - | - | - | - |
| 1 ME | | | | | - | - | - | - | - | - | 38.1 | 37.5 | 37.8 | 39.0 |
| 2 IE | | | | | - | - | - | - | - | - | 38.2 | 37.4 | 38.3 | 39.3 |
| 3 EE | | | | | - | - | - | - | - | - | 37.7 | 37.1 | 37.7 | 38.0 |
| 4 SME | | | | | - | - | - | - | - | - | 38.4 | 37.0 | 35.6 | 37.4 |
| Vehicles | | | | | - | - | 41.8 | 41.9 | 39.8 | 38.5 | 37.9 | 37.5 | 37.7 | 38.3 |
| Metal Goods | | | | | - | - | 41.1 | 40.7 | 39.6 | 37.9 | 37.4 | 36.8 | 36.9 | 37.9 |
| Textiles | | | | | 44.5 | 43.9 | 42.3 | 41.7 | 41.2 | 39.1 | 37.3 | 36.1 | 37.1 | 38.1 |
| Leather | | | | | 45.7 | 42.6 | 41.6 | 41.3 | 40.6 | 38.4 | 37.3 | 36.5 | 37.4 | 37.6 |
| Clothing | | | | | 41.7 | 40.6 | 40.1 | 39.8 | 39.2 | 37.9 | 37.2 | 35.5 | 36.4 | 37.0 |
| BRJC | | | | | 42.6 | 43.1 | 41.4 | 40.9 | 39.6 | 38.1 | 36.9 | 35.9 | 37.3 | 38.4 |
| Timber, Furniture | | | | | 44.3 | 41.8 | 41.8 | 41.4 | 39.5 | 38.4 | 37.4 | 37.0 | 36.8 | 38.2 |
| Paper, Printing, Publishing | | | | | 44.4 | 42.9 | 42.5 | 42.6 | 41.6 | 39.4 | 38.9 | 37.9 | 38.2 | 38.4 |
| OMANUF | | | | | - | - | 42.5 | 41.7 | 40.6 | 39.0 | 37.8 | 37.3 | 37.3 | 38.6 |
| ALL MANUF | | | | | 44.3 | 42.7 | 41.8 | 41.5 | 40.4 | 38.6 | 37.7 | 36.8 | 37.3 | 38.1 |

FOR NOTES AND SOURCES, SEE TABLE FOR MALES.

TABLE 8
FEMALES

FEMALE PART-TIME AND TOTAL EMPLOYMENT BY INDUSTRY

SIC 68

OOOs
Source: GB Census of Employment

| | 1971 | | 1972 | | 1973 | | 1974 | | 1975 | | 1976 | | 1977 | | 1978 | | 1981 | |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-------|-------|
| | PT | Total | PT | Total | PT | Total | PT | Total | PT | Total | PT | Total | PT | Total | PT | Total | PT | Total |
| Agriculture | 40.6 | 103.6 | 40.7 | 100.9 | 48.0 | 114.6 | 43.0 | 106.7 | 43.1 | 100.6 | 41.5 | 98.9 | 33.1 | 92.1 | 32.4 | 91.4 | 31 | 92 |
| Mining and Quarrying | 2.8 | 14.8 | 2.8 | 14.7 | 2.7 | 13.9 | 3.0 | 14.0 | 3.0 | 13.9 | 3.5 | 14.5 | 3.6 | 15.3 | 3.7 | 16.4 | 4 | 19 |
| Food, Drink and Tobacco | 95.2 | 295.6 | 93.1 | 288.5 | 101.7 | 294.6 | 112.4 | 305.4 | 98.5 | 281.9 | 96.0 | 275.4 | 96.8 | 278.1 | 98.5 | 276.4 | 89 | 259 |
| Coal and Petroleum | 0.8 | 5.0 | 0.8 | 4.6 | 0.7 | 4.4 | 0.7 | 4.4 | 0.7 | 4.2 | 0.7 | 4.0 | 0.6 | 4.0 | 0.7 | 4.8 | 1 | 4 |
| Chemicals and Allied | 23.5 | 123.0 | 22.5 | 120.4 | 26.0 | 123.0 | 30.2 | 127.7 | 27.3 | 123.7 | 26.1 | 118.2 | 25.6 | 122.6 | 26.0 | 127.4 | 20 | 112 |
| Metal Manufacturing | 11.9 | 64.4 | 11.2 | 59.0 | 11.8 | 58.3 | 12.7 | 58.7 | 11.9 | 57.4 | 11.1 | 53.3 | 11.9 | 55.4 | 11.4 | 53.3 | 7 | 38 |
| Mechanical Engineering | 28.5 | 163.5 | 25.9 | 149.8 | 28.6 | 150.0 | 33.1 | 155.0 | 31.7 | 148.0 | 30.2 | 142.0 | 30.0 | 143.3 | 29.7 | 145.8 | 28 | 131 |
| Instrument Engineering | 10.2 | 58.5 | 9.4 | 54.3 | 11.7 | 57.5 | 14.5 | 59.8 | 13.8 | 56.8 | 12.1 | 52.8 | 11.7 | 52.8 | 11.7 | 54.1 | 9 | 46 |
| Electrical Engineering | 63.0 | 304.6 | 61.4 | 296.6 | 74.1 | 217.6 | 90.3 | 338.4 | 66.9 | 291.3 | 56.2 | 267.4 | 57.3 | 276.8 | 55.0 | 274.4 | 39 | 225 |
| Shipbuilding | 2.3 | 11.8 | 2.3 | 11.4 | 2.5 | 11.8 | 2.6 | 12.0 | 2.9 | 12.5 | 2.9 | 12.9 | 3.1 | 12.0 | 3.1 | 12.8 | 3 | 11 |
| Vehicles | 13.3 | 105.1 | 12.0 | 95.6 | 13.0 | 96.8 | 14.7 | 98.6 | 12.3 | 92.5 | 11.4 | 88.2 | 11.9 | 89.5 | 11.1 | 89.7 | 8 | 70 |
| Metal Goods (nes) | 40.3 | 168.2 | 36.5 | 159.6 | 41.4 | 166.2 | 48.5 | 172.5 | 41.2 | 154.4 | 37.1 | 145.6 | 38.0 | 148.6 | 37.2 | 147.5 | 27 | 111 |
| Textiles | 46.8 | 271.4 | 43.6 | 258.7 | 47.3 | 256.1 | 52.9 | 250.7 | 48.8 | 224.6 | 46.6 | 216.6 | 47.9 | 219.3 | 44.5 | 209.1 | 29 | 152 |
| Leather | 4.4 | 19.8 | 3.7 | 19.0 | 4.3 | 19.1 | 4.8 | 18.7 | 5.1 | 18.3 | 4.8 | 17.3 | 5.0 | 17.8 | 4.6 | 17.2 | 4 | 15 |
| Clothing and Footwear | 44.1 | 320.6 | 44.1 | 317.8 | 47.7 | 314.6 | 55.0 | 305.6 | 56.5 | 290.0 | 52.7 | 275.0 | 52.6 | 283.2 | 52.0 | 274.6 | 34 | 205 |
| Bricks, Pottery, etc | 10.1 | 64.9 | 10.1 | 63.3 | 11.4 | 64.7 | 14.3 | 67.0 | 13.6 | 63.7 | 12.0 | 59.6 | 11.9 | 61.0 | 11.5 | 59.1 | 9 | 48 |
| Timber Furniture, etc | 10.0 | 49.8 | 10.1 | 50.6 | 12.1 | 55.3 | 13.1 | 53.7 | 13.4 | 50.7 | 12.5 | 50.2 | 12.3 | 49.0 | 12.5 | 50.0 | 12 | 45 |
| Paper, Printing and Publishing | 35.9 | 191.4 | 36.3 | 184.8 | 40.4 | 185.4 | 45.9 | 192.5 | 43.3 | 182.4 | 40.1 | 169.9 | 39.3 | 170.0 | 38.7 | 171.4 | 39 | 166 |
| Other manufacturing | 30.7 | 122.7 | 30.8 | 120.3 | 35.2 | 127.1 | 41.7 | 133.7 | 36.2 | 118.9 | 33.4 | 116.3 | 32.9 | 117.2 | 32.4 | 117.0 | 23 | 90 |
| Construction | 24.0 | 81.9 | 26.0 | 85.8 | 30.6 | 93.9 | 31.2 | 94.6 | 33.3 | 96.8 | 37.2 | 101.9 | 39.5 | 103.3 | 40.0 | 107.0 | 51 | 122 |
| Gas, Electricity and Water | 12.0 | 59.7 | 12.2 | 59.5 | 12.5 | 59.7 | 14.3 | 63.0 | 14.7 | 67.0 | 14.61 | 67.3 | 14.2 | 64.7 | 14.2 | 65.8 | 14 | 69 |
| Transport and Communication | 45.4 | 257.4 | 48.3 | 253.8 | 51.8 | 256.3 | 53.8 | 259.6 | 56.4 | 264.9 | 55.2 | 254.5 | 54.8 | 258.1 | 57.5 | 267.3 | 59 | 281 |
| Distributive Trades | 591.2 | 1,403.4 | 601.7 | 1,414.8 | 672.5 | 1,486.4 | 735.4 | 1,513.4 | 760.7 | 1,512.4 | 753.3 | 1,486.3 | 755.9 | 1,498.9 | 758.6 | 1,505.3 | 775 | 1,521 |
| Insurance, Banking, etc | 123.8 | 489.7 | 131.5 | 504.1 | 141.6 | 540.0 | 160.8 | 572.4 | 159.1 | 558.1 | 159.6 | 553.2 | 176.7 | 583.2 | 191.8 | 619.8 | 224 | 694 |
| Prof'nl and Scientific Services | 833.6 | 1,938.4 | 890.6 | 2,021.4 | 948.6 | 2,115.3 | 1,009.6 | 2,200.8 | 1,103.8 | 2,345.1 | 1,144.4 | 2,417.7 | 1,146.5 | 2,421.2 | 1,160.4 | 2,435.1 | 1,224 | 2,515 |
| Miscellaneous Services | 482.7 | 1,031.3 | 529.7 | 1,095.0 | 596.1 | 1,171.0 | 613.7 | 1,168.5 | 681.0 | 1,227.4 | 736.6 | 1,294.6 | 755.6 | 1,318.5 | 787.3 | 1,362.3 | 892 | 1,504 |
| Public Administration | 129.8 | 503.9 | 139.8 | 526.4 | 148.5 | 550.7 | 168.8 | 585.7 | 171.1 | 614.3 | 151.2 | 593.3 | 147.9 | 593.3 | 152.9 | 602.3 | 124 | 542 |
| Manufacturing | 470.9 | 2,340.2 | 453.8 | 2,254.2 | 510.0 | 2,302.5 | 587.3 | 2,354.4 | 524.0 | 2,171.2 | 486.0 | 2,064.8 | 488.9 | 2,100.7 | 480.5 | 2,084.9 | 383 | 1,726 |
| Services | 2,206.5 | 5,624.1 | 2,341.6 | 5,815.5 | 2,559.1 | 6,119.7 | 2,742.1 | 6,300.4 | 2,932.1 | 6,522.2 | 3,000.3 | 6,599.6 | 3,037.3 | 6,673.2 | 3,108.6 | 6,792.1 | 3,298 | 7,057 |
| IOP and Construction | 509.7 | 2,496.6 | 494.8 | 2,414.2 | 555.8 | 2,469.9 | 635.8 | 2,526.1 | 575.1 | 2,348.3 | 541.3 | 2,248.5 | 546.0 | 2,283.9 | 538.4 | 2,274.1 | 452 | 1,936 |
| All Industries and Services | 2,757 | 8,224 | 2,877 | 8,331 | 3,163 | 8,705 | 3,421 | 8,933 | 3,551 | 8,973 | 3,585 | 8,951 | 3,617 | 9,050 | 3,679 | 9,158 | 3,781 | 9,085 |

Restricted

Restricted

FEMALE PART-TIME EMPLOYMENT BY INDUSTRY AS A PERCENTAGE OF TOTAL EMPLOYMENT BY INDUSTRY
SIC 68

| | PT as a percentage of total female employment | | | | | | | | | Female as a percentage of total employment | | | | | | | | |
|--------------------------------------|---|------|------|------|------|------|------|------|------|--|------|------|------|------|------|------|------|------|
| | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1981 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1981 |
| Agriculture | 39.2 | 40.3 | 41.9 | 40.3 | 42.8 | 42.0 | 35.9 | 35.4 | 33.6 | 24.6 | 24.3 | 27.2 | 26.4 | 25.9 | 25.9 | 24.4 | 24.5 | 24.7 |
| Mining and Quarrying | 18.9 | 19.0 | 19.4 | 21.4 | 21.6 | 24.1 | 23.5 | 22.6 | 19.7 | 3.8 | 3.9 | 3.9 | 4.0 | 4.0 | 4.2 | 4.4 | 4.7 | 5.5 |
| Food, Drink and Tobacco | 32.2 | 32.3 | 34.5 | 36.8 | 34.9 | 34.9 | 34.8 | 35.6 | 34.5 | 39.7 | 39.5 | 40.5 | 41.3 | 40.2 | 39.9 | 40.3 | 40.5 | 40.6 |
| Coal and Petroleum | 16.0 | 17.4 | 15.9 | 15.9 | 16.7 | 17.5 | 15.0 | 14.6 | 13.4 | 11.1 | 11.0 | 10.9 | 11.2 | 10.9 | 10.7 | 11.0 | 12.1 | 12.1 |
| Chemicals and Allied | 19.1 | 18.7 | 21.1 | 23.6 | 22.1 | 22.1 | 20.9 | 20.4 | 18.1 | 28.2 | 28.4 | 29.0 | 29.5 | 28.9 | 28.1 | 28.3 | 29.1 | 28.5 |
| Metal Manufacturing | 18.5 | 19.0 | 20.2 | 21.6 | 20.7 | 20.8 | 21.5 | 21.4 | 19.2 | 11.6 | 11.4 | 11.3 | 11.6 | 11.5 | 11.4 | 11.5 | 11.6 | 11.8 |
| Mechanical Engineering | 17.4 | 17.3 | 19.1 | 21.4 | 21.4 | 21.3 | 20.9 | 20.4 | 21.5 | 15.7 | 15.5 | 15.7 | 16.1 | 15.6 | 15.5 | 15.7 | 15.8 | 15.9 |
| Instrument Engineering | 17.4 | 17.3 | 20.3 | 24.2 | 24.3 | 22.9 | 22.2 | 21.6 | 20.5 | 35.6 | 34.9 | 36.1 | 37.7 | 36.9 | 35.7 | 35.6 | 36.4 | 33.6 |
| Electrical Engineering | 20.7 | 20.7 | 23.3 | 26.7 | 23.0 | 21.0 | 20.7 | 20.0 | 17.3 | 38.1 | 38.0 | 39.9 | 40.8 | 37.9 | 36.6 | 37.2 | 36.6 | 33.0 |
| Shipbuilding | 19.5 | 20.2 | 21.2 | 21.7 | 23.2 | 22.5 | 25.8 | 24.2 | 24.2 | 6.4 | 6.4 | 6.7 | 6.9 | 7.2 | 7.4 | 7.0 | 7.5 | 8.0 |
| Vehicles | 12.7 | 12.6 | 13.4 | 14.9 | 13.3 | 12.9 | 13.3 | 12.4 | 11.1 | 13.0 | 12.3 | 12.3 | 12.6 | 12.4 | 12.0 | 12.1 | 12.1 | 11.8 |
| Metal Goods (nes) | 24.0 | 22.9 | 24.9 | 28.1 | 26.7 | 25.5 | 25.6 | 25.2 | 24.6 | 29.4 | 28.9 | 29.5 | 29.9 | 28.5 | 28.1 | 27.9 | 27.4 | 25.7 |
| Textiles | 17.2 | 16.9 | 18.5 | 21.1 | 21.7 | 21.5 | 21.8 | 21.3 | 19.3 | 46.7 | 46.4 | 46.1 | 45.9 | 45.5 | 45.2 | 45.7 | 45.5 | 46.6 |
| Leather | 22.2 | 19.5 | 22.5 | 25.7 | 27.9 | 27.7 | 28.1 | 26.7 | 28.9 | 42.6 | 42.2 | 43.4 | 44.2 | 44.3 | 43.3 | 44.3 | 45.4 | 45.6 |
| Clothing and Footwear | 13.8 | 13.9 | 15.2 | 18.0 | 19.5 | 19.2 | 18.6 | 18.9 | 16.7 | 74.7 | 74.7 | 75.3 | 75.6 | 75.8 | 75.7 | 76.6 | 76.3 | 75.1 |
| Bricks, Pottery, etc | 15.6 | 15.8 | 17.6 | 21.3 | 21.4 | 20.1 | 19.5 | 19.5 | 18.9 | 21.5 | 21.5 | 21.6 | 22.7 | 23.5 | 23.1 | 23.6 | 22.8 | 22.3 |
| Timber, Furniture, etc | 20.1 | 20.0 | 21.9 | 24.4 | 26.4 | 24.9 | 25.1 | 25.0 | 27.6 | 18.8 | 18.7 | 19.3 | 19.3 | 19.6 | 19.4 | 19.4 | 19.9 | 20.5 |
| Paper, Printing and Publishing | 18.8 | 19.6 | 21.8 | 23.8 | 23.7 | 23.6 | 23.1 | 22.6 | 23.4 | 32.5 | 32.3 | 32.6 | 33.1 | 32.6 | 31.7 | 32.0 | 32.1 | 32.8 |
| Other manufacturing | 25.0 | 25.6 | 27.7 | 31.2 | 30.4 | 28.7 | 28.1 | 27.7 | 25.5 | 37.0 | 36.4 | 36.9 | 38.1 | 36.8 | 36.2 | 36.2 | 36.4 | 35.2 |
| Construction | 29.3 | 30.3 | 32.6 | 33.0 | 34.4 | 36.5 | 38.2 | 37.4 | 41.8 | 6.7 | 6.8 | 7.0 | 7.3 | 7.6 | 8.0 | 8.4 | 8.7 | 10.7 |
| Gas, Electricity and Water | 20.1 | 20.5 | 20.9 | 22.7 | 21.9 | 21.7 | 21.9 | 21.6 | 20.9 | 16.2 | 17.1 | 17.8 | 18.7 | 19.5 | 19.6 | 19.2 | 19.9 | 20.4 |
| Transport and Communication | 17.6 | 19.0 | 20.2 | 20.7 | 21.3 | 21.7 | 21.2 | 21.5 | 20.8 | 16.7 | 16.7 | 17.1 | 17.5 | 17.7 | 17.5 | 17.8 | 18.3 | 19.8 |
| Distributive Trades | 42.1 | 42.5 | 45.2 | 48.6 | 50.3 | 50.7 | 50.4 | 50.4 | 51.0 | 54.9 | 54.7 | 55.2 | 55.9 | 55.8 | 55.7 | 55.5 | 55.3 | 55.6 |
| Insurance, Banking, etc | 25.3 | 26.1 | 26.2 | 28.1 | 28.5 | 28.9 | 30.3 | 30.9 | 32.4 | 50.9 | 51.3 | 51.8 | 52.0 | 51.3 | 50.9 | 51.7 | 52.5 | 52.9 |
| Professional and Scientific Services | 43.0 | 44.1 | 44.8 | 45.9 | 47.1 | 47.3 | 47.4 | 47.7 | 48.7 | 66.5 | 66.7 | 66.7 | 67.0 | 67.7 | 67.9 | 68.3 | 68.1 | 68.2 |
| Miscellaneous Services | 46.8 | 48.4 | 50.9 | 52.5 | 55.5 | 56.9 | 57.3 | 57.8 | 59.3 | 54.1 | 54.7 | 55.4 | 56.0 | 56.9 | 57.5 | 57.5 | 57.7 | 58.9 |
| Public Administration | 25.8 | 26.6 | 27.0 | 28.8 | 27.9 | 25.5 | 24.9 | 25.4 | 23.0 | 34.2 | 34.8 | 35.7 | 37.8 | 38.2 | 37.5 | 37.9 | 38.8 | 38.7 |
| Manufacturing | 20.1 | 20.1 | 22.1 | 24.9 | 24.1 | 23.5 | 23.3 | 23.0 | 22.2 | 29.7 | 29.6 | 30.0 | 30.6 | 29.6 | 29.1 | 29.4 | 29.3 | 28.7 |
| Services | 39.2 | 40.3 | 41.8 | 43.5 | 45.0 | 45.5 | 45.5 | 45.8 | 46.7 | 49.5 | 50.0 | 50.7 | 51.6 | 52.1 | 52.4 | 52.6 | 52.8 | 53.8 |
| IOP and Construction | 20.4 | 20.5 | 22.5 | 25.2 | 24.5 | 24.1 | 23.9 | 23.7 | 23.3 | 25.3 | 25.2 | 25.5 | 26.1 | 25.3 | 24.8 | 25.2 | 25.2 | 24.7 |
| All Industries and Services | 33.5 | 34.5 | 36.3 | 38.3 | 39.6 | 40.1 | 40.0 | 40.2 | 41.6 | 38.0 | 38.5 | 39.2 | 40.1 | 40.4 | 40.6 | 40.9 | 41.1 | 42.6 |

TABLE 9

(a) NUMBERS EMPLOYED IN UK MANUFACTURING BY ESTABLISHMENT SIZE

MALES AND FEMALES

(THOUSANDS)

ESTABLISHMENT SIZE (BY EMPLOYMENT)

| | 1-24 | (1-99) | 25-99 | | 100-499 | | 500-999 | 1000+ | TOTAL | |
|------|-------------------------|--------|-------|-------|------------------|---------|---------|------------------|-------|-------|
| 1930 | 711 | (1605) | 894 | | 1815 | | 2135 | | 5554 | |
| 1935 | 706 | (1699) | 993 | | 1992 | | 1943 | | 5634 | |
| 1948 | 700 | (1900) | 1200 | | 2281 | | 955 | 1944 | 7080 | |
| 1951 | 639 | (1915) | 1276 | | 2479 | | 1003 | 2198 | 7594 | |
| 1954 | 641 | (1846) | 1205 | | 2485 | | 1008 | 2234 | 7672 | |
| 1958 | 619 | (1655) | 1036 | | 2428 | | 1044 | 2654 | 7781 | |
| 1963 | 637 | (1606) | 969 | | 2439 | | 1132 | 2775 | 7952 | |
| 1968 | 661 | (1586) | 925 | | 2399 | | 1139 | 2702 | 7826 | |
| 1970 | 590 | (1482) | 892 | | 2171 | | 1116 | 3264 | 8033 | |
| | 1-10 | 11-19 | 20-49 | 50-99 | 100-199 | 200-499 | 500-999 | 1000-1499 | 1500+ | TOTAL |
| 1975 | 259 242 447 521 1469 | | | | 591 1193 1884 | | 993 | 537 2584 3121 | | 7467 |
| 1980 | 279 256 427 488 1450 | | | | 620 1050 1670 | | 875 | 463 2038 2501 | | 6495 |

(b) PROPORTIONS OF TOTAL EMPLOYMENT IN UK MANUFACTURING BY ESTABLISHMENT SIZE

(PER CENT)

MALES AND FEMALES

| | 1-24 | (1-99) | 25-99 | | 100-499 | | 500-999 | 1000+ | TOTAL | |
|------|-------------------------|--------|-------|-------|------------------|---------|---------|------------------|-------|-------|
| 1930 | 12.8 | (28.9) | 16.1 | | 32.7 | | 38.4 | | 100 | |
| 35 | 12.5 | (30.1) | 17.6 | | 35.4 | | 34.5 | | 100 | |
| 48 | 9.9 | (26.8) | 16.9 | | 32.2 | | 13.5 | 27.5 | 100 | |
| 51 | 8.4 | (25.2) | 16.8 | | 32.6 | | 13.2 | 28.9 | 100 | |
| 54 | 8.4 | (24.1) | 15.7 | | 32.4 | | 13.1 | 29.1 | 100 | |
| 58 | 8.0 | (21.3) | 13.3 | | 31.2 | | 13.4 | 34.1 | 100 | |
| 63 | 8.0 | (20.2) | 12.2 | | 30.7 | | 14.2 | 34.9 | 100 | |
| 68 | 8.4 | (20.2) | 11.8 | | 30.6 | | 14.5 | 34.5 | 100 | |
| 70 | 7.3 | (18.4) | 11.1 | | 27.0 | | 13.9 | 40.6 | 100 | |
| | 1-10 | 11-19 | 20-49 | 50-99 | 100-199 | 200-499 | 500-999 | 1000-1499 | 1500+ | TOTAL |
| 75 | 3.5 3.2 6.0 7.0 19.7 | | | | 9.2 16.0 25.2 | | 13.3 | 7.2 34.6 41.8 | | 100 |
| 80 | 4.3 3.9 6.6 7.5 22.3 | | | | 9.5 16.2 25.7 | | 13.5 | 7.1 31.4 38.5 | | 100 |

SOURCES: Business Monitors PA 1002 1980; 1974/5; and Historical Record 1907-70

Employers and self-employed people — Industrial analysis: Great Britain

Thousand

| Industry order(s) | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1971 | 1972 | 1973 | 1974 | 1975 | 1977 | 1979 | 1981 |
|--|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| I-XXVII All industries and services | 1665 | 1653 | 1641 | 1629 | 1617 | 1609 | 1689 | 1713 | 1783 | 1832 | 1842 | 1954 | 1932 | 1969 | 1935 | 1933 | 1843 | 1842 | 2057 |
| II-XXI Index of production industries | 264 | 276 | 287 | 299 | 311 | 322 | 354 | 381 | 412 | 428 | 445 | 469 | 512 | 571 | 557 | 500 | 432 | 482 | 533 |
| III-XIX Manufacturing industries | 94 | 96 | 99 | 101 | 103 | 105 | 106 | 111 | 118 | 121 | 120 | 125 | 135 | 129 | 132 | 137 | 140 | 137 | 143 |
| XXII-XXVII Service industries | 1071 | 1056 | 1040 | 1025 | 1010 | 997 | 1039 | 1041 | 1088 | 1128 | 1130 | 1202 | 1159 | 1139 | 1137 | 1186 | 1159 | 1106 | 1279 |
| 1 Agriculture, forestry, fishing | 330 | 322 | 313 | 305 | 297 | 289 | 296 | 291 | 283 | 275 | 266 | 282 | 261 | 259 | 241 | 246 | 252 | 254 | 245 |
| III Food, drink and tobacco | 5 | 5 | 6 | 6 | 7 | 7 | 7 | 7 | 7 | 8 | 6 | 6 | 7 | 7 | 6 | 6 | 8 | 10 | 10 |
| II and IV-VI Mining, quarrying, coal, petroleum, chemical products and metal manufacture | 2 | 3 | 3 | 3 | 4 | 3 | 4 | 3 | 3 | 2 | 2 | 1 | 1 | 2 | 2 | 2 | 8 | 7 | 8 |
| VII-IX Engineering | 10 | 10 | 10 | 12 | 11 | 11 | 11 | 13 | 14 | 16 | 17 | 19 | 20 | 16 | 20 | 21 | 21 | 25 | 29 |
| X-XII Shipbuilding, vehicles and other metal goods | 16 | 16 | 15 | 15 | 14 | 14 | 14 | 15 | 17 | 18 | 18 | 19 | 18 | 17 | 20 | 22 | 19 | 21 | 22 |
| XIII-XV Textiles, leather and clothing | 24 | 26 | 27 | 29 | 30 | 31 | 30 | 27 | 26 | 25 | 23 | 25 | 26 | 24 | 25 | 21 | 19 | 18 | 19 |
| XVI-XIX Other manufacturing industries | 38 | 38 | 39 | 39 | 38 | 38 | 41 | 45 | 52 | 54 | 54 | 55 | 63 | 63 | 59 | 65 | 66 | 57 | 56 |
| XX Construction | 169 | 178 | 188 | 197 | 207 | 217 | 247 | 270 | 293 | 307 | 324 | 344 | 377 | 442 | 425 | 363 | 291 | 344 | 389 |
| XXII Transport and communication | 46 | 46 | 46 | 46 | 46 | 46 | 51 | 54 | 62 | 68 | 70 | 74 | 77 | 80 | 89 | 92 | 98 | 110 | 125 |
| XXIII Distributive trades | 526 | 512 | 497 | 483 | 469 | 456 | 460 | 452 | 460 | 467 | 468 | 497 | 472 | 465 | 455 | 463 | 462 | 441 | 467 |
| XXIV Insurance, banking, finance and business services | 32 | 32 | 32 | 32 | 32 | 32 | 35 | 38 | 42 | 47 | 48 | 52 | 50 | 51 | 53 | 53 | 56 | 57 | 84 |
| XXV Professional and scientific services | 172 | 170 | 168 | 166 | 164 | 163 | 176 | 172 | 180 | 186 | 186 | 197 | 189 | 187 | 193 | 210 | 181 | 173 | 312 |
| XXVI-XXVII Miscellaneous services | 296 | 296 | 297 | 298 | 299 | 300 | 316 | 324 | 343 | 361 | 358 | 382 | 371 | 356 | 347 | 368 | 362 | 325 | 390 |

TABLE 10 (continued)

SELF-EMPLOYED PEOPLE BY REGION: REVISED SERIES 1971-81

| REGION | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1971 | 1972 | 1973 | 1974 | 1975 | 1977 | 1979 | 1981 |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| South East | 502 | 540 | 549 | 582 | 607 | 605 | 641 | 640 | 674 | 673 | 635 | 592 | 635 | 700 |
| East Anglia | 59 | 60 | 66 | 69 | 71 | 71 | 75 | 79 | 81 | 77 | 79 | 68 | 89 | 87 |
| South West | 166 | 177 | 176 | 188 | 196 | 198 | 210 | 204 | 200 | 182 | 188 | 159 | 148 | 227 |
| West Midlands | 135 | 140 | 142 | 152 | 153 | 154 | 163 | 164 | 162 | 162 | 166 | 160 | 131 | 170 |
| East Midlands | 109 | 115 | 121 | 124 | 126 | 124 | 132 | 133 | 131 | 117 | 150 | 141 | 153 | 144 |
| Yorkshire and Humberside | 135 | 142 | 142 | 150 | 146 | 151 | 160 | 160 | 162 | 165 | 168 | 163 | 130 | 164 |
| North West | 192 | 199 | 200 | 207 | 208 | 210 | 223 | 213 | 216 | 225 | 210 | 190 | 212 | 217 |
| North | 72 | 72 | 71 | 71 | 78 | 79 | 84 | 80 | 82 | 81 | 68 | 81 | 57 | 84 |
| Wales | 104 | 106 | 106 | 102 | 109 | 111 | 118 | 113 | 115 | 110 | 111 | 130 | 100 | 115 |
| Scotland | 135 | 137 | 139 | 138 | 138 | 139 | 148 | 146 | 146 | 143 | 158 | 159 | 188 | 149 |
| Great Britain | 1,609 | 1,689 | 1,713 | 1,783 | 1,832 | 1,842 | 1,954 | 1,932 | 1,969 | 1,935 | 1,933 | 1,843 | 1,842 | 2,057 |

SOURCE: DE GAZETTE, FEBRUARY 1983 AND DECEMBER 1976

TABLE II

PSI SURVEY OF RACIAL MINORITIES 1982

ABSOLUTES/COL %

MINORITIES SAMPLE - INDIVIDUALS.
ACTIVITY STATUS

| ACTIVITY STATUS | ETHNIC ORIGIN | | | | | | | | | | | SEX | | WHITE COMPARISON SURVEY | | |
|---------------------|---------------|---------------|---------------|--------------|--------------|---------------|--------------|-------------|---------------|--------------|--------------|---------------|---------------|-------------------------|---------------|--------------|
| | TOTAL | WEST INDIAN | ASIAN | BANGLA DESHI | PAKIST ANI | INDIAN | AFRICA ASIAN | SRI LANKAN | MUSLIM | HINDU | SIKH | MALE | FEMALE | TOTAL | ALL MEN | ALL WOMEN |
| UNWEIGHTED TOTAL | 5001 | 1678 | 3323 | 336 | 935 | 1241 | 743 | 68 | 1638 | 846 | 631 | 2617 | 2360 | 2265 | 1001 | 1262 |
| WEIGHTED BASE | 10358 | 3465 | 6894 | 617 | 1840 | 2672 | 1634 | 132 | 3164 | 1892 | 1355 | 5500 | 4802 | 5375 | 2567 | 2802 |
| FULL TIME EMPLOYEE | 4541 43.8% | 1734 50.1% | 2807 40.7% | 186 30.1% | 665 36.1% | 1199 44.9% | 693 42.4% | 65 47.4% | 1101 34.8% | 835 44.1% | 637 47.0% | 3086 56.1% | 1430 29.8% | 1877 34.9% | 1324 51.6% | 551 19.7% |
| PART TIME EMPLOYEE | 524 5.1% | 324 9.3% | 200 2.9% | 4 .6% | 38 2.1% | 101 3.8% | 48 2.9% | 9 6.8% | 56 1.8% | 74 3.9% | 51 3.7% | 127 2.3% | 397 8.3% | 558 10.4% | 107 4.2% | 450 16.1% |
| SELF-EMPLOYED | 683 6.6% | 83 2.4% | 600 8.7% | 62 10.1% | 81 4.4% | 244 9.1% | 202 12.4% | 11 8.4% | 213 6.7% | 254 13.4% | 112 8.3% | 547 9.9% | 136 2.8% | 302 5.6% | 229 8.9% | 73 2.6% |
| UNEMPLOYED (RECD) | 1520 14.7% | 583 16.8% | 937 13.6% | 114 18.4% | 299 16.3% | 313 11.7% | 206 12.6% | 6 4.6% | 507 16.0% | 215 11.4% | 181 13.4% | 1054 19.2% | 453 9.4% | 385 7.2% | 263 10.2% | 118 4.2% |
| YEP/ CEP | 58 .6% | 35 1.0% | 23 .3% | - | - | 15 .6% | 8 .5% | - | 10 .3% | 7 .3% | 5 .4% | 32 .6% | 26 .5% | 21 .4% | 16 .6% | 5 .2% |
| TOPS | 20 .2% | 11 .3% | 9 .1% | - | - | 9 .3% | - | - | - | 7 .4% | 2 .1% | 18 .3% | 2 # | 2 # | 2 .1% | - |
| SICK, HOLIDAY, ETC | 313 3.0% | 162 4.7% | 152 2.2% | 11 1.7% | 68 3.7% | 57 2.1% | 17 1.0% | - | 102 3.2% | 24 1.2% | 26 1.9% | 183 3.3% | 130 2.7% | 137 2.5% | 79 3.1% | 57 2.0% |
| KEEPING HOUSE ONLY | 1805 17.4% | 197 5.7% | 1608 23.3% | 222 35.0% | 612 33.3% | 492 18.4% | 261 15.9% | 21 16.0% | 1030 32.5% | 235 14.0% | 237 17.5% | 4 .1% | 1901 37.5% | 924 17.2% | 4 .2% | 919 32.8% |
| SCHOOL /COLL | 596 5.8% | 232 6.7% | 365 5.3% | 21 3.3% | 84 4.6% | 156 5.8% | 95 5.8% | 10 7.6% | 141 4.4% | 118 6.2% | 70 5.1% | 317 5.8% | 260 5.4% | 130 2.4% | 79 3.1% | 51 1.8% |
| RETIRED (NOT UNEMP) | 348 3.4% | 135 3.9% | 214 3.1% | 3 .5% | 23 1.2% | 106 4.0% | 79 4.8% | 4 2.7% | 52 1.6% | 89 4.7% | 34 2.5% | 204 3.7% | 144 3.0% | 856 15.9% | 378 14.7% | 478 17.1% |
| UNABLE TO WORK | 99 1.0% | 47 1.4% | 52 .7% | 4 .6% | 14 .7% | 20 .7% | 13 .8% | 1 .8% | 17 .5% | 13 .7% | 20 1.4% | 72 1.3% | 27 .6% | 164 3.1% | 78 3.0% | 87 3.1% |
| OTHER | 257 2.5% | 125 3.6% | 132 1.9% | 8 1.3% | 35 1.9% | 51 1.9% | 33 2.0% | 6 4.6% | 54 1.7% | 31 1.6% | 31 2.3% | 100 1.8% | 158 3.3% | 81 1.5% | 36 1.4% | 45 1.6% |

Restricted

Table 12. Persons aged 16 and over in employment by ethnic origin, industry division and sex, Great Britain 1981

| Ethnic origin and sex | Industry divisions | | | | | | | | | | Percentages | |
|--|--------------------|------------|------------|-------------|-------------|-------------|-------------|------------|------------|-------------|---|-----------------------------------|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | No reply/ inadequately described/sands = working outside UK | All industries (Thousands = 100%) |
| Men | | | | | | | | | | | | |
| White | 3.6 | 4.9 | 5.3 | 16.4 | 10.9 | 10.7 | 14.5 | 8.5 | 6.8 | 17.2 | 1.3 | 13,325 |
| West Indian or Guyanese | 0.0 | 1.3 | 5.0 | 27.4 | 11.2 | 10.6 | 10.9 | 18.0 | 3.2 | 11.3 | 1.1 | 120 |
| Indian | 0.0 | 0.8 | 4.7 | 24.4 | 15.4 | 4.0 | 21.1 | 11.3 | 6.5 | 10.8 | 0.9 | 174 |
| Pakistani or Bangladeshi | 0.4 | 0.0 | 6.4 | 15.2 | 23.3 | - | 29.7 | 11.9 | 4.0 | 7.3 | 1.8 | 69 |
| Chinese, African, Arab, mixed or other | 0.4 | 1.5 | 3.1 | 16.8 | 7.4 | 4.3 | 27.0 | 9.5 | 7.5 | 20.1 | 2.4 | 114 |
| Not stated | 0.9 | 1.4 | 1.4 | 4.1 | 3.2 | 2.8 | 2.7 | 2.7 | 1.8 | 4.7 | 75.3 | 161 |
| All ethnic origins | 3.4 | 4.7 | 5.2 | 16.5 | 10.9 | 10.4 | 14.6 | 8.6 | 6.7 | 16.9 | 2.2 | 13,962 |
| Women | | | | | | | | | | | | |
| White | 1.1 | 1.1 | 2.3 | 6.6 | 11.4 | 1.3 | 24.6 | 2.8 | 8.9 | 38.4 | 1.5 | 8,945 |
| West Indian or Guyanese | 0.0 | 0.5 | 0.7 | 7.8 | 8.4 | 0.5 | 10.2 | 5.7 | 6.3 | 57.7 | 2.2 | 107 |
| Indian | 0.5 | 0.2 | 3.2 | 12.0 | 28.7 | 1.0 | 20.9 | 4.2 | 7.7 | 21.8 | 0.0 | 93 |
| Pakistani or Bangladeshi | 0.0 | 2.4 | 4.4 | 12.0 | 29.5 | 0.0 | 11.7 | 0.0 | 10.7 | 29.2 | 0.0 | 10 |
| Chinese, African, Arab, mixed or other | 0.0 | 1.2 | 1.5 | 5.6 | 11.7 | 1.3 | 26.7 | 2.9 | 3.7 | 38.9 | 1.5 | 70 |
| Not stated | 0.2 | 0.0 | 0.7 | 2.1 | 1.9 | 0.0 | 7.2 | 0.5 | 2.5 | 15.1 | 69.8 | 102 |
| All ethnic origins | 1.1 | 1.1 | 2.3 | 6.6 | 11.5 | 1.2 | 24.2 | 2.9 | 8.8 | 38.2 | 2.2 | 9,328 |

Persons aged 16 and over in employment by socio-economic group, ethnic origin and sex, Great Britain 1981

| Ethnic origin and sex | Socio-economic group | | | | | | | Percentages | |
|--|----------------------|---------------------|------------------|----------------|---------------------|------------------|---|-------------------------------|--|
| | Professional | Employers, managers | Other non-manual | Skilled manual | Semi-skilled manual | Unskilled manual | Armed forces/ inadequately described/and = 100%) not stated | All groups (Thousands = 100%) | |
| Men | | | | | | | | | |
| White | 6.1 | 16.2 | 17.9 | 38.0 | 15.7 | 4.7 | 1.4 | 13,325 | |
| Non-white | 6.6 | 10.4 | 14.6 | 36.7 | 24.0 | 6.7 | 1.0 | 476 | |
| West Indian or Guyanese | 1.7 | 4.0 | 7.3 | 48.6 | 26.6 | 10.8 | 1.1 | 120 | |
| Indian | 9.0 | 10.5 | 16.9 | 36.7 | 21.8 | 4.8 | 0.3 | 174 | |
| Pakistani or Bangladeshi | 4.2 | 15.4 | 7.9 | 31.7 | 31.8 | 8.6 | 0.4 | 69 | |
| Chinese, African, Arab, mixed or other | 9.7 | 14.0 | 22.9 | 27.3 | 19.7 | 4.2 | 2.3 | 114 | |
| Not stated | 1.7 | 3.3 | 4.9 | 10.0 | 3.7 | 1.4 | 75.0 | 161 | |
| All ethnic origins | 6.0 | 15.9 | 17.0 | 37.7 | 15.8 | 4.7 | 2.2 | 13,962 | |
| Women | | | | | | | | | |
| White | 1.1 | 6.6 | 53.0 | 7.4 | 23.4 | 8.1 | 0.3 | 8,945 | |
| Non-white | 1.7 | 2.9 | 47.2 | 8.4 | 33.5 | 5.6 | 0.6 | 281 | |
| West Indian or Guyanese | 0.2 | 1.9 | 50.0 | 4.4 | 34.5 | 8.4 | 0.7 | 107 | |
| Indian | 2.9 | 4.2 | 41.1 | 13.0 | 35.3 | 3.4 | 0.0 | 93 | |
| Pakistani or Bangladeshi | 6.7 | 2.3 | 39.9 | 14.1 | 34.3 | 0.0 | 2.7 | 10 | |
| Chinese, African, Arab, mixed or other | 1.8 | 2.8 | 52.2 | 7.7 | 29.5 | 5.1 | 1.0 | 70 | |
| Not stated | 0.3 | 2.5 | 16.1 | 1.7 | 8.3 | 2.1 | 69.1 | 102 | |
| All ethnic origins | 1.1 | 6.5 | 52.5 | 7.3 | 23.6 | 7.9 | 1.1 | 9,328 | |

SOURCE: LABOUR FORCE SURVEY 1981

Restricted

TABLE 13

OUTPUT PER PERSON EMPLOYED AND PER PERSON HOUR

Source CSO

Seasonally adjusted

and DE Gazette Feb 1984

1980 = 100

Whole Economy

Manufacturing

Output per person employed

Output per person employed output per hour

| | | | | |
|------|----|-------|-------|-------|
| 1960 | | 68.9 | 62.5 | |
| 61 | | 69.4 | 62.1 | |
| 62 | | 70.1 | 62.8 | |
| 63 | | 72.2 | 65.7 | |
| 64 | | 75.6 | 70.8 | |
| 65 | | 77.0 | 71.8 | |
| 66 | | 78.2 | 73.1 | |
| 67 | | 80.6 | 75.7 | |
| 68 | | 84.4 | 81.6 | |
| 69 | | 86.1 | 83.6 | |
| 70 | | 87.9 | 84.9 | 80.4 |
| 71 | | 90.4 | 86.8 | 83.6 |
| 72 | | 92.6 | 91.9 | 88.7 |
| 73 | | 96.1 | 99.8 | 95.0 |
| 74 | | 94.3 | 98.3 | 95.6 |
| 75 | | 93.0 | 95.7 | 93.8 |
| 76 | | 95.4 | 100.7 | 98.7 |
| 77 | | 97.8 | 102.3 | 99.6 |
| 78 | | 101.1 | 103.4 | 100.7 |
| 79 | | 102.6 | 103.9 | 101.3 |
| 80 | | 100.0 | 100.0 | 100.0 |
| 81 | | 101.5 | 103.0 | 104.4 |
| 82 | | 104.7 | 108.9 | 108.9 |
| 83 | | | 115.4 | 114.8 |
| 1980 | Q4 | 99.0 | 97.5 | 99.7 |
| 1981 | Q1 | 99.8 | 98.9 | 101.6 |
| | Q2 | 100.8 | 101.3 | 103.0 |
| | Q3 | 102.4 | 105.1 | 105.8 |
| | Q4 | 102.9 | 106.8 | 105.7 |
| 1982 | Q1 | 103.2 | 107.4 | 105.8 |
| | Q2 | 104.2 | 108.6 | 107.7 |
| | Q3 | 105.4 | 109.4 | 109.5 |
| | Q4 | 106.0 | 110.1 | 109.9 |
| 1983 | Q1 | 107.0 | 113.5 | 113.4 |
| | Q2 | 107.0 | 114.1 | 114.0 |
| | Q3 | 108.1 | 116.3 | 115.7 |
| | Q4 | - | 117.8 | 116.4 |

Manpower PT 1

Choquet's Seminar

①

PRIME MINISTER

At your meeting today with Mr. King you suggested a lunchtime discussion at Chequers with a number of academics to discuss the prospects for unemployment and the policies required to reduce it. I have established that Sir Alan Walters and Professors Hague, Peacock and Minford could come to lunch at Chequers this coming Sunday, 1 April. We could begin at, say, 11.30 and continue after lunch until about 4.00 p.m.

In addition to the professors, we could invite:

- ✓ the Secretary of State for Employment
 - ✓ Mr. Quinlan.
 - ✓ David Young.
 - ✓ Graham Reid. (Chief Economist at the MSC who will shortly become Mr. King's Chief Economic Advisor).
- Answer*

Could you indicate how large you would like the gathering to be and who should be added to the professors. Are you also content with the suggested format?

John Redwood.

*✓
MTR/T
" -12.*

*✓
AT.*

Yes. - Thandy on

ANDREW TURNBULL
27 March, 1984

ms



✓
after Redwood
File 34

10 DOWNING STREET

From the Private Secretary

27 March 1984

u MASTER SET

Dee David,

Employment

When your Secretary of State came to see the Prime Minister today, they discussed the preparation of papers for the Seminar Group meeting on 25 May. I have recorded this separately and circulated it to Private Secretaries to members of the Group.

During the rest of the discussion, the Prime Minister suggested that it would be helpful to discuss trends in unemployment and possible policy responses with a number of academics. One possibility would be for the Prime Minister and your Secretary of State to meet for lunch at Chequers, to which would be invited Professors Walters, Hague, Minford and Peacock. The discussion would be free ranging and would cover the need to develop an enterprise culture in Britain, the way demographic trends were operating, the likely impact of new technology, what general policy responses should be, and what contribution special employment measures could make. This office is examining whether the relevant people can be gathered together in the near future for such a lunch.

The Prime Minister said she was struck by developments in the US where there had been a large increase in employment, but this had come not from high technology sectors but from comparatively low technology sectors. Our aim should be to ensure that labour intensive industries could prosper as it was likely that the manufacturing sector would continue to shed labour.

The discussion then turned to specific measures to reduce the impact of unemployment. The Prime Minister said she was impressed by the community programme and the enterprise allowance but was reluctant to extend schemes such as job release and early retirement. She was disappointed with the loan guarantee scheme which had not met with a

/positive

positive response from the banks; instead they had sought to shift the risk on to the Government. Your Secretary of State said he hoped to visit the US later in the year and would examine a number of schemes, including another look at Workfair though this might be confined to people under 21. It was agreed that the whole range of SEMs should be reviewed. Some had now run their course and should be cut back to provide resources for new initiatives. When it was pointed out that there were surplus YTS places in the South, the Prime Minister suggested that the churches might be asked to arrange accommodation for trainees coming down from the North. Mr. Quinlan undertook to consider this.

*Your sincerely
Andrew Turnbull*

ANDREW TURNBULL

David Normington Esq
Department of Employment.



33

cfw Redwood

10 DOWNING STREET

From the Private Secretary

u MASTER SET

27 March 1984

Dear David,

Employment

The Prime Minister had a discussion today with your Secretary of State. Also present were Mr. Quinlan and Mr. Redwood.

Your Secretary of State said the need for further work on employment had been prompted by the resumption in the upward trend in unemployment in recent months. This had been discussed by Cabinet at its meeting on 1 March. His concern was that unemployment could become a much more contentious issue, having been unexpectedly muted during the election. While the economy was manifestly in recession, the public had tolerated rising unemployment but opinion could change if unemployment stayed high even while the economy was expanding and prosperity increasing. Although manufacturing industry had come through a period of massive labour shedding, there was no evidence that this process was at an end; indeed with new technology, it could continue just as strongly as before. He had noted growing concern about long term unemployment on the Government backbenches.

He therefore proposed a two part study. The first would examine recent labour market trends and offer projections for the next three years. The second would review policies affecting the labour market and employment; what the Government had already achieved; and what possibilities for further action remained. This would be presented in the first instance to the 25 May meeting of the Seminar Group and subsequently to the full Cabinet.

The Prime Minister said she was content with these proposals and asked your Secretary of State to set preparation of the papers in hand, consulting other Departments represented at the Seminar Group as necessary. The papers should be

/commissioned

SECRET AND PERSONAL

commissioned on the basis of new instructions and not by reference to the existence of this Group.

I am copying this letter to the Private Secretaries to the other Ministers attending the 25 May meeting; David Peretz (HM Treasury), Michael Reidy (Department of Energy), John Ballard (Department of the Environment), Elizabeth Hodgkinson (Department of Education and Science), Callum McCarthy (Department of Trade and Industry), Alex Galloway (Chancellor of the Duchy of Lancaster's office), and to Mr. David Young and Sir Robert Armstrong. I am also attaching a synopsis of this work.

I have recorded the other matters discussed at the meeting separately.

*Yours sincerely
Andrew Turnbull*

ANDREW TURNBULL

David Normington Esq
Department of Employment.

SECRET AND PERSONAL

EMPLOYMENT - SYNOPSIS OF PROPOSED FURTHER WORK

The objective is to enable colleagues to have a full discussion of prospects for employment and unemployment on existing policies and projections and what further might be done by Government to improve them.

For this purpose the Secretary of State for Employment could table two papers, consulting the Treasury and others as necessary. The first paper would set out labour market facts and trends. This would indicate in broad terms the prospects for employment and unemployment on the basis of the Medium Term Financial Strategy and set a general context and scale for the discussion. It would give information on:

(a) Recent trends. Growth of output, productivity and labour supply since 1981 and the consequences for employment and unemployment. The effect of special measures, incidence of unemployment by age, duration and location.

(b) Current projections. Forecasts of output, productivity, demographic growth, employment and unemployment for the next 3 years. Expected changes in the incidence of unemployment by age, duration and location and in the effect of special measures. The assumptions underlying the forecasts and the range of forecasting uncertainties and alternative outcomes.

SECRET AND PERSONAL

This would set the scene for a second paper on major aspects of policies affecting the labour market and employment. This would describe Government action already taken and in hand or under consideration (including relevant remits from the Prime Minister's September and December 1983 meetings) as it affects employment and unemployment. Policy aspects covered would include labour costs, industrial relations reform, Government constraints on the labour market, placement of labour (including mobility and self employment), training and use of labour and changing patterns of work (including the spread of part time work and earlier retirement). The paper would attempt to assess the implications for employment and unemployment of possibilities for further action.

These two papers should give the basis for a discussion of the scope for further Government action to improve the prospects. The Secretary of State wishes to discuss with the Prime Minister the best way of preparing for that part of the discussion.

SECRET AND PERSONAL

SECRET

PRIME MINISTER

The origins of this meeting lie in the Cabinet meeting a month ago when the increase in the unemployment figures was discussed. (There is a further, though smaller, increase this month).

I see no problem with Tom King's two papers provided

- i) the first paper does not become an enormous economic treatise
- ii) the second paper devotes as much time to the future as to what has been achieved.

It would be helpful if the Treasury were brought in on the preparation of the papers.

At today's meeting of MISC 101, you asked Tom King to prepare a paper on how the position of moderates in unions might be strengthened. I assume this reflects your dissatisfaction with the provisions in the current Bill on Union elections. It might be helpful to spell out precisely what questions you want answered.

AT

Andrew Turnbull
26 March 1984

SECRET

PRIME MINISTER

You are meeting Tom King tomorrow to discuss the paper he and his officials are preparing for the seminar and then for Cabinet on the subject of jobs.

The Policy Unit was asked by the December seminar to produce a paper reviewing Government policy towards job-creation, and answering the question whether there were successes in the policy so far to which attention could be drawn. By the end of this week we should have a reasonable draft of this paper.

The conclusions it comes to are going to be grouped around the following headings:

Encouragement of new and small businesses. The prime recommendations will be:

- (a) Relax and repeal some of the licensing regulations applying to various categories of business, eg hairdressing, car hire and employment agencies.
- (b) Taking measures to ease the Employment Protection legislation and abolishing Wages Councils to assist in pricing people back into jobs.
- (c) Increasing the VAT threshold substantially to remove one of the major burdens on a whole range of smaller businesses. (The EEC problem has to be overcome.)

Jobs subsidy. The paper will analyse all the different ways in which jobs are currently subsidised by Government, and attempt, in so far as there are numbers available, to rank the different measures in terms of cost per job related to the amount of benefit accruing. The paper will conclude that subsidising jobs through things like the Enterprise Allowance, the Community Programme and the Job-Splitting Scheme is a much better and cheaper way than doing it through high-cost nationalised industry subsidy (eg British Shipbuilders).

Cleaning up deprived areas. As a result of visits by the Policy Unit, we have come to conclusions about the best method of tackling

run-down inner urban areas where there is a high level of unemployment and also intense environmental problems. Where the local authority is interested in co-operating with the spirit of government endeavours for generating new jobs, then a mechanism like the Enterprise Zone may work at a price. Where the local authorities are likely to be unsympathetic - as in London and Merseyside - the Urban Development Corporation is by far and away the best model to follow. The paper concludes that in such areas there should be an extension of the Urban Development Corporation principle. The Urban Programme is now the subject of separate review, and contains considerable waste.

Methods of monitoring. When analysing all of the programmes related to environmental improvement and job-creation, we form the over-riding impression that the mixture of departments involved, combined with the speed with which the programmes had to be developed, left monitoring and control well behind the impetus and endeavour involved. Now is the time for the departments to take stock of what they have achieved so far, to set up more reliable methods for choosing between schemes, monitoring schemes that are up and running, and auditing the figures that are coming in. This is a vital prelude to sound conclusions about the relative costs and benefits of the variety of schemes that are now in place. It is clear that there are too many schemes and that the costs and benefits of them diverge widely. Whilst it is possible to conclude that the very high-cost routes should be wound down and the cheapest routes increased, it is difficult to be firm about preferences amongst schemes of middle-range cost.

Is there an achievement to be publicised? As a result of our visits, we came across some examples of extremely encouraging improvement. Docklands in London, which you are visiting shortly, is a great tribute to all those involved, as housing and business on a human scale is now developing in an area which was entirely derelict before. Corby is the one example of successful use of the Enterprise Zone concept. Silicon Glen in Scotland is a tribute both to the powers of the private market place and to the ingenuity of a Development Agency.

You might like to tell Tom King about our work and also to discuss how to handle it from here. There are three options:

- i. The paper could be for your eyes only, and you could ask for a brief distillation of its conclusions to go to the seminar.
- ii. You could send a copy of our paper to all those attending the seminar as part of the background briefing.
- iii. You could ask Tom King to incorporate those of our findings that he finds attractive in his own work on jobs to come to the seminar and ultimately to Cabinet. The sections on DoE matters would then have to be handled separately.

I think routing the whole paper on to all those attending the seminar is best, although it may then leak; and if it did, the press could write waspish stories about employment creation on the back of it.



JOHN REDWOOD

SECRET AND PERSONAL

ccJR

31



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400.....

Switchboard 01-213 3000

Andrew Turnbull Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

26 March 1984.

Dear Andrew,

EMPLOYMENT

As requested in your letter of 12 March I enclose a short synopsis of two papers that my Secretary of State proposes to have prepared for consideration by the special group on 25 May and subsequently by the full Cabinet. He thinks these would cover a substantial part of the ground and, as the note indicates, he will raise orally with the Prime Minister on 27 March how best to deal with the question of further Government action.

Yours sincerely

David Normington.

D J NORMINGTON
Principal Private Secretary

SECRET AND PERSONAL

SECRET AND PERSONAL

EMPLOYMENT - SYNOPSIS OF PROPOSED FURTHER WORK

The objective is to enable colleagues to have a full discussion of prospects for employment and unemployment on existing policies and projections and what further might be done by Government to improve them.

For this purpose the Secretary of State for Employment could table two papers, consulting the Treasury and others as necessary. The first paper would set out labour market facts and trends. This would indicate in broad terms the prospects for employment and unemployment on the basis of the Medium Term Financial Strategy and set a general context and scale for the discussion. It would give information on:

(a) Recent trends. Growth of output, productivity and labour supply since 1981 and the consequences for employment and unemployment. The effect of special measures, incidence of unemployment by age, duration and location.

(b) Current projections. Forecasts of output, productivity, demographic growth, employment and unemployment for the next 3 years. Expected changes in the incidence of unemployment by age, duration and location and in the effect of special measures. The assumptions underlying the forecasts and the range of forecasting uncertainties and alternative outcomes.

SECRET AND PERSONAL

SECRET AND PERSONAL

This would set the scene for a second paper on major aspects of policies affecting the labour market and employment. This would describe Government action already taken and in hand or under consideration (including relevant remits from the Prime Minister's September and December 1983 meetings) as it affects employment and unemployment. Policy aspects covered would include labour costs, industrial relations reform, Government constraints on the labour market, placement of labour (including mobility and self employment), training and use of labour and changing patterns of work (including the spread of part time work and earlier retirement). The paper would attempt to assess the implications for employment and unemployment of possibilities for further action.

These two papers should give the basis for a discussion of the scope for further Government action to improve the prospects. The Secretary of State wishes to discuss with the Prime Minister the best way of preparing for that part of the discussion.

SECRET AND PERSONAL



cc: MR REDWOOD
30A
R07

10 DOWNING STREET

From the Private Secretary

12 March, 1984

Dear David,

EMPLOYMENT

The Prime Minister has seen your Secretary of State's minute of 8 March suggesting how the remit from Cabinet on Employment should be handled. We have already suggested to your Secretary of State that an inter-departmental group of officials be established to investigate constraints on the labour market, particularly those arising from Government legislation and policies, and he has agreed.

BF | The discussion at Cabinet requires a rather wider remit. The Prime Minister has seen, and agrees with, your Secretary of State's suggestion that he should prepare a paper or papers, subsuming the earlier remit, to assess what the Government has so far done and what the priorities for further action should be. She agrees that this should be taken, in the first instance, by the special group whose next meeting is scheduled for 25 May, before being presented to a full Cabinet meeting in the summer.

The Prime Minister would like to have a short meeting with your Secretary of State to discuss this work. Could you prepare a short synopsis of what he has in mind in his paragraphs 5 and 6, to serve as an agenda for this meeting. This office will be in touch to arrange a time.

Yours sincerely
Andrew Turnbull

(Andrew Turnbull)

D. Normington, Esq.,
Department of Employment

R07

SECRET

30

PRIME MINISTER

c.c. John Redwood

EMPLOYMENT

We had already suggested to Mr. King that he set up a departmental group of officials to identify obstacles to the good functioning of the labour market. He had agreed to do this. Following the discussion at Cabinet, a rather wider study is envisaged, leading to a Cabinet discussion in the summer. This would subsume the earlier exercise.

Mr. King has proposed that his Department should take the lead in preparing such a study which would be taken, in the first instance, at the next meeting of the Industry and Employment Seminar Group, now fixed for Friday, 25 May (immediately before the spring Bank Holiday).

I recommend that you ask Mr. King to provide a synopsis of the kind of exercise he has in mind at para. 6 (b) and (c) of his minute and then have a brief meeting with him to go over it. He should then be asked to produce the paper in collaboration with the Treasury and Cabinet Office.

Agree?

Yes
mb

AT

Yes
M

9 March 1984

SECRET



CC JR
29A

PERSONAL AND SECRET

Prime Minister

EMPLOYMENT

1. At last Thursday's discussions in Cabinet of the employment situation you said that you would be considering with me how best to look at future employment prospects and the scope for Government action to improve them.
2. I imagine that you may want to bring these matters back to Cabinet in due course, for a broad discussion on a prepared basis.
3. Certain work is already in hand:
 - (a) As my Private Secretary's letter of 2 March to Mr Turnbull reported, I have instructed my officials to review with your Policy Unit the state of work on constraints in the labour market. I shall then consider what further needs to be done on this aspect; and advise you of the position.
 - (b) Following your special meetings in September and December, there is an extensive programme of work in hand, and Andrew Turnbull's letter to the Treasury covers this.
 - (c) Following the Chancellor's November paper to the NEDC, NEDO is co-ordinating a programme of work under the Council's aegis on various employment-related topics, set out in NEDC(84)15.



PERSONAL AND SECRET

4. These various remits follow an extensive range of work over the past two or three years, including for example the deliberations of MISC 14 under the previous Chancellor and the CPRS report on employment, as well as the material prepared for your September and December meetings.

5. Given all this, I think what we now need is not a further set of reports but rather to value what we have done and determine our priorities for further action and presentation.

6. If I judge rightly that you would like to work towards a major Cabinet discussion in (say) fairly early summer, I offer the following suggestions on how we might proceed:

(a) The next meeting of your special group which I gather is planned for late May, could have a preliminary discussion in advance of a full Cabinet discussion of prospects for employment.

(b) In parallel with the continuing work on the various existing remits I would propose to bring to that meeting an appraisal of the work that is being done with any proposals for further work.

(c) I could also bring to that meeting either a summary paper (or possibly lay on a presentation) on current facts on employment and unemployment, demographic trends and also agree with the Treasury whatever could be usefully said about future prospects on existing policies and projections.



PERSONAL AND SECRET

8. I am not at this stage circulating elsewhere copies of this minute. You may wish to discuss it further with me.

TK

T K

8 March 1984

PERSONAL AND SECRET

MR. TURNBULL

Seminar on industry and employment

I have now gone firm on Friday 25 May
at 0900-1245. The following will attend:

Chancellor of the Exchequer
Secretary of State for Energy
Secretary of State for the Environment
Secretary of State for Education & Science
Secretary of State for Trade & Industry
Secretary of State for Employment
Mr. David Young
Chancellor of the Duchy of Lancaster
Sir Robert Armstrong
Sir Alan Walters (if around)
Mr. John Redwood

I think you should write to the respective
offices as soon as possible.

CR

8 March 1984

SECRET

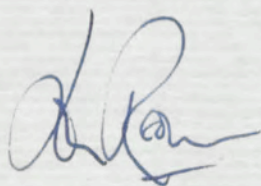
2 March 1984

MR TURNBULL

29

Following our discussion concerning the Ministerial seminar, I thought I would put down on paper some ideas for an agenda:

1. Job-creation and the renovation of depressed areas (Policy Unit paper to follow).
2. The future of the local authorities. It might be a good idea for discussion of the reforms following the Met.Counties abolition, to be supplemented by some debate about the medium-term future of the local authorities in an era of rate-capping, contracting-out and continued pressure against growth in their spending.
Planning problems. ~~Planning problems~~
3. Competition policy.
4. A capital-owning democracy. This could include discussion of the further progress being made in selling state-owned houses and industrial assets, and couple it with a review of changes in the financial markets, pensions reform, and other measures necessary to achieve wider share ownership.
5. Trade policy. The meeting could consider the costs of different methods of supporting trade, review the level of industrial subsidy, and consider the best ways of protecting British interests whilst furthering the cause of free trade.



JOHN REDWOOD

SECRET

28

PRIME MINISTERSEMINAR ON INDUSTRY AND EMPLOYMENT

At the conclusion of the last Seminar in December, you suggested re-convening the group around Easter. For diary reasons this looks difficult (you visit Docklands on the Friday before the Recess and you go to Portugal for two days during the Recess). I have identified 4 May as an alternative, ie the Friday before Spring Bank Holiday. We could use the same format as December, ie a morning meeting followed by lunch.

Agree this date?

I think a lot of people will want to get away early so we should have do end monthly at 2.30

As to Agenda, most of the points raised at the December Seminar have been followed up either by action or by instituting a review or, as in the case of Agricultural Wages Boards, by deciding not to proceed. I attach the record of the meeting. (Action is still needed in the field of planning and DTI's paper on export promotion is still awaited).

It is relatively encouraging that a large number of the items identified back in September have been acted upon but this means that the Agenda will need to be more than just a follow up. John Redwood and I will give further thought to this but John's preliminary ideas are set out in the attached note. Perhaps we could have a word to see what new ideas you would like to see pursued.

Finally, the May meeting could be used to commission papers for a larger Seminar in September. As last year, colleagues could be given the opportunity to put forward their ideas rather than simply write papers in response to suggestions put to them.

AT

Andrew Turnbull
2 March 1984

**National Economic Development Council**NEDC(84)24
29 February 1984

EMPLOYMENT TRENDS IN THE US, EUROPE AND JAPAN

Memorandum by the Secretary of State for Employment

- 1 The attached paper by my officials provides information that is readily available about significant trends in labour supply and patterns of demand in six leading industrial countries - UK, France, Germany, Italy, Japan and the USA - over the last two decades. As agreed by the Council in February it is presented as factual background at the outset of the Council's consideration of "Where will the new jobs be?".
- 2 The main conclusions of the comparisons are summarised in paragraph 23 of the paper. Although the overall trends observed in the UK are not unique it is significant that growth of the total labour force has been slower in the UK than in Japan and the US, and that uniquely, the UK male labour force has actually declined. Part-time employment in the UK is a much higher proportion of the total than in each of the other countries, though the trend is upwards in the others, except Italy. Similarly, female participation rates have grown in all six countries but the UK rate remains the highest with the exception of the US.
- 3 The paper illustrates a range of factors affecting the labour market. It does not deal directly with the variety of ways in which labour supply and demand are balanced, high among them greater flexibility in working patterns and remuneration. That is one of the subjects due to be considered later in the Council's programme of work. Meanwhile, I invite my colleagues on the Council to consider the main features illustrated by the analysis and to comment on them as part of the factual background to the "new jobs" work programme.

EMPLOYMENT TRENDS IN THE US, EUROPE AND JAPAN

Note by the Department of Employment

INTRODUCTION

1 This note attempts to draw out significant trends in labour supply, and patterns of demand in six leading industrial countries, the UK, France, Germany, Italy, Japan and the USA.

2 There are five main sections:

- (i) Population and the Labour Force - a comparison of population, its growth and structure, and migration;
- (ii) Labour supply - comparing male and female activity rates, and the growth of the labour force;
- (iii) Patterns of Employment - changes in civilian employment, self-employment, part-time working, hours of work, holidays etc;
- (iv) Structure of Employment - changing patterns of employment by industry and occupation;
- (v) Summary of the significant features - ways in which UK experience differs from that of her competitors.

POPULATION

3 The main determinant of the number of people offering themselves for employment will of course be the size of the population. As table 1 shows, the four European countries considered are of comparable size, varying between just under 54 million for France to almost 62 million for West Germany in 1981. The Japanese population was approximately twice as big and the USA's almost twice that of Japan. Table 2 shows average growth rates of total population between 1960 and 1981. Here again the European countries are distinct. The US population grew by an annual average of 1.2%, during 1960-81, Japan by 1.1%, and all the Europeans by less than 1%, with the UK growing slowest of all at 0.3% a year.

4 Population growth will be the result of both natural increases and net migration. Table 3 and diagram 1 present natural increases in population for the years from 1970 to 1981 for the six countries expressed as a proportion of their total population. Again the European countries tended to expand more slowly than the USA and Japan, and Germany has had a "natural decrease" since 1972. Japan experienced an extraordinary rate of increase in the early 1970s with a birth rate of almost 2% but her natural increase rate has since fallen to below the US level.

and
5 Table 4/diagram 2 show net migration rates ie immigrants less emigrants as a proportion of total population. In most countries migration follows a cyclical pattern, and clearly adds an element of flexibility in the matching of labour supply and demand. The most striking feature is the experience of Germany, showing how the "gastarbeiter" system has been varied by policy in response to economic needs. Also demonstrated is the important role of immigrants in France in the early 1970s, and in Italy throughout the period. The USA has been absorbing between $\frac{1}{2}$ and $\frac{1}{2}$ million net immigrants throughout the period. Japanese net migration has been negligible, while the UK has been an exporter of population, with a net outflow averaging over 44 thousand a year between 1970 and 1980.

6 Defining the population of working age as that between the ages of 15 and 64, (14 and 64 in Italy) ^{it can be seen} from table 1 that the proportion of total population of working age varies little between the countries, although it is somewhat lower in the UK and France, at just over 61%, than in the other four countries, at between 66-67%. Growth of population of working age (table 2) has been faster than that of total population in USA, Japan, and France, slower in the UK and Italy, and the same as total population in Germany.

LABOUR SUPPLY

7 In order to translate from population of working age to supply of labour it is necessary to examine participation (or activity) rates. During the 1960s these declined in most leading OECD countries, the UK and USA being the major exceptions because of rising female participation (diagram 3).

It is more difficult to draw general conclusions about the subsequent period. US participation rates have been rising and those of Italy and Japan have been increasing since the middle of the decade, but German participation rates have continued to fall. UK rates increased throughout the 1970s to a level higher than in any other OECD country (over 74%), but have fallen back in the early 1980s to below the US level.

8 Apart from some cyclical variation male participation rates in all the countries considered have declined over the period (diagram 4). Two important forces are at work here. Firstly, outside North America declining youth participation has been mirrored by growing enrolment in post compulsory education. (The North American practice of combining school attendance with part-time work means that this effect was less marked there). This tendency has accelerated during the recent recession. Secondly participation of older workers (55 and over) has declined steadily in all countries, due to wider coverage of pension schemes, improved benefits and inducements to early retirement. These two processes have been operating in Japan as elsewhere but because of demographic changes there, change in the overall male participation rate has been less marked. In addition there have been small declines in participation by males aged 25-54 in the UK and USA and a somewhat larger one (5% over the last decade) in Germany.

9 Female participation rates in the 7 leading OECD countries have increased consistently from 46.8% in 1960 to 55.9% in 1982. But as diagram 5 shows, within that total there have been some significant variations. During the 1960s activity rates were falling in Japan, Germany and Italy, and rising in the UK and USA. German rates began increasing in the late 1960s, the Italian rates in the early 1970s and the Japanese in the mid-1970s. On the other hand UK female activity rates which increased rapidly in the 1970s have fallen since 1980.

10 While female activity rates in four of the countries are in the range 50-58%, there are two outliers: the USA, with over 60% and Italy with little more than 40%. (These results are reflected in the female proportions of the labour force. While for four of the countries including the UK the female share in 1982 was very close to 39%, in the USA it was 42.7% and in Italy 33.7%). The UK female activity rate was the highest in the mid-1970s but has since been overtaken by the USA. It remains to be seen whether an upward trend will be re-established over the next few years.

11 These trends in participation rates, together with the growth of population of working age give the long-term growths in labour force shown in diagram 6. Between 1960 and 1981 the US labour force grew by an average of 2.1% a year and the Japanese by 1.1%, while growth in the other countries was less than 1%. In all countries except Japan female labour force growth was faster than male, with rates of 3.4% in the USA 1.6% in France and 1.2% in the UK. By comparison male labour force growth was modest, with 1.3% growth in the USA and 1.2% in Japan, while in Italy it was stationary, and in the UK actually declined.

PATTERNS OF EMPLOYMENT

12 As with labour force growth, civilian employment growth reveals a contrast between the European experience and that of Japan and the USA (see table 5). Between 1960 and 1981 civilian employment in the USA grew by 2.0% a year, and by 1.1% in Japan. While there was some variation in the experience of European countries - for instance German employment fell between 1960 and 1968, grew between 1968 and 1973, and fell again subsequently - in none of the countries did growth exceed 1% on average, and in most it was substantially less.

13 Wage earners and salaried employees are, as table 1 indicates, always the largest component of civilian employment, but the proportion varies considerably. From 91% in the UK and USA, 87% in Germany and 83% in France it falls to 72% in Japan and 71% in Italy (1981 figures). The numbers of employers and self-employed varies conversely, from 9% in the UK, USA, and Germany, to 17% in Japan and 23% in Italy. Clearly the size of the agricultural sector is an important determinant of the numbers of self-employed as of unpaid family workers, who account for 1% of civilian employment in Germany, 5% in Italy and nearly 11% in Japan.

14 The last two decades have seen a substantial increase in part-time employment. And as table 6 shows between 1973 and 1981 the share of part-time employment grew in each country except Italy, with the UK proportion being easily the highest at over 21%. The female share of part-time employment exceeded 50% in all the six countries and was more than 80% in the UK and 90% in Germany. Changes in total employment (part-time and full-time) between 1973 and 1981 are shown in diagram 7. In the UK growth in numbers of part-time jobs was not sufficient to offset the decline in full-time jobs, as it was in Germany. In other countries (except Italy) both part-time and full-time working increased, but only in France was the increase of part-time jobs greater.

15 The trend in hours worked per person has been downward, although the rate of decline has varied and there have been substantial cyclical fluctuations about the trend. Hours of work per week in manufacturing for five countries are recorded in diagram 8. In 1966 the highest figure was in France (46.6 hours) followed by Japan, UK and Germany with the lowest USA (41.3 hours). Subsequently France has experienced the most substantial decline, presumably reflecting in part the "Grenelle" agreement of May 1968 which reduced statutory weekly hours of work to 40, and the further reduction to 39 hours in 1982. Hours were reduced

much more slowly in the UK and USA, and in Japan declined rapidly until the mid-1970s since when the underlying trend may have increased.

16 By 1982 the UK/the highest number of hours worked, including overtime, in manufacturing with 41.3 a week, followed by Japan and Germany. In France the average was 39.5 and in the USA 38.9. Diagram 9 reports hours of work in manufacturing for males and females separately, (UK, Japan, Germany only.) In the UK there is a significant contrast between the substantial decline in hours worked by males in the current recession and the increase in female hours worked since 1979

17 During the last two decades, according to OECD, there have been substantial increases in holiday entitlement in all countries except Japan. Minimum annual paid holidays which were generally two to three weeks in 1960, had become three to five weeks in 1982.

STRUCTURE OF EMPLOYMENT

18 The most striking change in the sectoral distribution of employment over the past two decades has been the growth in the share of services (see diagram 10) to reach around fifty per cent or more in all six of the countries under consideration. (The UK proportion is second only to the United States). However, this growth has not always been at the expense of manufacturing: in Italy and Japan, the share of manufacturing has actually risen over the period as a whole (although it has been falling more recently), as the once-substantial agricultural sector has contracted, and in France and Germany too the share of agriculture has fallen considerably more than that of manufacturing. In the UK and US on the other hand the agricultural sector was quite small even at the start of the period and it is manufacturing which has seen the greatest decline. In all countries, the share of 'other industries' (mining, construction and utilities) has remained fairly constant.

19 As diagram 11 shows manufacturing employment in all the countries reached a peak during the period under consideration. Within manufacturing, a readily comparable analysis of employment by industry is only available for EC countries, and not in any great detail (table 7). There is a broad similarity in the industrial structure of the four European countries, with Italy standing out as having relatively fewer in engineering. Females account for about one third of manufacturing employees in all the countries for which figures are available, though the proportion is slightly lower in the UK than in France and Germany.

20 The corresponding figures for services, again at a fairly well aggregated level (table 8) also show a similar picture for three European countries, the only variation of note being the UK's rather high proportion of employees in hotels and catering. However, the very large proportions in the 'other services' category (nearly 50 per cent in each case) may obscure important differences between the countries. The proportion of females is around one-half in all of them, though in this case the UK figure is marginally the highest of the three, the excess being most marked in hotels and catering.

21 Changes in the occupational structure of employment are related to the sectoral and industrial changes described above. Comparable data are not available for all the countries, or over as long a period, but the figures for Germany, Japan and the USA (table 9 and diagram 12) again reveal fairly similar trends over the last ten years. The greatest proportionate increases (in Germany and the USA they are the greatest in absolute terms too) have been in professional, technical and related occupations, and the greatest proportionate decreases have been in agriculture. This category and that of 'production and related' workers were indeed the only two groups to show reductions over the period, though the latter still makes up around one-third of total employment in each of the countries.

22 Data are not available on the same basis for the United Kingdom, but the occupational analysis used by the Warwick Institute for Employment Research (see table 10), indicates a similar growth in non-manual and decline in manual employment. The greater detail available in the Warwick analysis enables it to identify 'professional' occupations as showing the greatest proportionate increase in recent years, and 'non-transferable craftsmen' as the group declining the most; it is not possible to see whether this was the case in the other countries. Warwick also provide disaggregation of manual occupations, and find the largest proportional declines among 'non-transferable craftsmen', such as miners, furnacemen, skilled textile and clothing workers, jewellers and potters. However, in absolute numbers the greatest job losses were among the semi-skilled and unskilled.

SUMMARY OF SIGNIFICANT FEATURES

23 The main results to emerge from this survey of the trends and patterns in labour supply and demand in 6 industrial countries (UK, France, Germany, Italy, Japan and the USA) are:

- (i) Over the period 1960-81, the UK population had the slowest increase in population of the six countries. This was the result of a slow natural increase in population and a negative net migration. In the other countries net migration tended to be positive in most years, and in Germany it also showed significant cyclical variability;
- (ii) In the 70s activity rates of males have been declining in all countries and female activity rates have increased. In the mid-70s the UK total activity rates (for males plus females) were the highest of the six countries but after a decline in UK female activity rates since 1980, they are now second after the US;
- (iii) The increase in the total labour force in the UK in the period 1960-81 was modest; similar to that in Germany and Italy, below that in France and much lower/in Japan and the US. The UK stands out as the only country, with a decrease in its male labour force. This is due entirely to a reduction in activity rates. In all the countries, with the exception of Japan, the female labour force increased much more than the male labour force;
- (iv) The total civilian employment (employees in employment and self-employed) in the UK was the same in 1981 as in 1960. This is generally in line with the experience of other European countries (with an average growth of 0.2% in the period) but much below the growth in employment in the US (+2%) and Japan (+1%);
- (v) Between 1973 and 1981 the number of employees in employment declined in the UK but increased, to varying extents, in the other countries with particularly large increases in the US and Japan. In all countries, except Italy, there was an increase in part-time employment.

- (vi) Because of the small relative size of the agricultural sector in the UK and USA, the proportion of self-employed is lowest in these two countries;
- (vii) Part-time employment, associated with female employment, has increased in all countries since 1973, with the exception of Italy. The UK stands out as having by far the highest proportion of part-time employment, 21% in 1981. The US is second with 14% and in the other four countries the average is under 8%;
- (viii) There was a decline in the hours of work per worker in manufacturing in all countries except Japan, where there was an increase in recent years. The downward trend in the UK was relatively slow and the level of hours worked in the UK (including overtime) has been higher than in the other countries since 1974. In the UK in 1982 the number of hours worked per worker in manufacturing was over 41 hours per week with Japan second at just under 41 hours and the US lowest at just under 39 hours per week;
- (ix) Holiday entitlement has grown in all countries except Japan. Minimum annual paid holidays were 2-3 weeks in 1960 and 3-5 weeks in 1982;
- (x) In all six countries the share of agriculture in total employment has fallen, that of industry has reached a peak and subsequently declined, and that of the service sector share has increased;
- (xi) In the four countries for which we have occupational data (UK, USA, Germany and Japan), numbers in non-manual occupations have grown, and numbers in manual occupations have decreased.

Department of Employment

TABLE 1
POPULATION, LABOUR FORCE AND EMPLOYMENT

millions

| | UNITED KINGDOM | FRANCE | GERMANY | ITALY | JAPAN | USA |
|-----------------------------|-------------------|---------|---------|-------|-------|-------|
| Population (1981) | 56.3 | 54.0 | 61. | 56.3 | 117.6 | 229.8 |
| Population aged 15-64 | 36.2 | 34.7 | 41.4 | 37.7 | 79.2 | 15.2 |
| Total Labour Force (1982) | 26.3 | 23.4 | 27.5 | 23.2 | 57.7 | 112.4 |
| Male | 16.0 | 14.2 | 17.0 | 15.4 | 35.2 | 54.4 |
| Female | 10.3 | 9.2 | 10.5 | 7.8 | 22.5 | 47.9 |
| Civilian Employment (1982) | 23.2 | 21.0 | 25.1 | 20.5 | 56.4 | 99.5 |
| Male | 13.7 | 12.8 | 15.4 | 13.9 | 34.4 | 56.3 |
| Female | 9.5 | 8.1 | 9.7 | 6.7 | 22.0 | 43.2 |
| Professional Status (1981) | | | | | | |
| Wage Earners etc | 21.7 | 17.4 | 22.3 | 14.7 | 10.4 | 91.0 |
| Employers and self employed | 2.1 |) 3.5 (| 23.3 | 4.8 | 9.4 | 8.7 |
| Unpaid Family Workers | |) (| 0.9 | 1.1 | 5.9 | 0.6 |
| Unemployed (1983) | 3.1 | 2.0 | 2.3 | 2.7 | 15.7 | 10.7 |

Sources: OECD Labour Force Statistics 1970-1981, OECD Quarterly Labour Force Statistics and DE Gazette.

Notes:- 1 14-64

2 Twelve months to November 1983

TABLE 2

GROWTH OF POPULATION AND
POPULATION OF WORKING AGE

Average Annual Percentage Changes

| | TOTAL POPULATION GROWTH | GROWTH OF POPULATION OF WORKING AGE |
|---------|----------------------------|--|
| | 1960-1981 | 1960-81 |
| UK | 0.3 | 0.2 |
| FRANCE | 0.8 | 1.0 |
| GERMANY | 0.5 | 0.5 |
| ITALY | 0.7 | 0.6 |
| JAPAN | 1.1 | 1.3 |
| USA | 1.2 | 1.7 |

Source:- OECD "Historical Statistics, 1960-1981"

TABLE 3

POPULATION - NATURAL INCREASE RATES

| | UNITED STATES | JAPAN | FRANCE | GERMANY | ITALY | UNITED KINGDOM |
|------|---------------|-------|--------|---------|-------|----------------|
| 1970 | 8.8 | 11.9 | 5.1 | 1.2 | 7.2 | 4.5 |
| 1971 | 7.8 | 12.7 | 6.4 | 0.8 | 7.3 | 4.6 |
| 1972 | 6.2 | 12.9 | 6.3 | -0.5 | 6.9 | 2.9 |
| 1973 | 5.5 | 12.8 | 5.7 | -1.5 | 6.3 | 2.0 |
| 1974 | 5.7 | 12.1 | 4.7 | -1.6 | 6.4 | 1.2 |
| 1975 | 5.8 | 10.7 | 3.5 | -2.4 | 5.1 | -0.6 |
| 1976 | 5.8 | 10.1 | 3.1 | -2.1 | 4.5 | 0.1 |
| 1977 | 6.5 | 9.4 | 3.9 | -2.0 | 3.7 | 0.8 |
| 1978 | 6.3 | 8.9 | 3.6 | -2.4 | 3.2 | 0.1 |
| 1979 | 6.9 | 8.2 | 4.0 | -2.1 | 2.5 | 0 |
| 1980 | 7.1 | 7.3 | 4.7 | -1.5 | 1.7 | 1.3 |
| 1981 | 7.2 | 6.9 | 4.6 | -1.6 | 1.5 | 0.1 |

Source:- OECD "Labour Force Statistics" 1970-81

$$\text{Definition} = \frac{\text{Births} - \text{Deaths}}{\text{Population}} \times 1000$$

TABLE 4
POPULATION - NET MIGRATION RATES

| | UNITED STATES | JAPAN | FRANCE | GERMANY | ITALY | UNITED KINGDOM |
|------|---------------|-------|--------|---------|-------|----------------|
| 1970 | 2.1 | -0.1 | 3.5 | 9.3 | -0.9 | -1.5 |
| 1971 | 1.9 | -0.2 | 2.8 | 7.0 | -0.9 | -1.1 |
| 1972 | 1.5 | -0.2 | 2.0 | 5.4 | 1.7 | -0.2 |
| 1973 | 1.6 | -0.2 | 2.1 | 6.2 | 3.5 | -1.0 |
| 1974 | 1.5 | -0.2 | 0.6 | -0.1 | 2.0 | -1.6 |
| 1975 | 2.1 | 0.0 | 0.5 | -3.2 | 1.5 | -1.0 |
| 1976 | 1.6 | -0.1 | 0.0 | -1.2 | 1.0 | -1.4 |
| 1977 | 1.8 | -0.1 | 0.0 | 0.5 | 1.2 | 0.8 |
| 1978 | 2.3 | -0.2 | 0.0 | 1.9 | 0.9 | -0.1 |
| 1979 | 2.2 | 0.0 | 0.0 | 4.0 | 0.5 | 0 |
| 1980 | 2.9 | 0.2 | 0.0 | 5.1 | 0.7 | -1.3 |
| 1981 | 2.2 | 0.3 | 0.0 | 2.5 | 0.4 | 0 |

Source: OECD Labour Force Statistics 1970-1981

Note: Net migration rate = $\frac{\text{Net migration (ie immigrants less emigrants)}}{\text{Average Population}} \times 1000$

TABLE 5
GROWTH IN CIVILIAN EMPLOYMENT

Year to Year Percentage Changes

| | 1960-81 | 1960-68 | 1968-73 | 1973-80 | 1981 |
|---------|---------|---------|---------|---------|------|
| UK | 0.0 | 0.4 | 0.2 | -0.1 | -4.2 |
| France | 0.6 | 0.7 | 1.1 | 0.2 | -0.8 |
| Germany | -0.1 | -0.2 | 0.7 | -0.5 | -0.7 |
| Italy | 0.1 | -0.6 | -0.2 | 1.1 | 0.4 |
| Japan | 1.1 | 1.5 | 1.0 | 0.7 | 0.8 |
| USA | 2.0 | 1.8 | 2.3 | 2.2 | 1.1 |

Source: OECD "Historical Statistics" and "Economics Outlook"

TABLE 6

SIZE AND STRUCTURE OF PART TIME EMPLOYMENT

| | PART-TIME AS A PERCENTAGE OF TOTAL EMPLOYMENT | | | | | | FEMALE SHARE OF PART TIME WORKING | |
|---------|---|------|------|------|--------|------|-----------------------------------|------|
| | TOTAL | | MALE | | FEMALE | | 1973 | 1981 |
| | 1973 | 1981 | 1973 | 1981 | 1973 | 1981 | | |
| UK | 17.1 | 21.1 | 4.9 | 5.9 | 36.0 | 41.4 | 82.5 | 83.9 |
| FRANCE | 5.1 | 7.4 | 1.4 | 1.9 | 11.2 | 15.9 | 82.1 | 84.6 |
| GERMANY | 7.7 | 10.2 | 1.0 | 1.0 | 20.0 | 25.7 | 92.4 | 93.8 |
| ITALY | 3.9 | 2.7 | 2.3 | 1.4 | 8.5 | 5.8 | 55.4 | 64.1 |
| JAPAN | 7.9 | 10.0 | 4.8 | 4.9 | 17.3 | 19.6 | 60.9 | 67.3 |
| USA | 13.9 | 14.4 | 7.2 | 7.5 | 24.8 | 23.7 | 68.4 | 70.3 |

Source:- OECD "Employment Outlook", based on "Labour Force Sample Survey" for European Countries, "Bureau of Statistics Labour Force Survey" for Japan and Department of Labor "Employment and Earnings" for USA.

Except UK, based on Census of Employment

TABLE 7

EMPLOYEES IN MANUFACTURING - 1981

thousands (percentage in brackets)

| | UK | FRANCE | GERMANY | ITALY |
|--|-------------------|-------------------|-------------------|-------------------|
| Chemical industry | 431.0 (7.7) | 325.6 (7.2) | 578.7 (7.8) | 289.8 (6.8) |
| Metal manufacture | 540.1 (9.6) | 612.0 (14.5) | 903.2 (12.1) | 408.7 (9.6) |
| Engineering industries | 2292.9 (40.9) | 1639.2 (36.2) | 3140.9 (42.1) | 1220.4 (28.8) |
| Food, drink and tobacco | 635.2 (11.3) | 508.6 (11.2) | 740.7 (9.9) | 363.9 (8.6) |
| Textiles, leather, clothing and footwear | 723.3 (12.9) | 604.0 (13.3) | 699.9 (9.4) | 1104.5 (26.0) |
| Paper, rubber and other manufacturing | 988.3 (17.6) | 837.6 (18.5) | 1395.0 (18.7) | 856.1 (20.2) |
| ALL MANUFACTURING | 5610.8 (100.0) | 4527.0 (100.0) | 7458.4 (100.0) | 4243.4 (100.0) |
| <u>Of which: percentage female</u> | | | | |
| Chemical industry | 26.4 | 32.1 | 27.4 | |
| Metal manufacture | 20.9 | 18.3 | 21.7 | |
| Engineering industries | 20.4 | 24.3 | 24.8 | |
| Food, drink and tobacco | 39.1 | 33.5 | 43.1 | |
| Textiles, leather, clothing and footwear | 59.7 | 66.5 | 67.5 | |
| Paper, rubber and other manufacturing | 28.9 | 32.5 | 32.0 | |
| ALL MANUFACTURING | 29.6 | 32.2 | 31.8 | |

Source: Eurostat 'Employment and Unemployment', Tables 111/2, 111/5

TABLE 8

EMPLOYEES IN SERVICES - 1981

| | <u>thousands (percentages in brackets)</u> | | |
|---|--|--------------------|--------------------|
| | UK | FRANCE | GERMANY |
| Hotels and catering | 817.1 (6.3) | 391.1 (3.7) | 405.6 (3.3) |
| Distributive trades, repairs | 3100.7 (23.9) | 2316.7 (22.0) | 3283.3 (26.5) |
| Transport and communication | 1443.8 (11.1) | 1278.3 (12.2) | 1467.7 (11.8) |
| Banking and finance, insurance, business services, renting | 1587.3 (12.3) | 1399.1 (13.3) | 1539.8 (12.4) |
| Other Services | 6006.5 (46.4) | 5135.0 (48.8) | 5694.3 (46.0) |
| ALL SERVICES | 12955.4 (100.0) | 10520.2 (100.0) | 12390.7 (100.0) |
| <u>Of which: percentage female</u> | | | |
| Hotels and catering | 66.4 | 52.1 | 59.5 |
| Distributive trades, repairs | 50.4 | 43.1 | 51.2 |
| Transport and communication | 19.2 | 25.6 | 22.2 |
| Banking and finance etc | 52.7 | 48.3 | 49.8 |
| Other Services | 61.5 | 60.1 | 52.6 |
| ALL SERVICES | 53.3 | 50.3 | 48.5 |

Source: Eurostat 'Employment and Unemployment', Tables 111/6, 111/9

| | <u>thousands (percentages in brackets)</u> | | |
|--|--|------------------|-------------------|
| | GERMANY | JAPAN | USA |
| Professional, technical and related | 3881 (14.5) | 4710 (8.4) | 16951 (17.0) |
| Administrative and managerial | 989 (3.7) | 2200 (3.9) | 11493 (11.5) |
| Clerical and related | 5329 (19.9) | 9730 (17.3) | 18446 (18.5) |
| Sales workers | 2385 (8.9) | 8380 (14.9) | 6580 (6.6) |
| Service workers | 3058 (11.4) | 4800 (8.5) | 13736 (13.8) |
| Agriculture etc | 1374 (5.1) | 5430 (9.6) | 2723 (2.7) |
| Production and related, transport etc | 9477 (35.4) | 21000 (37.2) | 29597 (29.7) |
| Not classifiable by occupation | 281 (1.0) | 150 (0.3) | - (-) |
| ALL OCCUPATIONS | 26774 (100.0) | 56380 (100.0) | 99526 (100.0) |
| <u>Changes 1973-82: thousands (percentage changes in brackets)</u> | | | |
| Professional, technical and related | + 837 (+27.5) | +1370 (+41.0) | + 5060 (+42.6) |
| Administrative and managerial | + 179 (+23.1) | + 340 (+18.3) | + 2778 (+31.9) |
| Clerical and related | + 304 (+ 6.0) | +1600 (+19.6) | + 3779 (+25.8) |
| Sales workers | + 35 (+ 1.5) | +1310 (+18.5) | + 1123 (+20.6) |
| Service workers | + 224 (+ 7.9) | + 510 (+11.9) | + 2521 (+22.5) |
| Agriculture etc | - 582 (-29.8) | -1530 (-22.0) | - 316 (-10.4) |
| Production and related, transport etc | -1184 (-11.1) | + 180 (- 0.9) | - 482 (- 1.6) |
| Not classifiable by occupation | - 107 (27.6) | + 40 (+36.4) | - (-) |
| ALL OCCUPATIONS | - 292 (- 1.1) | +3790 (+ 7.2) | +14462 (17.0) |

CHANGES IN OCCUPATIONAL EMPLOYMENT 1971-80

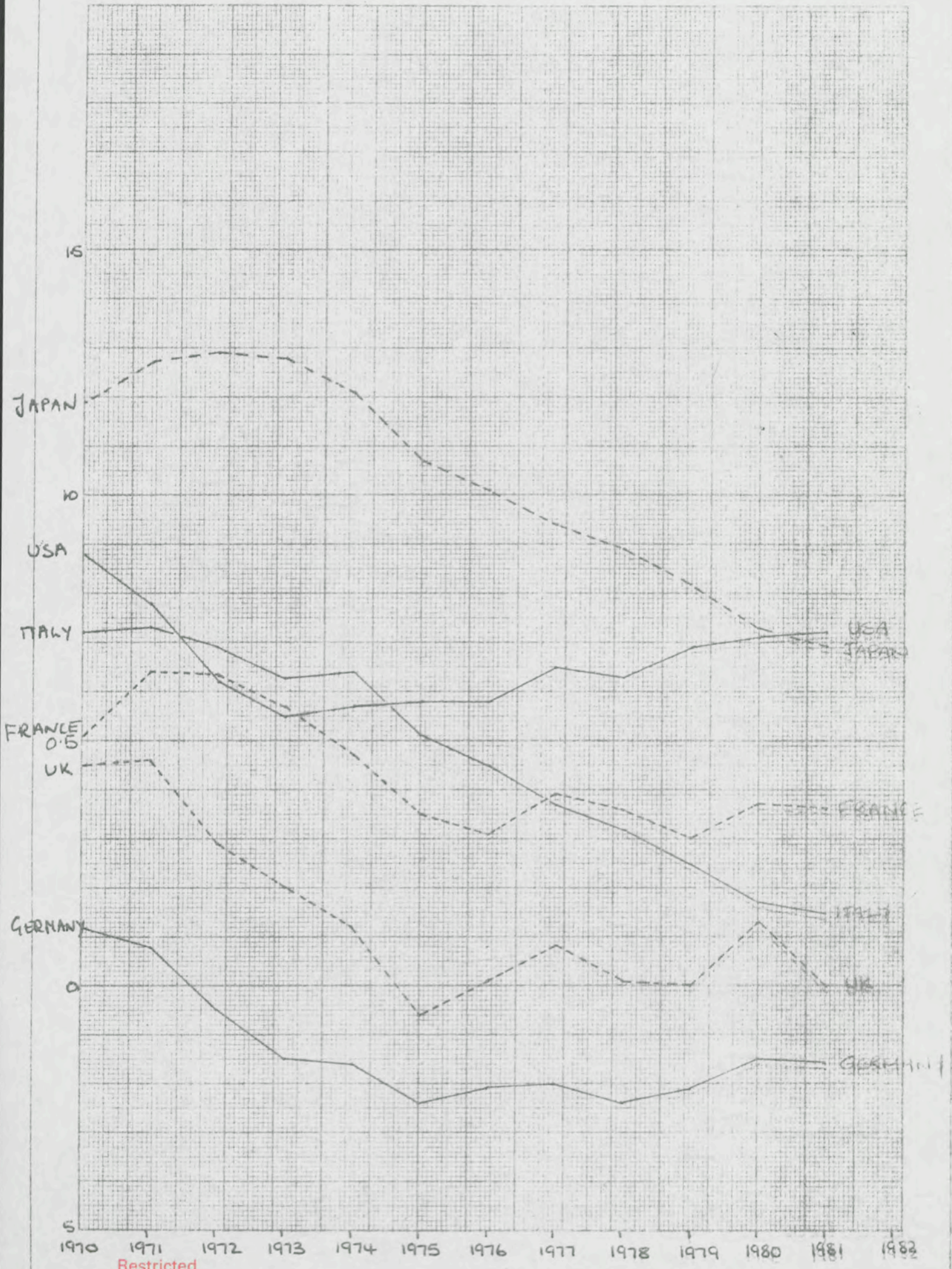
| Warwick Occupational Categories | | 1980 000s | 1971-80 per cent |
|---------------------------------|---|--------------|---------------------|
| 1. | Managers and administrators | 2,129 | 11.8 |
| 2. | Education and professions | 984 | 30.7 |
| 3. | Health and professions etc | 986 | 28.6 |
| 4. | Other professions | 562 | 21.9 |
| 5. | Literary, artistic and sports occupations | 447 | 30.0 |
| 6. | Engineers, scientists etc | 576 | 14.6 |
| 7. | Technicians, draughtsmen | 601 | 17.3 |
| 8. | Clerical occupations | 4,056 | 11.3 |
| 9. | Sales occupations | 1,417 | 6.5 |
| 10. | Supervisors, foremen ^a | 104 | -12.2 |
| 11. | Engineering craftsmen | 2,143 | -7.8 |
| 12. | Other transferable craftsmen | 907 | -3.7 |
| 13. | Non-transferable craftsmen | 675 | -34.4 |
| 14. | Skilled operatives | 622 | -16.5 |
| 15. | Other operatives | 4,712 | -5.0 |
| 16. | Security occupations | 386 | 26.1 |
| 17. | Personal service occupations | 2,932 | 14.6 |
| 18. | Other occupations | 789 | -33.0 |
| 1-9 | Non-manual occupations | 11,755 | 15.1 |
| 10-18 | Manual occupations | 13,271 | -6.3 |
| 1-18 | All occupations ^b | 25,026 | 2.6 |

Notes: (a) Because of classification problems this group covers engineering foremen and transport inspectors and supervisors only.

(b) Excluding HM Forces

Source: Review of the Economy and Employment, Summer 1983 (University of Warwick Institute for Employment Research)

POPULATION - NATURAL INCREASE RATES



Source: OECD "Labour Force Statistics 1970-81"

POPULATION - NET MIGRATION RATES

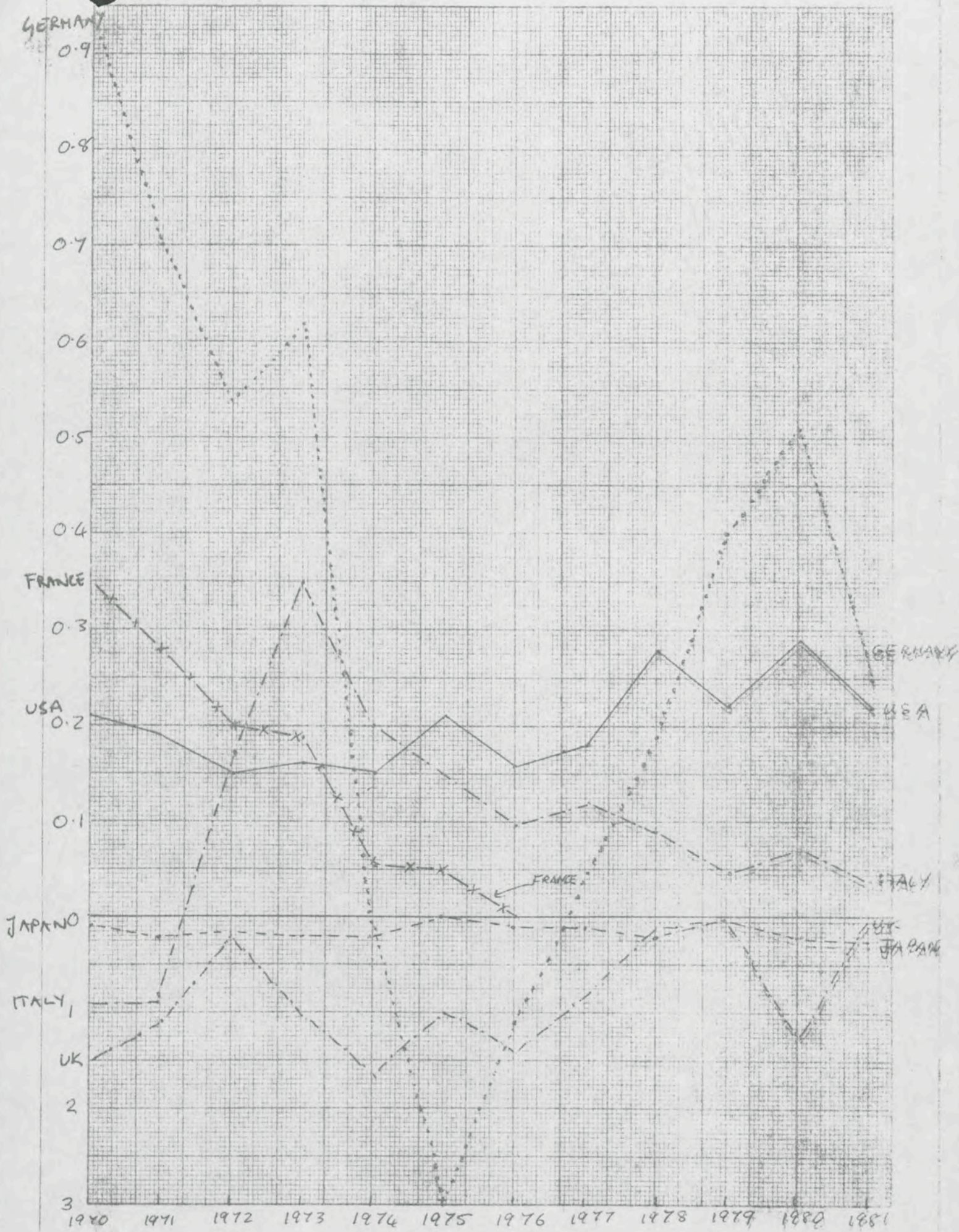
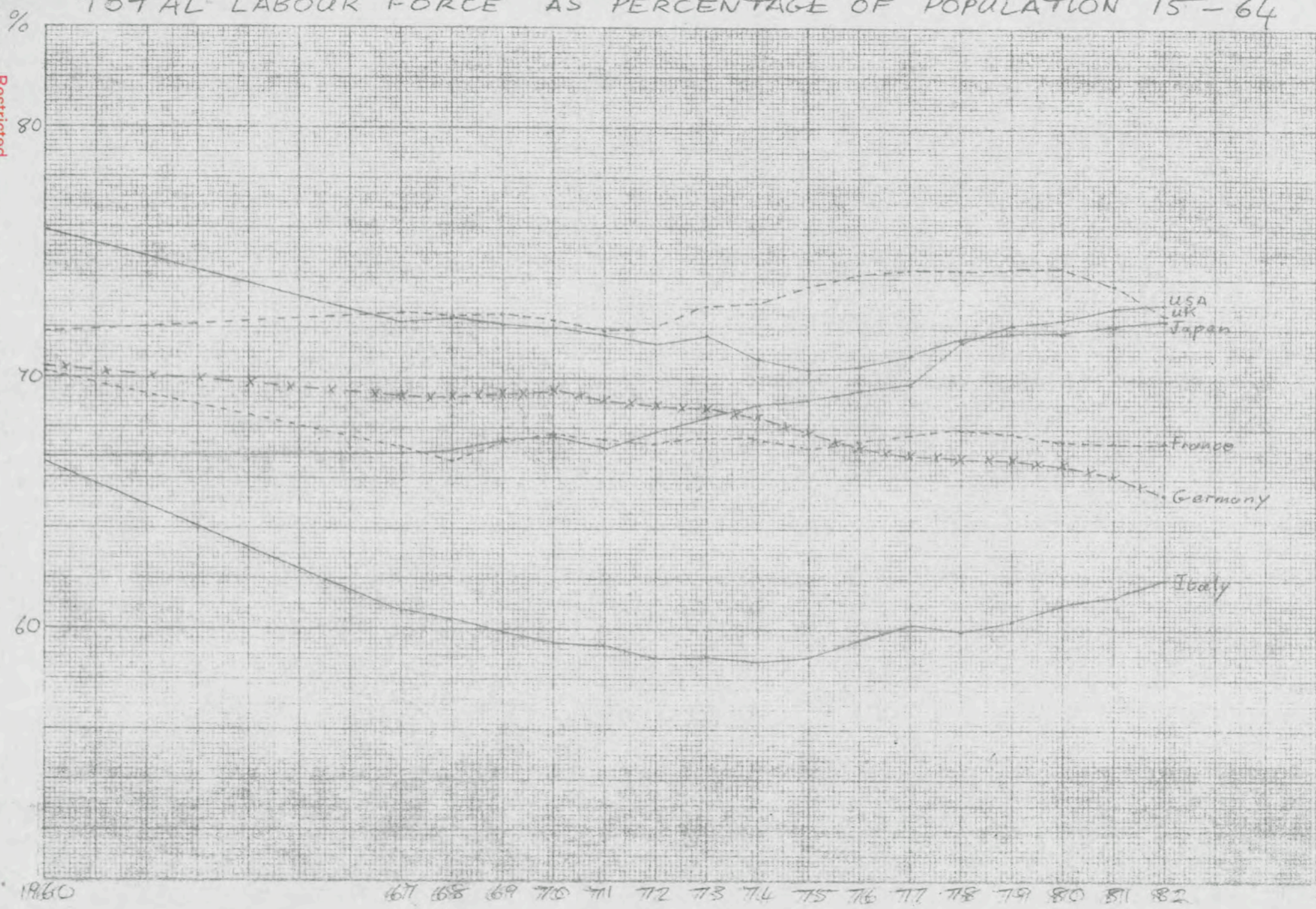


DIAGRAM 3

TOTAL LABOUR FORCE AS PERCENTAGE OF POPULATION 15-64



Source: OECD "International Statistics" and "Employment Outlook"

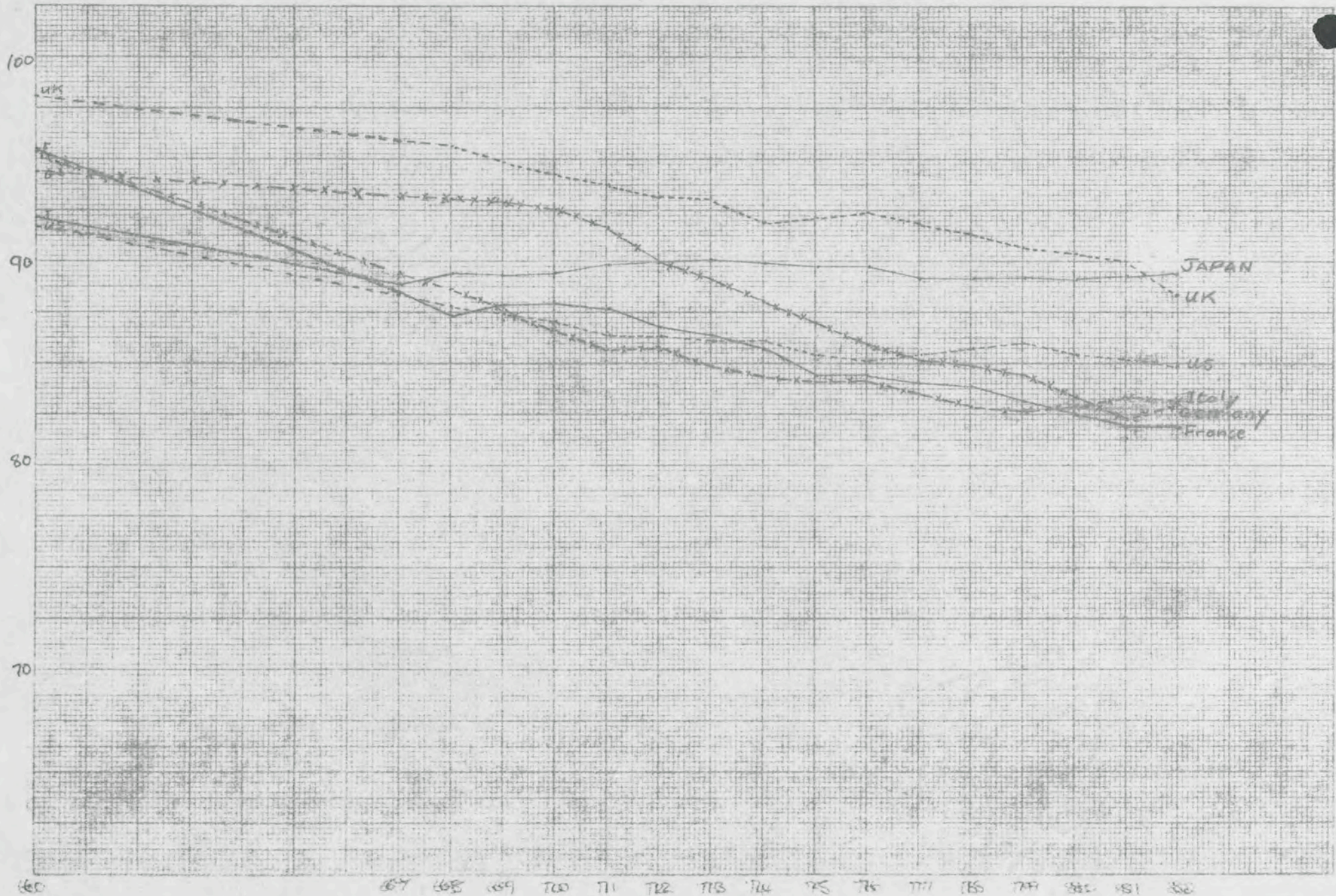
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DIAGRAM 4

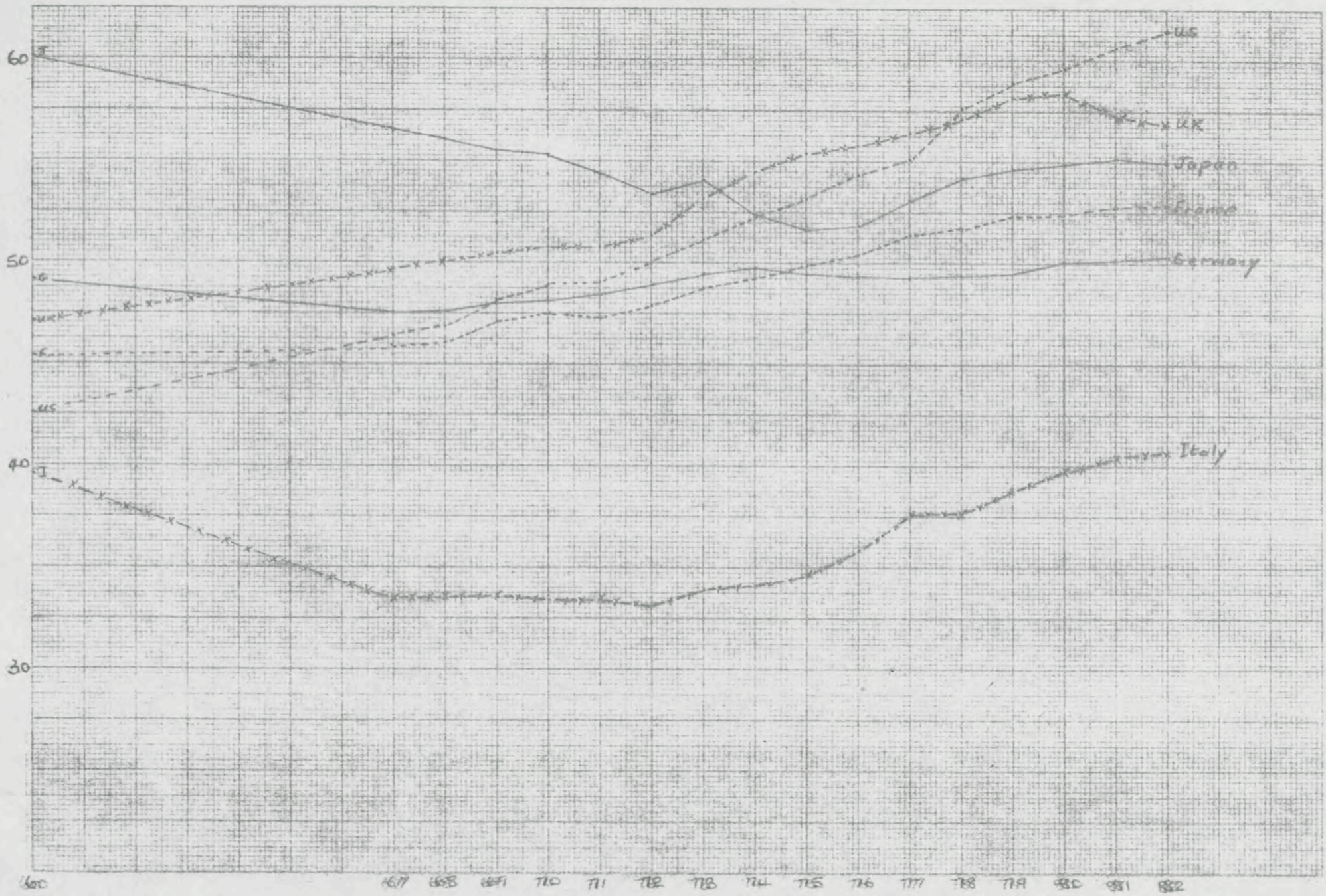
MALE LABOUR FORCE AS A PERCENTAGE OF MALE POPULATION FROM 15 TO 64



Source: OECD Historical Statistics and "Employment Outlook"

DIAGRAM 5

FEMALE LABOUR FORCE AS A PERCENTAGE OF FEMALE POPULATION FROM 15 TO 64



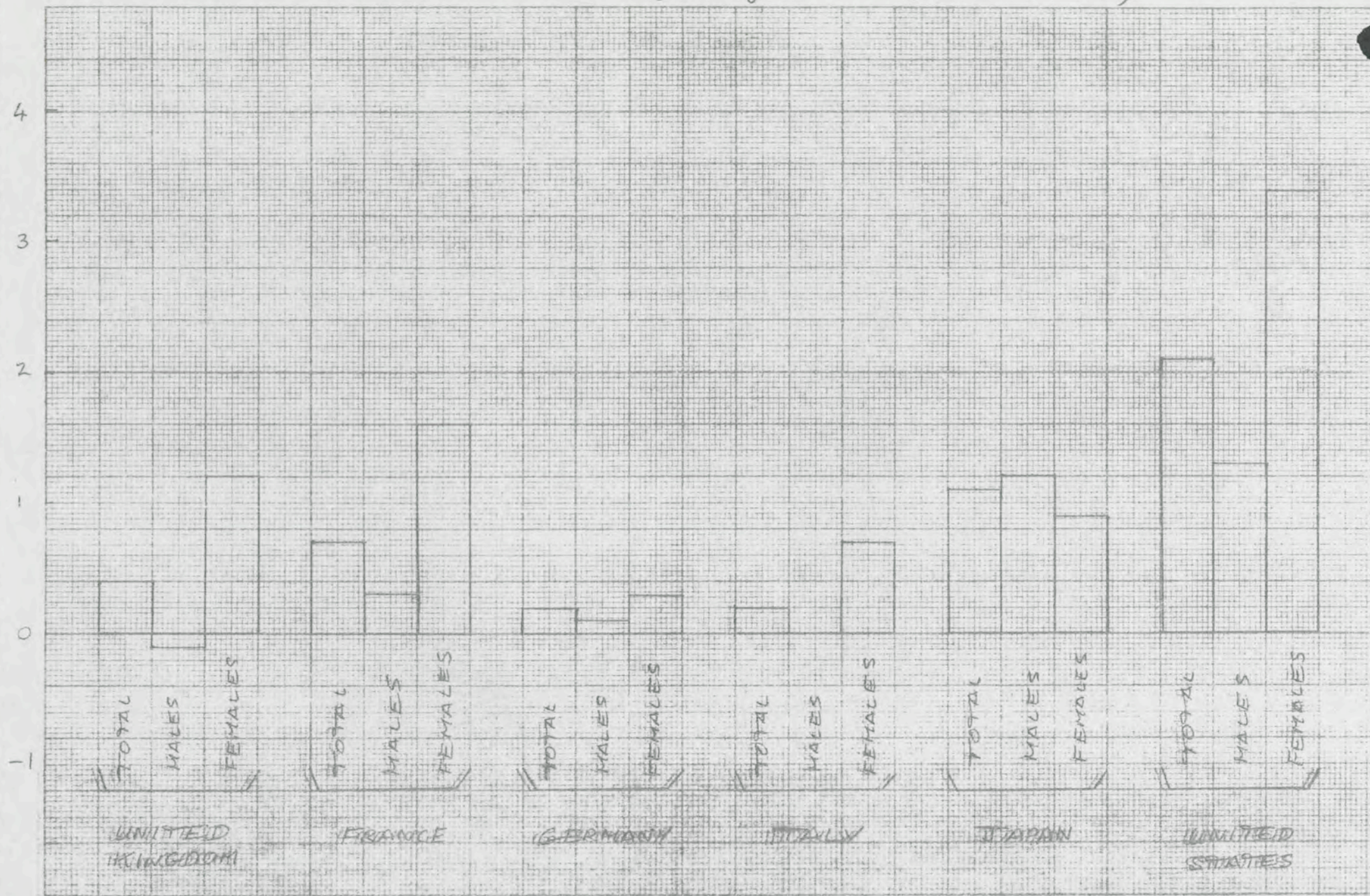
Source: OECD "Historical Statistics" and "Employment Outlook"

DIAGRAM 6

GROWTH OF LABOUR FORCE 1960-81 (Average annual growth rates)

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Source - OECD "Historical Statistics" 1960-81.

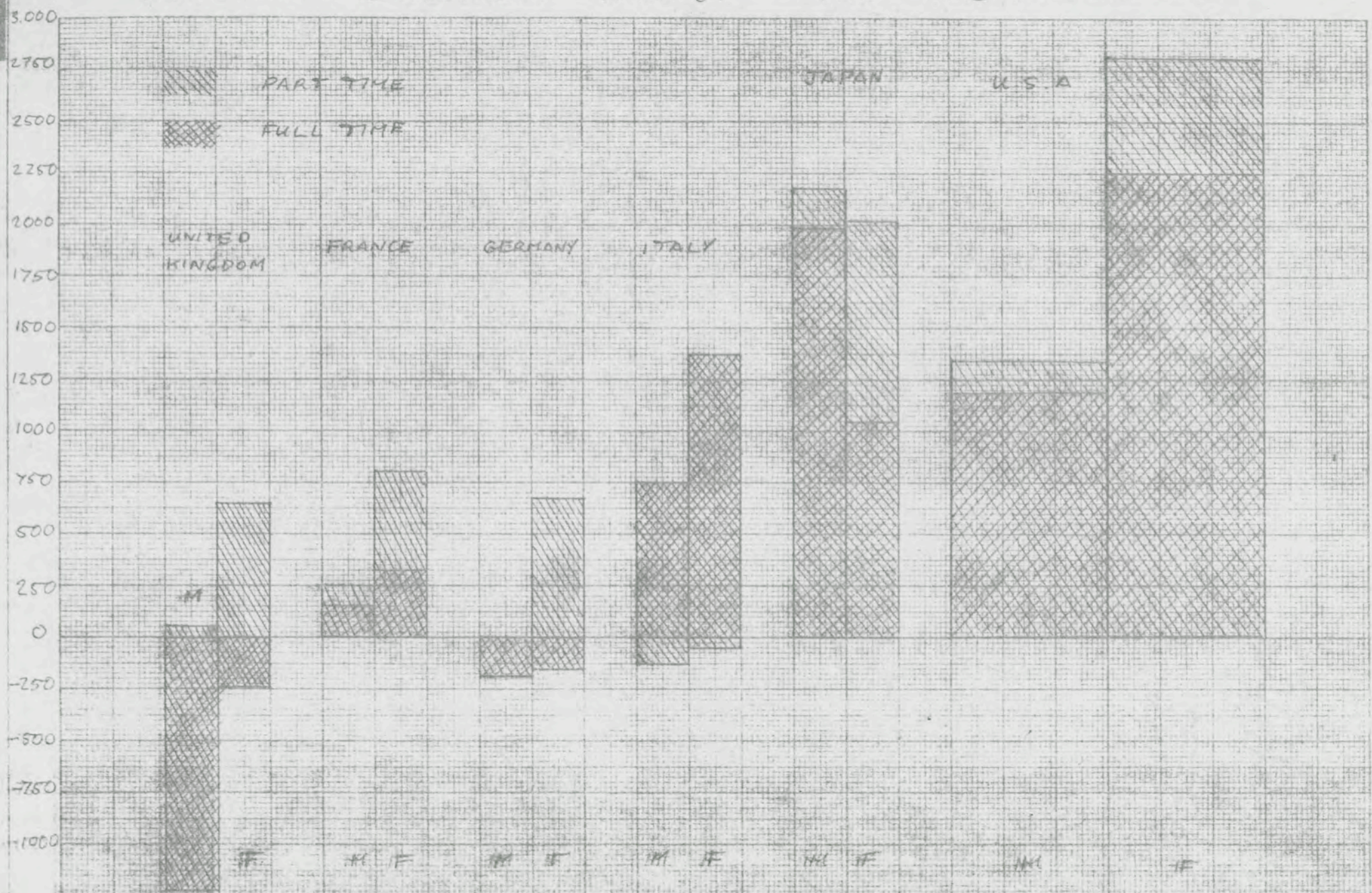
DIAGRAM 7

INCREASE IN EMPLOYMENT 1973-81

PART TIME AND FULL TIME

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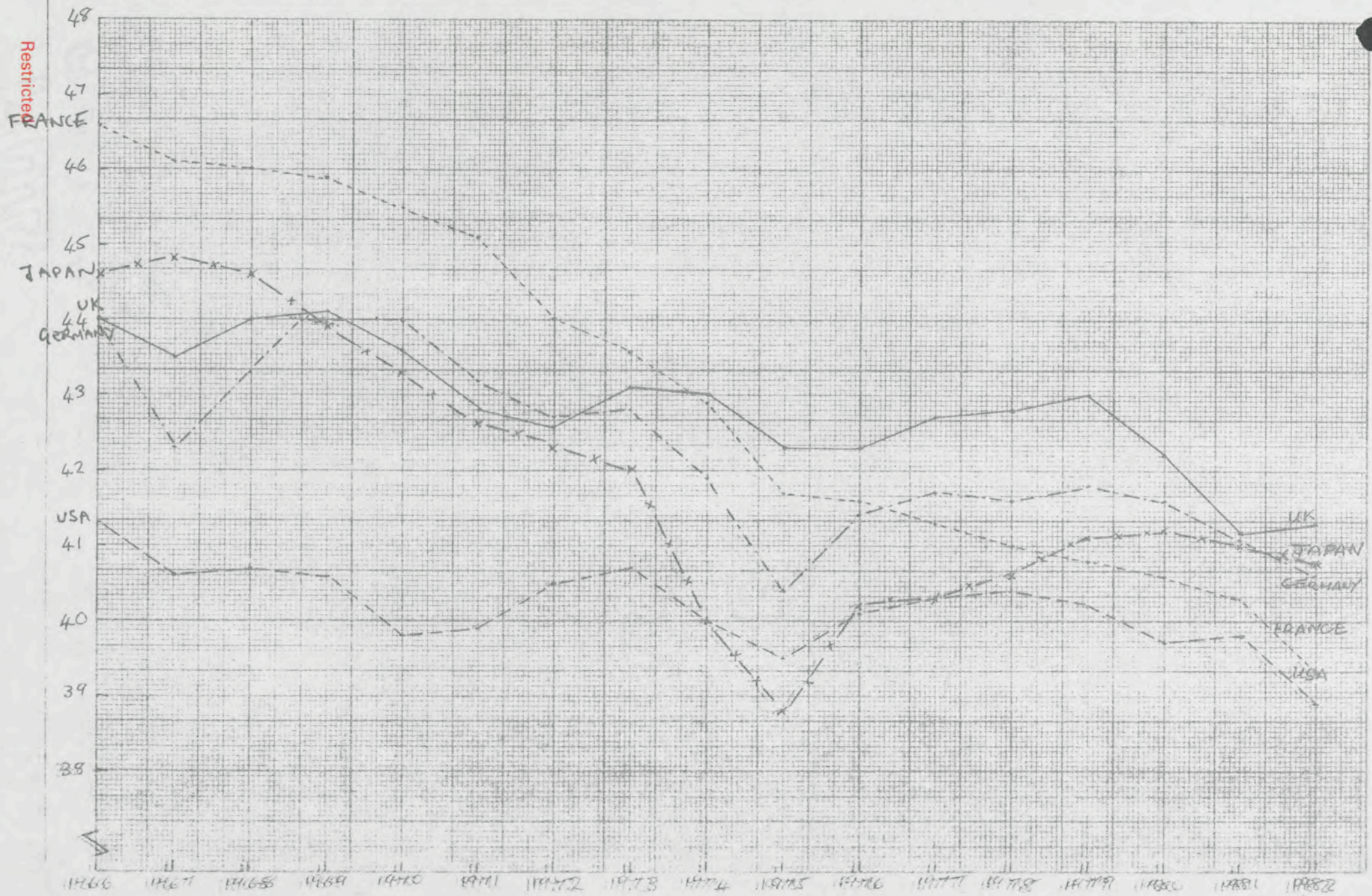
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Source: OECD "Economic Outlook" and UK Census of Employment

DIAGRAM 8

HOURS OF WORK PER WEEK IN MANUFACTURING

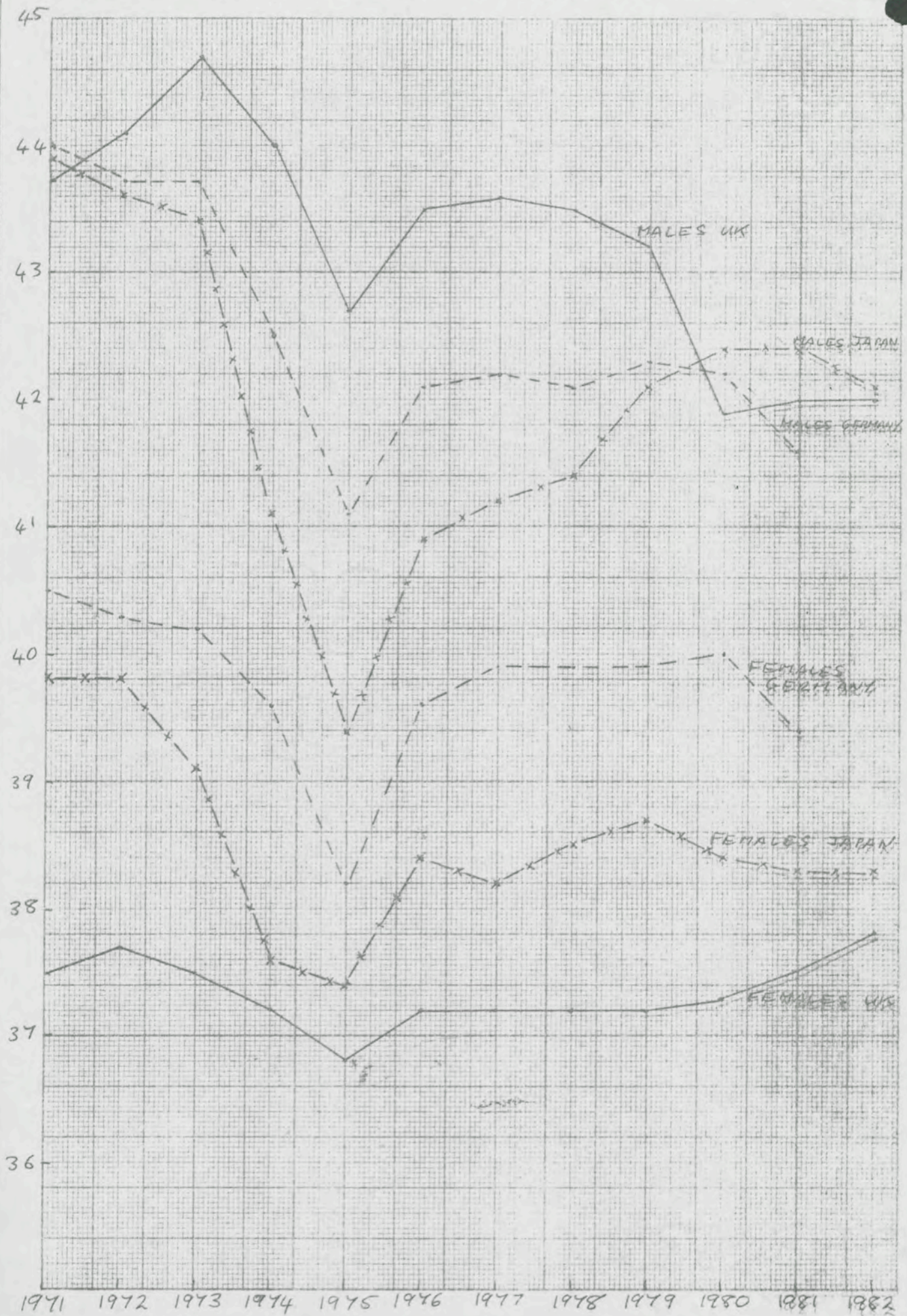


Source - OECD "Historical Statistics"

Restricted

DIAGRAM 9

HOURS OF WORK PER WEEK IN MANUFACTURING. MALES & FEMALES



Source Restricted OECD "Historical Statistics"

Distribution of Civilian Employment by Sector

1960-1981

Restricted

DIAGRAM 10

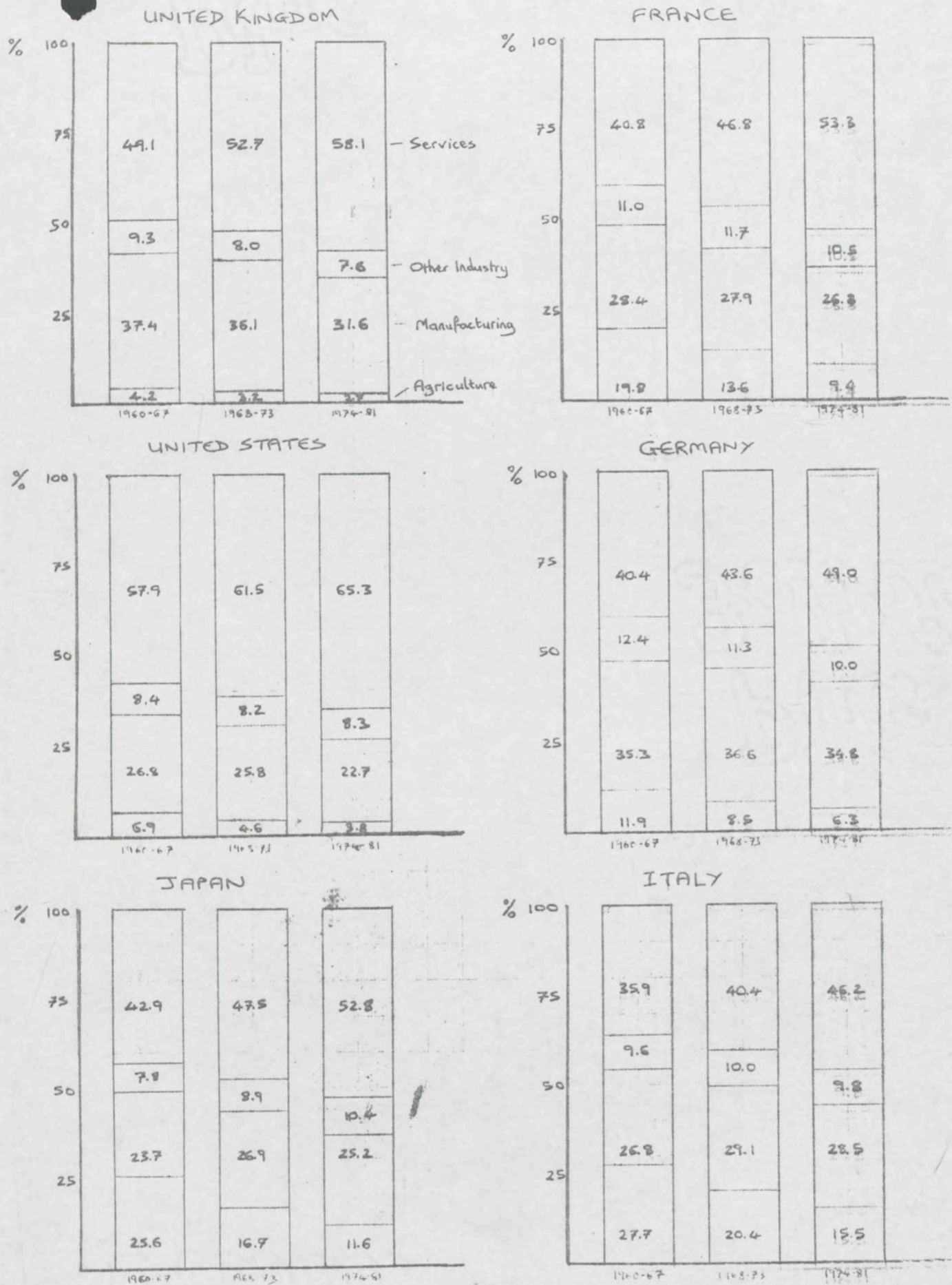
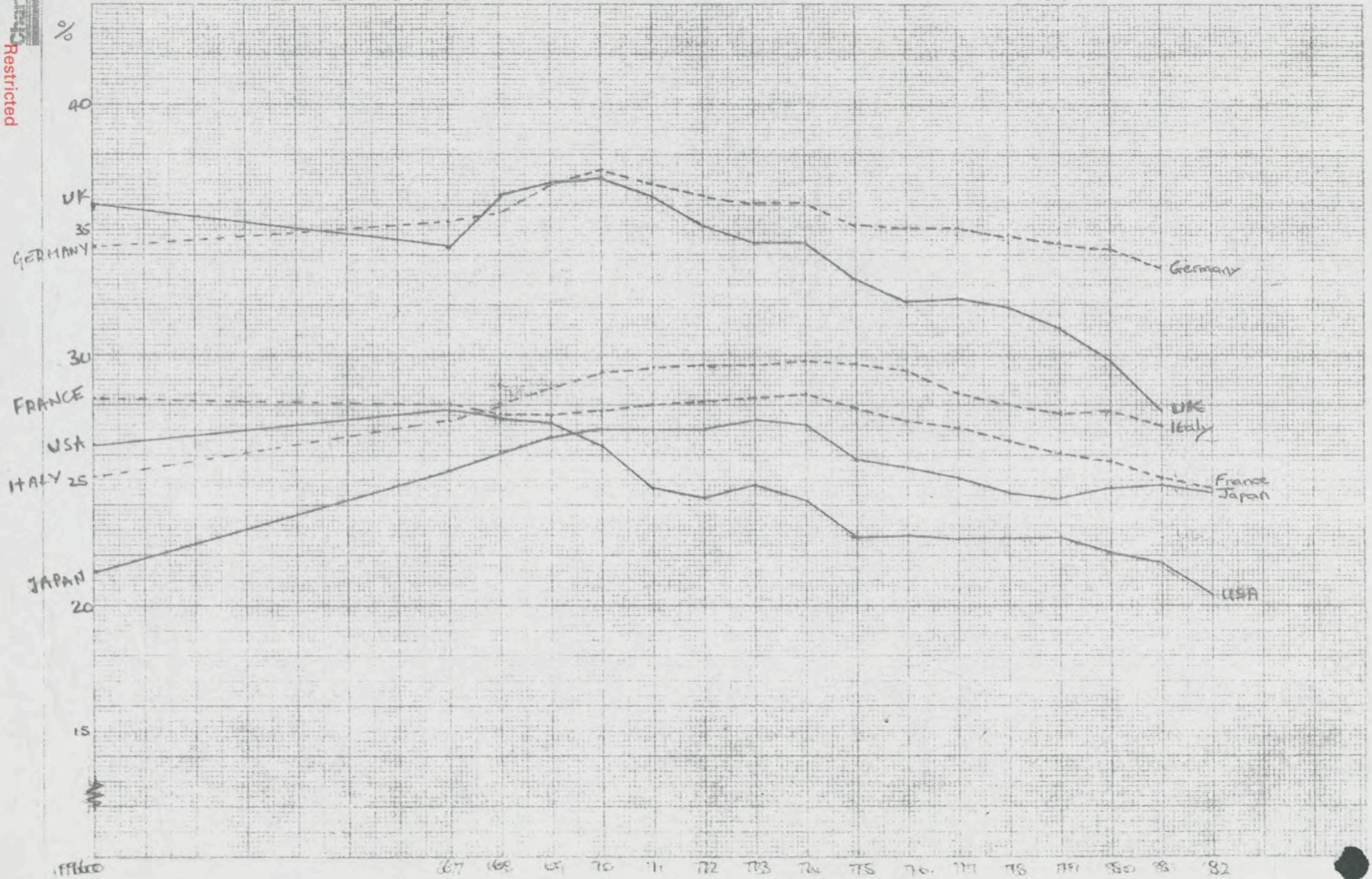


DIAGRAM 11

EMPLOYMENT IN MANUFACTURING AS A PERCENTAGE OF CIVILIAN EMPLOYMENT

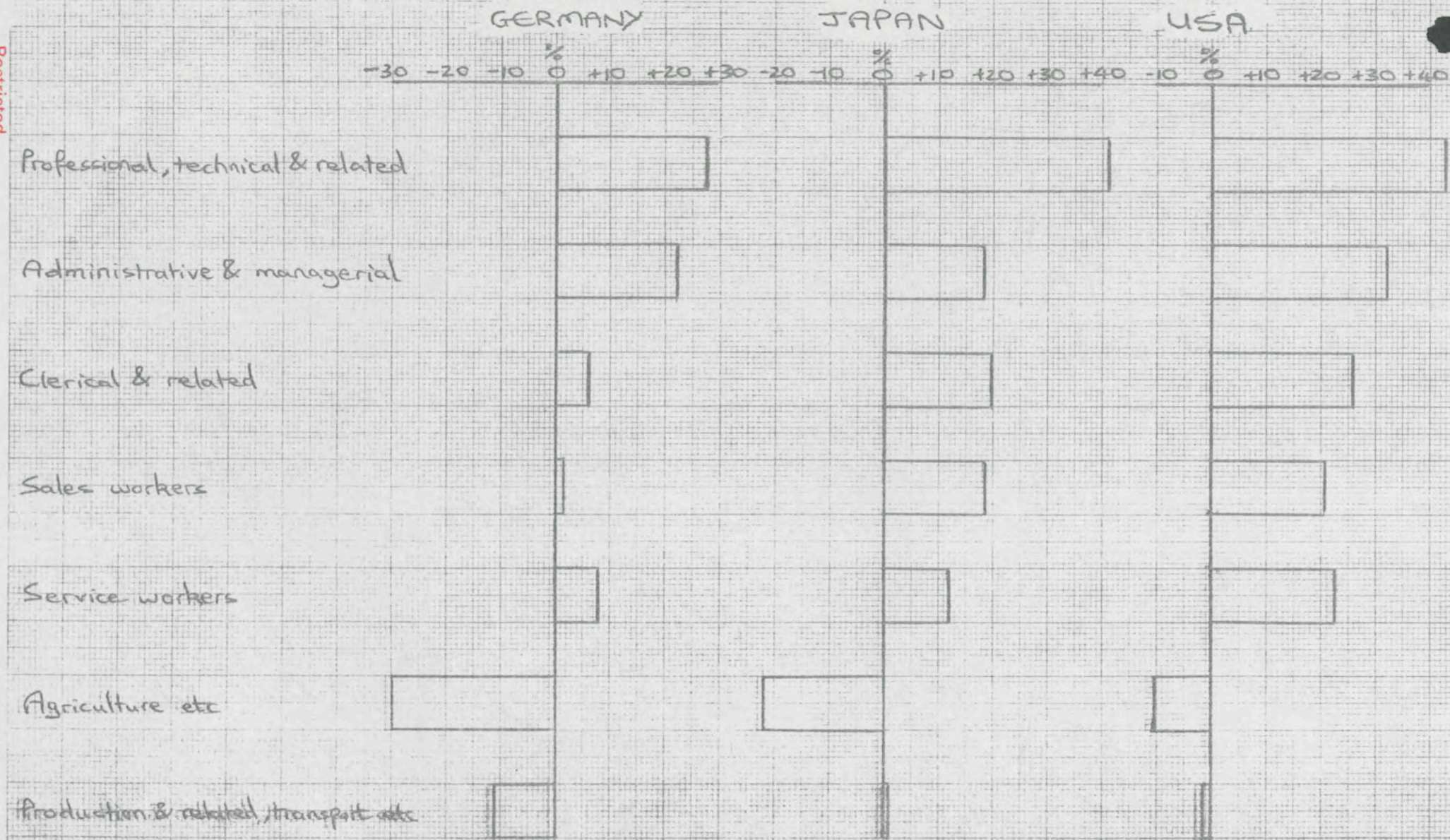


Source: OECD Economic Outlook: Historical Statistics and ILO Yearbook of Labour Statistics

Employment by Occupation: Percentage changes 1973-82 — Diagram 12

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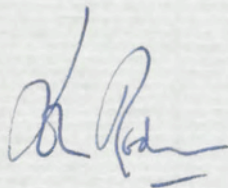
CONFIDENTIAL

Semmer
29 February 1984

MR TURNBULL

I contacted Mr McCarthy at the DTI. He agreed that DTI would complete a paper on the subject of export promotion.

I spoke to John Ballard at the DoE. He said that they were following up all three points on planning and opinion surveys. He also stressed that the housing department and Ian Gow were keen to pursue rented housing in legislation in 1984-85, and would be making this point in Cabinet.



JOHN REDWOOD

CONFIDENTIAL



10 DOWNING STREET

Prime Minister (4)

At the December seminar Sir
Kesteven Joseph mentioned an
article by Jan Tumlir, Director of
Research at GATT. Policy Unit
were asked to appraise the
article.

Attached are

- (i) a summary of the whole
- (ii) a Comment by John Redwood
- (iii) a note by Nick Owen
which provides useful
background for the E(S)
discussion on Trade Policy
on 8 March.

[Handwritten signature]

AT

24/12

THE WORLD ECONOMY TODAY: CRISIS OR A NEW BEGINNING?

Summary of an Article Published in 1983 by Jan Tumlr, Director
of Economic Research at GATT

Tumlr's judgement was that the world economy is in a precarious state. The vast overhang of debt, and its accumulating interest, tempts debtor countries to repudiate their obligations and creditor countries to "cut and run". How did the world get into such a state? Tumlr traces this back to the Great International Inflation in the 1970s, following the creation of Special Drawing Rights. Real wages grew, real interest rates fell, leading to

- over-indebtedness, an erosion of savings by inflation, driving people to look to the State and their employers for security
- the introduction of covert forms of protectionism (VRAs and industrial subsidies) in the interests of "reconquering the domestic market" or "safeguarding vital industries". This caused structural rigidities in advanced industrial countries and made it all the more difficult for debtor countries to pay off their debts through exports,
- much wasted investment, undertaken because capital was apparently costless in real terms, and labour was expensive.

The combination of these factors yielded heavy borrowing, low growth and protective attitudes.

What Can Be Done?

Reflation is out of the question, as the French experience in 1981-82 demonstrated. Protection leads to uncertainty and discourages investment. It undermines international rules. For example, the bilateral deals on steel are reinforcing an international steel cartel of dubious legality. Politicians are torn between preserving "viable industries" and restoring a viable international trading and financial system. They cannot sustain this contradiction. Trade liberalisation is necessary for growth to recover.

Nicholas Owen
NICHOLAS OWEN

CONFIDENTIAL

Chron. F.

- Trade Policy



10 DOWNING STREET

The Rt Hon Sir Keith Joseph MP
Department of Education and Science
Elizabeth House
York Road
LONDON
SE1

7 February 1984

Dear Secretary of State

THE WORLD ECONOMY TODAY

The other day John Redwood sent you some comments on an article by Jan Tumlir, "The World Economy Today: Crisis or a New Beginning", which you drew to colleagues' attention last December. I enclose some further thoughts on this subject, which address some of the policy issues which I think Tumlir's article raises. You may find these relevant to the discussion of Trade Liberalisation which ES will have on ~~16~~ February.

8 March

yours sincerely

Nicholas Owen

NICHOLAS OWEN

CONFIDENTIAL

HOW TO RECOVER THE GROWTH RATES OF PRE-1973?

1. The quarter century 1948-1973 was a golden age of growth and trade. It saw world production grow by 5% a year, world trade by 8% a year. The growth rates predicted to 1985 are half as great, insufficient, probably, to reduce the levels of unemployment in Western Europe. What are the obstacles to resuming the earlier growth rates? Can they be removed?
2. It was both fashionable and convenient to blame the "oil crisis", and of course, foreigners, but this distracts attention from the home-grown problems identified in 1976 Stockton Lecture - excessive demand, unrealistic expectations about the capacity of the economy, a desire by the private sector workforce for the same secure and cosy conditions as those offered by the rapidly growing public sector, and the bureaucratisation of business through intervention and a corporatist state.
3. The point which commentators have sometimes lost sight of is that these policies are fundamentally hostile to the liberal trading system, since Government priorities replace the logic of the market; and that interventionist policies are still with us. The liberalisation achieved by successive GATT rounds was undermined by intervention of various forms to protect the industries which proved unable to survive in a free trading environment. The benefits of trade require changes in the trading partners industrial structures; block those changes and the trading benefits are denied. The two factors which made it harder to stomach these changes were the rising levels of unemployment - unconnected with trade but very much connected with inflationary policies - and the emergence of Japan and the NICs - principally the South East Asian "Gang of Four". These countries proved capable of knocking out whole industries in an alarming way - motor cycles, shipbuilding - with excellent products produced at low costs attributable to high volume, three shift operation, a motivated workforce unencumbered with European legislation surrounding the workplace.
4. The picture, then, is one of liberalism in traditional GATT terms. The UK can claim that in 1980, 80% of its imports of manufactures were free of all restriction, tariff or quota; and that excluding agricultural products, only 4% of imports were subject to non-tariff restraints. (This is an ambiguous claim, which may

Simply reflect the effectiveness of the restraints. Who knows how much greater these imports might have been had there been no restraints?) But alongside this surface liberalism, and undermining it, is an apparatus for supporting uncompetitive industries, either through subsidies, or VRAs which can be summoned into place outwith the GATT rules. In addition, there are of course nationalistic public sector purchasing policies in defence, medical equipment, nationalised industries. To the extent that nationalised industries cannot support their suppliers in a manner to which they became accustomed (generating equipment, railway equipment, process plant) these sectors' problems are exported with subsidies costing vast sums per job involved. These factors, coupled with the protectionism of agriculture which elevates European food prices sometimes several times higher than the world price, subvert the international economy.

A New Approach?

5. It is debatable whether traditional trade negotiations can, by themselves, lead us out of this position; we have comparatively few formal trade restrictions left to bargain with. There are four linked problems here:

(i) trade policy is conducted with the interests of producers primarily in mind. In this sense, it turns economics on its head. The purpose of economic activity is to satisfy the needs of consumers. Imports of cheaper, or better, products are obviously beneficial in this, the most relevant sense. But in trade parlance, this would count as a concession, which should be made only if trading partners concede something which enables us to increase exports. Governments boast about exports because they represent achievement, and never take credit for imports. Yet imports are the ultimate point of trade. Exports are simply the means by which we can earn the foreign exchange to buy them, and absorb resources which we could use in other ways to benefit ourselves;

(ii) trade policy should be made more consistent with competition policy. It seems odd to exercise a watchful vigilance over restrictions of supply in the domestic

market which raise prices, or restrict choice, and to refer these to the Monopolies Commission, yet on the other hand, to impose restrictions on imports which have precisely these harmful effects. If anything the latter are more damaging to the public interest, since it can at least be said of home-grown restrictions that the excessive profits so derived accrue to other nationals, rather than to foreigners. Restrictions on foreign supply also encourage, or sustain anti-competitive behaviour at home - the British Shoe Corporation was allowed by the last Government to retain excessive prices if it agreed to make more effort to buy British; restrictions on imported coal perpetuate an inefficiently structured coal industry; specious barriers to imported milk perpetuate a producer's monopoly and a cartelised milk distribution system; and so on. In competition policy terms, we strain at gnats, in the form of relatively minor peccadilloes while swallowing whole camels in the form of the grossest distortions of the international market;

(iii) trade negotiations need to be cast in a wider context, of industrial policies, purchasing policies, and in the case of some countries, the management of the entire economy. As was pointed out above, tariffs are now a minor component of our protection arrangements. Looking at our LDC trading partners one finds that their, often enormous tariffs and restrictive quota arrangements are themselves integrally linked to grosser mismanagements of their economies. It would be unrealistic, perhaps, to expect them to trade away these restrictions unless they are encouraged to manage themselves differently. For example, a number of developing countries maintain artificially high exchange rates, which are sustained in part by import licences, which themselves generate and sustain corrupt bureaucracies, and which also require export subsidies if these countries are to develop export-orientated industries. The countries concerned therefore risk the accusation of unfair trade. The growth prospects of these countries would improve if they allowed their exchange rates and internal prices to float free, as the World Bank is urging them to do. But until and unless they do it seems unlikely that they have much to concede either at the trade negotiating table.

(iv) The Japanese trading imbalance is another problem which ought to be viewed in a broader context, if it is not to hold discussions back. The Japanese deficit with Europe is probably structural: given Japan's high dependence on imported energy and raw materials, it is bound to run a surplus on its manufacturing account to pay for these. In a multilateral world, this is no problem whatsoever. The surpluses which a number of raw material suppliers run with Japan match deficits which they run with Europe. Is it necessary to deprive European consumers of low cost cars and consumer electronics on the mistaken belief that if we do not restrict these imports, Japan will over-run us in everything. By definition, Japan cannot specialise in everything. Moreover, to the extent that Japan is persuaded to import more from Europe and the United States, resources will be released from the Japanese industries concerned, which will probably find their way into other export activities. It is not clear that the Japanese bilateral surplus with Europe can, or should be negotiated down significantly.

6. As part of this broader approach, the more developed countries should consider the contribution which rolling back protectionism could make to easing the LDCs' debt problems, whose financing costs fall ultimately on the OECD countries. DTI economists have compared the effects of liberalisation on the earnings of nine debtor countries with their debt servicing obligations in 1982. Their calculations compared an increase of 50% in the value of their earnings from exports of goods subject to restraint in US and EC markets. The average impact was 10% of the debt service requirements; it ranged from negligible (Indonesia and Mexico) to quite substantial (Argentina, 18%; Philippines, 25%; South Korea and Yugoslavia, 40%). Clearly, liberalisation can make only a modest contribution overall but compared to any other policy instruments on offer, this must be considered quite important.

7. Conclusions These reflections suggest that approaching the forthcoming trade negotiations (the Williamsburg rollback initiative, a possible GATT round, the MFA expiry in 1986, the Community's commercial policy discussions) we ought to give consideration to the following:

- (i) whether it is not necessary to situate trade negotiations in a wider context which would include

industrial and economic policies? The London Summit in June is surely the place to attempt this.

(ii) whether the conventional wisdom that we should only trade our VRAs in exchange for concessions from trading partners is in fact sensible. We would be better off without these, even if our partners made no concessions whatever. The public is beginning to understand the costs which these impose eg on cars. The concessions we might hope to obtain would not actually help the industries which these devices protect. It is not even clear that they are all in the longrun interests of the industries concerned, in so far as VRAs stimulate foreign competitors to trade-up the market into segments in which we should specialise, in attempts to exploit the maximum value of the quotas. And of course, the arrangements damage other industries in so far as they apply to intermediate products;

(iii) whether in the European Community we exploit our pivotal position between the free-trading northerners and the protectionist southerners to push the Community towards a more liberal stance. The Community is proposing a new "Common Commercial Policy Regulation" designed to achieve a rapid retaliatory response to "unfair" trade practices of third countries. It is not clear what "unfair" amounts to, other than "incompatibility with GATT rules". The device is almost certainly illiberal. The dilemma for us is whether we accept this as the price worth paying to persuade the French to make the Community's internal market more of a reality;

(iv) whether we should attempt to defuse protectionist lobbying in anticipation of greater liberalisation. At present, the Government itself institutionalises the lobbies within the NEDO's "working parties", whose deputations regularly troop into the offices of Secretaries of State to ask for subsidies, protection and "breathing space". These creatures of intervention and Labour's "industrial strategy" have no legitimate place within a liberal economy. They should either be abolished, or emasculated under the umbrella of some kind of "industrial advisory committee", which would also include academics and representatives of consumers.

8. Only through the acceleration of world trade can we hope to recover anything like the pre-1973 growth rates which are necessary to reduce unemployment. This is particularly important for Europeans: as the Commission remarked in 1982, in the previous 10 years the number of available jobs increased by only 2 million in the European Community compared to 4 million in Japan and 19 million in the USA.* The recovery of the OECD economies makes it politically easier to take the initiative on rolling back protectionism, in all its forms - tariffs, VRAs, subsidies and public purchasing policies. Britain's traditional commitment to free trade, and paramount need for a higher growth rate to reduce unemployment, marks us out as a natural leader in these initiatives, rather than merely a supporter, or an adroit tactical player of divide-and-rule within the Community. The initiative could include:

- 1) The abandonment of industrial aids, particularly to industries which are not able to compete. (We estimate that in 1984, four of DTI's clients (BL, BSL, BS, RR) will make a combined loss of around £300 million, and cost the Government £800 million in cash.)
- 2) An approach to public purchasing which allows an opportunity to foreign competition. This would reduce public expenditure and it would encourage greater specialisation within the domestic equipment supply industries.#
- 3) No renewal of the MFA in 1986 and a dismantling of the VRAs; we would, of course, seek corresponding responses on the part of our partners, but the policy would not be conditional upon achieving this.
- 4) Exploit our role as host of the 1984 Summit to give impetus to rolling back protection, seen in the wider economic context in which it forms an integral part. It is unrealistic to expect trade negotiations by themselves to create an international economy.

NICHOLAS OWEN

* Relaunching Europe: A New Community for Industry and Employment, European File, 3/82

Research on defence procurement costs by Keith Hartley at the University of York suggest that savings of 20% are possible, equivalent to £1600m on £8000 procurement bill. Open tendering for recent missile projects prompted even greater reductions in tender prices by British contenders.

DRAFT

ARTICLE ON UNEMPLOYMENT ETC - DOUGLAS HAGUE

Because national economies are both complex and dynamic, their behaviour is often difficult to understand without detailed analysis. Perhaps this is why the conventional wisdom is so often wrong about issues of economic policy.

The only antidote is good research, and we should be grateful to the Centre for Labour Economics at LSE, funded by my own Council, for throwing new light on various aspects of unemployment.

What is not at issue is that unemployment in Western Europe has risen sharply since the late 1960s, and that there has been a similar, though less dramatic, increase in North America. The Centre for Labour Economics rightly considers that one of the most important questions in contemporary economics is what accounts for this remarkable increase in the medium-term level of unemployment.

The central conclusion is that there is a rate of unemployment below which inflation tends to increase. The idea that there is such a rate - what economists have called the non-accelerating inflation rate of unemployment (NAIRU) has become an established belief of many economists, but strongly challenged by others. The LSE research suggests that the first group is right after all. An increase in unemployment appears to reduce the rate of increase of wages, and to do so in all OECD countries. Perhaps one reason why casual inspection of the statistics does not lead immediately to this conclusion is that the relationship between unemployment and wages is also changing over time. A given rate of unemployment is associated with a bigger increase in real wages - in what the wage will buy - than it was in the past.

The Centre for Labour Economics has gone on to suggest why labour forces throughout the western world are more willing than they were to live with higher levels of unemployment.

First, it is clear that the whole position, especially of Western Europe, has changed since the late 1960s. Output per worker has been rising more slowly than in the 1960s. At the same time, the amount of goods which the developed countries have to export to pay for imports from the rest

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of the world has ceased to fall in the way that it did during the 1950s and 1960s. The 1950s and 1960s were a golden age not merely in terms of industrial expansion. It was possible for countries like the UK to sustain their standard of living by obtaining imports, especially of food and raw materials, on terms which no longer obtain. The LSE groups finds that one reason for higher unemployment is the failure of wages to adjust to this new situation. Throughout Western Europe, it is a failure of wages to respond to the new situation which has kept unemployment as high as it is.

Real wages (wages in terms of the goods they will buy) and real import prices (imports in terms of the exports required to acquire them) are the key determinants of changes in the level of employment and, unless there are big changes in the size of the labour force, of unemployment too.

My own observation suggests that a particular piece of conventional wisdom is that during the 1970s there was an increasing mismatch between the pattern of labour supply and demand. Indeed, this item of conventional wisdom sounds entirely reasonable. Given that the increase in the price of oil, together with our own development of North Sea oil, it would be entirely reasonable to expect that the demand for labour must have changed relative to the supply of labour, for regions, industries, and particular work skills. The LSE team rejects this notion entirely. They have looked, for example, at the relationship between the unemployed and jobs available, by regional skill and industry, as well as at the rate of structural change in employment. This work contradicts the notion that the structural imbalance in labour supply and demand increased during the 1970s. It should be emphasised, however, that this is not to say that mismatch is unimportant: it is simply that it does not appear to have increased during the 1970s and 1980s.

Some economists, for example Professor Patrick Minford, insist that it reflects a rise in union power, as measured by a growth in union membership. The LSE research finds little support for this view, though accepting ^{that} to resistance to the fall in productivity growth and the impact of the fall of the relative prices of goods from developed countries may be due to union activity.

.....continued

The Centre for Labour Economics has also looked at the impact of unemployment benefits and their administration. They conclude that a 1% increase in the ratio of benefits to income lengthens the period during which the average individual remains unemployed very slightly. They therefore conclude that this is not a significant element in explaining the increase of unemployment, but they also show that the administration of benefits has become more lax, which may have led to an increase in unemployment.

They also believe that other factors have reduced the intensiveness with which the unemployed look for new jobs, which seems a likely result given the extent to which unemployment has increased.

I suspect that the finding on the relationship between pay and education also contradicts many popular views. The demand for education appears to respond to the relative return. For example, school leavers seem better informed than I, at least, would have expected about the occupations for which it appears most worthwhile ^{to} seeking ~~the~~ training. More generally, when the returns to extra training began to fall in the early 1970s, upward trends in enrolment for such training levelled off. These conclusions lead the research team to the view that the subsidies given to those in higher education should be reduced. Apart from reducing government expenditure, this would make life-time incomes more equal.

On the basic issues of how wages are determined, the research team concludes that, in some way or other, all those who bring influence to bear on labour markets have succeeded in creating a system where the current level of unemployment is, in some sense, a desired one. One element in this seems to be the feeling that unemployment, having risen, will not fall significantly but that we must live with roughly the present rate for many years. It is interesting to note their conclusion that, in the USA the belief was that the rise in unemployment would later be reversed. In the UK, they identify the underlying problem as being that aspirations for rising living standards have, since the early 1970s, been too ambitious. The only way in which they could be cut down, is for unemployment to rise. It has always seemed to me that one of the big problems with the British is that we do not trust markets in general, even though these operate

....continued

much more effectively than most people appear to think. The LSE research suggests that the market adjusts supply ^{labour} and ~~demand~~ to labour ^{demand} pretty effectively in the end. It also shows that our predilection for interfering with the labour market, often with the best intentions, is the cause of some, at least, of our current difficulties over unemployment.

DH

1 February 1984



10 DOWNING STREET

19 January 1984

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Education and Science
Elizabeth House
York Road
LONDON SE1

Dear Keith,

You mentioned to me yesterday the question of Jan Tumlir's article on the world economy. As I mentioned to you then, Nicholas Owen, one of the Policy Unit economists, who is our Assistant Secretary in charge of trade matters, is currently investigating. In the meantime, I enclose some personal reflections on the main thrust of Tumlir's article, and attempt to answer your question of yesterday about what politicians should do if they believe his analysis.

With best wishes,

Yours sincerely

A handwritten signature in dark ink, appearing to read 'John Redwood', written over a vertical line.

JOHN REDWOOD

PERSONAL VIEW

Jan Tumlir is far too apocalyptic about the state of the world economy. Of course, recovering from a rapid inflationary boom, fuelled in its later stages by frenzied lending to those whose ability to repay was not sufficiently considered, is a painful process. Of course, the returns to capital have been too low, and these are now being corrected with a vengeance in an era of high interest rates necessary to prise out the savings from societies who have been taught by their inflationary experience that saving does not pay.

However, there are signs of hope in some sectors of the free world. Technical change is extremely rapid, and rates of return in the new industries are more than a match for the high real cost of capital in many instances. More importantly, we are likely to witness a resurgence of equity funding. There are several ways of recovering from heavy indebtedness. One is to tighten your belt and apply any spare amounts of income to repaying your borrowings. Another is to go out manfully and take a risk and try and make more money to repay your borrowings in due course or to add to your stock of wealth, which would make your backers happier with the level of advances they have made to you. A third is to persuade your backers that you are not as overborrowed as they think, so that they will indeed lend you more to tide you over a bad patch until something turns up. Mr Tumlir would argue that nothing will turn up, and that this latter course is an evil counsel. However, many of the countries that are experiencing debt problems are exporters of commodities. Commodity markets are notably volatile, and the prospects of any given heavy-debtor nation could be transformed in a few weeks by hectic trading on a speculative commodities market.

Many of the imbalances in the world economy did arise because of the rapid increase in the price of oil in the two successive oil crises of the 1970s. But the price of oil can go up and down. If it goes up, then one group of nations in heavy debt who are oil importers will suffer badly, and their indebtedness will be even shakier. However, simultaneously, the prospects of another group of heavy debtor nations - including countries like Nigeria and Mexico, who built up great stockpiles of debt on the back of their oil wealth - will see their prospects transformed.

Conversely, if the oil price falls, those who are heavy oil importers will gain relief on their balance of trade, giving them much needed extra financial resource to meet their interest charges. In summary, a competitive world market which does exist in many commodities adds a touch of delectable uncertainty to the future, which means that you cannot predict with safety that all is for the worst in the worst possible of worlds.

I am not usually one to recommend a course of muddling through. But in the case of the banking crisis, muddling through is exactly what I think we ought to do, and have been doing quite successfully. The surge of outward bank lending from America to other countries has been stopped. This, in my view, is one of the main reasons for the enormous strength of the American dollar against all other currencies, because the taps of dollars flowing outwards have been turned off. This, over time, will help reduce the debt pressures, although in the worst cases of heavily-borrowed nations, the powers of compound interest are, I confess, terrifying, and leave them very exposed. Secondly, individual countries - by applying a rigorous straitjacket on their spending, or by winning the commodity lottery, or by applying capital to productive uses, which gradually improves the strength of their economy - will come out of difficulty and be accepted back again amongst the fraternity of those to whom it is reasonable to lend money. The banks themselves will have learnt from experience, and will be naturally more cautious in the next few years about their lending policies. The top man in the banking parlours of the 1980s will not be the debt salesman who put most new debt on his bank's books in the previous 3 years: he will be the risk analyst who took the most cautious and canny line.

Governments will resort to some bad habits. The US Government has already accommodated the potential banking crisis by easing its monetary policy, and thereby also lowering interest rates. Governments will undoubtedly continue to do this where necessary, but it looks as if they are going to do it in a sufficiently subdued way to avoid opting for the hyper-inflationary final "solution".

Mr Tumlir's other main thrust is that the world is indulging in a bout of dangerous competitive protectionism. He is right to warn us. Protectionism does indeed damage trade and job prospects across the world. For any individual country, additional protectionism is an attractive option if only they could get away with it without others doing the same. In practice, others always do do the same, as they too have the same perception of the need to steal a march on others.

Mr Tumlir is also right to suggest that unilateral removal of protectionist measures by any individual country is an act of folly. Just as the United Kingdom Government disdains the idea of unilateral nuclear disarmament, so too it should rightly disdain the idea of unilateral removal of protectionist measures. What is needed is patient and difficult diplomatic work across a wide front, to encourage multilateral reductions of barriers to trade - whether they be tariff or non-tariff in their nature. If the UK Government wishes to find a constructive role in trade policy, it could do no better than to use the undoubted political skills and reputation for statesmanship and consistency of purpose which its current administration has engendered to provide leadership both within Europe and, on a broader canvas, in favour of multilateral protectionist reduction.

I believe this is exactly this Government's intention, and Nick Owen's briefing and better-considered thoughts on this subject will be brought forward at the time when Norman Tebbit presents his proposals concerning freeing restrictions on international trade.

J.R.

File 10/11/83

file

BMC



DC NO.

10 DOWNING STREET

From the Private Secretary

9 January 1983

The Prime Minister has seen your letter to me of 5 January on the work of Dr. Alice Coleman. She has noted it without comment.

(Andrew Turnbull)

John Ballard, Esq.,
Department of the Environment



10 DOWNING STREET

file
bc Sir A. Walters
Ferdinand Mount
John Redwood

27

From the Private Secretary

21 December 1983

I attach a checklist of conclusions and matters to be followed up, arising from the meeting at Downing Street last Friday.

The Prime Minister would be grateful if the Ministers indicated could take the action attributed to them in the note, consulting other colleagues as required (though in such cases no reference should be made to the origin of the remit). As proposals are developed they should be brought to Cabinet or its Committees as required. Alternatively, papers can be circulated to ad hoc groups of Ministers. This office will be happy to advise on the appropriate channels. As indicated in the note, the Prime Minister intends to hold further meetings of this kind, the next probably around Easter.

This letter and the checklist are for the sight and use only of Ministers and their Principal Private Secretaries. The Prime Minister has asked that no circulation should be given to this letter or the list; that no copies should be made of them; and that action should be initiated by means of separate instructions and not by means of the list itself. In putting action in hand, no indication should be given as to the provenance of the proposals to be pursued.

I am sending copies of this letter and the checklist to Elizabeth Hodgkinson (Department of Education and Science), Michael Reidy (Department of Energy), John Ballard (Department of the Environment), Callum McCarthy (Department of Trade and Industry), Alex Galloway (Office of the Chancellor of the Duchy of Lancaster), Barnaby Shaw (Department of Employment); to the Chairman of the Manpower Services Commission and to Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

John Kerr, Esq.,
HM Treasury

SEMINAR ON INDUSTRY AND EMPLOYMENT: CHECKLIST OF CONCLUSIONS

Taxation

- i. Chancellor of the Exchequer to produce a paper on the bias in the tax system between capital and labour;
- ii. Chancellor of the Exchequer to bring forward proposals on the taxation of stock options in the Budget;
- iii. Chancellor of the Exchequer to develop proposals on a reform of corporation tax involving a lower rate of tax combined with a reduction in allowances;
- iv. Chancellor of the Exchequer to review stamp duty on stocks and shares in the run-up to the next Budget;
- v. Chancellor of the Exchequer to keep under review Inland Revenue's treatment of taxpayers seeking to be taxed as self-employed.
- vi. Chancellor of the Duchy of Lancaster to prepare a programme of work for simplification of the tax system.

Trade Policy

- i. Secretary of State for Trade and Industry to produce a paper on the way export promotion is currently working, on how it might be made more effective, how the export promotion effort might be better targeted on countries able to pay and on whether support should be redirected to different sectors of industry and services.
- ii. Policy Unit to study implications of growth of managed and subsidised trade in the world.

Small Firms

- i. Secretary of State for Trade and Industry to produce proposals for simplifying and repackaging the scheme for

small firms, and for reducing the number of contact points.
To be completed by Easter;

- ii. It was agreed that the enterprise allowance should not be extended beyond the unemployed.

Planning Controls

- i. Secretary of State for the Environment to continue efforts to speed up planning applications, to reduce unnecessary restrictions, and to encourage the development of derelict urban land.
- ii. Secretary of State for the Environment to consider further the problem of large store developments, including the impact on inner city centres;
- iii. Secretary of State for the Environment to consider how the case for greater development might be put across more effectively;
- iv. Secretary of State for the Environment to examine the idea of an opinion survey to gauge public opinion on the relative merits of development versus land conservation.

Barriers to Employment

- i. Policy on wages boards and councils and on denunciation of ILO conventions to be considered in E(A);
- ii. Policy Unit to compile dossier of examples of successful entrepreneurship in the regions, to analyse the factors behind their success, including the contribution made by Government schemes, and to consider how these successes might be publicised;
- iii. Chancellor to consider what further might be done to encourage individuals to set up in business on their own rather than remain as employees of large enterprises.

Housing

- i. Secretary of State for the Environment to produce a paper on proposals for reviving the private rented sector, with particular reference to the development of assured tenancies. To be completed within two months;
- ii. Chancellor of the Exchequer to produce a Green Paper in the New Year on the role of building societies;
- iii. Chancellor of the Exchequer to consider CGT liability of resident landlords in the Budget.

Education

- i. Secretary of State for Education and Science to continue his work on raising standards in schools;
- ii. Secretary of State for Education and Science to bring forward proposals on the structure of governing bodies of schools;
- iii. Secretary of State for Education and Science to continue development of proposals on standards in teacher training;
- iv. Secretary of State for Education and Science to continue work on increasing understanding of economic realities in schools, in conjunction with the Chancellor of the Duchy of Lancaster;
- v. Secretary of State for Education and Science to continue work in conjunction with the MSC on encouraging universities to accept technical qualifications for entry;
- vi. Secretary of State for Education and Science to consider ways in which industrial sponsorship of students might be encouraged and to consider, in conjunction with the Chancellor of the Exchequer, whether any change should be made in the disregard applied to mandatory awards.

- vii. Secretary of State for Education and Science to follow up encouraging response to TVEI and to consider, with MSC, the possibility of direct grant technical colleges in areas not covered by TVEI.

Further meetings

- i. The Prime Minister to arrange further meetings of this kind, the next being around Easter.

26.12.83



10 DOWNING STREET

SEMINAR ON INDUSTRY
AND EMPLOYMENT:

Follow up meeting
held at 10 Downing St.
on 16 December 1983.

Note of meeting:

Copy No. 1 - A. Turnbull

No. 2 - F. Maunt

No. 3 ^{SL 22.12} ~~SL~~ R. Butler

No. 4 ^{SL 22.12} P. Gregson (Caboff)

No. 5 ~~SL~~ Confidential
Filing

No. 6 - Master set of records

NB: Not to be circulated outside 10 Downing Street

SEMINAR ON INDUSTRY AND EMPLOYMENT: FOLLOW UP MEETING HELD AT
10 DOWNING STREET ON 16 DECEMBER 1983

26

Present:

- Prime Minister
- Chancellor of the Exchequer
- Secretary of State for Education and Science
- Secretary of State for Energy
- Secretary of State for the Environment
- Secretary of State for Trade and Industry
- SIS Employment*
Chancellor of the Duchy of Lancaster
- Chairman of the Manpower Services Commission (Mr. David Young)
- Sir Robert Armstrong
- Sir Alan Walters
- Mr. Ferdinand Mount
- Mr. John Redwood

* * * * *

Introduction

The Prime Minister said the purpose of the meeting was to maintain momentum and follow up the ideas generated at the Seminar at Chequers in September.

The Prime Minister said that a factor underlying much of the work of the Group was the bias towards investment which was encouraged by generous capital allowances, and against labour which was made expensive and burdensome to employ. Government policies should work towards redressing this balance. The Secretary of State for Trade and Industry said that the White Paper on

/ Regional Policy

Regional Policy represented a significant step in this direction. He pointed out, however, that the purpose of capital investment was to raise productivity which was very low in this country compared with the United States. As it would be some time before our productivity was raised to a sufficient level, this shift should be gradual. The Chancellor of the Exchequer said the problem lay mostly with the system of capital allowances and capital grants, rather than with the payroll taxes which were not high in relation to other countries. He acknowledged, however, that the social obligations on employers remained a significant disincentive. The Prime Minister asked the Chancellor to produce a paper setting out the evidence on the bias in the tax system between capital and labour.

Taxation

(i) Share Options

The Prime Minister said that at the Seminar on Science and Technology a very strong case had been made for a more generous treatment of stock options which would allow companies to compete with the United States and which would encourage executives to move from larger to smaller firms. She urged the Chancellor to make radical changes in this Budget. The Secretary of State for Trade and Industry said a more favourable treatment of the stock options was top priority in his budget representations. The Chancellor confirmed that he was working on substantive proposals, which would apply capital gains tax on disposal rather than income tax. It would, however, be necessary to impose some restrictions.

(ii) Taxation of Companies

The Chancellor said his aim was to produce a re-casting of Corporation Tax with greatly reduced

/ allowances

allowances and a lower rate. Many of the allowances had in fact been introduced to protect companies from the impact of inflation but they could no longer be justified on this score. One issue was how fast to move in winding down allowances. The transitional problems would be difficult as the stock of unused allowances was around £40 billion.

The Chancellor asked colleagues whether they regarded a lower CT rate or removal of NIS as the greater priority. In general, the meeting favoured lower CT. The Secretary of State for the Environment pointed out that such a move would be regarded by manufacturing industry as further evidence that the Government was unsympathetic to it. Most of the benefit of a lower Corporation Tax rate would be enjoyed outside the manufacturing sector which was paying very little mainstream CT at present.

The Prime Minister suggested that a cut in NIS could be synchronised with a rise in NIC which was likely to be necessary.

(iii) Stamp Duty

The Secretary of State for Trade and Industry argued that stamp duty at 2% was making the London capital market uncompetitive, and financial institutions were increasingly trading UK securities on US markets. The problem of reducing stamp duty was the cost. At present, 40% of the yield of over £1 billion came from stocks and shares, the rest from property. It was argued that the case for cutting stamp duty on housing was not so strong. The effect of the reliefs was

/ that

that only 80% of first-time buyers paid stamp duty, though this of course would be higher in London.

(iv) Burden of Administering Tax

It was argued that Inland Revenue sought unreasonably to designate tax payers as having PAYE status. Against this, it was argued that there was a great deal of abuse, encouraged by the more favourable treatment of expenses available to the self-employed. It would be too costly to extend this treatment to employees. The Chancellor said this problem had been looked at by the Treasury but he did not see much scope for further progress.

The Prime Minister said she had had discussion with Treasury Ministers and the Chancellor of the Duchy of Lancaster on structural reform and simplification of the tax system. The Chancellor of the Duchy was preparing a work programme.

Trade Policy

The Prime Minister said the system of export promotion was proving costly. Too many orders, particularly of heavy capital goods, were in effect being bought from countries who were not in a position to repay. The Secretary of State for Trade and Industry agreed that the emphasis of the system could be improved to give greater support to smaller goods sold in cash markets. His Department was considering how to make export promotion more effective, e.g. by better targeting of sectors and markets. He felt that the service sector had also been neglected. He argued that the cost of interest subsidies was already coming down quite sharply, and he did not see much scope for further savings here. The priority was to achieve a reduction in subsidisation by other industries countries though a tightening up of the consensus might simply lead to more backdoor assistance. He considered a policy of unilateral disarmament would be damaging to our export industries though the Chancellor felt that this was the only way to make significant public expenditure savings.

/The Secretary of State for Energy

The Secretary of State for Energy warned that countries tended to become fashionable, producing a scramble for business, a competitive auction over terms and an excessive eagerness to lend. He feared China might now be such a case. It would be better to direct our effort elsewhere.

The Secretary of State for Trade and Industry agreed to produce a paper describing the operation of the export promotion system and suggesting how it might be made more cost-effective. The shift from bilateral to multilateral aid was noted with regret. The Secretary of State for Education and Science was concerned about the growth of subsidised and managed trade throughout the world. It was agreed that the Policy Unit would look into this problem.

Small Businesses

(i) Simplification

The Secretary of State for Trade and Industry recognised that the plethora of small business schemes was counter-productive. He had asked David Trippier to look at ways of simplifying the schemes, eliminating the less effective and re-packaging those that were retained. It was proposed to group the schemes together, with as far as possible common criteria and common application forms for each group. At the same time the Department would reduce the number of contact points. Someone was being recruited to market the schemes and advise on targeting them more precisely. This exercise was likely to be completed and the new schemes launched round about Easter. These proposals were welcomed.

(ii) Enterprise Allowance

It was agreed that the enterprise allowance should not be extended beyond the unemployed. With over 200,000 people entering self-employment each year, this extension would prove to be very expensive with a large dead-weight cost. The scheme would continue to be confined to the unemployed.

Planning Controls

The Secretary of State for the Environment summarised the points made in his paper. The planning system, in his view, should continue to reconcile the interests of conservation and development. He had taken a number of steps to speed up the process of planning applications, to remove unnecessary restrictions, and to give the development factor somewhat greater weight. He was also considering proposals for dealing with major retail developments.

The Prime Minister was anxious to give greater emphasis to jobs. She argued that frequently those who were clamouring for more jobs in a region were often those who opposed particular developments. She noted the improvement in the average waiting time for planning applications but said that the averages could still conceal individual cases which were being unreasonably delayed. There was frequently an unnecessarily long time between inspection and the decision.

The Secretary of State for the Environment said that the problem of planning applications was most acute in the Home Counties which was where extra housing was needed. The allocation of new land for building was vehemently opposed by existing residents who were also Government supporters. The Secretary of State for Energy recognised the strength of feeling on big store developments. The danger that these would lead to the decline of the High Street and consequently to urban decay was very real and the plight of American cities was a vivid warning.

The Prime Minister said there was an important task of presentation to be undertaken to ensure that the development case was properly appreciated. The Secretary of State for the Environment should continue his work to speed up applications and should consider recruiting more inspectors if necessary. It was agreed that an opinion survey on the relative merits of development and jobs versus conservation might provide Ministers with useful guidance. Further efforts should be made to speed up the development of derelict urban land and to encourage the approval of disused farm buildings for industrial use.

The Secretary of State for the Environment

The Secretary of State for the Environment commended the work of Miss Alice Coleman of King's College. This demonstrated that too much development was taking place on good agricultural land and insufficient on poor urban land where the objections should be less vociferous. He recommended that the Prime Minister should visit the London Dockland Corporation where important progress was being made. The Prime Minister agreed to consider this.

Barriers to Employment

The Secretary of State for Employment said that before Wages Boards and Councils could be abolished the relevant ILO conventions needed to be denounced. For the Agricultural Wages Board this needed to be done before August 1984, and for the other Wages Councils by 1986. The Agriculture Ministers were arguing in favour of retaining the AWB on the grounds that abolition would increase the scope for militant unionisation. In their view AWB was not a significant factor in raising wages.

The Secretary of State for Trade and Industry said that, whether we wanted to abolish the AWB or not, the right course was to denounce the ILO convention. He did not wish to judge the merits of the AWB case at present but denunciation would leave open the option and would also make easier the renunciation of the convention governing Wages Councils. The present convention confirmed not only the existence of the AWB but also imposed restrictions on its form. For example it set a level of wages for young workers which was inconsistent with the Government's policy and which was too high in relation to the YWS. Denunciation would be consistent with retaining the Board but modifying this provision.

The Secretary of State for Energy warned that unionisation by the TGWU, was increasing amongst farm delivery drivers. This was a potential source of trouble in the future and it would be unwise to encourage this development. Against this it was argued that the Employment Acts provided strong safeguards against picketing as this could only be done on the premises of a Board employer.

/ The Secretary of State for Education and Science

The Secretary of State for Education and Science thought that the reluctance of people in this country to set up in business on their own was a major problem. There were many cultural reasons for this but a number of steps could be taken to break down attitudes. The Chancellor of the Exchequer agreed that this would be desirable and said that a number of initiatives were in train eg his work on stock options and the work on portable pensions. The lack of entrepreneurship in the industrial regions of the country was noted. Many of the people with initiative had migrated though there were serious social disadvantages to this. It was argued, however, that the picture was not one of unrelieved gloom and it was agreed that instances of successful entrepreneurial activity could be identified. These could then be publicised and the reasons for their success explained. It was agreed that the Policy Unit should take this on.

Housing

The Secretary of State for the Environment said that the decline of the privately rented sector, at a rate of 100,000 units a year, was a major problem. One of the difficulties was the rise in home ownership which, assisted by tax relief, was tending to push up house prices, making it difficult for landlords to earn an adequate rate of return. It was difficult for rents to compete with low-cost home ownership.

On the way forward, he said shorthold had been crippled by the threat of repeal. He was, however, considering further measures on assured tenancies. A cautious step forward would be to apply short tenancies not just to newly constructed properties but to those newly converted, improved or transferred from the public sector. He estimated that this might produce an extra 20,000 tenancies a year, still small in relation to the total decline. A more radical option was to apply assured tenancies to new lettings. Another possible step was to permit individuals as well as companies to be landlords under the scheme.

He was also considering a phased reduction of rateable values to which rent control applied (£1,500 in London and £750 outside). These figures were sufficiently high to include some quite substantial properties. Finally he was considering proposals on co-operative purchase which might be particularly relevant to the London mansions.

The Chancellor agreed that the threat of repeal by a Labour Government and the substantial tax advantages for owner occupation were serious obstacles to the development of private rented accommodation. As part of the follow-up in NEDC to the papers on jobs. The TUC had agreed that impediments to mobility including housing should be studied. This was a welcome sign.

The Secretary of State for the Environment said he would be producing a paper during the next two months, with the aim of introducing a Bill in the next session.

The discussion then turned to other remits on the agenda. It was agreed that the proposal to remove private rented property from liability to CGT could prove counter-productive if it encouraged landlords to sell their properties although there might be a case for relieving resident landlords. On the future role of building societies, the Chancellor of the Exchequer promised a Green Paper early in the New Year, to be followed by draft clauses early in 1985. The intention was that the activities of building societies should remain in the housing field but with greater powers to own land, build, etc. He was waiting for the building societies to up-date their own ideas in the light of the BSA's consultative paper. No way was seen of improving the effectiveness of the Employment Transfer Scheme.

At this point the meeting adjourned for lunch.

Education

During the course of lunch the Secretary of State for Education and Science outlined the various initiatives upon which he was working. On standards in schools, his aim was to bring 80-90 per cent

of 16 year olds to the standard currently reached in CSE by 50 per cent. At the same time he proposed to define standards absolutely rather than by norm referencing.

He intended to bring forward proposals to colleagues in February/ March to change the composition of the governing bodies of county schools to give parents a majority. On grammar schools the Government's position was that local authorities were free to put proposals to him. He was currently awaiting such a proposal from Redbridge. On teacher training, he was working on proposals to define standards for initial teacher training courses.

He was not very hopeful of achieving a rapid growth in industrial sponsorship of students in universities and polytechnics. One of the problems was the level of the disregard (£900 a year). Any industrial bursary above this level simply reduced the value of the mandatory award. It was agreed that he would discuss this problem further with the Chancellor of the Exchequer. He had had a series of meetings with the Chancellor of the Duchy of Lancaster and Mr. Lawson of CCO on the initiative of increasing economic awareness in schools. Finally he said that he was seeking to get universities to accept technical qualifications as entrance qualifications. This was being done in conjunction with the MSC.

The Secretary of State for Education and Science said the response to the TVEI initiative was encouraging. Following the success of the 14 pilot schemes, extension to a further 68 education authorities was being considered. This could involve between 700-1000 schools. In conjunction with the Chairman of the Manpower Services Commission, it would be considered whether to set up direct grant technical colleges in areas not covered by TVEI.

The Secretary of State for Education and Science said that the Audit Commission would shortly be publishing a report which would reveal the inefficiency in some colleges of further education. In some colleges the working hours of teachers were extremely low and yet substantial amounts of overtime were being paid. It was agreed that this material should be given greater publicity.

Developments in the United States Economy

Sir Alan Walters reported on developments in the United States. He doubted whether the President would raise taxes before the election; likewise Congress was unlikely to cut expenditure. The Secretary of State for Energy questioned whether the United States budget deficit mattered while it was possible for the United States to finance it through capital inflows. Against this it was argued that the rapid rise in the size of the Federal debt, which could reach \$2 trillion within three years was an extremely worrying development. It was also noted that the strength of the dollar would increase the pressures in protectionism in the United States.

Next Steps

The Prime Minister said that she wished to hold further meetings of this kind, the next being around Easter to follow up any questions still outstanding and to develop new initiatives. A further seminar could also be held in September. She wished, however, to avoid the circulation of too many papers.

The meeting concluded at 1430 hours.

AT

21 December, 1983.



10 DOWNING STREET

From the Private Secretary

19 December, 1983

Burden of Regulation: Transport

BF
The Prime Minister was very grateful for your Secretary of State's report on the scope of regulation in the transport field and the action which he proposes to take to reduce it. She hopes that these issues will be pursued vigorously and looks forward to seeing proposals brought forward in the near future. These can be dealt with either through correspondence or through the normal Cabinet machinery.

I am copying this letter and your Secretary of State's report to Sir Robert Armstrong (Cabinet Office).

ANDREW TURNBULL

Miss D. A. Nichols,
Department of Transport

NR

SECRET AND PERSONAL



10 DOWNING STREET

From the Principal Private Secretary

Sir Robert Armstrong

Employment Seminar: Burden of Regulations on Small Firms

The Prime Minister has seen your minute of 13 December to me (A083/3448). She is content that you should discuss this matter further with Sir Robin Ibbs, and make recommendations, once Mr. Trippier has completed his report on burdens on small firms at the end of this year, but her initial reaction is to favour the suggestion that appropriate Ministers should be asked to conduct Rayner-type scrutinies on what their Departments are doing to clear away existing regulatory obstacles and to control new ones, rather than the second approach of providing additional assistance to small firms to help them to cope with regulations.

E. E. R. BUTLER

16 December, 1983.

SECRET AND PERSONAL

CT

PRIME MINISTER

BURDEN OF REGULATION: TRANSPORT

Mr. Ridley was not at the September Seminar which suggested that regulation in the field of transport should be looked at. I commissioned separately a note from him identifying where in the transport field there was still extensive regulation and what might be done to reduce it.

His response is set out in the attached minute. You have agreed that Departments should be asked to conduct a Rayner-type scrutiny of regulation within their areas of responsibility. This, in effect, represents a first instalment from DOT. At present it does not go much beyond being an agenda and in the absence of specific proposals I do not think it would be worthwhile for you to hold a meeting.

I suggest, therefore, that I minute Mr. Ridley thanking him for his paper and asking him to pursue his proposals ^{vigorously}, reporting back to E(A) as soon as possible.

M. M. M.

AT

SECRET

15 December 1983
Policy Unit

PRIME MINISTER

THE FOLLOW-UP MEETING

24

INTRODUCTION

The purpose of your original seminar was to identify barriers to employment. We must not lose sight of the fact that many, if not most, of these barriers are erected by government.

Our micro-economic policies are still keeping unemployment high, as are those of most governments in Europe. So long as these policies persist, it seems unlikely that unemployment will fall significantly, however strong and sustained is the recovery. These policies encourage the substitution of capital for labour by:

- i. making capital artificially cheap, by 100 per cent first-year tax allowances and investment incentives which are always tied to capital used, whether in manufacturing industry or agriculture;
- ii. making labour artificially expensive, and complicated and burdensome to take on, by the imposition of costs on the employer and of social obligations in respect to redundancy, training, pensions and employment protection.

So long as these policies conspire against employment in this way, employers will be driven in the direction of increasing the productivity of their existing work forces, rather than in the direction of expanding these work forces. As the Financial Times editorial (attached) suggests, British governments have chosen, with the connivance of the trades unions, a high-productivity, high-unemployment path for the economy.

Hence the rises in real pay in the last pay round, and so far in this one. Despite the high level of unemployment, real earnings rose by 3 per cent in the last pay round, and will probably do so again in this. Management seem content to allow a substantial degree of wage drift (about 3 per cent) over and above pay settlements, in the expectation that their existing work forces can increase their productivity to pay for this.

SECRET

We do not therefore need a futile quest for "where jobs are coming from" of a kind discussed at the last NEDC meeting. If we unwind the distortions, the jobs will reappear.

We also know from our experience of regional policy that the artificial jobs created at such huge public expense tend to be sadly temporary. The Northern Ireland Economic Council reports that two-thirds of the jobs created by government grants since the War had disappeared by last year (see attached cutting). Significantly, they believe the same is true in the Republic. Yet the "grants race" between North and South still continues to grow apace, with more demands for capital allowances etc.

300,000 more Jobs in Manufacturing?

This is not just an academic point: the numbers of jobs involved are very considerable. To illustrate: in 1981, payroll taxes accounted for 24 per cent of labour costs. In 1978, our generous depreciation allowance was equivalent to a subsidy of six and two-thirds per cent, according to an IMF study.* The combination of these two made capital cheaper relative to labour by 30 per cent. Capital grants and regulatory constraints on employers would have added a further twist against employment.

Research we have seen suggests that a 30 per cent cheapening of capital relative to labour could have reduced the numbers required to produce a given output in the cheapest way by 5 per cent. The other effects mentioned could have increased this by half as much again. This is equivalent to one-third of a million people in manufacturing alone.

American business pays similar payroll taxes but, according to the same IMF study, received virtually no capital subsidy through depreciation allowances in 1978. This may explain why the USA has generated more jobs, and rather less growth in productivity, than we have. In other words, if we moved to a set of micro-economic policies which were neutral as between capital and labour, we might expect to boost employment in manufacturing by 300,000. Employment would increase in agriculture and service industries too, though probably not as dramatically.

Of course, capital investment is the engine of progress. Industries need to adopt new technologies. But the bias against labour in Britain's tax-and-subsidy system is now much too severe. Employers are induced to replace men by machinery when the machinery would actually be more expensive if the system were neutral. This ought to be the central thrust of our employment policies: to make it as cheap and

* Comparison of tax depreciation methods in major industrial countries, George K Kopits, IMF, 1980

simple as possible to employ people and to
remove the distortions in the tax system. Those distortions are
hugely costly, not only in jobs lost and the resulting extra social
security expenditure, but in revenue foregone.

It is these costs which frustrate our efforts to reduce the levels
of taxation and borrowing, and so prevent the creation of new wealth
and new jobs.

This follow-up meeting gives you an opportunity:

- to remind colleagues of the strategy;
- to press for quick action in the areas which have been selected
for discussion;
- to set a vigorous timetable for departments, forcing them to
produce precise and well-formulated proposals for legislation.

Below are some comments on the priority areas. (The numbering is
still as in Michael Scholar's letter.)

AGENDA TOPICS

2. Taxation - Chancellor to lead

(a) Share Option Scheme. By charging to income tax any shares
distributed to employees, we discourage employee participation. The
Treasury now have a working device to replace this by Capital Gains
Tax on disposal. There would be controls on the holding period and
on the quantity of shares eligible. They should be encouraged to
put this provision in the 1984 Budget.

(c) Taxation of Companies. This is the heart of the matter. The
present structure of Corporation Tax is ludicrously complicated.
Some £40,000 million of unused tax reliefs are floating around in the
system. There are tax reliefs for investing in capital equipment,
for stockholding, for being small, or for being a building society.

The Treasury are still discussing a plan for phasing out the
allowances for moving to a 30 per cent flat Corporation Tax rate over
4 years, with the 100 per cent first-year capital allowance being
reduced to 25 per cent, and the abolition of stock relief.

But the Chancellor is worried about (a) starting in 1984; and
(b) revealing his phased programme from the start. He fears that the
immediate effect on capital investment might damage the pace of
economic growth.

This is doubtful. If we don't start in 1984, we are unlikely to complete the programme within this Parliament. And a phased programme would encourage firms to speed up their investment plans, since they would know that next year first-year capital allowances would be lower.

We argue strongly for an early public commitment to a phased programme. A Corporation Tax rate of 30 per cent would be a magnet to investors and a real boost to employment.

- (d) Reduce the Administrative Burden on Enterprise.
- (i) Simpler taxes mean less work and fewer forms for businessmen. You could entrench the commitment to simpler taxes by reporting on your 14 December meeting on simplifying tax legislation.
- (ii) Statistical services. You could ask for a review to establish whether the information presently demanded by the Government Statistical Services places unnecessary burdens on firms.
- (iii) Employer-employee law. Should be reviewed with a view to simplification, wherever possible.
- (iv) Regulations. You could ask all Ministers to have a trawl through the rules and regulations sponsored by their departments, and report back.

4. Trade Policy - S/S Trade and Industry

Our aim must be to switch our trade in the direction of countries which can pay, and of business which does not require subsidy. At present, the truth is that we do not expect to be paid in full for a substantial part of our exports, since we:

- (i) provide grants of 25 per cent and upwards to some export projects as part of the aid programme (cost £66 million a year);
- (ii) provide fixed rate interest support for capital projects (cost £300 million in 1982-3);
- (iii) accept country risks to a degree which is not always commercially justified.

Aid and Trade Provision

It is doubtful whether these subsidies really help the development of poor countries. The ODA "tests of developmental soundness" tend to be over-ridden by commercial pressures from British manufacturers. The Columbian railway project discussed in July was rated a poor investment, but we persevered. To the extent that recipient countries would proceed anyway, the aid is simply a balance of payments contribution. From our national point of view, it must be doubtful, too, whether a subsidy of up to 50 per cent or more of UK value-added is an effective way of creating jobs and "helping industry". Their financing results in a diversion of resources which could create greater wealth than the project in question is likely to do.

Proposal: Contain ATP in cash terms, and improve control and selectivity by making it clear that any overruns of cash limits will be recovered in the succeeding year.

Interest Support

In the 1970s, interest rates charged to overseas customers fell well below market rates. As a result, interest support costs rose to £590 million in 1981-2. As interest rates moved closer to market rates, the costs of this support fell to £300 million this year. The recent OECD Consensus should maintain this position.

Proposal: Our aim must be to move towards the market rate (a basket of OECD rates) on a multilateral basis, and eventually eliminate the subsidy.

Risk

We are owed an increasing amount by our overseas customers. ECGD's liabilities (ie the amount it is liable to pay to exporters if their customers default) rose from £29 billion in 1979-80 to £47 billion in 1982-3. (Our exposure on Brazil is £2.5 billion.) In the same period, ECGD's cash cover fell from £485 million to £290 million. Increased exposure is not itself disadvantageous: it becomes so if our customers show signs of an increasing inability to pay. Indications last year suggest that they are indeed moving in this direction: debts of £200 million were "rescheduled".

We do not forecast credit-worthiness well. If we are exposed to a 15-20 year risk, we ought at least try to forecast the position in 5 years from now. Several departments are involved, but not in a

co-ordinated way. Differences are resolved in an ad hoc, adversarial way, overshadowed by a particular project which might be in prospect.

We do not relate exposure on a particular country to our export performance in that country. We are over-exposed on Brazil, by comparison with other OECD countries, yet obtain only a small share of Brazil's imports from OECD.

Proposal: Invite Treasury/ECGD to initiate reviews of our credit portfolio, our forecasting performance, and our returns in relation to risks incurred.

6. Small Firms Policies - S/S Trade and Industry

(a) David Trippier's initiative to reduce the number of schemes for small businesses is not yet complete, and needs some encouraging words to provide it with stimulus. The task is Herculean, as there are 88 schemes currently in operation to aid small business, often entailing separate information and separate form-filling by the applicant if he is to succeed. It is vital for the small businessman that the number of schemes be reduced to the bare minimum, and the forms for application are simplified as much as is compatible with retaining some check on the distribution of monies.

There could be a high-technology package of schemes with a single form, a business expansion package of equity support, and a loan guarantee package for debt. Any scheme which has attracted little support or few applications, any scheme which is too complicated or which duplicates another, should be wound up or subsumed by one of the main categories of scheme.

(b) Extending the Enterprise Allowance beyond the unemployed. The purpose of this was to add further stimulus to the development of self-employed small businesses. The follow-up meeting could reaffirm its enthusiasm for such a project, and ask Tom King to make the necessary arrangements, if the Department of Employment report on the scheme's effectiveness is favourable.

* This is separate from David Trippier's other exercise on reducing the legislative and administrative burdens on small firms.

Planning Controls - S/S Environment

Patrick Jenkin's paper describes the progress we have made. The average time for deciding planning appeals is down from 29 weeks in 1979 to 19 weeks in 1982 - still too long, but better. We have widened the range of developments that don't need permission. More appeals are now granted.

Annex A describes the "Sainsbury" problem and what the DoE is doing to give a fairer chance to application to build a superstore: building provision for them in local plans, a code of practice, and calling in all applications, say, over 25,000 square feet. These seem sensible provisions, but I think it is inevitable that a superstore will always provoke a furor and Sainsbury's cannot expect instant approval.

We feel that the real problem lies with land for housing and the structure plans, and the way some authorities insert "trivial, onerous and prescriptive controls of a kind which no Government (certainly not this one) would contemplate introducing in general legislation" (paragraph 8).

The worst such restrictions are:

"Timetabling" of development so that only a certain small number of houses may be built each year, thus keeping land prices horrendously high.

Exclusion of all new industry. Many rural authorities refuse permission if the firm applying has no existing factory or business in the district.

Discouragement of, or general presumption against, all development.

General population restrictions.

Discouragement of housing for old people. This restriction is surprisingly common.

No development in or near villages.

These restrictions combine to make development scarce and pricey. They cannot even be justified on Green Belt grounds - or in most

cases, even on environmental grounds. Timetabling, after all, does not prevent ultimate development. It merely ensures perpetual scarcity of land and a continuing depression in the housebuilding industry.

We endorse Patrick's main conclusions, especially paragraph 13, where he proposes exemplary planning appeal decisions and the use of his powers to intervene in the planning process; ie to strike out these restrictions from council plans, and make it ever more clear that, while he will defend the Green Belt and the countryside, he will not tolerate attempts to rule out all development.

It is quite possible for him, steadily and quietly, to change the whole scene by using his existing powers over 2 or 3 years. This is likely to be more effective as well as less controversial than altering the planning legislation once again.

10. Barriers to Employment - S/S Employment

- (b) Abolish Wages Councils in 1985/6
- (c) Abolish/Limit Agricultural Wages Boards

A case for sweeping away the entire Wages Council system is well understood by most Ministers:

- (i) If Councils are effective in pushing up wages, they damage job prospects of the less able and qualified, particularly of the young. They also make life difficult for small firms which might depend on labour of this kind.
- (ii) If they are not effective in influencing wages, they simply waste administrative resources and impose considerable compliance costs on thousands of businesses, to no point whatever.

In short, Councils are either actively harmful, or just an encumbrance.

Long-Term Aim

The ILO Convention of 1928 has inhibited the Government from abolishing the Councils; it was felt that to abolish without first denouncing the Convention would have political costs. The opportunity to "denounce" the Convention arises only every 5 years. The window of opportunity for denouncing the Agricultural Wages Boards is now open;

the window for the Wages Councils is open in 1985/6. The long-term aim should be to abolish both the Boards and the Councils by 1986.

Tactics

It is awkward that the window for the AWBs opens before that for the Councils, because the Government has not agreed a view on the AWBs (Mr Jopling favours retention: see his letter to Mr King of 24 November); whereas Ministers are clear about their wish to abolish the Councils.

The first step is to denounce the ILO Convention 99 in respect to AWBs, regardless of arguments which may be advanced in favour of retention. The essential point is that we cannot allow ourselves to be constrained by a Convention of 1928. This step would allow us to consider the AWBs and the Councils together. If the AWBs are retained, it will be difficult to dispose of the Councils.

We suggest that following the Seminar, a No.10 letter should invite Tom King to begin the process of consultation (required by ILO Convention 144) prior to denouncing ILO Convention 99 governing the AWBs. He should also be invited to prepare a strategy paper for consideration at E Committee, dealing with both the AWBs and the Wages Councils.

13. Housing Policy - S/S Environment

- (a) Progressive decontrol, particularly in respect of new lettings etc.

Economic revival has highlighted the crying shortage of rented accommodation. All over Southern England and South Wales, jobs are going begging for this reason.

We agreed at the beginning of the year to extend assured tenancies to newly-improved and converted dwellings. This would encourage the letting of attic and basement flats in under-used houses.

We could extend decontrol to new lettings of existing accommodation. There would be a greater risk that Labour would threaten to repeal this and discourage potential landlords. But it would encourage landlords to continue to rent at the end of a letting, instead of selling. There would be an incentive for Rachman-types to winkle tenants out, but then there already is at the moment.

A further possibility would be to encourage householders to take in lodgers by exempting from tax any income received from lettings up to a maximum of, say, £50 a week. As the total tax-take from resident landlords is only about £20 million, the Exchequer cost of this would be very tiny.

You might wish to call for a paper on Reviving the Rented Sector for early in the New Year.

(b) Land for housing, particularly in the South

See Patrick Jenkin's paper on planning. Circulars on Green Belt and Land for Housing were a little too far-reaching. Revised versions will be issued in draft in February.

(c) Legislation to expand activities of building societies

DoE and Treasury still discussing this with building societies. Treasury will produce a Green Paper after the Building Societies Association has issued another version of its consultative paper. So no Government response before the Budget.

(d) Remove private rented property from liability to Capital Gains Tax

CGT relief for resident landlords will be in the next Finance Bill. But that apart, the Chancellor prefers to relax rent controls.

(e) Improve effectiveness of Employment Transfer Scheme

Department of Employment can see no way through at present. Worth an interdepartmental group (DoE, DE, Treasury, Policy Unit?)

(f) Consider level of stamp duty on house purchase

This is being considered, along with stamp duty on securities (in the context of Stock Exchange liberalisation). Action on either would be expensive.

(g) Await paper on conveyancing monopoly

Cabinet has now decided.

(h) Consider possibility of improving pace of land registration

Encouraged by H, not least for simplifying and reducing the costs of conveyancing.

15. Education - S/S Education

- (a) Consider how to encourage parents to take more active interest and role in children's education

You have already seen the DES paper. You might ask Keith Joseph to describe his proposals on school government, so that you and other participants can urge him to proceed quickly with devolving power to parent governors.

- (b) Welcome proposals by local education authorities to re-establish grammar or technical schools

You might ask Keith to reinforce Bob Dunn's speeches by saying in public that he does not believe in mixed-ability classes in comprehensives, and that he thinks grammar, technical and secondary modern schools are often splendid.

You may wish to ask about the possibility of Direct-Grant technical colleges, eg David Young's scheme for using the vacant County Hall.

- (c) Pursue reform of teacher-training schools and curriculum

Reform is going ahead - no need for lengthy discussion.

- (e) Encourage industrial sponsorship of students in universities and polytechnics

This is one of the best ways of getting private money into HE. So why no action yet? You could ask for a meeting in January, and a DES paper by then.

- (f) Pursue the possibilities for improving understanding, both in schools and in the country at large, of economic realities. Consider the introduction of pilot schemes.

This subject could run and run; but nobody has any substantive proposals. We suggest that you curtail discussion.

- (k) Promote parity of esteem for technical education (as compared with traditional educational qualifications): encourage universities to accept technical qualifications for entrance.

You might ask what progress is being made by Keith's inter-departmental group. You could set a deadline of February or March for a report.

LUNCHTIME DISCUSSION

1. Review of Strategy and Summary of Main Themes

You might wish to point out that experience since the summer has confirmed the rightness of the Chancellor's July measures and the overwhelming need to control public expenditure and public borrowing. This is the essential pre-condition not only for reducing inflation, interest rates and taxation, but also for making room for enterprise to flourish. This is an opportunity to hammer home the lesson that it is only because we have controlled public expenditure that we are experiencing for the first time in years a respectable rate of growth and a respectable rate of inflation.

Our strategy falls into two broadly distinct parts:

(a) Removing the bias in favour of capital:

- Corporation Tax reform, NIS
- reducing the huge subsidies for investment in nationalised industry and agriculture
- reducing the subsidies for capital-intensive projects overseas
- reform of regional policy

(b) Reducing the barriers to employment:

- less regulation and paperwork
- trade union reform
- abolishing Wages Councils
- improving mobility of labour through housing and pensions measures.

Taken together, these measures form a coherent strategy to make it easier, more attractive and more economically efficient for employers to hire people.

But taken individually, some of the measures can and will be caricatured as "hitting industry" (eg reducing capital allowances) or "exploiting workers" (eg abolishing Wages Councils).

It is therefore vital to put our case across and dominate the debate.

FINANCIAL TIMES

BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY

Telegrams: Finantimo, London PS4. Telex: 8954871

Telephone: 01-248 8000

Thursday December 8 1983

Policies which destroy jobs

THE NATIONAL Economic Development Council failed yesterday to solve the problem of unemployment, to nobody's surprise; for in spite of the worthiest intentions, NEDC is ill constituted to solve problems. Its ground rules get in the way: officials cannot question government policy, nobody is allowed to be rude to the trade unions, and as a result any illumination can only seep in between the lines.

The discussion was based on a Treasury briefing paper. It contains some figures illustrating what everybody knows: jobs are shrinking in manufacturing and growing in services in the UK. In the U.S. and continental Europe. Its analysis, though, is muffled and sometimes muddled.

Faster growth

The paper does point out, for example, that though the structural pattern in the U.S. is quite like that in Britain, the pattern of recovery has been very different. Here there has been a strong rise in labour productivity, a weaker rise in output and a fall in employment; but real earnings have risen strongly. In the U.S., by contrast, labour productivity has performed poorly; the strong rise in output has been achieved by a sharp rise in man-hours, and a corresponding rise in the productivity of capital. Result: a strong rise in output, employment and profits, but little rise in real earnings.

The moral of this contrast is not very difficult to draw. If the Americans want faster growth still, and higher earnings they have a problem with labour productivity. Our own problem of low profitability and high expenditure on unemployment benefit seems to lie more in the field of capital productivity. In other words, if the Government wants to achieve some of its central objectives in one stroke, it should be asking itself why employers are so unwilling to hire more labour, and continue to invest in labour-saving, at poor returns, when unemployment is high.

Once the problem is stated clearly, some awkward questions arise both for the unions and for the Government. The fact is that we have high unemployment because we have chosen this course. Thirty years of union lobbying have produced "employment protection" laws which make it forbiddingly expensive to hire any labour which might by any chance have to be shed in future. Such measures inevitably reduce hiring; in the Netherlands, where workers are a still more protected species, they are correspondingly rarer.

Tax concessions

These laws, coupled with union bargaining pressure, have compressed profit margins over the years; successive governments have responded with tax concessions — all of them designed to make capital rather than labour cheaper. So on top of anti-employment laws, we have had a growing labour-substitution subsidy. The result simply illustrates the powers of such incentives. It is in many ways a comfortable result for those in work, with high real wages and some security of tenure; perhaps it is what the unions secretly want. It is up to the Government to change the rules.

Central question

Compared with this crucial issue, which is barely acknowledged, the issues the Treasury paper does raise are marginal; but they are still important enough to merit something more than clichés. It is rightly argued that a bigger private rented sector in housing would help labour mobility; yet the Government continues to strangle this sector with controls and fiscal disadvantages. Flexible work practices and an open attitude to training certainly help, but here progress is already encouraging. But the central question remains: fuller employment comes at a price, in unpopular legislation and surrender of privileges. Are the unions and the Government ready to pay?

Vanishing jobs of Ulster

By Our Belfast Correspondent

TWO-THIRDS OF the jobs created in Northern Ireland by government industrial development grants since the Second World War had disappeared by last year, according to the Northern Ireland Economic Council.

In a report on the effects of government financial assistance, the council says 137,000 jobs were created between 1945 and 1982. Only 45,000 of them still existed in June last year. But they represented 40 per cent of all manufacturing employment in the province.

"Although this survival rate may appear low, it is broadly similar to the experience of the Irish Republic," the report says.

The council, which advises the Northern Ireland Office on economic policy, examined 673 projects assisted under government schemes. The study was restricted to "selective assistance" involving grants and loans linked to employment targets.

Newer and larger projects had created more durable employment, but the grant cost suggested it might be more cost-effective to create employment in small and medium firms and in the expansion of existing companies.

The grants had helped diversify the industrial base by developing new industries—man-made fibres, consumer electronics, car components and rubber products—and by the introduction of new processes and products to existing firms.

The report looks closely at Northern Ireland's synthetic fibre companies, which, at one stage, accounted for a quarter of total UK employment in the industry and about 7 per cent of manufacturing jobs in the province.

The jobs were costly to create and when recession hit the industry in the late 1970s, the impact on the local economy was severe. The report says that underlines the need for Government to maintain a balance between different industrial sectors in the application of policy.

The Duration of Industrial Development Assisted Employment, Northern Ireland Economic Council, 2 Linenhall Street, Belfast.

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CC NO



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON SW1

14 December 1983

Dear Andrew,

THE BURDEN OF REGULATION

Thank you for your letter of 25 November about the Prime Minister's wish to see a reduction in the burden of regulation on the economy. This is an objective which is strongly endorsed by my Secretary of State.

Regulations affect the different forms of transport in different ways. A good deal has already been done to reduce, streamline or update them.

- (a) Buses There are two sorts of regulation: safety and economic. Safety regulation applies to operators (as a check on competence and maintenance standards) and to vehicles. Economic regulation applies to the volume and nature of services offered and, for buses, applies to routes. Since 1979, economic regulation of coach services has been ended, and there is now a presumption in favour of awarding route licences to new operators, and route licensing has been abolished in a number of trial areas.

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(b) Civil Aviation is also subject to both safety and economic regulation. The Civil Aviation Authority (CAA) is responsible for safety regulation and for policy on licensing of British airlines, which was removed from Ministerial direction in 1980. Following an appeal decision to allow increased competition with British Airways on London - Scotland routes, the CAA have been taking a more liberal approach to licensing decisions. We are working for liberalisation of air services within the European Community (EC) and our airlines should benefit from the Directive on inter-regional air services which is the first agreed step in that direction.

(c) Lorries are not subject to economic regulation, except for quota constraints on international freight; we have called for the abolition of these. Lorry depots are subject to planning controls. Safety regulations apply to vehicles, to operators to ensure competence and standing of operators (being simplified following a Rayner scrutiny, but legislation is required to complete the process), and there is EC regulation of drivers' hours (we have been pressing for clearer, simpler rules).

(d) Shipping Safety regulations reflect international conventions; our legislative bid for 1984/85 includes measures to simplify and update Victorian legislation. There is little economic regulation, but the Government is proposing to accede to the UN Convention on a code of conduct for liner conferences. These are

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private cartels and shipping is exempt from UK Restrictive Trade Practice legislation, although not in principle from the competition rules of the Treaty of Rome (a regulation applying these is in draft).

(e) Motoring No quantity regulation except for parking, but extensive regulation for safety reasons. This is kept under review for simplification, updating, and removal of rules no longer appropriate.

(f) Access to roads from new developments. Highway authorities can advise and in some cases direct local planning authorities on planning applications involving new accesses to roads. Except for trunk roads, this is a matter for local authorities. For trunk roads, the Department would normally intervene only for safety reasons on high speed routes, or where there might be serious interruption of traffic flows, but we are currently looking at whether there is scope for reducing this.

My Secretary of State's policies for further reducing the burden of regulation are as follows:

(a) Safety regulations are important - for the safety of vehicles (or planes or ships) and the competence of those operating them, and for special matters like the carriage of dangerous goods. But we need to keep them under review to ensure that they are as up to date and as simple as possible. International law and

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agreements and the need to amend UK legislation can limit our freedom in this. Nonetheless there is plenty of scope for action:

- we have recently sought views on our proposal to increase the speed limit for lorries on dual carriageways. The result could be a considerable reduction in cost to lorry operators and those using them.
 - we are bidding for legislation in the next session to revise archaic merchant shipping law and to greatly simplify the complicated regulations affecting minibuses.
 - my Secretary of State also hopes to consider with the Home Secretary the case for a basic review of road traffic law with the object of producing a simpler structure which the private motorist would find easier to understand and more relevant to what he sees as serious traffic offences.
- (b) Economic regulation principally affects buses and civil aviation, as summarised in paragraph 2. Plans for simplifying and reducing it are among our highest priorities, though there are constraints:
- regulation may be needed to control the use of infrastructure where demand exceeds capacity and where international law precludes free use of pricing mechanisms (e.g. at some airports);

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- international air services are difficult to deregulate because of the need for agreement of other countries and the possible impact on UK airlines of competition with subsidised airlines from other countries (or with the market power of some US operators);
- it may also be needed to balance the monopoly power of operators (so that it can be reduced only as effective competition can be introduced);
- some form of control (perhaps in the form of franchising) may be needed where subsidy is being paid in an otherwise deregulated market, to ensure that subsidy is kept to a minimum.

For buses, we aim to make substantial progress in deregulation and extension of competition outside the conurbations, although this will need to be kept in step with restructuring of the NBC and of municipal bus undertakings. In the conurbations, bus operations are more complicated and we need (and are planning) further study of how best to introduce greater competition. Our aim is to have policy clear in time for legislation in the next session, for which we have bid.

On civil aviation, you will know that my Secretary of State mentioned, in the course of his statement in the House on 12 December about British Airways, that the CAA would be reviewing the implications of privatising BA for its responsibilities for licensing and for the sound

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development of the British airline industry. The CAA Chairman has made it clear to us that this review will necessarily embrace the potential for liberalising the licensing of air services.

Yours,

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MISS D A NICHOLS
Private Secretary

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the Economy : Nov 82

The development of the private sector
has been a key factor in the growth of
the economy. It is essential for
the government to provide a
favorable environment for
business activities.

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SEMINARY ON INDUSTRY AND EMPLOYMENT
FOLLOW UP MEETING, 16 DECEMBER, 1983

AGENDA

(The numbering is that used in the checklist attached to Mr. Scholar's letter to Mr. Kerr of 14 September)

2. Taxation
Items (a), (c) and (d). Item (b) to be dealt with in the run up to the Budget.

4. Trade Policy
Items (a), (b) and (c).

6. Small Firms Policy
Items (a) and (b).

8. Planning Controls
Item (a). The attached paper by the Secretary of State for the Environment will provide the basis of the discussion.

10. Barriers to Employment
Items (b) and (c).

13. Housing
All items except (g).

15. Education
Items (a), (b), (c), (e), (f) and (k). The remaining items under this heading which are related to training are being discussed either in E(A) or elsewhere.

/Lunchtime Discussion

Lunchtime Discussion

- (i) Review of strategy and summary of main themes.
- (ii) Improving presentation of Government policy.
- (iii) Next steps to follow up outstanding remits.
and for further development of policy.

Papers

- (i) Mr. Scholar's letter of 14 September.
- (ii) Chancellor of the Exchequer's paper to NEDC on "Changing Employment Patterns", circulated by the Treasury on 8 December.
- (iii) The Town and Country Planning system: paper by the Secretary of State for the Environment, circulated herewith.

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Ref. A083/3448

MR BUTLER

A

Prime Minister

22

This is one of the remits from the Chequers seminar which is not on the agenda for Friday's meeting.

Do you want to express a view at this stage on the two approaches at A and B?

Do you agree that a decision on the means of pursuing this remit should be taken when Mr. Trippier's report is available at the end of the year?

Employment Seminar: Burden of Regulations on Small Firms

One of the points which emerged from the employment seminar at Chequers on 6 and 7 September was the need to "consider setting up a scrutiny (or unit) to review the burden of central and local government regulations affecting industry and to suggest possibilities for alleviating it" (item 7 of the checklist). The Department of the Environment is conducting a review of planning regulations and the Department of Transport has been asked to identify where there is still extensive regulation in that field.

2. The conclusion of the Chequers meeting was, however, primarily directed at the burden on small firms and the obstacles to the creation of new businesses. Since then the Prime Minister has agreed (Mr Turnbull's minute of 7 November to Mr Tebbit's Private Secretary) to a proposal from the Secretary of State for Trade and Industry for a study to identify a number of specific burdens in particular Departments under the direction of Mr Trippier which will report by the end of the year. Although it seems sensible to await the outcome of this study before reaching decisions on how to take this forward, I have been giving the matter some thought and have also consulted Sir Robin Ibbs.

3. The Small Firms Division of the Department of Trade and Industry is currently responsible for monitoring the small firms sector, providing advice to small firms on taxation, money, training and similar matters and, specifically policy on legislative and administrative burdens. It may therefore well be best, both presentationally and in efficiency terms, to base any special effort or scrutiny on that Division rather than create a new unit. This is also Sir Robin Ibbs's initial view.

4. A review which attempted to take in the whole range of central and local government regulation might be too broad to be effective. The study being carried out by Mr Trippier should help to narrow the target. But a major difficulty in selecting

particular regulatory areas for scrutiny is that, almost by definition, the regulations will not have been designed to bite on small firms as such but to apply generally for other good reasons of policy. In many such cases it may be difficult to justify a special exemption for small firms. For this reason Sir Robin Ibbs takes the view that we should concentrate on the burdens rather than the small firms and he suggests that we should consider asking appropriate Ministers to conduct Rayner-type scrutinies on what their Departments are doing to implement the Manifesto commitment to clear away existing regulatory obstacles to expansion and to control new regulations.

5. Alternatively, or in addition, we might undertake a central exercise to see what additional assistance can be provided to small firms to help them to cope with the regulations affecting them, building on the existing expertise in the Small Firms Division but perhaps also bringing in outsiders (eg the banks) who have experience in this area.

6. I suggest that this is not an item which the Prime Minister will wish to address at the forthcoming follow-up to the seminar; but once Mr Trippier has completed his report I will discuss the matter further with Sir Robin Ibbs and make recommendations.

REA

ROBERT ARMSTRONG

13 December 1983



10 DOWNING STREET

From the Private Secretary

9 December, 1983

Dear John,

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The Ministers who attended the meeting at Chequers in September are meeting again on Friday, 16 December at 10 a.m. to discuss the follow up to that meeting. As stated in my letter to you of 6 October, the Prime Minister has not asked for written reports on the various remits set out in the checklist attached to Michael Scholar's letter of 14 September. Where, however, there are specific papers to hand these could be circulated as a background to the discussion. In general, Ministers are asked to make oral reports. The Prime Minister has requested that these should nevertheless be thorough and detailed, reporting on progress made and problems encountered, and suggesting the steps to be taken next.

In the time available, it will not be possible to discuss all fifteen subject headings in the checklist. In any case, many of the items have made substantial progress through the normal machinery of government. The Prime Minister has selected those areas where she believes there is still significant progress to be made or where a further discussion would be most productive. These are set out in the attached agenda.

The remaining items have not been selected for discussion, though Ministers may have an opportunity to raise points on them if they think that is essential.

Over lunch, the Prime Minister proposes to discuss general strategy and the main themes; ways in which the presentation of Government policy could be improved; the way in which outstanding work on the various remits should be completed; and the way in which further policy development work of this kind can be carried forward.

I would be grateful if knowledge of the existence of this meeting could be restricted. This implies that any briefing which Ministers call for should be initiated by separate instructions which do not refer back to the meeting.

/ I am

FIVE SH
bcc: Mr. Gregson. 21
Mr. Mervin.
Mr. Radwalek
Mr. Alison

SECRET AND PERSONAL - CMO

I am sending copies of this letter to Elizabeth Hodkinson (Department of Education and Science), Mike Reidy (Department of Energy), John Ballard (Department of the Environment), Barnaby Shaw (Department of Employment), Callum McCarthy (Department of Trade and Industry), Alex Galloway (Office of the Chancellor of the Duchy of Lancaster); to the Chairman of the Manpower Services Commission and Sir Alan Walters; and to Richard Hatfield (Cabinet Office).

*Yours sincerely
Andrew*

ANDREW TURNBULL

John Kerr, Esq.,
H.M. Treasury

SECRET AND PERSONAL - CMO

SEMINARY ON INDUSTRY AND EMPLOYMENT
FOLLOW UP MEETING, 16 DECEMBER, 1983

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- (iii) The Town and Country Planning system: paper by the Secretary of State for the Environment, circulated herewith.



Summary at start plus
Conclusions at section 4

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

8 December 1983

Janet Lewis-Jones
Private Secretary to the
Lord President

Dear Janet,

CHANGING EMPLOYMENT PATTERNS: NEDC PAPER

.. The Chancellor has suggested that the attached paper, discussed in NEDC yesterday, might be of interest to his Cabinet colleagues generally, as well as to those who attend NEDC. I am accordingly circulating copies of this letter and its enclosure to the Private Secretaries of all members of Cabinet, as well as to Andrew Turnbull at No 10, Henry Steel in the Law Officers Department, Murdo MacLean at No 12 and Richard Hatfield at the Cabinet Office.

Yours ever,

J O Kerr

J O KERR
Principal Private Secretary

National Economic Development Council

CHANGING EMPLOYMENT PATTERNS: WHERE WILL THE NEW JOBS BE?

NEDC(83)58

28 November 1983

Memorandum by the Chancellor of the Exchequer
Summary

Employment patterns in this country are constantly changing, as they have in the past, and as they are doing in other developed countries.

2. The process of change is something to welcome. Throughout history, individuals, firms and economies have shown a remarkable ability to adapt to changing conditions - to the growth of new industries and the decline of old, to the discovery of new markets, new methods and new techniques, and to new demands. It is through such adaptation that it has been possible to satisfy the growth in people's aspirations for better living standards.
3. Changes taking place in employment patterns today are part of this continuous process. The growth in manufacturing employment following industrialisation may now be over. The numbers in manufacturing seem to have peaked in 1966, since when they have steadily declined. In contrast, employment in services has continued to grow; the number of jobs has risen by some 1½ million in the last 10 years. Within that broad shift, other important changes have taken place in employment patterns between types of industry, types of firm and types of occupation.
4. They reflect many factors: changing relative costs and prices; productivity; technological change; higher real incomes and people's changing tastes.
5. The benefits of rising prosperity have been taken partly in higher money incomes and partly in shorter working hours, longer holidays and more leisure. Average annual hours worked per employed member of the population have halved in the last hundred years or so and fallen by a fifth since the last war. However, if competitiveness is to be assured, the benefits of economic growth cannot be taken twice over - in higher incomes and then again in lower hours; choices have to be made.
6. Over the last 10 years the number of part-time employees has risen by about a fifth. The trend seems also to be towards more self-employment and for more people to be employed by smaller firms.
7. The United Kingdom's experience is not unique. Many of the same employment trends can be seen elsewhere. In all the 7 major OECD countries, there has been an increase in the share of services in total employment and a reduction in the share of manufacturing. US experience shows that it is possible to achieve a rapid growth in service employment, along with relatively better employment in manufacturing than in this country. Labour mobility

appears to be substantially higher in the US than here, and real wages seem more responsive to conditions in labour markets.

8. Experience here and in other countries underlines the importance of structural and occupational changes to the process of economic growth. Attempts to protect existing employment patterns by slowing down change are unlikely to succeed. Rather it is better to concentrate on identifying and removing impediments to new jobs, and ensuring conditions necessary for their increase.

9. A number of considerations stand out:

- There must be a readiness and ability to adapt to change on the part of managements and workforce.
- There is a need to embrace productivity and technological change. Far from representing a threat to jobs, experience shows that they can support a high level of employment, and that the real danger lies in failing to match the productivity levels and technological advance of our competitors.
- Productivity levels in British manufacturing are a third below average European levels and further behind Japanese levels. The more recent relatively rapid growth in manufacturing productivity in this country offers grounds for hope that this gap may be narrowed. But if British firms are slow to introduce new technology or improve productivity, markets here and abroad - and hence jobs - are at risk of being lost.
- At the same time, continuing attention must be paid to costs if the recent reversal of the long term decline in profitability of British industry is to be sustained.
- Job prospects will increase to the extent that businesses can respond quickly and flexibly to the needs of consumers. The government can improve the business environment by reducing the size of the public sector, stimulating greater competition, freeing markets from unnecessary regulation, curbing monopolies, by tax changes and through the progressive dismantling of controls and restrictions. Success will depend on the extent to which businesses respond to the challenge of this new and more open environment, and the opportunities it brings.
- To convert these opportunities into new jobs requires labour markets which are flexible and responsive to change. Training and education play an important part in achieving this greater flexibility. So too may action to reduce impediments to labour mobility (eg in the fields of housing and occupational pensions), and to

remove restrictive practices. Some of the latter are deeply entrenched, and call for urgent attention by unions and management.

10. Success in achieving substantial future growth in jobs requires effective contributions from management, workers and government. Each of the parties represented on the NEDC has an integral part to play in speeding the process of adjustment, in easing the inevitable frictional problems, and in seizing opportunities for new employment which can be expected to arise.

11. The government is playing its part by

- establishing sound non-inflationary conditions for sustainable growth in output;
- encouraging firms to expand and diversify in markets freed from unnecessary restrictions;
- pursuing policies aimed at lower taxes and interest rates, to encourage hard work, enterprise and initiative; and
- providing opportunities for training and work experience, especially for young people.

12. Governments can provide the right policy framework, but they do not determine the process of change or where and when new jobs occur. That depends on how all of us - employers and employees, producers and consumers - respond to the opportunities which change presents.

CHANGING EMPLOYMENT PATTERNS: WHERE WILL THE NEW JOBS BE?

INTRODUCTION

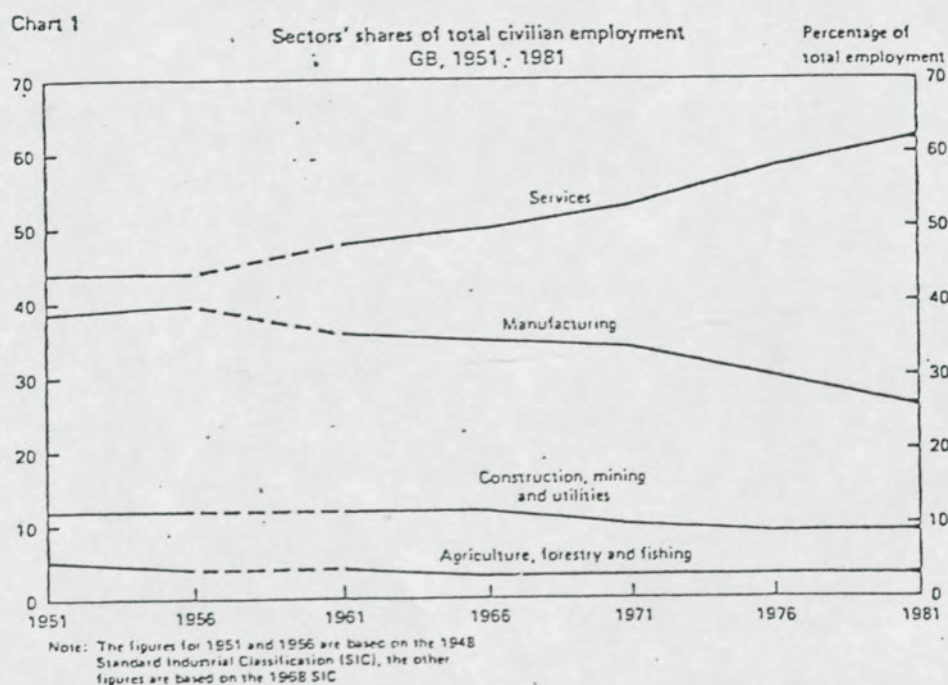
This paper arises from a discussion at the August Council meeting about the prospects for new jobs. It is in four parts. It begins by examining what has happened to employment patterns in Great Britain over the last thirty years or so. This part of the paper also looks at changing occupational patterns and work patterns. As a basis for comparison, the paper then goes on to look at changing employment patterns in the United States. In the third section, the paper considers a range of actual, or potential, impediments to the emergence of new jobs in a world of continuing technological change and what needs to be done to overcome them. The final section of the paper draws some tentative conclusions about future employment patterns; discusses the role of government and others in securing a supply of new jobs; and suggests some issues for further consideration by the Council.

1. CHANGES IN THE PATTERN OF EMPLOYMENT IN GREAT BRITAIN

1.1 At a time of high unemployment, it is natural to ask where new jobs will come from. But economies are not static: jobs are disappearing all the time and others are being created. About 350,000 people enter and leave unemployment each month, and quite small shifts in the balance of job gains and losses in different sectors of the economy, if they persist, change employment patterns significantly over a period of years.

Industrial changes

1.2 The shares of the main industrial sectors in total employment have continued to change in line with trends established for over a century. Total employment in services already exceeded employment in manufacturing more than 60 years ago. Since the mid-1950s, the share of service employment in the total has been rising steadily and the share of manufacturing employment has been falling. Total employment in manufacturing has been falling in absolute terms since 1966. The fall in the share of employment taken by agriculture, which started two hundred years ago, has now stopped. But the share taken by the remaining sectors - construction, mining and utilities - has fallen steadily since the mid-1960s.



1.3 The processes of change operate first and foremost at the company level. Observed employment shifts are the result of the balance between a multitude of small changes. New jobs are continuously created throughout the economy - in firms operating in sectors seen to be in decline, as well as in those which are expected to grow. But analysis has to be conducted at the industry, not the company level. Table 1 below shows the industries which today have 10,000 more employees than they did 10 years ago.

TABLE 1

INDUSTRIES WITH OVER 10,000 MORE EMPLOYEES IN 1983 THAN IN 1973

| <u>Production industries</u> | Increase (000s) | <u>Service industries</u> | Increase (000s) |
|-----------------------------------|--------------------|---|--------------------|
| Radio, radar and electronic goods | 25 | Medical and dental services | 291 |
| Petroleum and natural gas | 24 | "Other" miscellaneous services (includes photography, welfare and charitable services, trade associations, window cleaning) | 212 |
| Water supply | 23 | Educational services | 120 |
| Electronic computers | 12 | "Other" business services (includes typewriting, copying, employment agencies, computer services) | 106 |
| | | Banking and bill discounting | 88 |
| | | "Other" professional and scientific services (including accountancy and legal services) | 61 |
| | | Sport and other recreations | 50 |
| | | Miscellaneous transport services and storage | 48 |
| | | Property owning and managing, etc | 42 |
| | | Clubs | 37 |
| | | Dealing in industrial materials and machinery (other than fuels, builders materials and agricultural supplies) | 37 |
| | | "Other" financial institutions (includes building societies, stockbrokers) | 31 |
| | | Insurance | 28 |
| | | Hotels and other residential establishments | 28 |
| | | Public houses | 26 |
| | | Restaurants, cafes, snack bars | 15 |
| | | Catering contractors | 14 |
| | | Advertising and market research | 11 |

Source: Annex Tables A3-A6

- Notes: 1. The categories are those used in the 1968 Standard Industrial Classification
2. The two years do not represent equivalent points in the economic cycle (1973 was a cyclical peak). Tables A3 and A5 in the Annex show growth between comparable years.

1.4 The long perceived shift from employment in production industries to employment in services has accelerated over the last decade (though recent figures also reflect the impact of the recession). The state of the manufacturing and service sectors is, of course, linked in so far as some services are essential to the success of manufacturing output as well as vice versa. Furthermore, in recent years there has been some tendency for jobs to move from the manufacturing to the service sector simply because firms have substituted contract for in-house work. But the huge structural changes have been the result of wider and more fundamental economic and social changes: the nature of technical change has reduced the labour needed per unit of manufacturing output compared with that needed per unit of service output; there has been increased competition in world markets and greater pressure on UK tradeable goods as the inevitable consequence of the exploitation of North Sea oil (though tradeable services have also been affected); finally there is the familiar point that as individual incomes rise, consumers spend a greater proportion of those incomes on services.

1.5 Total service employment (including the self employed as well as employees) is over 1½ million greater in 1983 than it was in 1973, and is now estimated to be at an all time peak. The period from 1973 to 1981 saw 0.5 million additional jobs created in professional and scientific services, 0.4 million in miscellaneous services and 0.3 million in insurance, banking, finance and business services (a breakdown of the number of self-employed in service industries is not available after 1981).

1.6 Very many service industries showed higher employment in 1983 than in 1973 (See Table 1). The list reflects a variety of influences:

- (a) the continuing growth in incomes in most years raising the demand for personal, financial and leisure services - of which a good example is the growth of jobs in sport and clubs;
- (b) changes in consumers' tastes - eg a greater readiness to have bank accounts;
- (c) wider social and economic changes -eg the greater demand for solicitors and estate agents' services as a result of the spread of home ownership;
- (d) increased foreign demand - eg for the services of the various tourist industries including airlines, restaurants and hotels, and for some financial and business services;
- (e) changes in technology - eg the growth in "other business services" which include computer services;
- (f) the tendency for firms to buy in services which would previously have been done in-house, so effectively re-classifying manufacturing jobs as service jobs (this

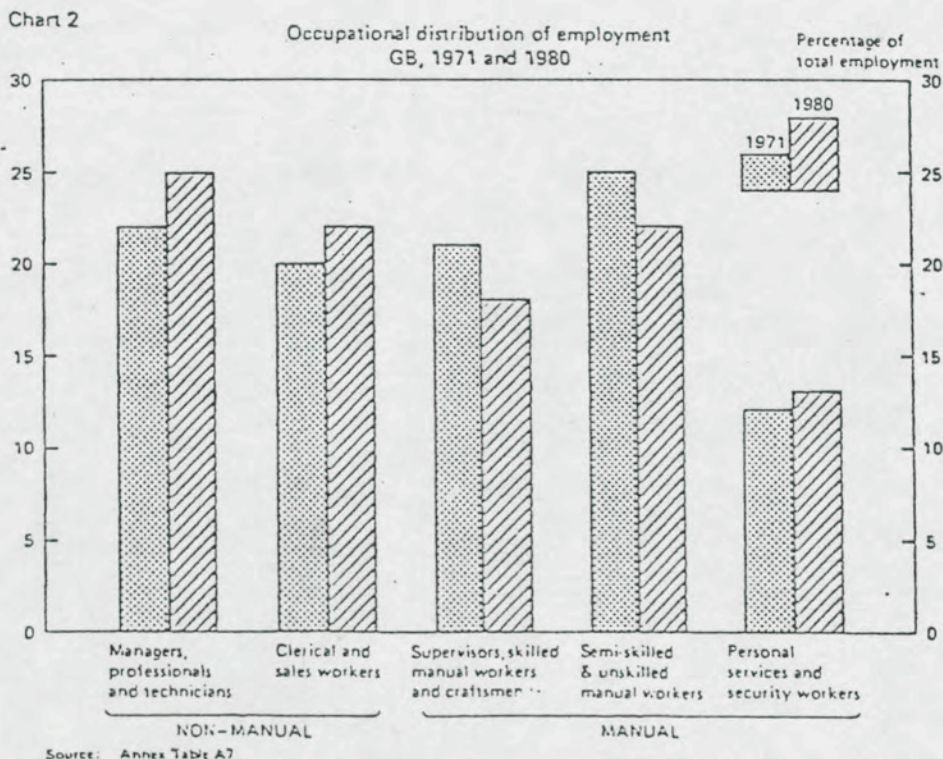
effect may be seen in the growth of jobs in, for example, advertising and market research, and in "other business services" like document copying);

- (g) finally, demographic pressures, which help to explain the increased employment in medical services.

1.7 The growth of service industries is now contributing to an improvement in the overall employment position. Allowing for a quarterly increase of 25,000 in self-employment (the Department of Employment working assumption) the estimated total of those in work - employees and the self-employed together - rose in the second quarter of this year for the first time since the recession began. The number of people working short-time is less than one-quarter of the figure two years ago. Vacancies have increased by 50 per cent in the last year.

Occupational changes

1.8 The relative importance of different occupations has also changed considerably over time. Chart 2 shows the main changes in occupational employment between 1971 and 1980, especially the shift from manual to non-manual jobs. This is the continuation of a longer term trend: in 1911 approaching three-quarters of the employed population worked in manual occupations, compared to not much more than half today.



1.9 Part of the occupational shift reflects changes in industrial structure. The large shift towards service employment, together with the larger absolute decline in employment in production or manufacturing industries, has contributed to the rise in importance of non-manual occupations relative to manual occupations. There have also been substantial shifts away from manual work within individual industries. Employment of managers, administrators and clerical workers has grown in response to the increasing specialisation in every sector of the economy. The number of engineers, scientists, technicians and draughtsmen has increased as a result of the growing technological complexity of products and production methods.

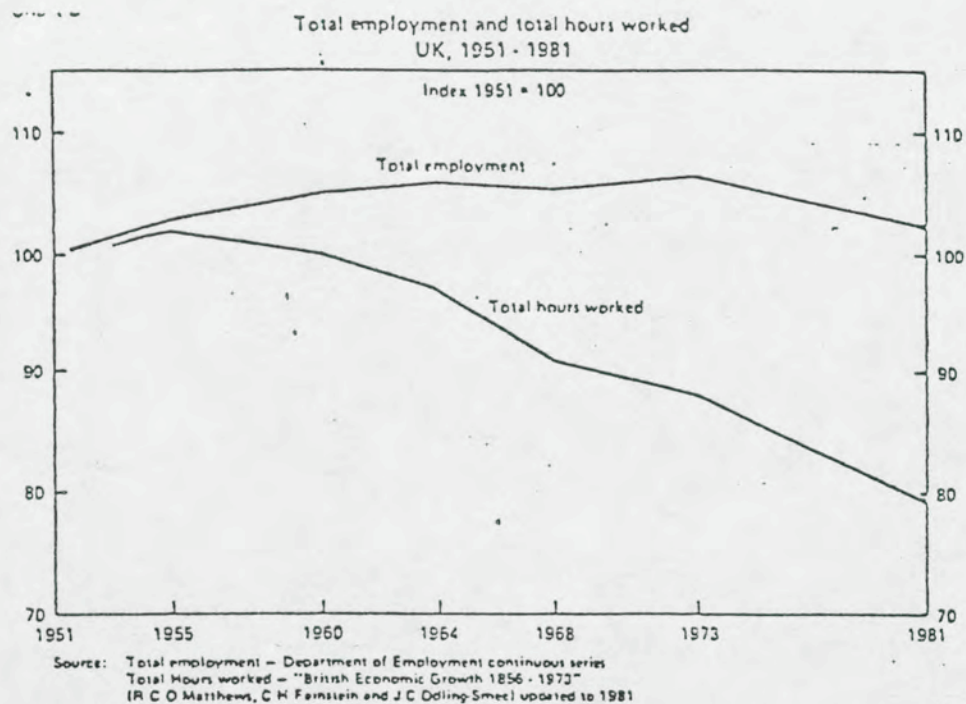
1.10 Among manual occupations the only major groups to see a rapid growth in employment have been personal service and security occupations. The main groups to lose ground have been craftsmen (particularly those with industry-specific skills), and supervisors and foremen, skilled and semi-skilled operatives and general labourers. Overall there was an estimated 15 per cent increase in non-manual employment between 1971 and 1980, and a 6 per cent decline in manual employment.

Changes in work patterns

1.11 Just as there have been great changes in the industries in which people work, so there have been great changes in how they work. The most striking change in work patterns over the past century or so has been the reduction in the number of hours worked per employed person per year, which halved over the last 100 years or so and has fallen by over a fifth since the war. This reflects the shortening of the working week, the rise in the proportion of people (mostly women) working part-time, and an increase in the length of holidays.

1.12 Total hours worked by the labour force as a whole have fallen by about 20 per cent since the war, although total employment has barely changed (Chart 3). The growth of output per man hour over the period 1951-81 has enabled people to increase both their leisure (reduce their hours) and their incomes:-

| | |
|--------------------------------------|-------|
| Growth of output per man hour | 3% pa |
| Growth of income per worker | 2% pa |
| Reduction in annual hours per worker | 1% pa |



1.13 Although there are some 6 million job changes every year, a significant feature of working practices is that people have tended generally to stay with the same employer. In the 1970s, men could expect to spend an average of 20 years with the same employer and women 12 years. However, there are signs of increasing pressure for greater job mobility, both between and within firms, and also for more flexible use of manpower. Indeed, it is important that employers should be more responsive to market pressures if unemployment is to be lower. There are a number of ways in which greater flexibility may come about: by more flexible working hours; by more job changes within firms; by greater use of temporary or casual employment; and by sub-contracting work customarily done in-house to other companies.

1.14 One recent tendency towards more flexible use of manpower can be seen in the growth in part-time workers. Between June 1973 and June 1983 the number of part-time employees rose by 800,000, while full-time employment fell by 2½ million. The proportion of part-time workers in the total rose from 17 per cent to 23 per cent. There has been a similar tendency for part-time employment to grow in importance in nearly all other OECD countries. For example, in Europe as a whole, one out of every two jobs created since 1973 has been a part-time job.

1.15 Most part-time workers are women. So, as Table 2 below shows, the growing importance of part-time work has also been associated with a significant shift in the balance between employment of men and women in the past few years. Female employment is now some 80,000 more than it was 10 years ago, and women now represent 44 per cent of all employees compared to 39 per cent in 1973. A larger proportion of women work in Britain than in the other major European countries.

TABLE 2

NUMBER OF MALE AND FEMALE EMPLOYEES, GB, JUNE 1973 AND JUNE 1983

| | | <u>Millions</u> | |
|---------------|------------|-----------------|------|
| | | 1973 | 1983 |
| <u>Male</u> | Full-time | 12.8 | 10.8 |
| | Part-time* | 0.7 | 0.7 |
| | Total | 13.5 | 11.5 |
| <u>Female</u> | Full-time | 5.5 | 5.0 |
| | Part-time* | 3.2 | 3.9 |
| | Total | 8.7 | 8.9 |

*actual number, not full-time equivalents

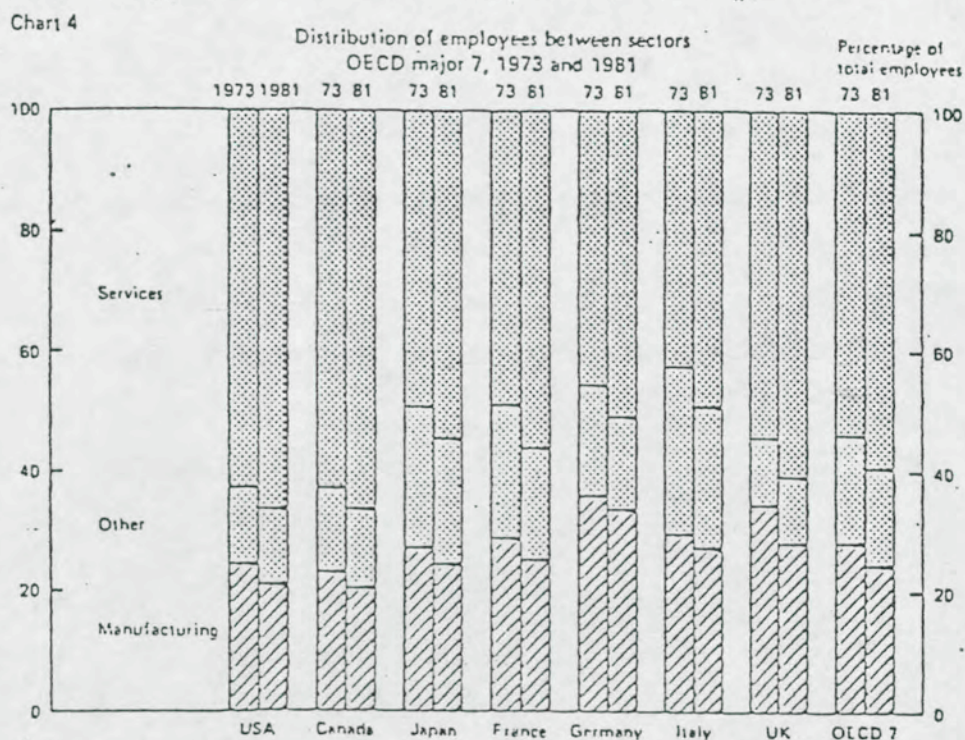
1.16 This brief survey would be incomplete without mention of two other ways in which the economy is becoming better able to cope with structural change - the growing role of smaller firms and the growth of self-employment. Thus, although very recent figures are not available, employment in small establishments (employing less than 200 employees) accounted for 34 per cent of the manufacturing workforce in 1981 compared to 27 per cent in 1973. Unfortunately equivalent figures are not available for employment in small service establishments where most of the growth would have been expected.

1.17 Self-employment also appears to be rising again. There were fewer self employed in 1979 than in 1973 (1.8 million compared to nearly 2 million). Between 1979 and 1981, however, the number of self-employed rose by over 10 per cent to more than 2 million. The Department of Employment's working assumption is that this trend is likely to have continued, so that the number of self-employed may now total about 2½ million -over 400,000 up on the figure in 1979. Two thirds of the self-employed work in service industries.

2. RECENT DEVELOPMENTS IN THE UNITED STATES

Sectoral changes in employment

2.1 There are some broad similarities between recent changes in employment patterns in the UK and in the other major OECD countries: in all cases the share of services in total employment has risen and the share of manufacturing has fallen (Chart 4).



2.2 The experience of the USA, which often foreshadows developments in this country, is of particular interest: the shift towards services has gone furthest there; output per head is far above the British level; and there has been a marked growth in total employment. In the USA the number of jobs rose by 13 million between 1973 and 1983 as shown in Table 3 below. 10 million of these jobs have gone to women. Most of this growth took place in services, but, in contrast to the experience of the UK, employment in manufacturing was fairly stable over that period; it peaked in 1979, but after a sharp fall in 1981 and 1982 has now begun to recover somewhat. The general expectation in the US is that in the medium term employment in manufacturing will begin again to rise gradually or, at worst, remain flat. Manufacturing investment has grown rapidly in real terms over the last decade or so.

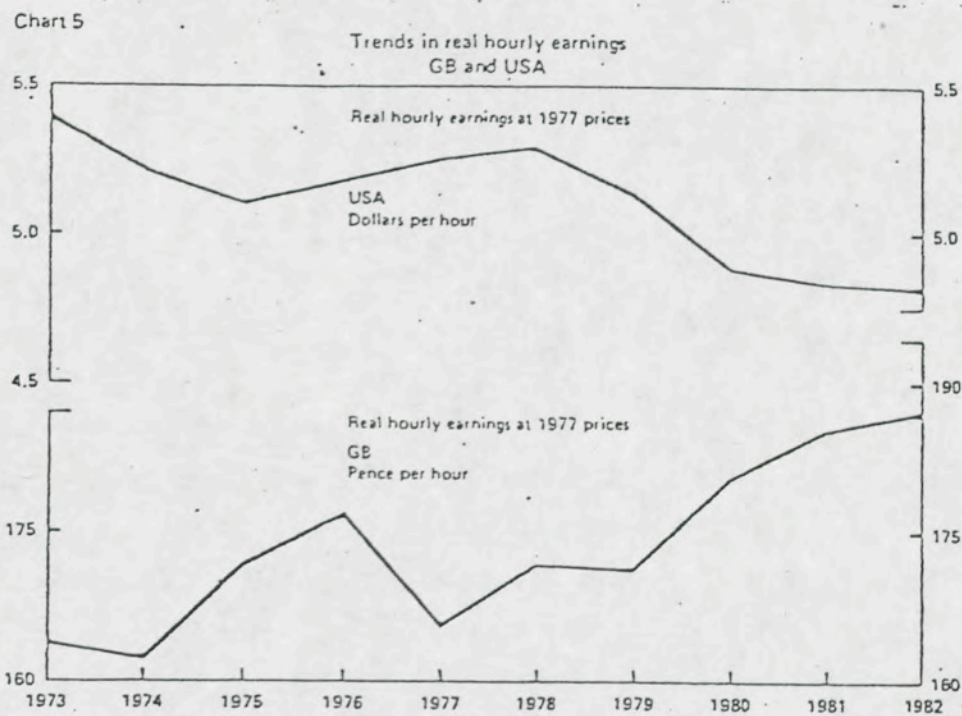
TABLE 3^{Restricted}

RECENT TRENDS IN EMPLOYMENT IN THE UNITED STATES

| | Employment (millions) | | Change 1973-83 (millions) | Proportion of total % | |
|-------------------------|-----------------------|------|---------------------------|-----------------------|------|
| | 1973 | 1983 | | 1973 | 1983 |
| Total non-agricultural | 75.4 | 88.2 | +12.8 | 100 | 100 |
| of which: | | | | | |
| Manufacturing | 19.8 | 18.2 | -1.6 | 26 | 21 |
| Mining and construction | 4.3 | 4.4 | +0.1 | 6 | 5 |
| Services | 51.2 | 65.6 | +14.3 | 68 | 74 |

Note: more detailed figures are given in Annex Tables A8 to A11

2.3 One frequently heard argument is that the relative success of the US in creating jobs over the last decade can be traced to the greater flexibility of its labour markets. One manifestation of this is the responsiveness of wages to market conditions. In contrast to experience in this country, US hourly earnings have fallen in recent years (Chart 5).



Sources: GB all industries and services series;
USA production and non-supervisory workers series.

2.4 Within manufacturing a number of industries have shown major gains in employment. The output of computer equipment has grown faster than that for any other product and largely explains the employment growth in the two industries (non-electrical machinery and electrical equipment) most closely associated with it. A third durable-goods industry to experience significant growth has been the instruments industry which has benefited from the increasing demand for medical and optical instruments as health services have expanded. Among the industries producing non-durable goods, the major increases have been in printing

(mainly lithographic commercial printing) and chemicals, where the rise in employment has largely been in drug manufacturing. American industry has moved rapidly into areas of high technology and the growth of employment in these new industries has broadly offset reductions in manufacturing employment elsewhere.

2.5 Within the service industries, employment has grown significantly in all major areas except for transport and public utilities. Nearly 95 per cent of the overall gain in employment between 1973 and 1983 was accounted for by three main service groups: wholesale and retail trading; finance, insurance and real estate; and a category of services that roughly corresponds to those of professional and scientific services and miscellaneous services in this country. The first and the last of these groups made the largest contributions.

2.6 Behind the very rapid growth of service employment has been the same wide range of influences as has been evident in Britain. In particular, changing demand patterns, and the limited scope for productivity improvements in many service activities, have stimulated job creation in services. While productivity in manufacturing rose by some 2 per cent a year between 1973 and 1982 (compared with 1½ per cent in the UK), productivity growth in financial services rose by 1 per cent a year, and remained constant in wholesaling, retailing and the residual services category. Compared to Britain, a much higher proportion of the increase in demand for services fed straight through into an increase in employment.

2.7 Changes in relative wages have also played some part in the growth of services in the US. Workers in service industries (with some exceptions, like financial services etc) tend to be paid less than those in manufacturing. Furthermore, wages in service industries have grown more slowly than those in manufacturing. This fact, which partly reflects the greater flexibility of labour markets in the service industries in the face of increasing labour supply, seems to have contributed to the growth of employment in those industries.

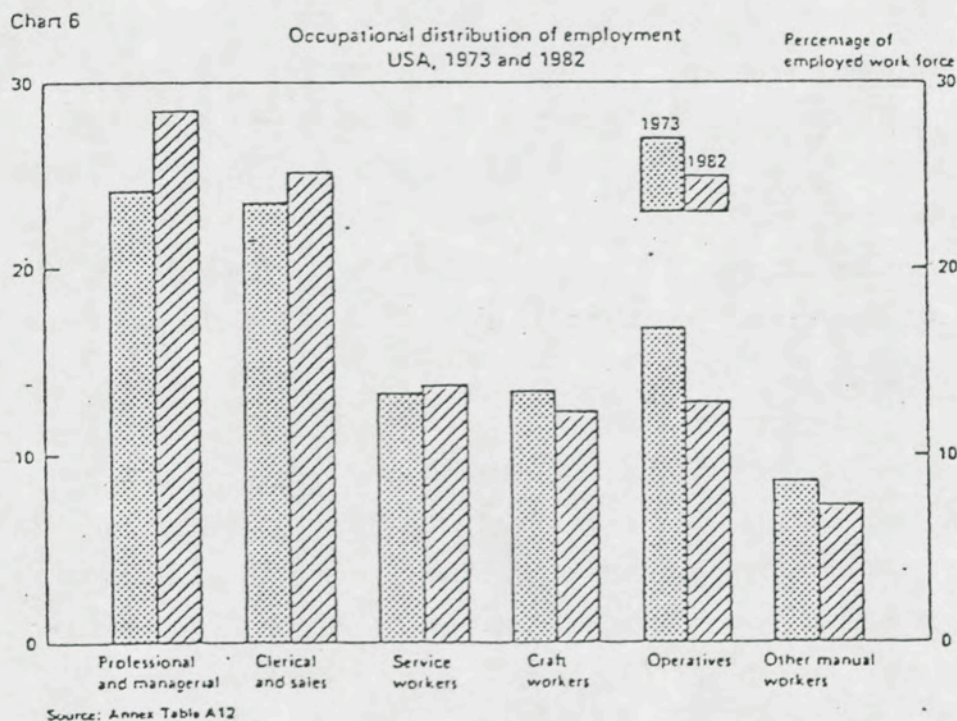
2.8 The US experience shows the kind of effects which such influences can produce. For example:

- There has been a rapid rise in employment in banking and other financial services throughout the last decade, even though in 1973 the proportion of the US population using banking services was higher than it was in Britain in 1983.
- Employment in health services grew by 65 per cent, contributing more than 2 million new jobs, and in business services by 80 per cent, contributing 1½ million jobs.

- Major elements in the rise in employment in US wholesaling and retailing have been the increase of 1½ million jobs in "eating and drinking places", and of 600,000 jobs in the wholesaling of durables including computers and copiers.

Occupational Changes

2.9. Occupational changes have been similar to those in Britain. "White-collar" occupations became increasingly important as a source of US employment between 1973 and 1982. Professional and managerial, sales and clerical occupations markedly increased as a percentage of total employment. But although the proportion of "blue collar" workers fell, the total number employed remained broadly constant. Within this total, the number of craft and manual workers rose and the number of operatives fell.



2.10 The more detailed occupational figures partly reflect the major trends in the industry figures. For example, they show the continued increase in demand for specialised financial and business services in the USA: the number of lawyers, accountants and real estate agents and brokers have grown significantly. They also mirror both the expansion of health services (where there have been very large increases in the employment of registered nurses and health technologists and technicians) and the continued growth of the catering industry (reflected in increased numbers of cooks, waitresses and restaurant managers). But the occupational changes also reflect the demand for higher levels of skill across many industries and services. In eight years the numbers of computer specialists and computer operators have both more than doubled. There have also been large increases in the numbers of engineers and engineering and science technicians.

Changes in Work Patterns

2.11 The striking feature in comparisons of work patterns is the difference in the degree of mobility in the two countries. Labour mobility, in all its forms, is more pronounced in the US than in Britain. Although the rate of job changing in the US appears to have been at an historically low level in recent years, it is still more than twice the rate found in Britain.

Conclusions

2.12 US experience of creating new jobs is a generally encouraging one for prospects in Britain. Many of the same trends can be seen in the changing employment patterns in both countries, and if the pace of change seems to have been faster in the US, and the capacity there to adapt that much greater, it is all the more important to try to identify factors impeding change in this country and what can be done to reduce them. The following section addresses those questions.

3. OBSTACLES TO NEW JOBS - AND OVERCOMING THEM

3.1 One thing emerges clearly from this brief review. It is the extent to which people in all developed countries have successfully adapted to dramatic changes in technology and patterns of employment and to changes in taste and fashion, which have continued even in the past decade of relatively slow growth. Structural and occupational change clearly is an essential part of the whole process of economic growth. The implication is that attempts to slow down change, especially by protecting existing employment patterns, will prove counter-productive. By the same token, we have to look to remove obstacles to the creation of jobs in new areas.

Adaptability

3.2 Future success will depend on a readiness and ability to adapt to change. The changes that others are making cannot be ignored if we are to secure a proper share of world markets, and compete successfully in our own domestic market. The demand is there - but we have to adapt to meet it. For management this means a willingness to move into new areas of business, to take risks, to ensure that investment is directed towards areas with the best growth potential. For employees, this means being ready to learn new skills, to adapt to new working patterns and, where necessary, to move from places where jobs are being lost to those where they are on the increase. For Government this means ensuring that the ability to change is not hindered by unnecessary controls which stifle initiative. Together there is a need to be able to adapt to new working patterns. Nor is it simply a matter of adapting to changing conditions. We have also to search out those key areas where we can hope to gain or regain the kind of world leadership we have enjoyed in the past.

Productivity and technological change

3.3 The history of economic change in all countries shows the central role played by productivity growth and the major contribution of technological change in the whole growth process. It is this that has enabled people to raise their standards of living many times over - in the UK by $4\frac{1}{2}$ times since the middle of the nineteenth century and nearly twice since 1951.

3.4 Looking back, history shows that productivity growth and technological change do not reduce employment. Employment has generally grown at the same rate as the working population, although there have, of course, been fluctuations around the trend. This was true even in periods of rapid growth in the working population as between the wars when

both employment and the working population increased by 1.2 per cent a year (over 3 million in total) from 1924 to 1937.

3.5 The anxieties that people have had, that the next wave of technological change - the movement to factory production in the nineteenth century, automation some decades ago, and now micro-electronics - would create permanent unemployment on a large scale have not been borne out in practice. Even in recent years, a difficult time for all countries, Japan and the US have shown how rapid technological change can be combined with continued employment growth.

3.6 Productivity growth and technological change can however greatly alter the pattern of employment. Jobs may be lost in the industries experiencing the greatest productivity advances, and gained elsewhere in the economy as the higher incomes that come from higher productivity are spent. Whether this brings a net decline in jobs in the dynamic industries depends on how the gains from that higher productivity are distributed. If they are mostly passed on in lower prices enough extra demand may be stimulated to prevent any net loss of jobs at all. And the higher real incomes that come when prices fall will lead to increased demand for other goods and services too.

3.7 The international dimension is very important here. If a larger share of the world market can be captured as a result of the lower prices, higher quality and new products made possible by technological change, output and employment in the UK will clearly benefit. Conversely, if British companies are slow to introduce new technology or otherwise to improve productivity, they risk losing their markets here and abroad to more progressive foreign competitors.

3.8 Unfortunately we have been falling behind our competitors in this respect for a very long time, especially in manufacturing. An earlier NEDC paper (NEDC(81)6, discussed in February 1981) noted, for example, that Germany had tended to move faster into industries with high unit value. Productivity levels in British manufacturing industries are often a third below average European levels and further behind Japanese levels. The relatively rapid growth in manufacturing productivity in recent years gives some grounds for optimism that the historic trends can be reversed, and that British manufacturing will begin at least to hold its own in world markets. This would slow down and could even reverse the shift of employment from manufacturing to services, and it would also, of course, raise real living standards.

Responsiveness to demand

3.9 A striking aspect of life particularly in the US is the way in which the market-place responds quickly and flexibly to the needs of consumers. That kind of flexibility is clearly

one of the foundations of prosperity and sustainable jobs, and it is something which we must match in this country.

3.10 One limitation on such flexibility is the existence of a large public sector. The nationalised industries often find it difficult to respond quickly to changes in the market. They are constrained by their statutes, by the requirements of public sector financial control, by their sheer size and, in some important cases, by substantial elements of monopoly. Through its privatisation programme, and notably by introducing greater competition the Government's aim is to make these industries both more efficient and more responsive to their customers. In the non-trading public services the Government is also seeking to promote greater efficiency (including the use of contracting-out where appropriate) so that the needs of consumers of such services can be met as economically and effectively as possible. As incomes rise, there may be scope for increases in particular services which are perceived as of high priority, but only to the extent that this can be done consistently with the overall financial strategy. The number of jobs in the public services is constrained by the overriding need to hold down the tax burden, so as to provide the right climate for growth in industries producing traded goods and services - and hence in the economy as a whole. In general, we must expect the continuing flow of new jobs in the future to come predominantly from the private sector - including industries that have passed to the private sector from state ownership.

3.11 The Government has a role to play in freeing markets from unnecessary regulations and thus allowing suppliers to respond to consumer choice. It also has a role in curbing monopolies, whether in the public or the private sectors, for monopolies stifle innovation and the creation of new products and in doing so distort and restrict patterns of demand: the demand for new telecoms products since liberalisation demonstrates the point. The environment for business in this country has been improved by tax changes and through the progressive dismantling of controls and restrictions - exchange controls, hire purchase controls, price and dividend controls, and unnecessary planning constraints. Action is also being taken to open up overseas markets to British companies: for example, negotiations with Japan on the removal of non-tariff barriers, and with our European Community partners on access to the European insurance market.

3.12 It is for business to respond to the challenge of this new and more open environment - and the opportunities that go with it - as many firms are beginning to do. The requirements are very familiar to Council: a sound financial base, well-directed investment, good service to the customer and all those other things which enable companies and their employees to

succeed in meeting competition. Only if these things are right can we be sure that people will continue in the future to want to buy what we produce, at a price they can afford.

3.13 The central need is to improve profitability. Profits are picking up as companies manage their costs more effectively. But the long term decline in profits will have to be reversed if investment is to be encouraged on a scale that can take the country back to acceptable levels of employment.

Making the labour market work

3.14 The extent and speed of future job creation - and the costs of achieving necessary changes - will depend on the flexibility and adaptability of the labour market and on how the skills and experience required by the new and growing occupations are acquired.

3.15 Education and training are a vital aspect of this latter process. An education system responsive to the needs of industry and commerce is of first importance. So too is the need to ensure that the size, quality and effectiveness of our training system is best attuned to future needs. The Government can make a major contribution through relevant education and training measures. For example, the Technical and Vocational Education Initiative promotes experiment in schools. And, as noted at the October NEDC meeting, the Government welcomes progress being made towards the three objectives of the New Training Initiative: the reform of skill training, in particular replacing time-serving by standards; the transition from school to work, and, in particular, the Youth Training Scheme; and the opening up of training opportunities for adults. All concerned - employers, unions, Government, further education colleges, and others providing training - need to co-operate in this endeavour.

3.16 There is also a need to challenge impediments to development of skills and their use wherever they occur: artificial barriers of entry to growing professions and skilled trades, age restrictions which hinder access to training and retraining, outdated demarcation lines between skills, unhelpful restrictive practices, and so on. Many of the impediments which are the most deeply entrenched call for the urgent attention of employers and unions.

3.17 Flexibility of course is not solely a question of education and training. For labour markets to work efficiently there needs to be a ready flow of information, and mechanisms for bringing employers and employees together. This is the role of the MSC Job Centres.

3.18 Greater adaptability in the labour market also requires wider acceptance of more flexible working hours and new forms of employment contracts. As well as part time work,

there needs to be more experimentation with annual hours contracts, seven day working and multi-shift working. Employment contracts need to recognise the importance of flexibility between occupations and skills. And there may be a greater role for self-employment, including opportunities for some of the unemployed, as the Government's Enterprise Allowance Scheme recognises.

3.19 Mobility between jobs could be encouraged by an improvement in the way occupational pension schemes treat those who leave such schemes, as a consequence of a change of employer. The Government has recently announced its intention to legislate to require all schemes to revalue leavers' preserved rights by 5 per cent per annum, or by the rise in prices if less. Furthermore, the Inquiry to be chaired by the Secretary of State for Social Services will take an early look at the case for completely 'portable' pensions.

3.20 There are also a number of features of the housing market which impede mobility between regions. Council tenants may not find it easy to find another council house in the area to which they wish to move. The National Mobility and Tenants Exchange Schemes help ease this problem and the Government have announced that they intend to give tenants a right to exchange their houses. Owner occupiers may face substantial costs in stamp duty, conveyancing and estate agents fees. The Government have issued a consultative document on Stamp Duty. Potentially a major contribution to improving mobility in the housing market could be made by the private rented sector which could provide a ready stock of suitable houses for people moving to a new area without the costs in moving or restrictions of the other sectors.

3.21 Mobility and change will be assisted if earnings can become more responsive to changes in labour market conditions. If employers are to have sufficient incentive to engage in training, trainee wages may have to be set at more realistic levels compared to those of other workers. The wider use of bonus systems and other performance related methods of pay could help make labour costs more flexible. Changes in occupational patterns, and especially the shift towards more skilled jobs within manual occupations may mean reversing the strong trend in the 1970s towards narrower wage differentials between skilled and unskilled manual workers.

3.22 Appropriate pay levels can also help directly towards higher employment. The exceptionally rapid growth of employment in US services in the 1970s is almost certainly partly related to trends in US labour costs. Over the 1970s, hourly earnings in service industries in the US fell significantly compared to average manufacturing earnings. In some cases the fall was nearly 10 per cent. This will have helped to reduce the relative price of services, compared with manufactured goods and thereby stimulated demand for and

employment in services. It may also have led to the adoption of more labour-intensive techniques of production and hence also more employment through that route.

Areas for growth

3.23 Potential impediments to new jobs are always easier to identify than the source of new ones. This is not really surprising: past attempts to predict the future have usually been falsified by events. But the trends described in the earlier parts of this paper do suggest some possible future developments.

3.24 First, manufacturing. The historical picture here is admittedly not reassuring. Although there is nothing inherent in modern economies which requires this to be so, the changing pattern of demand and the impact of new technology may continue to put pressure on jobs in many types of manufacturing. Yet other countries, even at a much higher level of income, have shown that it is possible to be more successful in maintaining employment in manufacturing. And the recent rapid advance in productivity in manufacturing in this country suggests that some long overdue fundamental changes have been occurring which may offer better prospects for employment in the future. Nonetheless, it seems more likely that the extra jobs, in all developed countries, will mostly arise outside manufacturing.

3.25 We have been notably more successful as a producer of services, with 1½ million new jobs created in the past decade, an increase of 10 per cent. Fifty years ago, even ten, it would have been difficult to foresee precisely how this would come about. Few, for example, would have predicted that the UK would provide a larger and faster growing market for home entertainment and personal computers and their host of support services than any other major European country. Even with our relatively low income growth, the number of building society accounts has risen from 13 million to 37 million. Over the same decade the proportion of people with telephones nearly doubled from two in five to nearly four in five. The growth in the demand for services, as incomes rise with increasing productivity and output, is a consistent trend throughout the developed world which seems likely to continue.

3.26 Recent experience here and overseas shows no slowing in the appearance of new needs or better ways of meeting old ones. Examples range from sheltered retirement homes to fast food restaurants; from energy conservation to security services; from food processors to garden centres. The record of predicting these changes is poor and the effect on jobs may not always be obvious as they happen. Many new activities are classified anonymously in employment statistics under "miscellaneous" and "other" headings. Yet one quarter of the growth of service jobs in the last decade fell under "other miscellaneous services" and

another tenth was clasified as "other business services". Significantly, computer services are one of the activities buried in "other business services".

3.27 The pattern of occupational change is bound to continue to reflect the changing character of output and consumer needs, with more people required with technical and scientific skills, and, more skilled management to manage the changes that will be needed. It seems likely that non-manual occupations will continue to expand both absolutely and relative to manual occupations -reflecting also the higher levels of skill and training provided by the education system. At the same time, many of the growing service industries will continue to provide occupations for those with lesser skills and there is no reason why the numbers of jobs for those with manual experience should decline, though the character. of those jobs may change.

3.28 The growth in numbers of small firms and of the self-employed, the increasing role of part-time work, the spread of flexible working hours are all ways in which the labour market is becoming more responsive, creating the conditions for growth in employment. These trends can be expected to continue.

4. CONCLUSIONS

4.1 Economic change is a fact of life. Throughout history individuals, firms and economies have shown a remarkable ability to adapt to changing conditions - to the growth of new industries and the decline of old, to the discovery of new markets, new methods and new techniques, to new demands, and, above all, to the inexorable growth in people's aspirations for better living standards.

4.2 To try to predict the precise path of economic change is fraught with difficulty. So too with attempts to predict the future pattern of jobs. What can be said, in the light of experience, is that the process of change will continue, that although jobs will cease new ones will be created, and that opportunities will be greatest where goods and services best meet consumer demands, and are priced competitively in national and world markets. Ultimately success depends on the skill, enterprise and foresight of management and workforce in many hundreds of thousands of individual firms.

4.3 Some broad trends are there to be seen already. Employment is more likely to grow rapidly in private services, including information and entertainment services and leisure activities. Employment in manufacturing may continue to decline relative to that in services, though not universally across the whole field. The process of occupational change will reflect a similar pattern. Occupations in, for example, computer and micro-electronics-based activities can be expected to grow. Technological advance will continue to require more engineers and other skilled technical staff, freeing those with lesser skills to meet rising demand for people in the new expanding service trades. For individuals the future is likely to bring even greater flexibility in work patterns: more frequent job changes, more flexible hours of work and leisure, and, almost certainly, increasing moves towards more part-time work, for men and for women. However, if competitiveness is to be assured, the benefits of economic growth cannot be taken twice over - in higher incomes and then again in lower hours; choices have to be made.

4.4 We cannot expect the process of structural change to be completely painless. It never has been, and it never will be. The disappearance of jobs in declining industries is rarely followed as quickly as we would all like by the creation of new jobs in industries that are expanding and rarely are they in the same place. The solution to this, and the route to more rapid employment in the future, lies in greater flexibility and a readiness to adapt to changing conditions - by managements, unions and individual workers.

4.5 Each of the parties represented on the NEDC has an integral part to play in speeding this process of adjustment, in easing the frictional problems that are bound to occur, and in seizing the new opportunities which we can confidently expect to appear.

4.6 The Government can help, and is helping, in a number of ways. First, by continuing to bear down on inflation, Government policies are helping to create the only sound conditions for sustained growth in output and employment, without fear that expansion will be brought to a premature halt by unacceptable rates of inflation. Second, freeing markets from unnecessary restrictions will encourage firms more readily to expand and move into new lines of activity to meet the ever changing pattern of consumer needs, with greater confidence of success. Third, by providing conditions for lower taxes and interest rates, the Government can give greater encouragement for hard work, enterprise and individual initiative; increase the confidence of businessmen to invest in new and more efficient plant; and secure an environment in which private sector firms can plan ahead with greater assurance. Lastly, by continuing to provide opportunities for training and work experience, the Government can help those who are not able to find new jobs quickly, especially young people.

4.7 But the Government can only provide the right framework of policies within which economic change will take place more smoothly. It cannot determine the process of change, still less the manner or places in which it will happen. Nor can governments, on a lasting basis, themselves determine the number of jobs there will be, whether in the public sector or in the private. At the end of the day that depends on the actions and attitudes of individuals expressing choices, whether as employees, as employers or as customers.

4.8 Many firms have shown considerable flexibility in responding to the difficult conditions of recent years. But we still have some way to go before all come up to the standard of the best and before we match the average productivity levels of our competitors, especially in manufacturing. Everything possible must be done to catch up. Labour markets must become more flexible, so permitting variations in earnings between firms, industries and occupations more readily to reflect changes in consumer demand, technology and overseas competition. Barriers to entry to certain professions and trades create artificial and undesirable rigidities and may need to be questioned for their relevance to today's conditions. Working time must become more flexible and more experiments are needed with new forms of employment contract. We must also look for maximum flexibility and effectiveness in training and retraining schemes and continue to ensure that the education system remains responsive to the needs of industry and commerce.

4.9 These are all matters that have concerned the Council or the EDCs at one time or another. They are essential to an efficient and adaptable economy, to higher living standards and to jobs. They deserve the Council's continuing attention.

4.10 The Council is invited to consider

- (i) what useful lessons the UK can learn from the experience of changing employment patterns in other countries;
- (ii) the implications for employment of new technology;
- (iii) what contribution can be made by education and training;
- (iv) how the impediments to new jobs might be removed.

TABLE A1

EMPLOYEES IN EMPLOYMENT, GB, 1973, 1979 AND 1983

| | Employees 000s | | | Change in employment 1973-1983 | |
|-----------------------------------|-------------------|--------------|--------------|--------------------------------------|------|
| | June 1973 | June 1979 | June 1983 | Number 000s | %pa |
| All industries and services | 22,180 | 22,590 | 20,460 | -1,720 | -0.8 |
| Agriculture, forestry and fishing | 420 | 360 | 340 | -80 | -2.1 |
| Mining and quarrying | 360 | 350 | 310 | -50 | -1.5 |
| Manufacturing | 7,660 | 7,050 | 5,370 | -2,290 | -3.5 |
| Construction | 1,340 | 1,250 | 970 | -370 | -3.2 |
| Gas, electricity and water | 340 | 340 | 320 | -20 | -0.4 |
| Services industries | 12,060 | 13,240 | 13,150 | +1,090 | +0.9 |

Source: Employment Gazette

Notes: The 1983 figures are the Department of Employment's supplementary series which includes an allowance for the probable understatement of the level of employment, particularly in the service industries, in the basic series. The employment series will be subject to revision in the light of the final results of the 1981 Census of Employment.

TABLE A2

GROWTH OF SERVICE EMPLOYMENT, GB, 1973-81

| | Employment in June 1981 (employees and self- employed) | Change 1973-81 |
|--|--|----------------|
| | millions | millions |
| All services | 14.4 | +1.2 |
| of which | | |
| Transport and communications | 1.5 | - |
| Distributive trades | 3.2 | - |
| Insurance, banking, finance and business services | 1.4 | +0.3 |
| Professional and scientific services | 3.9 | +0.5 |
| Miscellaneous services | 2.9 | +0.4 |
| Public administration | 1.5 | - |

Source: Employment Gazette

Note: Detailed figures of changes in the number of employees in different service industries are given in Tables A5 and A6.

TABLE A3

PRODUCTION INDUSTRIES WITH GROWTH IN EMPLOYEES
IN EMPLOYMENT, 1973-1979

| | Employees 000s | | Increase | |
|--|-------------------|--------------|----------------|------|
| | June 1973 | June 1979 | Number 000s | %pa |
| Petroleum and natural gas | 3 | 19 | 15 | 33.1 |
| Water supply | 43 | 59 | 16 | 5.4 |
| Ordnance and small arms | 19 | 26 | 7 | 5.1 |
| Radio, radar and electronic capital goods | 80 | 100 | 20 | 3.8 |
| Wheeled tractor manufacturing | 28 | 34 | 6 | 3.5 |
| Soap and detergents | 15 | 18 | 3 | 3.4 |
| Miscellaneous food industries | 32 | 38 | 7 | 3.2 |
| Synthetic resins and rubber and plastics materials | 47 | 55 | 9 | 3.0 |
| Industrial engines | 27 | 31 | 4 | 2.3 |
| Cans and metal boxes | 28 | 32 | 4 | 2.3 |
| Jewellery and precious metal | 19 | 22 | 3 | 2.2 |
| "Other" drink industries | 31 | 34 | 4 | 2.0 |
| Fertilisers | 11 | 12 | 1 | 1.9 |
| Electronic computers | 46 | 51 | 5 | 1.7 |
| Construction and earth-moving equipment | 37 | 41 | 4 | 1.6 |
| Pumps, valves and compressors | 79 | 87 | 7 | 1.5 |
| Locomotives and railway track equipment | 16 | 17 | 1 | 1.4 |
| General chemicals | 135 | 146 | 11 | 1.3 |
| Railway carriages and wagons and trams | 25 | 26 | 1 | 0.9 |
| Surgical instruments and appliances | 27 | 28 | 1 | 0.5 |
| Agricultural machinery (except tractors) | 28 | 28 | 1 | 0.4 |
| "Other" textile industries | 23 | 23 | 1 | 0.4 |
| Overalls, mens' shirts etc | 38 | 39 | 1 | 0.4 |
| Insulated wires and cables | 42 | 43 | 1 | 0.3 |
| Biscuits | 44 | 45 | 1 | 0.3 |
| Electrical machinery | 133 | 135 | 2 | 0.3 |
| Cement | 14 | 15 | - | 0.3 |
| Printing and publishing of newspapers and periodicals | 138 | 141 | 2 | 0.3 |
| Engineers' small tools and guages | 64 | 65 | 1 | 0.2 |
| Miscellaneous wood and cork manufactures | 20 | 20 | - | 0.1 |
| Pharmaceutical chemicals and preparations | 74 | 75 | - | 0.1 |

Source: Employment Gazette and unpublished Department of Employment statistics.

Note: The period 1973 to 1979 was chosen to represent movement between cyclical peaks.

TABLE A4

PRODUCTION INDUSTRIES WITH GROWTH IN EMPLOYEES
IN EMPLOYMENT, 1979-1983

| | Employees 000s | | Increase | |
|--|-------------------|--------------|----------------|-----|
| | June 1979 | June 1983 | Number 000s | %pa |
| Petroleum and natural gas | 19 | 27 | 9 | 9.8 |
| Electronic computers | 51 | 58 | 7 | 3.5 |
| Water supply | 59 | 65 | 7 | 2.7 |
| Printing and publishing of newspapers | 91 | 97 | 5 | 1.4 |
| Radio, radar and electronic capital goods | 100 | 105 | 5 | 1.3 |

Source: Employment Gazette and unpublished Department of Employment statistics.

- Note: (i) The basic series of estimates of employees in employment, which is given above, is thought on the basis of the results of the 1981 Census of Employment to understate employment in 1983, mainly in the service industries.
- (ii) The two years do not represent equivalent points in the economic cycle.

Restricted
TABLE A5

SERVICE INDUSTRIES WITH GROWTH IN EMPLOYEES IN EMPLOYMENT, 1973-1979

| | Employees 000s | | Increase | |
|---|-------------------|--------------|----------------|-----|
| | June 1973 | June 1979 | Number 000s | %pa |
| <u>Transport and Communication</u> | | | | |
| Miscellaneous transport services and storage | 135 | 191 | 56 | 5.9 |
| Air transport | 77 | 89 | 12 | 2.4 |
| "Other" road haulage | 21 | 22 | 1 | 1.0 |
| <u>Distributive trades</u> | | | | |
| Dealing in "other" industrial materials and machinery | 164 | 201 | 37 | 3.4 |
| "Other" wholesale distribution | 274 | 292 | 18 | 1.1 |
| Wholesale distribution of food and drink | 218 | 226 | 8 | 0.6 |
| "Other" retail distribution | 1271 | 1316 | 45 | 0.6 |
| Dealing in fuels, builders materials and agricultural supplies | 120 | 121 | 1 | 0.1 |
| <u>Financial and business services</u> | | | | |
| "Other" business services | 206 | 302 | 96 | 6.6 |
| Banking and bill discounting | 280 | 339 | 59 | 3.2 |
| Advertising and market research | 31 | 38 | 6 | 3.2 |
| Property owning and managing etc | 86 | 101 | 15 | 2.8 |
| "Other" financial institutions | 109 | 119 | 10 | 1.4 |
| Insurance | 259 | 276 | 17 | 1.1 |
| <u>Professional and scientific services</u> | | | | |
| Research and development services | 94 | 116 | 22 | 3.5 |
| Medical and dental services | 1104 | 1305 | 202 | 2.8 |
| Educational services | 1620 | 1846 | 226 | 2.2 |
| "Other" (includes accountancy and legal) | 353 | 390 | 37 | 1.7 |
| <u>Miscellaneous services</u> | | | | |
| Sports and other recreations | 81 | 121 | 40 | 6.9 |
| "Other" services | 408 | 586 | 178 | 6.2 |
| Clubs | 94 | 120 | 25 | 4.0 |
| Catering contractors | 60 | 75 | 15 | 3.7 |
| Public houses | 215 | 258 | 43 | 3.1 |
| Hotels and other residential establishments | 246 | 283 | 37 | 2.4 |
| Restaurants, cafes, snack bars | 168 | 186 | 17 | 1.6 |
| Hairdressing and manicure | 96 | 101 | 5 | 0.9 |
| Motor repairers, garages etc | 455 | 480 | 25 | 0.9 |
| Betting and gambling | 91 | 96 | 4 | 0.8 |
| Cinemas, theatres, radio etc | 101 | 105 | 4 | 0.7 |
| <u>Public administration</u> | | | | |
| National government service | 583 | 610 | 27 | 0.8 |

Source: Employment Gazette and unpublished Department of Employment statistics.

Note: The period 1973 to 1979 was chosen to represent movement between cyclical peaks.

TABLE A6

SERVICE INDUSTRIES WITH GROWTH IN EMPLOYEES IN EMPLOYMENT, 1979-1983

| | Employees 000s | | Increase | |
|---|-------------------|--------------|----------------|-----|
| | June 1979 | June 1983 | Number 000s | %pa |
| Property owning and managing etc | 101 | 128 | 27 | 6.0 |
| "Other" financial institutions | 119 | 140 | 21 | 4.2 |
| Advertising and market research | 38 | 42 | 4 | 2.8 |
| Clubs | 120 | 132 | 12 | 2.4 |
| Banking and bill discounting | 339 | 368 | 30 | 2.1 |
| Sports and other recreations | 121 | 130 | 10 | 2.0 |
| Medical and dental services | 1,305 | 1,395 | 89 | 1.7 |
| "Other" professional and scientific (includes accountancy and legal) | 390 | 413 | 24 | 1.5 |
| "Other" miscellaneous services | 586 | 620 | 34 | 1.4 |
| Dealing in fuels, builders materials and agricultural supplies | 121 | 126 | 5 | 1.0 |
| Insurance | 276 | 287 | 11 | 1.0 |
| "Other" business services | 302 | 312 | 10 | 0.8 |
| Dealing in "other" industrial materials and machinery | 201 | 201 | 1 | 0.1 |

Source: Employment Gazette and unpublished Department of Employment statistics.

Note: (i) The basic series of estimates of employees in employment, which is given above, is thought on the basis of the results of the 1981 Census of Employment to understate employment in 1983, mainly in the service industries.

(ii) The two years do not represent equivalent points in the economic cycle.

TABLE A7

CHANGES IN OCCUPATIONAL EMPLOYMENT 1971-80

| Warwick Occupational Categories | | 1980 000s | 1971-80 per cent |
|---------------------------------|---|--------------|---------------------|
| 1. | Managers and administrators | 2,129 | 11.8 |
| 2. | Education and professions | 984 | 30.7 |
| 3. | Health and professions etc | 986 | 28.6 |
| 4. | Other professions | 562 | 21.9 |
| 5. | Literary, artistic and sports occupations | 447 | 30.0 |
| 6. | Engineers, scientists etc | 576 | 14.6 |
| 7. | Technicians, draughtsmen | 601 | 17.3 |
| 8. | Clerical occupations | 4,056 | 11.3 |
| 9. | Sales occupations | 1,417 | 6.5 |
| 10. | Supervisors, foremen ^a | 104 | -12.2 |
| 11. | Engineering craftsmen | 2,143 | -7.8 |
| 12. | Other transferable craftsmen | 907 | -3.7 |
| 13. | Non-transferable craftsmen | 675 | -34.4 |
| 14. | Skilled operatives | 622 | -16.5 |
| 15. | Other operatives | 4,712 | -5.0 |
| 16. | Security occupations | 386 | 26.1 |
| 17. | Personal service occupations | 2,932 | 14.6 |
| 18. | Other occupations | 789 | -33.0 |
| 1-9 | Non-manual occupations | 11,755 | 15.1 |
| 10-18 | Manual occupations | 13,271 | -6.3 |
| 1-18 | All occupations ^b | 25,026 | 2.6 |

Notes: (a) Because of classification problems this group covers engineering foremen and transport inspectors and supervisors only.

(b) Excluding HM Forces

Source: Review of the Economy and Employment, Summer 1983 (University of Warwick Institute for Employment Research)

TABLE A8

EMPLOYEES IN EMPLOYMENT: USA, 1973, 1979 AND 1983

| | Employment 000s | | | Change in Employment 1973-83 | |
|------------------------------------|--------------------|---------------|---------------|---------------------------------|------|
| | March 1973 | March 1979 | March 1983 | Number 000s | %pa |
| Total, non-agricultural | 75422 | 88654 | 88172 | +12750 | +1.6 |
| Manufacturing | 19836 | 20972 | 18166 | -1670 | -0.9 |
| Mining | 620 | 928 | 996 | +376 | +4.9 |
| Construction | 3718 | 4093 | 3453 | -265 | -0.7 |
| Service industries ^(a) | 51248 | 62661 | 65557 | +14309 | +2.5 |
| of which: | | | | | |
| Transport and Utilities | 4579 | 5045 | 4913 | +334 | +0.7 |
| Wholesale/retail trades | 16176 | 19809 | 19955 | +3779 | +2.1 |
| Finance, insurance, real estate | 3989 | 4876 | 5359 | +1370 | +3.0 |
| Services ^(b) | 12650 | 16829 | 19275 | +6629 | +4.3 |
| Government | 13854 | 16102 | 16051 | +2197 | +1.5 |

Source: US Bureau of Labour Statistics 'Employment and Earnings'

- (a) Service industries are refined as transport and utilities, wholesale and retail trades; finance, insurance and real estate; and services.
- (b) This category roughly corresponds to the UK "professional and scientific services" and "miscellaneous services".

TABLE A9

EMPLOYMENT IN WHOLESALE AND RETAIL TRADING, DISAGGREGATED DETAIL
USA, 1973, 1979 AND 1983

| | Employment 000s | | | Change in Employment 1973-83 | |
|--|--------------------|---------------|---------------|---------------------------------|------|
| | March 1973 | March 1979 | March 1983 | Number 000s | %pa |
| Wholesale/retail trades | 16176 | 19809 | 19955 | +3779 | +2.1 |
| Wholesaling | 4205 | 5135 | 5145 | +940 | +2.0 |
| of which: | | | | | |
| Durables | 2396 | 3036 | 3009 | +613 | +2.3 |
| Non-durables | 1809 | 2099 | 2136 | +327 | +1.7 |
| Retailing | 11971 | 14674 | 14810 | +2839 | +2.7 |
| of which: | | | | | |
| Building materials/ garden supplies | 518 | 614 | 574 | +56 | +1.0 |
| General merchandise stores | 2127 | 2202 | 2099 | -28 | -0.1 |
| Food stores | 1852 | 2266 | 2444 | +592 | +2.8 |
| Auto dealers and service stations | 1778 | 1865 | 1580 | -198 | -1.2 |
| Apparel and accessory stores | 773 | 919 | 923 | +150 | +1.8 |
| Furniture stores | 527 | 613 | 570 | +43 | +1.3 |
| Eating and drinking places | 2888 | 4346 | 4724 | +1836 | +5.0 |
| Miscellaneous retail | 1508 | 1849 | 1896 | +388 | +2.3 |

Source: US Bureau of Labour Statistics 'Employment and Earnings'

TABLE A10

EMPLOYMENT IN FINANCE, INSURANCE AND REAL ESTATE, DISAGGREGATED DETAIL
USA, 1973, 1979 AND 1983

| | Employment 000s | | | Change in Employment 1973-83 | |
|---|--------------------|---------------|---------------|---------------------------------|------|
| | March 1973 | March 1979 | March 1983 | Number 000s | %pa |
| Finance, insurance, real estate | 3989 | 4876 | 5359 | +1370 | +3.0 |
| of which | | | | | |
| Banking | 1154 | 1472 | 1649 | +495 | +3.6 |
| Credit agencies other than banks | 410 | 543 | 601 | +191 | +3.9 |
| Security, commodity brokers & services | 202 | 197 | 294 | +92 | +3.8 |
| Insurance carriers | 1064 | 1194 | 1226 | +162 | +1.4 |
| Insurance agents, brokers & services | 308 | 424 | 479 | +171 | +4.5 |
| Real estates | 744 | 914 | 957 | +213 | +2.5 |
| Combined real estate, insurance | 32 | 24 | 17 | -15 | -6.1 |
| Holding & other investment offices | 76 | 109 | 136 | +60 | +6.0 |

Source: US Bureau of Labour Statistics, 'Employment and Earnings'

TABLE A11

EMPLOYMENT IN PROFESSIONAL AND MISCELLANEOUS SERVICES, DISAGGREGATED DETAIL
USA, 1973, 1979 AND 1983

| | Employment 000s | | | Change in Employment 1973-83 | |
|----------------------------------|--------------------|---------------|---------------|---------------------------------|------|
| | March 1973 | March 1979 | March 1983 | Number 000s | %pa |
| "Services" ^(a) | 12650 | 16829 | 19279 | +6629 | +4.3 |
| of which: | | | | | |
| Hotels etc | 802 | 1009 | 1065 | +263 | +2.9 |
| Personal services | 915 | 934 | 965 | +50 | +0.5 |
| Business services | 1893 | 2790 | 3403 | +1510 | +6.0 |
| Auto repairs, garages | 422 | 583 | 576 | +154 | +3.2 |
| Miscellaneous repair services | 202 | 280 | 266 | +64 | +2.8 |
| Motion pictures | 192 | 222 | 202 | +10 | +0.5 |
| Amusement & research services | 489 | 665 | 752 | +263 | +4.4 |
| Health services | 3573 | 4906 | 5894 | +2321 | +5.1 |
| Legal services | 286 | 445 | 586 | +300 | +7.4 |
| Educational services | 1035 | 1151 | 1300 | +265 | +2.3 |
| Social services | 541 | 1070 | 1218 | +677 | +8.5 |
| Membership organisations | 1413 | 1523 | 1522 | +109 | +0.7 |
| Miscellaneous services | 673 | 926 | 1058 | +385 | +4.6 |

Source: US Bureau of Labour Statistics 'Employment and Earnings'

(a) This category roughly corresponds to UK "professional and scientific services" and "miscellaneous services".

TABLE A12

**OCCUPATIONS WITH THE LARGEST ABSOLUTE INCREASE IN EMPLOYMENT
BETWEEN 1973 AND 1983: USA**

| | Employment ^(a) 000s | | Change in Employment | |
|--|-----------------------------------|------|----------------------|----------|
| | 1973 | 1982 | 000s | Per cent |
| <u>Professional & Technical Workers</u> | | | | |
| Accountants | 750 | 1193 | 443 | 59 |
| Computer Specialists | 287 | 751 | 464 | 162 |
| Engineering & Science technicians | 850 | 1114 | 264 | 31 |
| Engineers | 1094 | 1574 | 480 | 44 |
| Health technologists & technicians | 330 | 657 | 327 | 99 |
| Lawyers | 344 | 630 | 286 | 83 |
| Physicians, dentists | 639 | 869 | 230 | 36 |
| Registered nurses | 823 | 1415 | 592 | 72 |
| <u>Managers and administrators</u> | | | | |
| Bank officials | 509 | 731 | 222 | 44 |
| Restaurant, cafe, bar managers | 494 | 768 | 274 | 55 |
| <u>Salesworkers</u> | | | | |
| Sales reps, wholesale | 748 | 1020 | 272 | 36 |
| <u>Clerical workers</u> | | | | |
| Bank tellers | 326 | 561 | 235 | 72 |
| Bookkeepers | 1661 | 1968 | 307 | 18 |
| Cashiers | 1048 | 1683 | 635 | 61 |
| Computer operators | 216 | 588 | 372 | 172 |
| Receptionists | 445 | 672 | 227 | 51 |
| Secretaries | 3066 | 3847 | 781 | 25 |
| <u>Transport equipment operatives</u> | | | | |
| Truckdrivers | 1549 | 1841 | 292 | 19 |
| <u>Non-form labourers</u> | | | | |
| Stockhandlers | 723 | 972 | 249 | 34 |
| <u>Service workers</u> | | | | |
| Building interior cleaners | 660 | 926 | 266 | 40 |
| Cooks | 928 | 1396 | 468 | 50 |
| Guards | 460 | 685 | 225 | 49 |
| Waiters | 1149 | 1496 | 347 | 30 |

Source: US Bureau of Labour Statistics, 'Employment and Earnings'

(a) Annual averages

✓ Fell
Fm
JR

20

PRIME MINISTER

Seminar on Industry and Employment : Follow-Up Meeting

I attach a note which suggests how you might structure the discussion at the meeting to follow up the remits which emerged from the 6-7 September Seminar.

Are you content with:

Yes

- (i) the principle of selecting certain topics;
- (ii) the priority topics suggested;
- (iii) the issues selected for the lunchtime discussion?

It would be helpful to colleagues if an agenda and a list of papers were circulated in advance, on a restricted circulation of course. I would like to be able to do this on Friday.

The same Ministers and officials have been invited to attend but it would be helpful to have both Ferdie and John Redwood as outgoing and incoming Heads of the Policy Unit. Agree?

Yes

The Secretary of State for Transport was not a member of the original group, though Mr. King has now become one as Secretary of State for Employment. Mr. Ridley has been asked to produce a paper in response to the remit on planning controls and deregulation in the transport field, though this request has been made without reference to the source of the remit. He could be added to the group but

- (i) his paper may be ready only a day or so before the meeting leaving insufficient time for it to be digested and briefed upon;

/ (ii)

- (ii) there may in any case be insufficient time at the meeting to do justice to this subject as well as to the others. A separate meeting might be better.

Agree membership of the group is not extended to Mr. Ridley? Yes.

I would welcome your comments on these suggestions.

AT

Thank you - you have done a great deal of work and I agree with your proposal. On the list of topics for discussion, I think House and Education could be deferred if we must short.

We shall want a thorough and detailed oral report. I do not want a superficial account of action but a report on real progress, problems encountered and what to do next.

mb.

6 December 1983

SEMINAR ON INDUSTRY AND EMPLOYMENT

FOLLOW-UP MEETING, 16 DECEMBER 1983

Introduction

You have agreed that, for the most part, Ministers need not prepare written reports on the various remits allocated to them, but should report orally. In part this was to minimise the circulation of paper, in part because the various remits are proceeding at different time scales. In one or two cases - see below - there are papers which happen to be ready and which can be drawn upon in the discussion.

Since there are only three hours plus lunch, we suggest that the bulk of the meeting be strictly limited to

A. Follow-up

with two short discussions on

B. Presentation of Government policy

C. Next steps.

The temptation to introduce new themes should be resisted on this occasion and kept for a later Seminar.

Handling

We suggest that the discussion of the follow-up will run better and more logically if we stick to the headings of Michael Scholar's letter of 14 September, with Ministers being invited to speak briefly on the progress made in each Department under each heading. Asking each Minister to report on all his remits before the next Minister speaks would jumble up the subjects hopelessly.

/ Even

Even so, it is unlikely that the meeting could do justice to all 15 subject headings and some selection will be necessary. In addition, we suggest that some subjects are more suitable for discussion over lunch.

Attached is a Policy Unit note - Annex A - setting out the state of play on each of the remits (the numbering is as in Michael Scholar's letter). Of these we suggest you give priority to those which have not been the subject of collective discussion or where there is still significant progress to be made:

2. ✓ Taxation policy - but not a discussion of 2(b) which should be dealt with in the run-up to the Budget.
4. ✓ Trade policy - Mr. Tebbit will be circulating a paper on this, concentrating mainly on export promotion. A separate paper on free trade and protectionism is being drafted for E(S).
6. ✓ Small firms policy - Mr. Tebbit may circulate a note on streamlining the various schemes to assist small firms.
8. ✓ Planning controls - Mr. Jenkin has circulated a paper (but the paper on transport would be dealt with separately).
10. ✓ Barriers to employment - the main issue being the future of wages councils and boards, though this cannot be finally resolved in the absence of Mr. Jopling. Items (a) and (d) have been dealt with.
13. ✓ Housing policy - there are a large number of remits on which relatively little progress seems to have been made.

if time.

15. Education - the discussion would be confined to items (a), (b), (c), (e), (f) as the training *y. time.* items have been dealt with either in E(A) or elsewhere.

This would enable about 20-25 minutes to be devoted to each. The objective would be to ensure that each remit is being pursued vigorously and that the proposals which are being developed are consistent with the Government's wish to reduce unemployment by working with rather than against the market.

On the following subjects work is more advanced and reviews have either taken place or have been established, largely through the normal Government machinery. They can be merely taken note of unless the Minister concerned has a particular message he wants to get across. These topics are:

3. Industrial policy - the nationalised industries' EFLs have been settled and agriculture is to be the subject of a separate meeting. The manufacturing sector loss-makers in public ownership are best dealt with as each's Corporate Plan comes up for review though a general discussion of the problem could form part of the strategy discussion suggested for lunch.
5. Regional policy - by the time of the meeting a White Paper will have been published.
7. Burden of regulation - an exercise under David Trippier is looking at the administrative and legislative burdens on small firms. This should report in the New Year.
9. Labour market (including trade union law) - one Bill is before the House and work has already started on the problem of strikes in essential services.

11. Action on wage levels (principally of young workers) - proposals dealt with in E(A).
12. Employment and pensions - Mr. Fowler has announced a review with particular emphasis on portable pensions.
14. Opening up the public sector to market forces - following a discussion in E(A), John Moore is conducting bilaterals and will report back in the New Year.

Lunchtime Discussion

We suggest the following topics be reserved for the discussion over lunch:

- (i) strategy and summary of main themes;
- (ii) presentation of Government policy;
- (iii) next steps.

On strategy, you might wish to point out that experience since the summer has confirmed the rightness of the Chancellor's July measures and the overwhelming need to control public expenditure and public borrowing. This is the essential pre-condition, not only for reducing inflation, interest rates and taxation, but also for making room for enterprise to flourish. This is an opportunity to hammer home the lesson that it is only because we have controlled public expenditure that we are experiencing for the first time in years a respectable rate of growth and a respectable rate of inflation.

The Chancellor's paper for NEDC on 'Where will the new jobs come from' provides a convenient background for this part of the discussion.

/ On presentation

On presentation, the Government has a consistent and coherent policy but this needs to be hammered home in public discussion.

- (i) You have already invited the Lord President to take over responsibility for co-ordinating Government information services.
- (ii) We must use the New Year message to the Party and the New Year newspaper article to put over the theme.
- (iii) New initiatives to present Government policy could be considered, e.g. the policy survey suggested by the Policy Unit. Another option would be a well-produced booklet by Conservative Research Department.
- (iv) It might also be worth disclosing where appropriate the existence of strategic Government plans and initiatives to show that the Government knows what it is doing. The timetable on privatisation is a good example where a higher profile induces both public and City confidence.

✓ On next steps, we suggest that you do not use this group for following up specific proposals (the problem of keeping its existence secret makes it cumbersome to use an executive body and it does not have the membership required in every case). Instead remits can be:

- ✓ (i) | submitted to small Ministerial meetings under your Chairmanship;
- ✓ (ii) | followed up in the usual Cabinet Committee;
- (iii) followed up in correspondence.

The discussion at the Seminar may itself identify the subjects on which meetings taken by yourself would be helpful. These

might include:

- the simplification of small business schemes
- the planning system
- educational reform and parental involvement.

You will need to consider whether to raise the question of future meetings or whether to leave this open for the time being. One possibility would be to schedule another wide-ranging Seminar at Chequers in September, preceded by a meeting in say June, to identify themes and commission papers.

Papers

Ministers would be asked to bring the following papers:

- Michael Scholar's letter of 14 September
- Mr. Tebbit's paper on trade policy (forthcoming)
- Mr. Tebbit's paper on small firms policy (forthcoming)
- The Chancellor's employment paper for NEDC
- Mr. Jenkin's paper on planning controls.

2. Taxation Policy

- (a) Change basis of tax treatment of share option schemes (tax as capital gains on disposals) - NL Inland Revenue proposals have been considered by John Moore who has discussed them with Chancellor.
- (b) Reduce levels and increase spread of higher tax bands - NL To be considered in the run-up to the Budget.
- (c) Consider optimum basis for taxation of companies - NL John Moore's plan is to reduce Corporation Tax to 30 per cent within 4 years by whittling down capital allowances and doing away with stock relief.
- (d) Burden of Revenue administration on enterprise; eliminate discrimination in tax system against self-employment - NL The new worry is that Business Expansion Scheme may now be too lax, permitting tax-dodging. For self-employed, the only significant current proposal is to raise the VAT registration threshold to £20,000.

3. Industrial Policy

- (a) Reduce levels of Government support for nationalised industries and publicly-owned companies - NL Pursued in PES exercise. But the totals are still hair-raising. Almost £1 billion cash going this year to the manufacturing public-sector industries (BS, BSC, RR, BL).
- (b) Seek reductions of subsidies to agriculture via CAP and directly - NL You have a meeting on 21 December with Michael Jopling and Chief Secretary. The CAP aspect is a crucial part of the Athens follow-up.

5. Regional Policy (NT)

(a) Pursue review of regional policy with the aim of making the following modifications:

White Paper this month, legislation introduced at same time or in new year, decisions on grants and map in late-1984, new scheme effective from late 1985.

(i) eliminate discrimination against service industries;

Some service sector activities will qualify for automatic grants. Officials envisage a limited list (eg computer services, technical services, administrative HQs, VANS, film studios, mail order houses) which will cost perhaps only £10m to support (see (iv) below). White Paper specifically invites comment on activities to be included.

(ii) make regional aids more job-related;

Cost-per-job limits to be imposed, automatic job grants an option (but are not envisaged to apply widely, or cost much (see (iv) below). 'Net' UK jobs will feature as a test in deciding the top-up selective assistance.

(iii) limit aid to replacement investment;

Still eligible for automatic grants, but subject to cost-per-job test, which it will find difficult to pass. Will qualify for the selective, top-up assistance under the (open-ended) rubric of "modernisation projects that safeguard employment".

(iv) limit overall scale
of regional aid.

It is envisaged that
these proposals could
save £150m a year from
1986 onwards.

(b) Seek to discourage regional
be~~ggar~~-your-neighbour
activities.

Mr. Tebbit trying to
resolve with Territorial
Ministers.

(c) Review Urban Programme as
complement to regional
policy.

Department of Environment is
organising a two-year
research effort to explore
'effectiveness' of urban
programme.

Surely we could ask for a
much earlier report (?June)
since these projects are
almost all supposed to be
under constant DoE review.

6. Small Firms Policies

(a) Review and reduce number
and variety of schemes for
encouraging small busi-
nesses.

DTI Official Working Group
to report in January.
You'll probably need a
further meeting to sort this
out.

(b) Extend enterprise allowance
beyond unemployed - TK

DEm survey on effectiveness of
scheme will be ready early
next year.

7. The Burden of Regulation - PM

Consider setting up a scrutiny (or unit) to review the burden of central and local government regulations affecting industry, and to suggest possibilities for alleviating it.

David Trippier exercise 18 report in New Year. Emphasis on small firms.

There is also a role for the Ibbs Unit here. We must be extremely careful in regard to any regulations on health and safety.

8. Planning Controls - PM, PJ, NR

Review burden of planning controls (including transport planning controls)

PJ's paper deserves a further meeting. Although it explains some of the good things he has done to loosen up the system, it does not take account of the rigidities and bottlenecks introduced by the Structure Plans and the way they are interpreted by some counties.

NR deserves support in his efforts to deregulate urban buses.

9. Labour Market - TK, NL

a) "Step by Step" approach confirmed.

TK producing proposals on Essential Services in January. Are there any lessons from the NGA dispute?

(b) Prepare paper for NEDC on where jobs are coming from.

NEDC met on 8 December.

(c) Consider further White Paper on Employment in the light of NEDC discussion.

TK was inclined to feel that a White Paper would be a mistake. He imagines headlines: "Jobs - Government has nothing new to offer".

But the White Paper's purpose would not be to set out new

9.(c) continued

proposals. It would be to set out the argument and describe the likely future patterns of employment. It's an essential part of our armoury to move the debate on to our terms.

10. Barriers to employment

(a) Consider whether the entitlement to supplementary benefit should be qualified for those recently in receipt of redundancy payments. - NF

You agreed that redundancy payments should not be drawn on as a replacement for supplementary benefit, and that therefore this was not a practical option.

(b) Abolish Wage Councils in 1985/6. - TK

No action required yet, but see below.

(c) Review case for abolishing or limiting scope of Agricultural Wages Boards. - TK MJ

No review yet. Mr Jopling and Territorials have said they think that AWBs should be retained.

Will be more difficult to abolish Wages Councils unless AWBs go too. (Why is agriculture so different from, say, retailing in respect to wages bargaining?) Difficulty is that AWBs have an earlier window of opportunity for denunciation, which is now open. Tactically best to insist that AWBs must be considered, and decided upon, within Government's overall approach to wage bargaining machinery. DE to produce paper for E?

(d) Exclude employers of firms with up to 5(?10) employees from provisions of unfair dismissals legislation; extend to 2 years (?3 years) continuous employment the qualifying period for entitlement to protection under unfair dismissal legislation and also the qualifying period for protection against dismissal on grounds of pregnancy. - TK

TK has formulated proposals to carry these through. No need for primary legislation.

11. Action on Wage Levels

(a) Agreed not to extend Young Workers' Scheme to cover adult full-time workers but consider extending it to one year beyond Youth Training Scheme (or up to 19th birthday?). - TK

TK will submit paper to E(A) on 13 December, proposing to make YWS a one-year programme for 17-year-olds only.

TK's proposal would ensure that most youngsters would be occupied between the ages of 16 and 18. People leaving school at 16 would get a year on YTS followed by a year on YWS; and those leaving at 17 would get either a year on YTS or a year on YWS. Seems a good idea. Also makes YWS administratively simpler.

(b) Agreed not to pursue for the present earnings-related limit on unemployment benefits; but consider further possibilities of changes which will avoid the need for under-18s to register as unemployed, and of limiting scale of benefits to under-18s who choose not to take advantage of opportunities for education, training or employment. - TK

Subject to acceptance of 11(a), and consequent provision of occupations for most 16-18 year olds, TK happy to reduce under-18 benefit. No resistance likely from DES or MSC.

12. Employment and Pensions

- (a) Agreed upon the need to reduce pension disincentives to mobility of labour. As between compulsory revalorisation of pension entitlements and portable pensions, a predisposition in favour of portable pensions. To be pursued in the light of the forthcoming meeting of the Secretary of State for Social Services with the "pensions industry". - NF
- NF has announced his intention to legislate to protect the pensions of early leavers and improve the disclosure requirements of pension funds. He has issued a Green Paper and, at the same time, has announced a wide-ranging enquiry into pensions matters. Following a meeting of Ministers chaired by the Prime Minister, he has also agreed to promote the portable pensions issue up the agenda and there will be a separate report on portability of pensions by April 1984. This would enable proposals to be incorporated in his pensions legislation should the committee report in favour of changes.
- (b) Review State Earnings Related Pension Scheme (SERPS). - NF,NL
- State earnings-related pension scheme will be reviewed in the general pensions review which will report by the late summer of 1984.

13. Housing Policy

- (a) Pursue possibilities for progressive decontrol, particularly in respect of new lettings, of rents and of security of tenure in the private rental sector, particularly in areas of largest imbalance. - PJ
- Ian Gow and PJ discussing options.

- (b) Pursue possibilities of increasing availability of land for housing, particularly in south. - PJ
This refers back to PJ's paper on planning. Circulars on Green Belt and on Land for Housing to be reissued as drafts only and then not until February.
- (c) Pursue consideration of legislation to expand range of activities of building societies. - NL
DoE and Treasury still discussing with building societies. Treasury will produce a Green Paper after the Building Societies Association has issued another version of its consultative paper. So no Government response before Budget.
- (d) Remove private rented property from liability to Capital Gains Tax. - NL
CGT relief for resident landlords will be in next Finance Bill. But that apart, Chancellor prefers to relax rent controls.
- (e) Improve effectiveness of Employment Transfer Scheme. - TK
D.Em. can see no way through at present. Worth an inter-departmental group (DoE, DE, Treasury, Policy Unit?).
- (f) Consider level of stamp duty on house purchase. - NL
Being considered along with stamp duty on securities (in the context of Stock Exchange liberalisation). Action on either would be expensive.
- (g) Await paper on conveyancing/monopoly. - NT, QH
With H Committee.
- (h) Consider possibility of improving pace of land registration. - NL, QH
Encouraged by H, not least for simplifying and reducing the costs of conveyancing.

14. Opening up the Public Sector to Market Forces

- (a) Chancellor of the Exchequer to follow up his letter of 25 July.
- NL

Chancellor of the Exchequer has followed up his letter of 25 July. A meeting of E(A) was convened chaired by the PM, and the Financial Secretary was asked to construct a timetable for disposals and introduction of competition by end January. The bilaterals are currently under way. Transport has been completed; Industry is week of 5-9 December; and Energy for Monday, 12 December. The end result is likely to be agreement on Transport, some agreement and some disagreement on Industry, and a lack of agreement on Energy, which will have to be resolved at Cabinet.

- (b) Need for care in timing of bringing disposals to market.

Treasury is well apprised of the need to bring disposals in an orderly way to the market. The only queueing problem to have emerged so far is the possible clash between British Airways and British Telecom, and this has been resolved in favour of British Telecom coming to market in the autumn, with British Airways being held back until early 1985.

(c) The principle to be:
Competition where possible;
maximum privatisation subject
to regulation where competition is
not possible.

The principle that competition should be maximised and, where it is not, regulation should be introduced, is being adhered to. Proposals to privatise National Bus Co. whole as a monopoly have been sent back for a fundamental rethink to increase the competitive powers in any privatisation proposal. British Telecom competition policy has been strengthened, and the office of telecommunications will regulate. The serious options for the energy industries which will be brought to Cabinet entail increasing or creating competition where none exists. The sale of Sealink, possible sale of British Rail Engineering, Cable & Wireless, Associated British Ports, British Airways, are all cases where competition is already strong.

(d) Consider whether disposals must wait for profitability.

The general principle being adopted is that disposals need not wait for profits to be reached, but in practice there is a heavy accent in the sales programme to date on the sale of profitable businesses. We should consider again whether our options are radical enough on disposing and reducing risk in the bankrupt businesses.

15. Education and Training

(a) Consider how to encourage parents to take more active interest and role in children's education.

DES to present paper "by Christmas". This is likely to be feeble. We suggest that you call a meeting in January to discuss more devolution of power to parents and headmasters.

(b) Welcome proposals by local education authorities to re-establish grammar or technical schools.

Nothing much happening, although Bob Dunn has made some strong speeches.

(c) Pursue reform of teacher-training schools and curriculum.

DES have issued White Paper, ACSET has responded with improved guidelines for teacher-training; and KJ will now insist on even tougher guidelines.

The purpose of the reform is to increase the practical element in teacher-training; and there is every likelihood of this succeeding. One of the few real advances.

(d) Encourage links at all levels between industry and education system, to improve teachers' awareness of industry's needs.

Nothing substantive: KJ is talking to IoD, CBI etc. Proposals for NTC contracts with NAFE institutions offer only real prospect for increasing the education system's "awareness of industry's needs".

(e) Encourage industrial sponsorship of students in universities and polytechnics.

Treasury has produced a paper; this rejected by DES; KJ and officials now "considering the issue".

- (f) Pursue possibilities for improving understanding, both in schools and in the country at large, of economic realities. Consider introduction of pilot schemes. KJ is energetically seeking ways of increasing "economic awareness". Paper will probably come to PM in due course.
- (g) Training for 16-18s: the objective should be to ensure that, apart from 15% or so of this group who go into higher or further education or professional training, the remainder should go into either 4-year vocational and training courses between 14 and 18, or into an evolving YTS. New White Paper on industrial training will seek extension of YTS. No action on 4-year vocational and training courses, since NTVEI. As new move on 14-18 vocational and training courses, you might suggest creation of direct-grant technical colleges.
- (h) Consider and make recommendations on role of MSC in pursuing this objective. NTC proposals to be discussed.
- (j) Consider improvements in training of employed adults. MSC will submit draft statement on adult training strategy to E(A) on 13 December. Paper proposes abolition of TOPS; liberated funds will be used (1) to contract with industry for job-related training, and (2) to contract with NAFE and industry for training of unemployed people. Also, new national loan scheme guaranteeing bank loans to adults for training, and reform of Skill Centre Training Agency. A rapid response. No grounds for complaint.

(k) Promote parity of esteem for technical education (as compared with traditional educational qualifications): encourage universities to accept technical qualifications for entrance.

Interdepartmental group set up emerge.

(l) Build on arrangements for placing contracts for approved training courses with colleges of further education.

NTC meeting: see above.



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

2 December 1983

Ferdinand Mount Esq
10 Downing Street
LONDON
SW1

New Entry,

FOLLOW UP TO CHEQUERS SEMINAR ON INDUSTRY AND EMPLOYMENT

You asked me to let you know where we stood on the various remits given to the Treasury at the Prime Minister's seminar last September. It may be most helpful if I comment on each item in the order in which it appears in the Annex to Michael Scholar's letter of 14 September. Of course, a number of them imply a loss of tax revenue, and I strongly suspect that the Chancellor will therefore want to reserve final judgement on these ones until he has a clearer idea of his room for manoeuvre next spring.

Share option schemes

The Inland Revenue have worked up some detailed proposals, which John Moore has been considering, and will be discussing with the Chancellor today.

Higher tax bands

This will be considered in the run-up to the Budget.

Company taxation

John Moore has just put some specific proposals to the Chancellor: they will be discussed within the Treasury next week.

Burden on enterprise and discrimination against the self-employed

Nick Ridley did a lot of work on this before he left the Treasury. John Moore has been pursuing it subsequently, and will be reporting to the Chancellor shortly.

Reduction of agricultural subsidies

The Prime Minister has called a meeting this month. The Chief Secretary will attend. The CAP aspect has of course been extensively pursued all autumn.

NEDC paper on jobs

Our paper has been circulated to the NEDC. The Prime Minister has a copy. NEDC are to discuss it next Wednesday.

1983



Expansion of activities of building societies

This will be covered in the general Green Paper on building societies which we envisage publishing early in the New Year, and about which we shall be consulting the Prime Minister in due course. Ian Stewart is handling this at present.

Removal of private rented property from liability to CGT

The Chancellor has considered this proposal very carefully but has concluded that it should not be pursued further. The problem is that the effect of the suggested change would be to reduce the availability of properties for renting, for it would encourage the sale of units which are at present in the rented market. The Chancellor believes that the key to increasing the supply of rented accommodation lies in the relaxation of rent controls.

Stamp duty on house purchase

This is being examined very carefully, as is the question of stamp duty on securities - very much a live issue in the context of the Stock Market liberalization. Action on either would of course be expensive, and would fall for consideration in the Budget context.

Opening the public sector to market forces

The Chancellor's two remits under this heading are being actively pursued. John Moore's series of meetings with nationalised industry sponsor Ministers is very relevant.

Industrial Sponsorship

Treasury officials sent the DES an outline paper some weeks ago, and are now trying to extract a response!

A copy of this letter goes to Andrew Turnbull.

Yours ever,
John Kerr

J O KERR
Principal Private Secretary

da

New file?



10 DOWNING STREET

From the Private Secretary

25 November 1983

The Burden of Regulation

The Prime Minister has been considering the efforts which the Government is making to reduce the burden of regulation on the economy. As part of this general exercise, the Department of Trade and Industry is conducting a review of regulation as it affects small firms. The Department of the Environment is looking at the planning system and what can be done to speed up the processing of planning applications.

In the transport area, the main issues seem to arise in the regulation and licensing of buses/mini-buses. When your Secretary of State came to see the Prime Minister he said that he would be examining this whole complex of issues. There may also be other areas e.g., internal air travel, where regulation is still exerting a restrictive influence.

~~BT~~ The Prime Minister would be grateful if, as a first stage, your Department could prepare a note identifying where in the transport field there is still extensive regulation and what might be done to reduce it. In the field of buses, the Prime Minister would be interested to know how your Secretary of State proposes to go about the major review he has in mind. I would be grateful if this note could reach me by 15 December.

I am copying this to John Kerr (HM Treasury), Callum McCarthy (Department of Trade and Industry), John Ballard (Department of the Environment) and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss Dinah Nichols,
Department of Transport.

HU



10 DOWNING STREET

Andrew -

please see Michael Scholar's letter of 14/9/83
to John Kerr. At the end of para 2 the end of
this month is set as the 'review' date for action,
so we BF'd the file for this.

What sort of review do you propose?

Cameron
25/11

Actic c hand on tin

A.



CF
Papers for
follow-up to
Cheques received
on 16 Dec pte.
9/11

10 DOWNING STREET

MR. BARCLAY

Lunch for Ministers
Friday, 16 December

I see from the diary that
there is to be a lunch for Ministers
on Friday, 16 December.

Please could you let me
have approximate numbers for
this lunch?

Sue

8 November 1983



10 DOWNING STREET

Note for the Record

John Ballard phoned to say DoE had prepared a paper on planning controls. But as the remit was down to PM in conjunction with SS (DoE and Tsp) he asked how to proceed. I said PM (ie Cabinet Office) was mainly concerned with the T, ie a review of regulation and controls to be conducted by Sir R Ibbot.

Agreed DoE should circulate their paper to colleagues - without identifying origin of remit. This should if possible cover Transport element. If not I would commission this via DoE contribution arrives.

AF
24/10

File on Industry & Employment 2.
Seminar



10 DOWNING STREET

Prime Minister

To note that with his
move to D/Emp, Mr King
will now need to have
access to the papers on the
cheques seminar on
Industry and Employment.

It will fall to him to
follow up a number of the
seminars and to attend 16 Dec meeting

No other changes in
the composition of the
group are needed.

AT

A fund mb

17/10



10 DOWNING STREET

Robin

Nicky P. hold the anon

~~notes~~

file with after the
follow-up meeting
or 16 Dec. Feb 8

These are your notes

from the chequers

Unemployment Seminar.

Do you wish to keep
them?

Nicky
" 1/10

Not degenerate into miscellaneous measures
Maintain strategy

④ Keeping down inflation, interest rates, containing public expenditure
Already feel paying too much tax

Lockfield No shortage of demand. But unused resources: labour, capital
Post war 20 years full employment. But 1959 pub. exp. 25% of GNP.
Higher tax depresses economy: depressed economy raises burden of tax. Break vicious circle. Reduce pub. exp.
Other measures v. important but unless get framework right, working against tide.

PM Reduce pub expenditure
+ positive attitude:
Burden of wage-related pensions
Subsidies to nat. inds.
Use of regional grants
Preliminary view
Can't go on with steadily increasing defence expenditure.

Tebbit Subsidy to food production industry

MAFF B of p, employment

Ch/Exch CAP enormous + growing burden of UK economy.

Parkinson No search for novelty

Lawson Real nut to crack is pub exp.

PM Must contain. Encourage private provision.

Nationalised industries. ⁽²⁾

Regional policy.

Agricultural subsidy.

Agriculture

~~Operates~~

UK surplus of net budget

Bof p

£26.

4 years

Tebbit

Heavy subsidy to bring into cultivation 70 marginal seats. And then subsidising.

PM

Sheep subsidy + suckler cow premium
Can't go on with new subsidies to produce meat which we can't dispose of.

Get framework right -

8

2-8

Ch/Bsch

18 + 19

Parkinson

15 + 22

Cockfield

Lawson

① Scope for developing service industry: tax system discriminates against (part. capital allowances)

Lower capital allowances for those benefitting

② Business expansion scheme. (Lawson) We have too many schemes. Weeding out needed but BES good.

③ Share option schemes.

PM

NIS

have we reduced it far enough: Continental
Continent on personal tax

Cockfield

Only 1% but wages going up 5% more than productivity

②

Want more profitable investment.

PM

Parkinson £40 b. of unused [capital] allowances available

Walker

Need more productive investment
French pouring money into food processing. Must

Cockfield

Need high productivity. lower levels of basic tax.
Govt. should not intervene.

Jenkin

Manufacturing better for b of p. NIS more on services
than on manufacturing.

Service industries: capital in working capital for which
no relief.

Service have no international competition.

NIS tax on service industries.

Parkinson

Wants lower C.T. + lower allowances.

Ch/Exch

C.T. 1% = £180 m.

Cockfield

Which better: a) reduce corporation tax ~~at~~ ^{or} N.I.S.

b) 52% plus large capital allowances or
bring down + abolish accelerated allowances

Tebbit

Leave where it is to cover costs of training + reduce
Corp tax

Lawsa

More important symbolically. Only politically important
if going to increase. Not to be said

Joseph

Third question: if reducing, what is best way of stimulating risk-taking

(4)

Jenkins : Share option when meeting US venture capital companies.
Treasury progress but more to do.

Lawsan Taxed as income - spread over 5 years.
Attractive to tax as capital gain on disposal.
Heavy deadweight cost + new cost from response.

Walker Firm to pay management ^{a capital sum} out of capital reserves.
taxed on capital gains.

Young Our entrepreneurs go abroad
Need
① Stock option tasked at C.g.t. 1972 scheme.
② New firm get listing on white stock market

Cockfield What is necessary is to reduce rates, not stock option

PM 2 things important
Rate of tax on good income
Different approach to stock options (Treasury are looking at)

Parkinson Workforce also important. Adopt objective
that more than half workforce ^{should} have stock option

Young All companies will be shedding labour. VAT
on restaurants

PM Don't reduce tax base.

Ch/Exch Reduce exemptions + extent base

Govt. assistance to industry

Cutting back subsidies to loss-making indus.

Always something on BR, but none on steel coal
Adopt target.

Lloyd register of shipping won't register as A1 ships produced in
Some British shipyards.

Young people regard British-made as second best

Campaign on standards last year

Tebbit First stage is to convince workforce standards
abysmally low.

Lawson Resources used to prop up uneconomic pit.
Why? Measur time-lag. But removal of subsidy
has immediate effect.
Now time to do it.

Walker Depend on Macgregor. Bound to deficits next 3
years. Target breakeven by 1987.

£100 million Australian coal in Rotterdam.

Business going exceedingly well.

PM Investing too much?
Chancellor Macgregor mustn't feel there is political brake
PM vs. skeptics of privatisation
Parkinson Brit. Steel. KeyRevensraig. US steel deal remote.

AM Board will approach.
Not yet ready to close Ravensraig: don't rule out all time
Brit. Shipbuilders

⑥

Other industries but

PM Must reduce

BP sale of Forties field. To ensure profits
so that tax allowances can be used.

Regional policy

Walker Much of world trade gone by Govt. agencies
e.g. health

Jenkin Did revolutionise org. but home market rather
base.

Parkinson Have system of targeting particular areas.
Organise missions with business men heading.

PM Bulk of ECU money goes to few companies.

Parkinson Many competitors
lots of sub-contractors.

Joseph Jan Tommeia Nat. West Bank last issue
Everyone going into subsidies.

Parkinson Brit. Industry plane financial package but
uncompetitive.

Tebbit Better to spend money regaining our own
market.

PM Fewer orders from countries who can't pay.

(7)

Regional aid

Completing inward investment agencies abroad.

Parkinson

Transform quality of components.

Walker

Certain industries you have to do something about.

Do more about infrastructure but stop competition

PM

Also reg. policy subsidise

Young

Distorted: manufacturing in north, head office in south. He ~~created~~^{So} services in south

Lawson

- ① End discrimination against services
- ② Relate more to jobs
- ③ More limited scheme.

PM

Difficult when jobs move from elsewhere. Net job produced in UK look at job-related cut out Sutton Voe ^{not in} services industries

look at replacement. Look at what programme

Tebbit

If not replacement, new factories are advantaged.

Jenkin

No economic justification for

PM

Urban programme v. expensive

Jarvis

All capital.

Ought to be looked at in context of regional policy

PM

Urban programme to be looked at alongside regional policy

Small firms + self-employed ⑧

Young ^{lowest level:} Parours Enterprise Allowance but only helps unemployed. 5000

Small firms

Jenkin

Bureaucracy of getting started.

Non-portability of pensions, problem

Joseph

Rayner look at de-regulation
William Poetor.

PM

Jumble of small firm aids

Rayner study Deregulation

Cockfield

3 years from from tax, NIC etc.
Get into it through training scheme.

Parkinson

① Revenue's attitude to self-employed.

Trying to drive people into Schedule E

② Business Expansion Scheme: invest in investment company, not just fund

③ Small firm loans guarantee scheme. Hope to continue.

PM

⚡ Cockfield to have Revenue - backing role

(9)

Joseph Reservoir Pension:

Young Halve number of schemes: T1 to consider

~~Enter~~ COSIRA to go to Industry.

Planning

Jenkin Planning system closer or retail investment.

No support for major review of planning.

How to make system better particularly in relation to ~~unemployment~~ ^{unemployment} planning.

PM + DoE to consider
Considering extending Enterprise zone system of planning

Walter Transport licensing very bad.
to be examined

Thurs. p.m. ① - Pub e.

Precedural agreements as condition of immunity

Substantive agreements not legally enforceable yet

Longrun and secondary action outside law sometimes

See next Bill clearly - then choice

Facing up public sector to competition

More loyalty to company than to union.

AM Step by step : alternate year new Bill
Must not miss chance
Do now lay-off?

Telhit

Organisation outside Govt to support people to help actions

KJ

Not only unions prices

But also about projects

Can we find list of projects aborted by lack of support

Ch/Bel

Prove respect for law. To be done through legally binding agreements - but not yet.

Back up legislation to bring about more respect for company than union.

Law to Prolix

Ch/Bach Paper on ^② employment to be produced
look at US to see where

White Paper on training

PM^{de} Agree broad general approach on trade union
laws

Next paper (10)

Pay redundancy by instalments.

Also deem he retains some of his redundancy payment

Cockfield Over recent years redundancy treated more
generously than deserved.

PM NT to consider whether any more to be
done about large redundancy & supp ben.

Agricultural Wages Board first

Walker Don't abolish AWB.

Tebbit In correspondence with Jopling, can exclude young
people.

" Tebbit to pursue with Jopling
Exclude small companies (> 5)

(3)

CL Exch make it > 10

~~And to 20 years of lifting~~

Look at new small business (10 - 20) exempt for first five years. (would need legislation)

Extend YWS to adult workers on low wages. No but consider extending to year after YTS

Cap unemployment benefit

PM would like to say no social security below 18. Or lower level.

Further measures to encourage young people.

Passport for job - no!

16-18 700,000

YTS 500,000

Unsupported 200,000

Unemployed 150,000

Loss of revenue £400m.

Extension of YWS up to nineteenth birthday to flow on YTS

(4)

Examining Pop.

Employee making provision: employer to pay in what he would have paid.

Not compulsory revaluation

AM

Revaluation big effect on mobility

Tebbit

Prefer taking out your share of fund.

PM

Predisposition to offer Pop.

Look at SERPS

Revamp of shared hold

Assured tenancy scheme

New lets released from control

Ch/Exch

Should go as far to decontrol policy as possible: mitigate opportunity

Walker

If did it, liberals + labour would pledge to give security and would frighten people off.

Jenkin

Shared ownership scheme - good but costly.

Jenkin

Stamp duty + conveyancing monopoly. Land registry slowed by staff shortages. Transfer to DOE. Rent with a Dec 1991 to new letting. Conservation of security of tenure.

(5)

P.M

look at land availability

Jenkins

Building Societies to take on houses being sold.

Public sector and market forces

Note Energy Secretary's comment about being careful about rate at which we bring sales to market

Walker: Private monopoly ^{better than} ~~between~~ public monopoly

Must get the regulatory system worked out for each industry

Where left with natural monopoly, break it down regionally.

P.M

Competition wherever possible: if not, privatisation subject to regulation

Do not wait until it gets into profit to sell it.

①

KJ

Schools + national culture interact

Lack of understanding of economic reality

Increase national understanding.

Provide esteem for technical education

Employers to provide w

10 technical schools

Education: output and

47% leave school

making or
low grade CSE

Demotivated.

Playing smart.

Comprehensive

YTS

Technical schools

14 projects

14,500

mixed ^{general} education + technical

By end of decade

About 15%

1/3 going to technical/vocational course

14-18

Qualification City + Guilds

50% YTS evolving in no further
Kachepus cost to 2 years?

Noone leave education to 18

Training

Adult training

Untrained

Retraining

Managers
8 1/2%

University degrees

7.3%

Other qualification

Skills & Training

TOPS for unemployed
£200m?

6 months 50-60000

40% into job

Alleged of further education £1 billion

Adult training strategy - far more for employed
people

£20 million

PM

Why not leave it to companies?

(3)

Loan scheme

Can't leave to big companies because declining force

1/27 Pent-up demand from people who have come through education system with ~~36 year~~ system with

Change in mechanisms - MSC

Walker

Quality of teachers - mobilise parents

Deliver to Mum booklet at time of birth

16-18 deliver booklet of what system is all about: direct mailing direct mail shots

Tebbit

S of S unbalanced and between Taxpayer + v.e.a.s

Change could not have been effected from DES

Primary + secondary schools

F.e.

MSC to become National Training agency

Non-advanced further education -

Funds to go to them on terms Colleges

Right course, right standards

Great difficulties for DES: difficulties with trade unions

Teaching unions ⁽⁴⁾ tried to block training initiative

Universities: Colleges have adopted
Deal with universities. Industries to sponsor
undergraduates: influence courses

PM Link redundancy to retraining

Jenkins Industrial Training Council disappointing

Backfield Children need to understand how world works,
not economics
But don't make it too narrow

Parkinson 95% Japanese school → 18 We 25%

60% W. Germans have vocational training - we 30%
(incl. secretaries etc)
Competition more selective system of education

Defeatist to say inadequate basic teaching & teaching
corp.

Govt. will have to institutionalise training; because
industry won't do it. Do we accept this?

Lawson Other countries would take effective steps in this
situation. For us sacred cow.

PM MSC group in at 14-19
Test for children leaving primary schools

K&J

Can't transform history
Central control

Teacher training corps

40% of maths teachers have no 'O' level in maths

Rigorous framework for teacher training: fewer, better
selection. Power to disapprove courses

Education authorities to get rid of ~~Schools~~ ^{bad heads} & teachers

Can't do vouchers. 2nd + 3rd best choices.

Are Initial ^{technical} courses in schools

Purge the bogeyman

DIY

£210 m. training: instead of taking
training. Propagate courses which people can take

① Extending technical courses within school
system. MSC + Education system approve courses

Aim is 1 in every local education authority. Possible
separate teacher training courses.

Cost but cost less than 14-18
Aim to get YTS into schools

④ Changing apprenticeship arrangements too slowly; but
by pass them

⑤ Parity of esteem: universities to accept B Tech qual/pack
for ^{work} ~~work~~

(1)

(2)

Further education colleges

Contract with training agency.
reallocation

(6)

(3)

Proposals for polytechnics + universities: KJ
bringing forward

(4)

Encourage Aims of Industry pilot scheme on
mail shot to youngsters at age 18

Increased understanding of economic relationships

(5)

Explore further re-forming of MSc
~~MSc to be reformed~~ into National Training Agency

(6)

~~MPs~~ Organize through local Conservative MPs
contact between schools + factories.

(7)

Consider ~~scheme~~ ^{possibilities for increasing} ~~encouraging~~ companies' sponsorship
of university students.



CF.
15/10

10 DOWNING STREET

Mr Alex Barclay.

I wrote to Private Secretaries about the Creques follow-up. Mr Jenkins's office say 16 December is inconvenient. He was hoping to be in Liverpool that day having been to a dinner the previous evening.

I said I could not change date at the stage but would bear this in mind in case other Ministers were having difficulty. (It will be difficult to delay without hitting Christmas)

AT

7/16



fin

19

10 DOWNING STREET

From the Private Secretary

6 October 1983

Dear John,

Michael Scholar wrote on 14 September to you and the Private Secretaries of the other Ministers who attended the discussion at Chequers on industry and employment. He attached a check list of conclusions. The Prime Minister wishes to set in hand arrangements for following up the action taken on these conclusions.

She proposes to hold a meeting at No.10 on Friday 16 December starting at 10 a.m. to be followed by lunch. The Ministerial and non-Ministerial participants of the original discussion are being invited. No papers are called for but each Minister is asked to give a short oral report on progress made on the items attributed to him in the summary record.

I would be grateful if follow-up work on this exercise could be carried out in accordance with the instructions in the third paragraph of Michael Scholar's letter. In particular action within Departments should be set in hand without identifying the provenance of the proposal or the forum to which it will be reported back.

I am sending copies of this letter to Elizabeth Hodgkinson (Department of Education and Science), Michael Reidy (Department of Energy), John Ballard (Department of the Environment), Barnaby Shaw (Department of Employment), Jonathan Spencer (Department of Trade and Industry), Alex Galloway (Office of the Chancellor of the Duchy of Lancaster); to the Chairman of the Manpower Services Commission; and to Richard Hatfield (Cabinet Office).

John Kerr Esq
HM Treasury.

*Yours sincerely
Andrew Turner*

PRIME MINISTER

Follow-up to Seminar on Industry and Employment

Mr. Scholar has written to those who attended the Chequers seminar attaching a check list of the conclusions and points to be followed up which emerged from the seminar on industry and employment. We need to set in hand the arrangements for chasing up action on these points. We could go about this in the following way:

- (i) We would set aside a Friday morning before Christmas (as you suggested to Sir Keith Joseph) starting at about 1000. 16 December looks free at present;
- (ii) The meeting would take place at No. 10 followed by lunch;
- (iii) The original participants would be invited, including the non-Ministerial participants;
- (iv) No papers would be circulated; but
- (v) Each Minister would give a short oral account of progress made - no more than 5-10 minutes each;
- (vi) The points raised with Ministers who did not attend would be pursued in correspondence.

Do you agree this approach?

Yes *ms*

AT

5 October 1983



10 DOWNING STREET

Robin,

Neither the record nor
the summary of action
points omits the reference to
deregulation - See Flags.

Action is attributed to the
PM.

AT

4/10

ATI 16/12
De
Moore find X
AT 4/10

PERSONAL AND CONFIDENTIAL

MR. TURNBULL

One of the points raised by Sir Keith Joseph when he called on the Prime Minister yesterday was about progress-chasing on action following the Chequers "non-meeting" on 6 and 7 September. He suggested that we should put the dates on the remits, and the Prime Minister asked him to suggest to me the dates which he would want on the remits in his field. The ball is in his court on this.

He also suggested that the Prime Minister should hold a meeting to chase progress. The Prime Minister said she would be glad to do that, perhaps on a Friday morning, followed by lunch, for the same participants as took place in the Chequers meeting. Could you have a word with Tim Flesher about a possible date - I suggest this side of Christmas - and then let us have a word before we put the suggestion to the Prime Minister.

Sir Keith Joseph also said that the conclusions of the meeting appear to have omitted the idea of a "Rayner scrutiny on de-regulation": I would be surprised if this had disappeared though I have not checked the record. Sir Keith Joseph said that he hoped that this would not be lost sight of, and suggested a Mr. Foster - I do not know him, but he recently became Chairman of a new town corporation - as someone who might be suitable to carry it out: the Prime Minister asked me to consider whether Sir Robin Ibbs would not be operating in this field. The ball is in my court on this.

F.R.B.

4 October 1983

PERSONAL AND CONFIDENTIAL



10 DOWNING STREET

Duty Clerk

Pl note that these 3 letters ^{= 1 + 2 copies}
are part of the follow-up to the
Chequers unemployment mtg; the
rest of which was followed up in
my letter of 14/9 to J Ken
(On Part 10 of "Special Employment
Measures") ; or will be as
promised in RTA's minute of 7/9
MUS 30/9

FILE 17

da



CC UNIT
CO

10 DOWNING STREET

From the Private Secretary

30 September 1983

*Follow-up to this letter
on Social Services, Sept '83,
Redundancy Payments and Supplementary
Benefit.*

Dear Steve.

Redundancy Payments and Supplementary Benefit

The Prime Minister's attention has recently been drawn to the argument for qualifying in some way the treatment of redundancy payments in connection with the payment of supplementary benefit. It is argued, on the one hand, that there might be a case for spreading payment of redundancy money over, say, five years, to avoid the situation in which these large capital sums are spent to little lasting effect, with the recipient then moving directly on to supplementary benefit; a solution to this problem might, for example, be to deem a redundancy payment recipient as having an income of an appropriate size, such deeming to be disregarded if the recipient had lost his redundancy money in setting up his own business. It is argued, on the other hand, that the size of the capital sum is in itself highly useful in achieving otherwise difficult, but necessary, redundancies. The Prime Minister would be grateful if your Secretary of State could let her have a note on whether the entitlement to supplementary benefit should be qualified for those recently in receipt of redundancy payments, in the light of these arguments.

I am sending a copy of this letter to Margaret O'Mara (HM Treasury) and Richard Hatfield (Cabinet Office). I would be grateful if you and they would restrict access to this letter to the maximum extent possible.

Yours sincerely,

Michael Scholar

SE

Steve Godber, Esq.,
Department of Health and Social Security.



Die ^{ls}

10 DOWNING STREET

From the Principal Private Secretary

23 September, 1983.

Thank you for your letter of 21 September and for the summary of the findings of the Cohort Study of Unemployed Men. I am sure that the Prime Minister will find this interesting.

You will remember that at the recent meeting with the Prime Minister she referred to correspondence which she had received from Mr. Donald Longmore of the National Heart Hospital. With the Prime Minister's permission, I am now sending you a copy of Mr. Longmore's paper and covering letter. I am not sending you the enclosures at this stage, although, if you want them, I could do so, except for Mr. Longmore's letter to Dr. Louis Freedman about the nuclear magnetic resonance machine, which he asked me to treat as private. The Prime Minister has asked you to arrange that Mr. Longmore's paper is only seen by your Secretary of State, Mr. Clarke, and yourself.

The Prime Minister has written to Lord Weinstock about the NMR machine asking him to arrange to see Mr. Longmore as soon as possible.

E. E. R. BUTLER

Sir Kenneth Stowe, KCB, CVO.

AD



DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522 ext 6981

From the Permanent Secretary

Sir Kenneth Stowe KCB CVO

Robin Butler Esq.,
No. 10 Downing Street,
London SW1

21 September, 1983

Dear Robin.

One of the topics which we circled round on Friday at the Prime Minister's Seminar was the problem of incentives for the unemployed to find themselves jobs, and the impact on their attitudes of social security benefits at present or projected levels. I am sending you herewith an interesting summary which was prepared for me of the findings of a major piece of research which DHSS commissioned some time ago and which has been bearing some fruit - the Cohort Study of Unemployed Men.

The main lesson to be drawn from it is, I suppose, that as always nothing is simple-but there are some pointers in it about two sensitive areas of policy. I would also observe that the summary is as good an illustration as you would wish to see of how difficult it is to be objective in ones analysis of data in this area. It would be quite possible to take all the figures and in several places write sentences the other way round - the last sentence of paragraph 6 is a good illustration.

*Yours
Ken*

PURPOSE AND DESIGN OF THE STUDY

1. The study examined the incomes of men who become unemployed, their financial incentives to work and their experience of employment and unemployment. It was based on a national sample of 2,300 men who became unemployed in the Autumn of 1978. Data were collected from personal interviews held approximately one, four and twelve months after the men registered as unemployed and from departmental records on benefit payments.

CHARACTERISTICS OF THE MEN

2. The study confirmed that a higher proportion of men who become unemployed than of those in the general population are young and unmarried and that, before unemployment, they are more likely to hold semi-skilled or unskilled manual jobs. It showed that the men's earnings when last in work had been far below the national average and that this was true for all age groups apart from those over the age of 60. This meant that half of those who had been employed in the year before their unemployment had had gross earnings in the bottom fifth of the earnings distribution. These earnings were rarely supplemented by an additional source of income. For example, of the married men only a third had wives who were in paid employment compared with over a half in the population as a whole. Given the low levels of pay and the rarity of other income it is not surprising that few men started unemployment with substantial savings. Over half reported having no savings at all, and only 9 per cent had savings of over £1,250 (£2,080 at current prices). Men most likely to have savings were those who had retired early.

EXPERIENCE OF UNEMPLOYMENT

3. A surprisingly high proportion of the men had had recent experience of unemployment; half in the year before the study began, three quarters in the previous five years.

4. Because of the prevalence of repeated spells of unemployment, the length of the initial spell of unemployment in the study year was not a good guide to the total amount of unemployment experienced over that year. Amongst men who were interviewed at the third stage, the first spell lasted on average for 15 weeks, whilst the average time unemployed over the whole year was 22 weeks. About a tenth of the men were registered as unemployed continuously throughout the year and

just over a third had two or more spells of unemployment in that year. All the others (53%) had one spell of unemployment of less than 12 months. For half of this group that spell actually lasted for under three months.

INCOME IN AND OUT OF WORK

5. Comparisons of income when last in work before registration with income during unemployment were confined to those men who provided details of previous earnings and who remained unemployed for at least three months. This enabled us to calculate a reliable measure of benefit during unemployment.

6. For nearly 50 per cent unemployment benefits (Unemployment Benefit which could have included an Earnings Related Supplement and Supplementary Allowance) replaced less than half of previous net earnings. Total income out of work represented less than half of total income in work for as many as a third of the men.

7. Unemployment benefits exceeded previous net earnings for 6 per cent of the men. But 9 per cent had higher total incomes out of work than in work; that is they had an income replacement ratio of 100 per cent or more.

8. A quarter of the men had an income replacement ratio of at least 80 per cent. A quarter of these men were occupational pensioners. (The study took place before the abatement of Unemployment Benefit for occupational pensions of over £35 was introduced.) Excluding the occupational pensioners, two-thirds of the men with high replacement ratios had dependent children and only one-sixth were single. These men were particularly likely to have had low earnings - about half had gross earnings which were in the bottom tenth of the earnings distribution - which, when combined with relatively high benefits, produced high income replacement ratios. In addition, amongst men with dependent children very low take-up of means-tested benefits when in work was an important underlying reason for high income replacement ratios, eg amongst those identified as having been eligible for Family Income Supplement when last in work before unemployment, under a fifth reported having received it.

CENTRE FOR LABOUR ECONOMICS, LSE - ANALYSES

9. The results reported above were all obtained from internal analysis of the Cohort Study data and have been published in the series of DHSS Working Papers and the articles in the Employment Gazette (which were attached with my minute to Mr Doran of 21 June 1983). Mr Stern in his work at the London School of Economics' Centre for Labour Economics, has produced analyses on (a) unemployment inflow rates (ie the probability of entry into unemployment) in 1978 and (b) factors associated with the length of the first unemployment spell of cohort members. The latter was done in co-operation with Professor Nickell and Miss Narendranathan.

10. On unemployment inflow rates it was found that the following (not mutually exclusive) groups were more likely to become unemployed - young men, less skilled men - especially personal service workers, single men, men with large families, men with low earnings, men working in small establishments and men living in rented accommodation. Men who had been in their pre-unemployment job for less than 12 months had a particularly high chance of becoming unemployed and this was true for all age groups. Indeed, there was no difference in the inflow rate by age after controlling for length of previous job. One would expect men with short length jobs to be less skilled and have lower earnings than men of comparable age with longer lasting jobs.

11. Turning to the length of the first spell of unemployment, the most important factor was age. Whereas the average expected length of spell for a 20 year old single man in 1978 was 22 weeks, for a single man aged 45-60 it was about 42 weeks, and for a single man over 60 it was 70 weeks. Benefits showed some association with the expected length of unemployment spell but the effect was relatively small. Extrapolating from these data indicated that a 10 per cent increase in the real value of unemployment benefits might have increased unemployment duration for a 20 year old man by 3 per cent, ie a little under 1 week. Further analysis by age group suggested that the level of association between unemployment benefits and length of spell actually varied between age groups and with the length of the unemployment spell itself. The association was strongest for teenagers whilst there appeared to be none at all for men aged 45 and over. Only for teenagers did level of benefits seem to affect duration once men had been unemployed for over 6 months. In quantitative terms, the repercussions of this could be expected to be small. The results suggest that a reduction in the real level of benefits

for teenagers of 10 percent would only have reduced unemployment spell lengths by 1.3 weeks.

12. An exercise was carried out to investigate the effects on the level of unemployment of abolishing ERS. This suggested that the maximum figure for the consequential reduction in male unemployment in 1982 was 120 thousand (or 0.9 percentage points). However, given that the levels of unemployment in 1982 were much higher than those of 1978/79, a rather lower figure would probably be more likely, e.g. of the order of 50 thousand.

8 September 1983

OCS(SR)
EAO



10 DOWNING STREET

file 16
AC
sc FMount

From the Private Secretary

14 September 1983

cc Mr. Bailey
HMT

Dear John,

The Prime Minister has asked me to send to the Chancellor and other Ministers, with whom she discussed matters relating to industry and employment at Chequers last week, the attached checklist of conclusions and matters to be followed up.

Against each item for further action the Minister who is expected to take the lead is indicated in the margin. The Prime Minister would be grateful if Ministers would take this note as a request to initiate action as indicated, consult colleagues as required (consultation should not necessarily be limited to that specified in the margin of the list) and bring proposals to Cabinet or the appropriate Cabinet Committee in due course. Where the "lead" Minister indicated is someone who was not at the seminar, she will herself invite the Minister concerned to initiate action. The Prime Minister intends to take action at about the end of November to review the action which has been taken in response to this letter.

This note and the checklist are for the sight and use only of Ministers and their Principal Private Secretaries. The Prime Minister has asked that no circulation should be given to the note or the list; that no copies should be made of them; and that action should be initiated by means of separate oral or documentary instructions and not by means of the list itself. In putting action in hand, no indication should be given as to the provenance of the proposal to be pursued.

I am sending copies of this letter and the checklist to Imogen Wilde (Department of Education and Science), Michael Reidy (Department of Energy), John Ballard (Department of the Environment), Barnaby Shaw (Department of Employment), Jonathan Spencer (Department of Trade and Industry), Alex Galloway (Office of the Chancellor of the Duchy of Lancaster); to the Chairman of the Manpower Services Commission; and to Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

John Kerr, Esq.,
H.M. Treasury.

INDUSTRY AND EMPLOYMENT

Main conclusions and matters to be followed up

1. Strategy and main themes

- (a) Continue to reduce inflation and interest rates. ✓
- (b) Reduce overall level of taxation; therefore essential to
- (c) Contain and if possible reduce public expenditure.
- (d) Switch emphasis from reducing unemployment to increasing jobs and extending enterprise.
- (e) Seek opportunities for growth wherever they may be found - in services as well as manufacturing industry.

2. Taxation policy

Ch Ex

- (a) Change basis of tax treatment of share option schemes (tax as capital gains on disposal). ✓

Ch Ex

- (b) Reduce levels and increase spread of higher tax bands. ✓

Ch Ex

- (c) Consider optimum basis for taxation of companies:

Compare effects of

- (i) abolishing NIS versus 40 per cent mainstream Corporation Tax
- (ii) present capital allowances system and present rates of Corporation Tax versus no capital allowances and lower rate of Corporation Tax

Ch Ex

- (d) Consider how to alleviate burden of revenue administration on enterprise; eliminate discrimination in tax system against self-employment.

3. Industrial policy

To be pursued
in PES exercise

(a) Reduce levels of Government support for nationalised industries and publicly owned companies.

Ch Ex, in consultation
with MAFF

(b) Seek reductions of subsidies to agriculture via CAP and directly.

4. Trade policy

SSTI

(a) Reduce concentration on subsidised exports to countries which cannot pay.

SSTI

(b) Promote trade with countries that can pay.

SSTI

(c) Consider possibility of initiating (perhaps at Head of Government level) international action to reduce the subsidised proportion of world trade.

5. Regional policy

SSTI

(a) Pursue review of regional policy with the aim of making the following modifications:-

(i) eliminate discrimination against service industries;

(ii) make regional aids more job-related;

(iii) limit aid to replacement investment;

(iv) limit overall scale of regional aid.

SSTI

(b) Seek to discourage regional "beggar-your-neighbour" activities.

SS Env, in consultation
with SSTI

(c) Review urban programme as complement to regional policy.

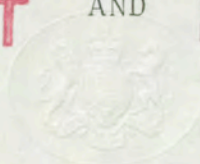
6. Small firms policies

SSTI, in
consultation
with CH Ex

(a) Review and reduce number and variety of schemes for encouraging small businesses.

SS Emp, in
consultation
with Ch Ex

(b) Extend enterprise allowance beyond unemployed.



X

PM

7. The burden of regulation

Consider setting up a scrutiny (or unit) to review the burden of central and local government regulations affecting industry, and to suggest possibilities for alleviating it.

PM, in consultation with SS Env, SS Trspt

8. Planning controls

Review burden of planning controls (including transport planning controls).

Ch Ex, in consultation with SS Emp
SS Emp

9. Labour market

- (a) "Step by step" approach confirmed.
- (b) Prepare paper for NEDC on where jobs are coming from.
- (c) Consider further White Paper on Employment, for publication after Ch Ex's paper for NEDC and in light of discussion at NEDC.

SSSS

10. Barriers to employment

(a) Consider whether the entitlement to supplementary benefit should be qualified for those recently in receipt of redundancy payments.

SS Emp

(b) Abolish Wage Councils in 1985/86.

SS Emp, in consultation with MAFF

(c) Review case for abolishing or limiting scope of Agricultural Wages Board.

SS Emp

(d) Consider excluding employers of firms with up to 5 (?up to 10) employees from provisions of unfair dismissal legislation; extend to 2 years (?3 years) continuous employment the qualifying period for entitlement to protection under unfair dismissal legislation and also the qualifying period for protection against dismissal on grounds of pregnancy.

11. Action on wage levels

SS Emp, in
consultation
with MSC

(a) Agreed not to extend Young Workers' Scheme to cover adult full-time workers but consider extending it to 1 year beyond Youth Training Scheme (or up to 19th birthday?).

SS Emp, in
consultation
with SSES, MSC

(b) Agreed not to pursue for the present earnings-related limit on unemployment benefits; but consider further possibilities of changes which will avoid the need for under-18s to register as unemployed, and of limiting scale of benefits to under-18s who choose not to take advantage of opportunities for education, training or employment.

12. Employment and pensions

SSSS

(a) Agreed upon the need to reduce pension disincentives to mobility of labour. As between compulsory revalorisation of pension entitlements and portable pensions, a pre-disposition in favour of portable pensions. To be pursued in the light of the forthcoming meeting of the Secretary of State for Social Services with the "pensions industry".

SSSS, in
consultation
with Ch Ex

(b) Review State Earnings Related Pension Scheme (SERPS).

13. Housing policy

SS Env

(a) Pursue possibilities for progressive decontrol, particularly in respect of new lettings, of rents and of security of tenure in the private rental sector, particularly in areas of largest imbalance.

SS Env

(b) Pursue possibilities of increasing availability of land for housing, particularly in the south.

Ch Ex, in
consultation
with SS Env

(c) Pursue consideration of legislation to expand range of activities of building societies.



- Ch Ex (d) Consider the removal of private rented property from liability to capital gains tax.
- SS Emp (e) Consider possibility of improving effectiveness of Employment Transfer Scheme.
- Ch Ex (f) Consider level of stamp duty on house purchase.
- L Ch (g) Await paper on conveyancing monopoly.
- L Ch, in consultation with Ch Ex (h) Consider possibility of improving pace of land registration.

14. Opening up the public sector to market forces

- Ch Ex (a) Chancellor of the Exchequer to follow up his letter of 25 July.
- (b) Need for care in timing of bringing disposals to market.
- (c) The principle to be:
Competition where possible; maximum privatisation subject to regulation where competition is not possible.
- Ch Ex (d) Consider whether disposals must wait for profitability.

15. Education and training

- SSES (a) Consider how to encourage parents to take more active interest and role in children's education.
- SSES (b) Welcome proposals by local education authorities to re-establish grammar or technical schools.
- SSES (c) Pursue reform of teacher training schools and curriculum.
- SSES (d) Encourage links at all levels between industry and education system, to improve teachers' awareness of industry's needs.
- Ch Ex, in consultation with SSES (e) Encourage industrial sponsorship of students in universities and polytechnics.

SSES, in
consultation
with Ch Ex and CDL

- (f) Pursue possibilities for improving understanding, both in schools and in the country at large, of economic realities. Consider introduction of pilot schemes.
- (g) Training for 16-18s: the objective should be to ensure that, apart from 15 per cent or so of this group who go into higher or further education or professional training, the remainder should go into either 4-year vocational and training courses between 14 and 18 or into an evolving YTS.

SS Emp, in
consultation
with SSES and MSC

- (h) Consider and make recommendations on role of MSC in pursuing this objective.

MSC, in consultation
with SS Emp, SSES, Ch Ex

- (j) Consider improvements in training of employed adults.

SSES, in
consultation
with MSC

- (k) Promote parity of esteem for technical education (as compared with traditional educational qualifications): encourage universities to accept technical qualifications for entrance.

MSC, in consultation
with SS Emp, SSES

- (l) Build on arrangements for placing contracts for approved training courses with colleges of further education.



10 DOWNING STREET

①
MWT

Prime Minister

David Young telephoned. He suggests that, in sending out the checklist of action arising from Chequers last week we should say that you will be reconvening the group at a later stage (say, at Christmas, or in 12 months' time) to chase-up progress.

This would certainly help to ensure that action does not run into the sands. But it would have the same effect to ask for a progress report from

each participant (where appropriate)
to be sent to you
by, say, Christmas. Agree that

we ask for this? ~~the~~ ~~too~~ ~~much~~
in writing

David Young would also like

1/2 hour to put to you his ideas

about overlap between Depts of Environment

and Trade & Industry. I tried to

play this away, but he is keen to

come. Shall we fit in something

when the diary is less crowded - say

in late October?

Yes not

MCS 12/9

now arranged

for 19/10/83

MCS.

NB: Not to be photocopied or circulated outside 10 Downing Street
or outside the Private Office

RECORD OF THE EMPLOYMENT STRATEGY MEETING AT CHEQUERS ON 6-7 SEPTEMBER

Present:

- Prime Minister
- Chancellor of the Exchequer
- Secretary of State for Education and Science
- Secretary of State for Energy
- Secretary of State for the Environment
- Secretary of State for Employment
- Secretary of State for Trade and Industry
- Chancellor of the Duchy of Lancaster
- Chairman of the Manpower Services Commission (Mr. David Young)
- Sir Robert Armstrong
- Sir Alan Walters
- Mr. Michael Alison
- Mr. Ferdinand Mount

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TUESDAY MORNING

The Prime Minister noted that David Young, who had not yet arrived, had put in a paper arguing for the appointment of a Minister for Policy, on the grounds that there was too much overlap between Departments, so that essential policy aims became unclear. The Prime Minister said that David Young's ideas pointed towards the US system, and that the Minister for Policy in British terms was inevitably the Prime Minister, who could not, without extensive delegation, deal with the wide range of responsibilities satisfactorily. The Chancellor of the Duchy of Lancaster and the Secretary of State for Energy commented that overlords had been tried before, for example by Sir Winston Churchill in 1951, and this system had not worked in Britain.

/1. INDUSTRIAL POLICY

1. INDUSTRIAL POLICY

Introducing the main discussion, the Prime Minister said that the discussion should be of a general strategic nature, and would concentrate on industrial policy this morning.

The Chancellor of the Duchy of Lancaster and the Secretary of State for Trade and Industry in their papers had usefully painted a broad strategic picture, emphasising that the vital framework within which the discussion would take place was the continued reduction of inflation, lower interest rates, lower taxation, and the control of public expenditure. This last point was of particular importance. We should also aim to deal with these matters in a positive way, switching the emphasis from a discussion of unemployment to one about the creation of new businesses and new jobs; and extending enterprise wherever this could be done.

The Prime Minister invited the Chancellor of the Duchy of Lancaster to introduce his paper (Paper No. 15: Strategy for Unemployment). The Chancellor of the Duchy said that it was a paradox that there was no shortage of demand, an unlimited amount of work waiting to be done, yet at the same time very large unemployed resources of capital and labour. The economy was not working as efficiently as it should. He recalled that we had enjoyed full employment for twenty years after the War, and said that it was no coincidence that at that time public expenditure occupied a substantially lower share of GNP: in 1959 it was only 25% of GNP. Since then the public sector had grown enormously, at the expense of the private sector. The large burden of taxation which was an inevitable result of this change depressed activity in the private sector, and led inevitably to further encroachment by the public sector. It was necessary to break this vicious circle, and the key problem was the level of taxation. His conclusion was that the Government's first priority should be the reduction of public expenditure which was necessary to bring down the burden of

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taxation. Against this, all the other devices designed to reduce unemployment set out in the other papers before the meeting were of secondary importance. The Prime Minister agreed with this analysis, and said that the basic framework which the Chancellor of the Duchy had sketched should be the background against which the whole discussion was held.

The Secretary of State for Employment said that he hoped that, in considering how to reduce public expenditure, the food production industry would not be omitted as a candidate for expenditure reductions. The Chancellor of the Exchequer agreed, and commented that the Common Agricultural Policy was a huge burden on the British economy. The high price levels created enormous surpluses which had to be disposed of at great cost. The Secretary of State for Energy said he did not agree with this assessment. Agriculture had done better than almost any other sector of the British economy in the last four years. It had made a large contribution to the improvement in the balance of payments; British farm production was 7½% of European production, yet we received 11% of CAP subsidies. If we were to reduce European subsidies for agriculture it would be necessary at the same time to persuade the United States to reduce their publicly-financed support for agriculture, which ran at a very high level. The Prime Minister said that agriculture could not be excluded from the areas in which public expenditure savings should be sought. It was just not possible to go on indefinitely giving subsidies to produce food for which there was no buyers.

(a) Taxation Policy:

The Chancellor of the Exchequer said that our main aim should be a general reduction in the burden of taxation. The problem was to find the head-room for such a reduction, by the necessary reductions in expenditure. He agreed with the approach of the Secretary of State for Trade and Industry that there should be no search for novelty, and that the Government's

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strength lay in its consistency since 1979. There were a number of public expenditure programmes which could simply not be afforded in the longer run - ^{such as} the State Earnings-Related Pension Scheme. There could be no doubt that there should be great scope for growth in the economy, particularly in the service sector. That was the sector in the United States where most growth had been in recent years. It was absurd that UK regional policy and the tax system positively discriminated against the service sector. Capital allowances discriminated both against the service sector and against labour as opposed to capital. Our aim should be to remove these distortions and not to introduce any countervailing distortions. The Business Expansion Scheme was now taking off in a big way. He felt that there were too many schemes under this heading, and that the system needed simplification. We ought to focus on the best schemes and allow the others to die.

The Prime Minister asked whether further reductions in the National Insurance Surcharge should be a priority, commenting that it might be that overheads on British industry were now comparable ^{to}, or lower than, those of our continental competitors. Might it not be better to make our priority further reductions in personal taxation? The Chancellor of the Duchy noted that the cost of abolishing the NIS was now relatively modest. Our fiscal regime should be designed to bring about more productive and profitable investment. The Secretary of State for Trade and Industry noted that there were unused capital allowances amounting to £40 billion because past investment had not produced the profits which would soak up these allowances. Manufacturing was of very great importance to the British economy, but we were moving more and more towards a service-oriented economy. Service industries were not heavy investors so that the system of capital allowances favoured, like other aspects of the tax system, manufacturing. Notwithstanding the importance of manufacturing, we needed a change of attitude towards service industries. The Secretary of State for Energy said that investment was at a low level in the United Kingdom.

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We would find when the present recession ended that we had invested insufficiently to keep up with our competitors unless we took action to put this right. The Chancellor of the Duchy of Lancaster said that he did not agree that service industries were not heavy investors. The retailers, like Sainsbury's and Marks and Spencer, had had a very heavy capital investment programme for many years. What was needed were higher profits and lower taxation on those profits. The market would then best allocate this investment as between services and manufacturing. The Secretary of State for the Environment argued that it was the output of manufacturing industry which paid for our imports: it had a high export and import-saving content. The NIS and taxes on profits bit more heavily on services than on manufacturing. He strongly favoured the abolition of the NIS, which was a very bad tax indeed, whose abolition would lead to very little leakage abroad. He recognised that service industries benefitted less from capital allowances than manufacturing, but argued that they had been much less subject to international competition than manufacturing, and this in part explained their profitability. He agreed, however, that we should seek to reduce taxes on service industries; he would make abolition of NIS a very high priority.

The Secretary of State for Trade and Industry said that he favoured a lower rate of Corporation Tax, together with many fewer reliefs of all kinds. The Chancellor of the Exchequer noted that reducing the rate of Corporation Tax was very costly - £180 million for every one percentage point reduced. The saving achieved from reducing the number of reliefs was, of course, affected by the £40 billion of overhang of unused capital allowances. The Chancellor of the Duchy said that he thought that a comparison needed to be made between the advantages of (i) abolishing NIS as against reducing Corporation Tax to, say, 40%; and (ii) maintaining the existing system of capital allowances, together with the present rate of Corporation Tax as against abolishing these allowances and having a compensating lower rate of Corporation Tax. The Corporation Tax

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Green Paper in 1982 had set out these options in an entirely neutral way, mainly because the Government had not made its own mind up which of the options it preferred. The Secretary of State for Employment agreed that the NIS was a very undesirable tax, but thought there would be advantage in leaving it at its present rate to cover the Government's cost in training people for industry. One option would be to abolish NIS but to create instead a training levy on roughly the same scale. The Secretary of State for Trade and Industry was doubtful about this, pointing to the unhappy experience with training levies in the past. The Chancellor of the Exchequer said that if we thought that we might need to increase the NIS at some stage we should keep it; if not, given the special importance, out of all proportion to its weight, which it had acquired, it would be best to abolish it soon. The Prime Minister commented that if some increase in taxation in this area were ever to be required it would be better to raise the money through the National Insurance contribution, which was seen as a more respectable tax.

The Secretary of State for Education suggested a third question to be added to the Chancellor of the Duchy's list: if there were to be tax reductions how were they best targeted so as to increase risk-taking and thus employment? Should we aim to change the basis of taxation of share option schemes, or should we look for larger personal threshold increases? The Secretary of State for the Environment said that he favoured action on share options: the one area where we were a long way short of the climate in the United States was in venture capital. The Chancellor of the Exchequer said that the reduction in the high marginal tax rates together with the provision to spread over three years (or five in this year's budget) a tax payment on share options had led to a very great increase in schemes of this sort. But there might be a case for taxing share options as capital gains on disposal. There was general assent to this proposal. The Chancellor of the Exchequer remarked there would be a heavy dead weight cost, and that many schemes would be created to take

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advantage of the/options as a device. The Secretary of State for Energy remarked that it was a disincentive to management in the United Kingdom that there were ^{available} /large rewards for proprietors but not for employee managers. Share option schemes did not help in the situation in which the individual concerned was highly successful, but other divisions in his company were losing money. Was there not a case for firms being permitted to pay a capital sum to an employee whom they wished to reward, a sum which would be taxed as a capital gain and not as income? The Chancellor of the Duchy of Lancaster said that the biggest need was to re-structure the highest rates of income tax. The 60% marginal rate was now reached at $\frac{1}{4}$ of the level at the time of Stafford Cripps: thus, on the 1945 regime, one could earn an income of £120,000 a year before the top rate of tax was reached.

The Prime Minister said that the conclusion was that rates of personal taxation were too high, and the bands needed to be stretched out more. There would also need to be a different approach to the taxation of stock options: there was much support for a less complicated regime in which they were taxed as capital gains upon disposal. This depended on headroom being available for tax reductions, through public expenditure savings.

(b) Assistance to Industry

David Young suggested that there was a case for abolishing VAT on prepared food, since eating out was potentially a large employment growth area in this country. There was no support for this idea, the feeling being that it was undesirable to narrow further the tax base.

The Prime Minister drew attention to the figure of £3.7 billion given in the Chancellor's paper 2 (paragraph 4(i)) for support to uneconomic activities in the public sector, on coal, steel, shipbuilding, rail and other transport. Could we cut back these subsidies? Surely it would be possible to have an unsubsidised coal and steel industry in time, if not a wholly unsubsidised rail industry? Should the Government adopt a target for reducing these subsidies?

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The Secretary of State for Trade and Industry said that British craftsmanship no longer enjoyed its earlier reputation. Lloyds were not prepared to register some ships built in British yards. There was a need for better technical standards and for training. We needed also to increase our share of the domestic market, and to persuade a whole generation that British goods were not necessarily second-best. Was there a case for a Government information effort to change this attitude? The Chancellor of the Duchy of Lancaster noted that only last year the Government had launched a substantial campaign on quality and standards. The Secretary of State for Employment said that the first effort at Jaguar in improving its standards had been to persuade the workforce that the goods they were producing were indeed sub-standard.

The Chancellor of the Exchequer said that the £3.7 billion figure was of great significance. We were backing losers on a massive scale, and this had blocked the scope for tax reductions. The difficulty had always been the immediate political problem of removing the props to these industries, notwithstanding the clear long-standing benefits of doing so. He believed that, on coal, everything was now right for a large improvement in the industry's financial position. The Secretary of State for Energy said there were bound still to be deficits for a few years, given the existing level of over-production and the high stocks. But Mr. MacGregor was now in place, and the Government must trust his judgement. The closures programme was going very well. We must await Mr. MacGregor's first assessment. There should be no lists of pits for closure, but there was no escaping a programme of increased production from the economic pits, like Selby, and closures with job losses in such areas as South Wales and Scotland. Mr. MacGregor would discuss individual closures with the government. The Prime Minister enquired whether a company like Rio Tinto Zinc would develop Asfordby. The Chancellor of the Exchequer commented that such a move would alienate the miners. Privatisation was, of course, the ultimate objective. The Secretary of State for Trade

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and Industry said that, on steel, there was no long-term future for Ravenscraig in ^{the} view of the BSC's Board unless - a very unlikely hypothesis - the U.S. deal were to come off. Our decision to keep this plant open was wholly political. The Prime Minister said at the moment this had to be so. It was noted that productivity at Ravenscraig had shot up as the workforce had sensed the axe hanging over them.

The Prime Minister asked how Government policies on inward investment and for promoting exports were working. The Secretary of State for Energy said that Government departments all round the world were involved in exports. We needed to match this effort. The Secretary of State for the Environment commented it was sometimes difficult to help. In pharmaceuticals he had found that the home market was a very poor base for exporting, since the NHS made its purchases in a wholly unique way. The Secretary of State for Trade and Industry said that his department had been moving in the direction described by the Secretary of State for Energy, targeting particular markets. A recent example had been the effort, led by the Department of the Environment, to sell water management, for which Britain has a world reputation. The Prime Minister said that too much of our support for exports via ECGD found its way to a very small number of companies. The Secretary of State for Trade and Industry pointed out that each major contractor had on average 300 or so sub-contractors, so that the support was spread much more widely than at first appeared. The Secretary of State for Education referred to a recent article in the National Westminster Review which had shown that more and more of world trade was subsidised in one way or another. The Secretary of State for Employment asked whether we would not more usefully spend the sums which went to subsidising our exports in assisting our industry to reconquer the home market. After further discussion the Prime Minister said that we should conduct a major drive to sell less to countries who were unable to pay for our exports; and should consider what international action could be taken to reduce the subsidised proportion of world trade.

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(c) Regional policy

The Prime Minister said that she was worried about the effect of regional policy on areas like the Midlands which were having industry taken away from them to Scotland and Wales. The Secretary of State for the Environment drew a distinction between regional policy and inward investment policy. The latter was required to enable us to compete with other countries, like Ireland; but it was absurd that we still had competing inward investment agencies, bidding one another up in their competitive attempts to attract inward investment. The matter was up for review this autumn and it would be important to get the right decision. The Chancellor of the Exchequer said that he was not impressed by the outcome on Nissan. The firm would go to a special development area, where it would compete with existing car producers in places like the Midlands. The Secretary of State for Trade and Industry acknowledged this but said that it would be useful for Nissan to set standards to the British industry as other Japanese companies had done with television manufacture. The Energy Secretary said that he thought we should move from a regional policy to an industrial policy. Notwithstanding that, the social implications for a particular area of an unemployment rate of, say, 35 per cent had to be faced. But it was ridiculous to have a policy to filch businesses from one area to another. The Prime Minister said it was absurd, too, to subsidise capital at the expense of labour. David Young said that we had achieved, by means of regional policy, a split between North and South, with the North predominantly a manufacturing base, and the services predominantly in the South. We would have been better off without a regional policy. The Chancellor of the Exchequer said it was necessary to have some form of regional policy for political, social and EEC reasons but we should reduce its scope as far as possible, make the grants more job-related, make replacement capital ineligible for grants, and eliminate the Sullom Voe-type project. There must also be no discrimination against service industries, and we should seek to eliminate the regional "beggar my neighbour" effect. There was general agreement to these proposals, and the Prime Minister said that we should also review the urban programme which was now 90 per cent capital investment, and of which there had been a major expansion, alongside regional policy.

(d) Small firms and the self-employed

David Young said that the enterprise allowance was going very well, and he remained a firm advocate of it. It helped, however, only the unemployed, and we should be looking for ways of helping the employed to start up in business. The Prime Minister commented that there were too many schemes for helping small businesses. The complexities of the Government's schemes, together with Pay as you Earn, VAT, employment protection, and the attitude of the Inland Revenue all acted as a deterrent to the starting up of new businesses. The Education Secretary proposed that there should be a new Rayner to look at de-regulation in this area. There was general support for this idea, and it was argued, against the Chancellor of the Duchy's suggestion of an exemption from all requirements relating to income tax, VAT and NIC for three years for someone who had completed a training course, that there would be very severe problems when the three-year period was over, and meanwhile inequity as against the treatment of someone setting up business who was not a training graduate. The Secretary of State for Trade and Industry said that the Inland Revenue's attitude to self-employment was very damaging. Their aim was to get everybody into Pay as you Earn, whatever the consequences. The Prime Minister said she would wish to consider further how to bring about the changes of attitude at the Inland Revenue which the Government wanted. The Secretary of State for Trade and Industry, together with the Chancellor of the Exchequer, should consider how to reduce the number and variety of Government schemes to assist small businesses. Consideration should be given to extending the enterprise allowance beyond the unemployed, and whether ^{responsibility for} policy on the enterprise trusts should be transferred to the Department of Trade and Industry.

On planning, the Prime Minister said that she placed much weight on the points made to her recently by Sir John Sainsbury. He had said that the planning system was an inhibition upon Sainsbury's investment programme, and therefore on the creation of jobs. The effect of the acceleration of the DOE's consideration of cases had been to speed up the easy cases but hold back the more difficult ones. We had given planning powers to local authorities who had not the weight to carry through these responsibilities. The Trade and Industry Secretary

said that there were not a lot of complaints from Industry along these lines. The Environment Secretary acknowledged that the planning system choked on the Sainsbury/hypermarket-type application. But the planning system as a whole was greatly valued, and was not seen as an obstacle to investment generally. There was a case, however, for calling in more applications to the Department at the very beginning, so as to cut the local authorities out of the process. The Prime Minister said that she would wish to consider with the Secretary of State for the Environment what changes were needed in the system.

Sir Alan Walters commented that investment in transport was, similarly, inhibited by regulation. He instanced the application, still under review, for 300 mini buses in London. The Prime Minister said that this was another area which she, together with the Secretary of State for Transport, should review.

At this juncture the meeting broke for lunch.

2. THE LABOUR MARKET

(a) Trade Union Law

The Secretary of State for Employment briefly reviewed the progress which had been made in dealing with trade union power in the last parliament. We would need to move further against the closed shop, but not until the ballots, required before autumn 1984, on existing closed shops. The closed shop had been stopped in its tracks, and a procedure was now available to roll it back. He would be talking to the TUC about the avoidance of strikes in essential public services. He saw no point in making substantive agreements legally enforceable, since employees and employers would agree to circumvent this. In the long run all secondary action should be outside the law; but here, as in relation to lay-off without pay, he did not envisage immediate action. The vital thing was to free up the public sector to competition, to decentralise pay bargaining, and to improve consultations between employers and employees - but not to the point of legislation or codes of practice. The Prime Minister noted that there was strong support in public opinion for the Government's approach, but wondered

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whether we should not move a little faster for example as regards lay-off. The Employment Secretary said he thought it best to wait for a clear public perception of the need to move. As things stood, hourly-paid workers could be laid off; but there had been a great move towards monthly-paid status - in other words management had bargained away its right to lay-off. Why should the Government seek to restore what the employers themselves had bargained away? He noted that much of the new law required someone to bring civil action against a union. It was not easy to get employees to do so. There was perhaps a case for helping them, both with funds from some source and advice. The Education Secretary said that unions had priced their members out of jobs, and had stopped expansion, so that there must be many projects which could be identified by employers as having been shelved because of union opposition. It would be useful to list these. The Chancellor of the Duchy said that it needed to be made worth management's while to fight. The Chancellor of the Exchequer said that he believed this was a crucial area. So far as respect for the rule of law was concerned, it was necessary to have legally binding agreements. He recognised that at present too many employers did not want such agreements. But when they changed their mind the Government would have to put the necessary provisions in place. There was general agreement to this point. He knew that the Employment Secretary was planning a White Paper on Employment. He felt that the present draft was not very exciting, and that a decision about the White Paper should be postponed until a revised draft had been prepared in the light of the paper which he had agreed at NEDC to produce, on where the new jobs will come from. The Secretary of State for Employment said that we might also need a White Paper on training, together with changes in the structure of the MSC which he was contemplating.

The Prime Minister said that there was general agreement to the broad approach in the Secretary of State's paper (paper 9).

(b) Barriers to employment

The Prime Minister said that there might be a case for spreading payment of redundancy money over, say five years, and to avoid the

situation in which these large capital sums were squandered and then the recipient moved directly onto supplementary benefit. The Energy Secretary noted that the size of the capital sum was highly useful in achieving otherwise difficult redundancies. The Prime Minister said that the entitlement to supplementary benefit might properly be qualified in some way for those recently in receipt of redundancy payments: for example they might be deemed to have an income of an appropriate size; and the deeming could be disregarded if the recipient had lost his redundancy money in setting up his own business. It was noted that there would be difficulties in drawing the line between expenditures of redundancy money which might be properly disregarded (because, for example, they reduced the recipient's costs or promised profits in the longer term) and those which should not. The Prime Minister said that she would ask the Secretary of State for Social Services to review the treatment of redundancy payments in connection with payment of supplementary benefit.

The Secretary of State for Employment said that he proposed that the wage councils should be abolished at the earliest opportunity ie the 1985/86 session; and that the agricultural wages boards should be abolished earlier, and the exclusion of particular classes, eg young persons, should be achieved as soon as possible after August 1983. The Energy Secretary said that the agricultural employers would oppose abolition, would argue that the boards had not had an inflationary effect and that they had worked in the farmers' interests, given that agricultural wages were still significantly below manufacturing wages. Scepticism was expressed about these views, and it was agreed that the Secretary of State for Employment should continue to pursue with the Minister of Agriculture's proposals.

There followed a discussion of employment protection legislation, and its impact on small firms. The Prime Minister said it was agreed that we should take action to exclude all employers employing five or fewer employees from the unfair dismissal legislation; that the qualifying period for protection under unfair dismissal legislation should be increased to two years continuous employment; and, similarly that the qualifying period for protection against dismissal on grounds of pregnancy should also be increased to two years. There was

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considerable support for the proposal that this exclusion should apply to employers employing up to ten employees; and that this qualifying period for protection under unfair dismissal legislation should be extended to three rather than two years.

(c) Action on wage levels

The Employment Secretary said there were considerable difficulties about the idea of extending the young workers scheme to adults. Sir Alan Walters said that he would like to see the scheme wound up within, say, five years. He certainly did not support its extension to adults. The Chancellor of the Exchequer said that he supported the proposal for a cap on benefits to the unemployed, which was the common practice in other European countries. He thought this would need to be introduced together with a work fair scheme which would apply to young single people particularly. Sir Alan Walters referred to recent economic work which showed that the young were particularly sensitive to changes in the relationship between unemployment or supplementary benefit and pay levels. The Employment Secretary said that it would be perceived as an unfairness if one man who had had smaller earnings when in employment received, because of the operation of the cap, an amount of supplementary or unemployment benefit which was below the officially defined poverty line, while another who had had a larger income in employment, received capped benefits well in excess of the poverty line.

The Prime Minister said that the cap proposal bore most heavily on heads of families with dependants - the group the Government least wished to effect in this way. Action was required, rather, in relation to young people. The Secretaries of State for Employment and Social Services together with the Chancellor of the Exchequer, should consider the possibility of withdrawing or limiting benefits for the under 18's, in consideration of the proposed availability to them of full-time education or training.

(d) Further measures to encourage youth employment?

The Prime Minister asked for views on the Chancellor of the Duchy's proposal "Passport for a job". The Employment Secretary said that it appeared to discriminate against the over-18's.

The Chancellor of the Exchequer said that the difficulty would come when the period during which the passport could be held came to an end. It would be seen as unfair, and discriminatory against the over-18's. The Prime Minister said that there was more enthusiasm for the young workers scheme than for the "Passport for a job" proposal. We should consider extending the scheme to one year beyond the youth training scheme (or up to the 19th birthday).

(e) Portable Pensions

The Environment Secretary said that he believed there would be enormous support for a portable pensions scheme. It would do much to improve labour mobility. Pension fund managers would, understandably, dislike such a scheme; but line managers would welcome it, and would, he thought, take up the option in large numbers especially in a lower inflationary age when the loss of value of pensions was smaller. He did not think the Government could go for compulsory revaluation, which would compound the problem, discussed earlier in relation to the State Earnings Related Pension Scheme. The Chancellor of the Exchequer commented that the cost of the State Earnings-Related Pension Scheme was horrifying in the 1990's. He was prepared to look at the portable pension scheme, but thought it looked less likely to promote labour mobility than compulsory revaluation. The Chancellor of the Duchy said that pension schemes would be insolvent if there were no early leavers; or, alternatively, the benefits to stayers would have to be reduced. In principle it was right to be able to transfer pensions, but the problems were very substantial. The Secretary of State for Trade and Industry said that to improve the position of early leavers would be costly, and the costs would have to be borne either by the stayers or by companies, or by the Government. The Prime Minister said

there was a disposition in favour of portable pensions but we should await the outcome of the Secretary of State for Social Services' forthcoming meeting with the pensions industry. The Secretary of State for Social Services, in consultation with the Chancellor, should review the State Earnings-Related Pension Scheme.

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(f) Housing

The Environment Secretary said that the area of greatest mobility was the private rented sector. There were very good housing arguments for trying to revive this sector. Less than 10 per cent of all households were in private rented accommodation. Although higher rents would be necessary to revive this sector, their initial effect might be to reduce mobility, but the real issue was the political difficulty, particularly in London. The Government would not be able to go back on security of tenure but landlords would be likely to be interested in higher returns. Universal de-control would be impossible; but he thought creeping de-control a practical possibility, perhaps a de-control in the first instance for new lettings. The Prime Minister commented that home ownership could sometimes trap people, especially when they needed to move away from a declining area but were unable to sell. The Chancellor of the Exchequer said that we should go as far as we could towards de-control. The prospect of Labour reversing this was now perceptibly diminished. The Energy Secretary said that, to increase the size of the rented sector, rents would need to be massively higher than what would be afforded by potential tenants. All Opposition parties would commit themselves to repeal if the Government moved on security of tenure. He did not believe that there was much finance ready to go into the private rented sector given all these difficulties. Sir Alan Walters contrasted the position in the United States where there was much more rented accommodation, partly because building regulations were less onerous so that building costs were lower, because the security of tenure was not all loaded against the landlord, and because landlords enjoyed tax advantages. He noted, however, that this sector was declining even in the United States. Summing up the discussion, the Prime Minister said that there was general agreement that we should de-control on new lets, particularly in areas where there was the largest imbalance in supply and demand of private rented accommodation. The Environment Secretary noted that the Lord Chancellor was shortly to bring forward a paper dealing

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with the solicitors' monopoly, which imposed ridiculously high costs on house purchase. ^{The Prime Minister agreed} /there was a case for reducing stamp duty, which was intolerably high. Here again the necessary room needed to be created by public expenditure reductions. Action should be taken to improve the efficiency

of the Land Registry, perhaps by transferring it to the Department of the Environment, or by deploying staff to it from other over-regulated areas. There was also a case for legislation to allow the Building Societies to own and let houses. The Secretary of State for the Environment should pursue ways of increasing availability of land for housing, particularly in the south, and the Chancellor of the Exchequer should consider the removal of private rented property from capital gains tax. The Chancellor of the Exchequer should consider the level of stamp duty on house purchase; and the Secretary of State for Employment should consider ways to improve the effectiveness of the Employment Transfer Scheme.

3. Opening up the public sector to market forces

The Prime Minister noted that the Chancellor of the Exchequer had circulated a letter to colleagues in July, and that the Energy Secretary's paper stressed the need for care in the timing of bringing sales of assets to the market. The Energy Secretary said that we should privatise wherever was possible. A private monopoly was preferable to a public one - more likely to be efficient, more accountable and so on. The Trade and Industry Secretary said that British Telecom would certainly be more accountable as a private monopoly. The Chancellor of the Exchequer agreed, but stressed the need to work out a suitable regulatory regime, which would have to be different for each industry. Many monopoly industries had parts which were not necessarily monopolies: in the gas industry, for example, the exploration activities were not a natural monopoly, and in the electricity industry it would be possible to have competing power stations selling electricity into the grid. Wherever possible, monopolies should be regionalised and split up in this way.

/Summing up

Summing up the discussion, the Prime Minister said that the Chancellor of the Exchequer should follow up his letter of 25 July; that the aim should be to introduce competition wherever possible; and where competition was not possible still to go for the maximum privatisation, subject to regulation. It would be important not to fall into the trap of postponing privatisation until an enterprise was making a profit.

The meeting adjourned until Wednesday morning.

4. Education and Training

The Secretary of State for Education and Science said that there was an interaction between schools and our national culture. Schools were even more lacking in understanding of the basic facts of economics than appeared elsewhere in our national culture. The Technical and Vocational Initiative (TVI) was of very great importance. Part of the Initiative was starting now, the next stage would be under way within twelve months. There should be a technical stream in every secondary school by the end of the present Parliament. There was also the prospect that there would be separate technical schools.

The main inhibition on the school system delivering a sharper set of school leavers was the attitude of teachers and their lack of economic understanding. He had doubts about how much Education Ministers could do on their own to improve this situation. There would be suspicion of importing ideology into the classroom. We needed to increase public understanding, as well as increasing attention to the facts of economics in the curriculum. Technical education, too, needed to be provided with a degree of esteem which was lacking at present. Parents mistakenly believed academic achievement to be more important so that we had an unsuitable curriculum. Employers had clumsily and misleadingly stated their requirements/^{SO AS}to engender this mistaken belief amongst parents and pupils.

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The Prime Minister said she doubted whether more economics was necessary in the curriculum. What needed to be got across was more simple than that - that success depends on pleasing the customer. We were much dogged by the tradition in this country that those successful in business wished their sons and daughters to enter the professions and administration. The Prime Minister said that she had been disappointed by the outcome of the TVI. She had initially been told that there would be ten technical schools in operation by September 1983 but this had degenerated to ten technical streams in schools.

David Young said that the TVI was in fact coming out more successfully than they had envisaged when they had first put the matter to the Prime Minister. We were getting very poor value for money from our education system. Forty-seven per cent of school leavers either had no qualifications or only low grade CSE. Many were technically illiterate, innumerate and demotivated. There was no habit of punctuality, and the YTS was finding it necessary to instill this in trainees who had acquired the habit of playing truant from school.

David Young said that the comprehensive schools had been modelled on grammar schools in their attention to excessively abstract concepts. We were beginning to correct this, with the YTS and with the TVI, which now consisted of fourteen projects, involving 14,500 students. Next summer there would be technical and vocational courses available for every interested local education authority. As a model for the future, about 15 per cent of school leavers might go to higher education, about a third to four-year courses for 14-18 year olds, including general and technical studies, with the prospect of acquiring qualifications of the City and Guilds and B-Tech variety; and 50 per cent into a YTS evolving to a two-year course, at no extra Exchequer cost. He hoped that the one third in the four-year courses would be an increasing proportion of the total and that the one half going to YTS would be a declining proportion. Thus everyone would go through some form of education or training up to the age of 18.

/In order to

SECRET

In order to reach this objective, a number of changes would be necessary in the Manpower Services Commission.

Training should not, however, be confined to the young. Re-training was necessary throughout working life in a rapidly changing world. He noted that 18 per cent of British managers had no professional or technical qualifications. We should aim to do more training for employed people, by diverting resources from the present TOPS scheme, which cost £210 million a year and had a low placement rate; and by making changes in the colleges of further education, on which we were spending about £1 billion a year. He also supported a loan scheme for students and trainees, backed by the Government and run by the banks, whose aim would be to improve the motivation of students and trainees.

The Energy Secretary agreed that the quality of school teachers was now very poor. Most applicants for entry to teacher training colleges had failed to secure admission even into the worst universities. He proposed a drive to persuade parents to teach their own children to read and a direct mail shot to every 18-year-old explaining ^{available} employment, leisure, recreation, etc., opportunities.

The Prime Minister commented that someone like Aims for Industry might finance the latter proposal.

The Employment Secretary said that the Government lacked leverage upon the educational world. We sought devices which would act as a surrogate for the market, so as to put pressure on schools and teachers.

He intended to bring forward proposals to turn the MSC into a national training agency which would handle the financing of colleges of further education, by entering into contractual relationships with these colleges so as to ensure that they laid on the appropriate course, curriculum, and delivered students with the appropriate skills to the right standards. He noted that the teachers' unions had initially been opposed

to the TVI but that the other unions, in particular the engineering unions, had been unwilling to let the teachers block such an important initiative.

It would also be desirable to put the right pressures on universities. If companies were to sponsor undergraduates this would not only motivate the undergraduates but would lead universities to provide courses which would attract sponsored students. He supported David Young's proposal for improving training, especially of those in employment, whose jobs might be about to disappear.

The Environment Secretary said that he had been very disappointed at the slow progress of the Engineering Council, who had produced an initial policy statement which was almost incomprehensible. He believed that the Council might need reinforcement with people of a more practical bent. He agreed that employers were very bad at articulating their requirements of the educational world. One of the reasons for this was that many of them, as had been mentioned, had not been through much of the system. An alternative picture of the relationship between education and industry was possible: there were some who said that the educational world had already started to become alive to industry's needs but that industry itself was not reciprocating properly. There had already been some successes in this area - for example, the information technology centres and the micros in schools programme.

The Chancellor of the Duchy said that school leavers needed to understand the way the world worked. They did not require economic theory, but simply an understanding of the relationship between pay, costs, prices, output and jobs. These simple points should be made part of the curriculum. There was not sufficient emphasis on management as a science in British institutions, and no analogue to the Harvard or MIT Business Schools. More management qualifications were desirable, but should not be introduced in a restrictive way but so as to create fresh opportunities.

/The Secretary of State

The Secretary of State for Trade and Industry noted that in Japan 95 per cent of young people stayed in full-time education until the age of 18, compared with only 25 per cent of young Britons; and that in West Germany about 60 per cent of the workforce had vocational qualifications, i.e. about twice the UK level. Our competitors had a more selective education system which creamed off people with special abilities, academic or technical. But it was not acceptable to conclude that we were stuck with the comprehensive system and inadequate teachers and teacher training, and that the only remedy was to attempt to put a veneer on later via the Youth Training Scheme and so on. He was also doubtful about the assumption that it was the responsibility of the state to train. In the long run, training should be financed by the private sector. The Prime Minister and Employment Secretary commented that we were already spending a great deal on training and that the aim was purely to get better value for money.

The Chancellor of the Exchequer said that there were very disappointing results from our very large expenditures on education. He suspected that other countries would not put up with the poor quality of our system and would insist upon improvement. In the long run, companies must either carry out training or finance it. We also needed to improve the training of our elites, including the Civil Service. The Prime Minister disagreed about the overall assessment of the quality of our education system. We trained elites better than either the French or Germans in most areas.

The Education Secretary said that we lacked in Britain the strong central powers to determine curriculum and so on, which existed in France and Germany. Even if we wanted such powers, and even if we could use them effectively, we would not be able to secure them from Parliament. The quality of teachers necessarily was largely determined by their pay and the framework within which they were recruited. But changes in the right direction were being made. The White Paper on Teacher Training Colleges promised more rigour, fewer colleges, the power of the

/Secretary of State

Secretary of State to disapprove courses, and the de-motion of courses on the philosophy, sociology and history of education. These changes would not alter the teacher training cadre overnight, but they would help. He was trying to encourage local education authorities to remove bad head teachers. A Committee, chaired by the Prime Minister, had been working for months to devise a voucher scheme which would improve parents' power of choice. They had concluded that a thorough-going scheme was impracticable and were now working on a second-best alternative. But there should be no illusion that even a massive extension of parent power would necessarily produce good schools. He was also encouraging local education authorities to propose to the Government schemes for returning to a more selective system, including grammar and technical schools; it would not be possible to secure Parliamentary approval to the imposition of a selective system from the centre. He reiterated his plea for a systematic effort to increase economic understanding in the country at large: either by a series of ministerial speeches or by a film made by someone such as Anthony Jay (although this had been tried, so far without success). So far as a scheme to encourage parents to read to children was concerned, most already did so, but the large minority who did not were the ones whose children produced the problems.

There was further discussion of David Young's proposals. The Chancellor of the Exchequer said that he considered this an attractive package which needed to be costed before any decisions could be taken. The Chancellor of the Duchy hoped that the Chancellor of the Exchequer would at the same time take action to open up the sources of private funding for educational purposes.

There followed a discussion of the means by which a systematic effort to increase economic understanding could be carried out - whether through the production of films, or with the help of Conservative MPs, or through the Department of Trade and Industry or the COI.

Summing up the discussion, the Prime Minister said that the Secretary of State for Trade and Industry should pursue with the Employment Secretary and the Chairman of MSC, in consultation with the Chancellor of the Exchequer, the extension of technical courses within the school system (David Young interposed that they hoped to be able to persuade universities to accept the resulting qualification as an alternative to the present academic basis for entry). The Chairman of the Manpower Services Commission should pursue with the Education and Employment Secretaries the arrangements they had described for placing contracts for approved training courses with colleges of further education. Consideration should be given to a scheme for encouraging Aims for Industry, or some other organisation, to approach people reaching the age of 18 in an attempt to increase their understanding of industry. Further consideration should be given to the reforming of the Manpower Services Commission on the lines described; and to possible ways of increasing company sponsorship of students on university courses.

Summing up the whole discussion, the Prime Minister said that she was grateful to colleagues for the work they had done in preparing for the Strategy Meeting. It had been useful to have a wide-ranging discussion, to re-affirm the Government's strategy, and to examine some new directions which might be taken within that overall strategy. Action had been agreed in a number of areas, and she would see to it that the colleagues responsible were reminded of the relevant points which they would be pursuing through the usual machinery of Government including the Cabinet and Cabinet Committees.

MCS

9 September 1983

JCFM

POINTS FROM MORNING SESSION

1. Strategy and main themes:
 - (a) continue to reduce inflation and interest rates.
 - (b) reduce levels of taxation: therefore, contain (reduce?) public expenditure.
 - (c) switch emphasis from unemployment to increasing jobs and extending enterprise.
 - (d) seek growth wherever it may be found - in services as well as manufacture.

2. Taxation Policy:
 - (a) change basis of taxation treatment of share option schemes.
 - (b) reduce levels and increase spread of higher tax rates.
 - (c) consider optimum basis for taxation of companies (eliminate NIS or reduce Corporation Tax/Capital allowances?).
 - Compare effects of (1) Abolish NIS versus 40% mainstream Corporation Tax.
 - (2) Present capital allowances system and present rates of Corporation Tax versus no special allowances and compensating lower rate of Corporation Tax.

3. Industrial Policy
 - (a) reduce level of Government subsidies to industry (? targets) and agriculture via CAP and directly.

4. Trade Policy
 - (a) seek to reduce concentration on subsidised exports to countries which cannot pay.
 - (b) concentrate on trade with countries that can pay.
 - (c) international action to reduce subsidised proportion of world trade.

5. Regional Policy: changes required:
 - (a) no discrimination against service industries.
 - (b) make more job-related.
 - (c) limit aid to replacement investment.
 - (d) limit scale of regional aid.
 - (e) seek to eliminate regional "beggar my neighbour" activities. (also in inward investment).
 - (f) review urban programme in context of regional policy.

6. Small Firms
 - (a) Secretary of State for Trade and Industry to review number and variety of schemes.
 - (b) ? Extend enterprise allowance beyond unemployed.
7. Inland Revenue - too pernickety, discriminates against self-employed. Prime Minister and Chancellor of the Exchequer to consider further.
8. Excessive Regulations ? set up a Rayner-type unit or scrutiny of regulations affecting industry.
9. Boundary between DTI and DOI: transfer enterprise trusts, COSIRA etc. ?
10. Planning Controls: Prime Minister and Secretary of State for the Environment to review.
11. Transport planning: Prime Minister and Secretary of State for Transport to review?

✓ CFM

POINTS FROM AFTERNOON SESSION

1. Labour Market

- (a) "Step by step" approach agreed.
- (b) Chancellor of the Exchequer, in consultation with Secretary of State for Employment, to prepare paper for NEDC on where jobs are coming from.
- (c) White Paper on employment: draft to be revised, for publication after Chancellor's paper to NEDC.
- (d) Secretary of State for Employment to consider possibility of White Paper on training.

2. Barriers to Employment

- (a) Secretary of State for Social Services to consider whether the entitlement to supplementary benefit should be qualified for those recently in receipt of redundancy payments.
- (b) Wage Councils to go in 1985/86.
- (c) Agricultural Wages Board: Secretary of State for Employment to pursue with Ministry of Agriculture.
- (d) Exclude employers of firms with up to 5 (?up to 10) employees from provisions of unfair dismissal legislation; extend to 2 years(? 3 years) continuous employment the qualifying period for protection under unfair dismissal legislation and also for protection against dismissal on grounds of pregnancy.

3. Action on Wage Levels

Agreed not to:

- (a) Extend Young Workers' Scheme to cover adult full-time workers but consider extending it to 1 year beyond Youth Training Scheme.(or up to 19th birthday?).
- (b) Agreed not to pursue for the present earnings related limit on unemployment benefits; but Secretary of State for Employment and Secretary of State for Social Services to consider possibility of withdrawing or limiting benefits for under 18s.

4. Employment and Pensions

- (a) 2 possibilities: compulsory ~~de~~valorisation of pension entitlements, or portable pensions. Pre-disposition in favour of portable pensions. Secretary of State for Social Services to pursue in the light of his forthcoming meeting with the "pensions industry".
- (b) Secretary of State for Social Services, in consultation with Chancellor, to review State Earnings Related Pension Scheme (SERPS).

5. Housing Policy

- (a) Secretary of State for the Environment to pursue possibilities for progressive decontrol of rents and security of tenure, particularly in respect of new lettings, in the private rental sector, particularly in areas of largest imbalance.
- (b) Secretary of State for the Environment to pursue ways of increasing availability of land for housing, particularly in the South.
- (c) Chancellor of the Exchequer, in consultation with Secretary of State for the Environment, to pursue consideration of legislation to expand range of activities of building societies.
- (d) Chancellor of the Exchequer to consider the removal of private rented property from CGT.
- (e) Secretary of State for Employment to consider possibility of improving effectiveness of Employment Transfer Scheme.
- (f) Chancellor to consider level of stamp duty on house purchase.
- (g) Await paper from Lord Chancellor on conveyancing monopoly.
- (h) Consider possibility of improving pace of land registration.
- (i) ? Transfer Land Registry from Lord Chancellor's Department to Department of the Environment.

6. Opening Up the Public Sector to Market Forces

- (a) Chancellor of the Exchequer to follow up his letter of 25 July.
- (b) Note need for care in timing of bringing disposals to market (Secretary of State for Energy's point).
- (c) Competition where possible; maximum privatisation ^{regulation} subject to/ where competition is not possible.
- (d) Should disposals wait for profitability?

POINTS FROM MORNING SESSION

Wednesday 7 September

*Mufaxed FM
to Arguers
7.9*

1. Secretary of State for Education and Science to pursue with Secretary of State for Employment and Chairman of MSC extension of technical courses within the school system. Universities to be persuaded to accept resulting qualification as basis for entry.
2. Chairman of Manpower Services Commission to pursue with Secretary of State for Education and Science and Secretary of State for Employment arrangements for placing contracts for approved training courses with colleges of further education.
3. Noted that Secretary of State for Education and Science is preparing further proposals on polytechnics and universities.
4. Consideration to be given to scheme for encouraging Aims of Industry or some other organisation to approach people reaching the age of 18 in an attempt to increase their understanding of industry.
5. Further consideration to be given to the reforming of the Manpower Services Commission into a national training agency.
6. Further consideration to be given to organising increased contacts between schools and companies through local Conservative MPs.

7. Further consideration to be given to possible ways of increasing companies sponsorship of students on university courses.

14

Prime Minister

Ref. A083/2537

MR BUTLER

I would rather we could do our own exercise.

Do you agree to circulation of the attached minute?

Please check the No 10 office continue to run this exercise?
Circulate the minute or would you prefer that

I attach a checklist of conclusions and points for follow-up action emerging from the discussions in the employment seminar at Chequers on 6 and 7 September; together with a draft minute under cover of which I will (if the Prime Minister agrees) send the checklist to the Ministers who were present at the seminar.

FERB 9.9.

- 2. I will make separate submissions on those points which are noted as to be pursued either by the Prime Minister herself or by a Minister who was not present at the seminar.
- 3. There were two "machinery of government" matters raised, which I have excluded from the checklist:

- (a) Should departmental responsibility for enterprise trusts, COSIRA etc be transferred from the Department of the Environment to the Department of Trade and Industry?
- (b) Should departmental responsibility for the Land Registry be transferred from the Lord Chancellor's Department to the Department of the Environment?

I will follow up these matters separately, and report to the Prime Minister.

RA

ROBERT ARMSTRONG

7 September 1983

DRAFT


CHANCELLOR OF THE EXCHEQUER

with whom she
discussed matters
relating to industry
and employment at
Chequers last week

The Prime Minister has asked me to send you and other Ministers ~~who participated in the recent "employment seminar"~~ the attached checklist of conclusions and matters to be followed up.

2. Against each item for further action the Minister who is expected to take the lead is indicated in the margin. The Prime Minister would be grateful if Ministers would take this note as a request to initiate action as indicated, consult colleagues as required (consultation should not necessarily be limited to that specified in the margin of the list) and bring proposals to Cabinet or the appropriate Cabinet Committee in due course. Where the "lead" Minister indicated is someone who was not at the seminar, she will herself invite the Minister concerned to initiate action.

3. This note and the checklist are for the sight and use only of Ministers ~~who attended the seminar,~~ ^{and their principal private secretaries.} The Prime Minister has asked that no circulation should be given to the note or the list; that no



copies should be made of them; and that action should be initiated by means of separate oral or documentary instructions and not by means of the list itself. In putting action in hand, no indication should be given as to the provenance of the proposal to be pursued.

4. I am sending copies of this minute and the checklist to ~~the Prime Minister;~~ to the Secretaries of State for Education and Science, Energy, the Environment, Employment, and Trade and Industry; to the Chancellor of the Duchy of Lancaster; and to the Chairman of the Manpower Services Commission; and to Sir Robert Armstrong.

^C
M.S. Scholar

INDUSTRY AND EMPLOYMENT

Main conclusions and matters to be followed up

1. Strategy and main themes

- (a) Continue to reduce inflation and interest rates.
- (b) Reduce overall level of taxation; therefore essential to
- (c) Contain and if possible reduce public expenditure.
- (d) Switch emphasis from reducing unemployment to increasing jobs and extending enterprise.
- (e) Seek opportunities for growth wherever they may be found - in services as well as manufacturing industry.

2. Taxation policy

Ch Ex

- (a) Change basis of tax treatment of share option schemes (tax as capital gains on disposal).

Ch Ex

- (b) Reduce levels and increase spread of higher tax bands.

Ch Ex

- (c) Consider optimum basis for taxation of companies:

Compare effects of

- (i) abolishing NIS versus 40 per cent mainstream Corporation Tax
- (ii) present capital allowances system and present rates of Corporation Tax versus no capital allowances and lower rate of Corporation Tax

Ch Ex

- (d) Consider how to alleviate burden of revenue administration on enterprise; eliminate discrimination in tax system against self-employment.

3. Industrial policy

To be pursued
in PES exercise

(a) Reduce levels of Government support for nationalised industries and publicly owned companies.

Ch Ex, in
consultation
with MAFF

(b) Seek reductions of subsidies to agriculture via CAP and directly.

4. Trade policy

SSTI

(a) ~~Seek to~~ Reduce concentration on subsidised exports to countries which cannot pay.

SSTI

(b) Promote trade with countries that can pay.

SSTI

(c) Consider possibility of initiating (perhaps at Head of Government level) international action to reduce the subsidised proportion of world trade.

5. Regional policy

SSTI

(a) ^{Pursue review of} ~~Modify~~ regional policy ^{with the aim of making the following} ~~in following ways:~~ ^{modifications:-}

(i) eliminate discrimination against service industries;

(ii) make regional aids more job-related;

(iii) limit aid to replace ^{ment} investment;

(iv) limit ^{overall} scale of regional aid.

SSTI

(b) Seek to discourage regional "beggar-your-neighbour" activities.

SS Env, in
consultation
with SSTI

(c) Review urban programme as complement to regional policy.

6. Small firms policies

SSTI, in
consultation
with Ch Ex

(a) Review and reduce number and variety of schemes for encouraging small businesses.

SSTI, in
consultation
with Ch Ex

(b) Extend enterprise allowance beyond unemployed.

7. The burden of regulation

PM

Consider setting up a scrutiny (or unit) to review the burden of central and local government regulations affecting industry, and to suggest possibilities for alleviating it.

8. Planning controls

PM, in consultation with SS Env, SS Trspt

Review burden of planning controls (including transport planning controls).

9. Labour market

Ch Ex, in consultation with SS Emp
SS Emp

- (a) "Step by step" approach confirmed.
- (b) Prepare paper for NEDC on where jobs are coming from.
- (c) Consider further White Paper on Employment, for publication after Ch Ex's paper for NEDC and in light of discussion at NEDC.

10. Barriers to employment

SSSS

(a) Consider whether the entitlement to supplementary benefit should be qualified for those recently in receipt of redundancy payments.

SS Emp

(b) Abolish Wage Councils in 1985/86.

SS Emp, in consultation with MAFF

(c) Review case for abolishing or limiting scope of Agricultural Wages Board.

SS Emp

(d) Consider excluding employers of firms with up to 5 (?up to 10) employees from provisions of unfair dismissal legislation; extend to 2 years (?3 years) continuous employment the qualifying period for entitlement to protection under unfair dismissal legislation and also the qualifying period for protection against dismissal on grounds of pregnancy.

11. Action on wage levels

SS Emp, in
consultation
with MSC

(a) Agreed not to extend Young Workers' Scheme to cover adult full-time workers but consider extending it to 1 year beyond Youth Training Scheme (or up to 19th birthday?).

SS Emp, in
consultation
with SSES, MSC

(b) Agreed not to pursue for the present earnings-related limit on unemployment benefits; but consider further possibilities of changes which will avoid the need for under-18s to register as unemployed, and of limiting scale of benefits to under-18s who choose not to take advantage of opportunities for education, training or employment.

12. Employment and pensions

SSSS

(a) Agreed upon the need to reduce pension disincentives to mobility of labour. As between compulsory revalorisation of pension entitlements and portable pensions, a pre-disposition in favour of portable pensions. To be pursued in the light of the forthcoming meeting of the Secretary of State for Social Services with the "pensions industry".

SSSS, in
consultation
with Ch Ex

(b) Review State Earnings Related Pension Scheme (SERPS).

13. Housing policy

SS Env

(a) Pursue possibilities for progressive decontrol, particularly in respect of new lettings, of rents and of security of tenure in the private rental sector, particularly in areas of largest imbalance.

SS Env

(b) Pursue possibilities of increasing availability of land for housing, particularly in the south.

Ch Ex, in
consultation
with SS Env

(c) Pursue ~~consideration~~ of legislation to expand range of activities of building societies.

- Ch Ex (d) Consider the removal of private rented property from liability to capital gains tax.
- SS Emp (e) Consider possibility of improving effectiveness of Employment Transfer Scheme.
- Ch Ex (f) Consider level of stamp duty on house purchase.
- L Ch (g) Await paper on conveyancing monopoly.
- L Ch, in consultation with Ch Ex (h) Consider possibility of improving pace of land registration.

14. Opening up the public sector to market forces

- Ch Ex (a) Chancellor of the Exchequer to follow up his letter of 25 July.
- (b) Need for care in timing of bringing disposals to market.
- (c) The principle to be:
Competition where possible; maximum privatisation subject to regulation where competition is not possible.
- Ch Ex (d) Consider whether disposals must wait for profitability.

15. Education and training

- SSES (a) Consider how to encourage parents to take more active interest and role in children's education.
- SSES (b) Welcome proposals by local education authorities to re-establish grammar or technical schools.
- SSES (c) Pursue reform of teacher training schools and curriculum.
- SSES (d) Encourage links at all levels between industry and education system, to improve teachers' awareness of industry's needs.
- Ch Ex, in consultation with SSES (e) Encourage industrial sponsorship of students in universities and polytechnics.

including possibility of using Conservative MPs to organise participation of local industry and Am of Industry (or some other organisation) to make contact with all youngsters on their 13th birthday.



SSES, in consultation with Ch Ex and CDL

(f) Pursue possibilities for improving understanding, both in schools and in the country at large, of economic realities. Consider introduction of pilot schemes.

and training courses

(g) Training for 16-18s: the objective should be to ensure that, ^{apart from} ~~about~~ 15 per cent ^{or so} of this group ^{who} go into higher or further education or professional training; ~~the remainder should go into either 4-year vocational~~ ~~and training courses~~ ^{or into} ~~between 14 and 18 4-year courses including both~~ ~~general and technical skills; the rest go~~ through an evolving YTS.

SS Emp, in consultation with SSES and MSC

(h) Consider ^{and make recommendations on} role of MSC in pursuing this objective.

MSC, in consultation with SS Emp, SSES, Ch Ex

(j) Consider improvements ⁱⁿ ~~for~~ training of ^{employed} adults ~~via TOPS and in colleges of further education.~~ There should be more training for employed adults ~~(less concentration on the unemployed).~~

SSES, in consultation with MSC

(k) Promote parity of esteem for technical education (as compared with traditional educational qualifications): encourage universities to accept technical qualifications for entrance.

MSC, in consultation with SSEmp, SSES

(l) Build on arrangements for placing contracts for approved training courses with colleges of further education.

CHEQUERS SEMINAR ON EMPLOYMENT: 6 and 7 SEPTEMBER

A G E N D A

(Note: The questions listed below are intended as illustrative starting points for each discussion. They are not designed to limit the scope of the discussion in any way.)

* * * * *

1. INDUSTRIAL POLICY

- a. What taxation changes are needed to stimulate enterprise throughout the economy?

Paper 8 by the Chancellor of the Exchequer
(paragraphs 2 to 8)

Papers 18 (Section V) and 19 (paragraph 25)
by the Secretary of State for Trade and
Industry

Papers 15 (paragraphs 5 to 7) and
22 by the Chancellor of the Duchy of
Lancaster

- b. What can the Government do to assist the improvement of industrial performance, including better exploitation of new technology?

Paper 19 by the Secretary of State for Trade
and Industry

Paper 20 by the Secretary of State for Energy

(Papers 2 and 6 by the Chancellor of the
Exchequer are also relevant)

/ c.

- c. Can the resources currently devoted to regional policy be better deployed?

Paper 1 by the Chancellor of the Exchequer

(Paper 19 by the Secretary of State for Trade and Industry and

Paper 14 by the Chairman of the Manpower Services Commission are also relevant)

- d. What new policies, in addition to any general tax changes, are needed to encourage small firms and the self-employed?

Paper 8 by the Chancellor of the Exchequer (paragraphs 9 to 14)

Paper 18 by the Secretary of State for Trade and Industry (Section VIII)

Paper 17 by the Chancellor of the Duchy of Lancaster, together with

Paper 4 (paragraphs 9 to 16) by the Chancellor of the Exchequer

(Paper 14 by the Chairman of the Manpower Services Commission is also relevant)

- e. How can we further reduce the legislative and administrative burdens - including the constraints imposed by the planning system - on industry?

Paper 18 by the Secretary of State for Trade and Industry (Section VI)

2. THE LABOUR MARKET

- a. What changes should be made, in trade union law and otherwise, to reduce trade union power to obstruct change, reduce labour mobility and generally damage employment prospects?

Paper 9 by the Secretary of State for Employment

- b. What changes are needed to reduce barriers to employment arising from employment protection legislation and the remaining statutory pay determination mechanisms (e.g. Wages Councils)?

Paper 10 by the Secretary of State for Employment

- c. What scope is there for schemes designed to bring wages to market-clearing levels, e.g. by

(i) capping unemployment benefit

Paper 21 by the Chancellor of the Exchequer

or

(ii) extending the Young Workers' Scheme to cover adults?

Paper 2 (paragraph 2) by the Chancellor of the Exchequer

- d. Should we take further measures specifically to encourage youth employment?

Paper 16 by the Chancellor of the Duchy of Lancaster, together with Paper 4 (paragraphs 2 to 8) by the Chancellor of the Exchequer

- e. Should the Government seek changes in pensions schemes, for example wider pension portability, to encourage greater labour mobility?

Paper 5 by the Chancellor of the Exchequer

(Paper 15 by the Chancellor of the Duchy of Lancaster (paragraph 8) is also relevant)

/ f.

- f. What further changes in housing policy are needed to improve labour mobility?

Paper 13 by the Secretary of State for the Environment

Paper 7 by the Chancellor of the Exchequer

3. HOW CAN WE FURTHER OPEN UP THE PUBLIC SECTOR TO MARKET FORCES?

Paper 3 by the Chancellor of the Exchequer

(Paper 18, Section IV, by the Secretary of State for Trade and Industry and Paper 14 by the Chairman of the Manpower Services Commission are also relevant)

4. EDUCATION AND TRAINING

How can the efforts of schools, higher education, the MSC and industry be better deployed to give workers and managers the skills and enterprising approach they require?

Paper 12 by the Secretary of State for Education and Science

(Paper 15 by the Chancellor of the Duchy of Lancaster, Paper 11 by the Secretary of State for Employment and Paper 19, paragraph 23, by the Secretary of State for Trade and Industry are also relevant)

5. CONCLUSIONS AND FOLLOW-UP



FILE

135

RW

10 DOWNING STREET

2 September, 1983

From the Private Secretary

I attach, as promised, an agenda, approved by the Prime Minister, for the Chequers Employment Seminar on 6 and 7 September.

I would be grateful if you would guard its confidentiality in the usual way. I am writing similarly to the Principal Private Secretaries of the other participants at the Seminar.

M. G. SCHOLAR

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Identical letters sent to:-

- J. West, D/N
- Sir David Young, MSC
- A Galloway, CDL
- Mrs I Wilde, DES
- J. Ballard, D/E
- B. Shaw, D/M
- J. Spencer, DTI

J. Kew, HMI

MR HOWE
MR WALTERS

R. Hatfield, Esq.,

Cabinet Office

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PRIME MINISTER

CHEQUERS SEMINAR ON EMPLOYMENT: 6 & 7 SEPTEMBER

I attach the papers for next week's seminar. They are listed - all 22 of them - at Flag A. The agenda you approved this afternoon is at Flag B, together with Peter Gregson's handling brief (Flag C) and Ferdie Mount's comments (Flag D).

Those present will be:

Chancellor of the Exchequer
Secretaries of State for Education & Science
Energy
Environment
Employment
Trade & Industry

Chancellor of the Duchy of Lancaster
David Young
Sir R. Armstrong
Sir A. Walters
Ferdie Mount

Michael Alison

Should we start at, say, 1000 hours on Tuesday and go on until lunch; recommence after lunch and aim to finish between 1700 and 1800 hours? This would give people time to get home at a reasonable hour so that we can start again at 1000 on Wednesday. The Wednesday session might end after lunch (please see Peter Gregson's suggestions about how long the whole discussion might take), or again at 1700-1800 hours if we needed the whole day. Is this the kind of arrangement you have in mind?

Agree the attached seating plan for the lunches? *Yes not*

MCS

Michael Alison will also be attending.

2 September 1983

ms

DRAFT SEATING PLAN FOR LUNCHES AT CHEQUERS ON 6 AND 7 SEPTEMBER

Mr. Ferdie Mount

Mr. Robin Butler

Mr. David Young

Rt. Hon. Cecil Parkinson

Rt. Hon. Norman Tebbit

Rt. Hon. Sir Keith Joseph

Rt. Hon. Nigel Lawson

PRIME MINISTER

Rt. Hon. Patrick Jenkin

Rt. Hon. Peter Walker

Sir Alan Walters

Rt. Hon. Lord Cockfield

Sir Robert Armstrong

Mr. Michael Scholar

Michael Scholar

ENTRANCE



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU355

Secretary of State for Trade and Industry

| September 1983

CONFIDENTIAL

W Rickett Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Willie

As promised, I enclose my Secretary of State's two papers for the Prime Minister's meetings next week.

Yours sincerely,

Jonathan Spencer

JONATHAN SPENCER
Private Secretary

DEPARTMENT OF TRADE AND INDUSTRY
119 VICTORIA STREET
LONDON SW1E 5RT
TELEPHONE: 01-235 8500
FACSIMILE: 01-235 8501



CONFIDENTIAL

21 SEP 1983





10 DOWNING STREET

cc J Spencer DTI
B Shaw DM
J Ballard DOE
I Wilde DES (env marked
secret and personal
for the use of S/S or
his PPS only)
David Young, MSC
Alan Walters
Ferdie Mount
31 August 1983

J West DN
RTA

From the Private Secretary

I attach a further paper for the meeting at Chequers on 6 and 7 September. The cautionary words about confidentiality in my letter of 30 August apply equally to this paper.

I am sending a similar letter to the offices of all those attending the meeting.

WR

Alex Galloway Esq
Chancellor of the Duchy of Lancaster's Office.



137

Chancellor of the Duchy of Lancaster

PRIME MINISTER

I set down in the attached note some observations prompted by the papers which have now been circulated.

I have not circulated these to other colleagues, but I will do so if you think it appropriate.

A.C.

A C

31 August 1983

SECRET AND PERSONAL



cc P. Gregson
✓
13

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

30 August 1983

W F S Rickett Esq
10 Downing Street

Dear Willie,

STRATEGY FOR UNEMPLOYMENT

I sent to you on Friday a number of papers which we had prepared as background to the Chequers discussion on 6 and 7 September. I am now enclosing one further paper on Professor Minford's proposal to impose a cap on benefits for the unemployed. This was not on Michael Scholar's original list of topics but the Chancellor nevertheless thinks it very relevant to the discussion.

Yours sincerely,
Margaret O'Mara

MISS M O'MARA
Private Secretary

CAPPING BENEFITS TO THE UNEMPLOYED

Economic Aspects

The proposal to impose an earnings-related limit on benefits for the unemployed rests on the view that, because benefits under the present system are unrelated to income when in work, they set a floor level to wages throughout the economy. Hence wages cannot adjust downwards to market-clearing levels, and this is a major cause of unemployment.

2. If maximum benefits were set at some fraction of previous earnings, as they are in a number of other EC countries (including the Federal Republic of Germany), this would allow real wages to adjust downwards and therefore increase employment. Capping benefits is a way of preserving a margin between income in and out of work where it matters: ie where the existing system provides benefits so close to earnings in work that people may decide to be unemployed almost indefinitely.

3. Professor Minford believes that the response to benefit changes will be very high in this critical region. His estimate is that capping benefits at 70 per cent will reduce unemployment by 700,000 in 5 years and will by then save some £4 billion annually on the PSBR (about a third of this in benefit savings).

4. The calculation depends both on the number caught by the cap and on the size of response to the change in benefit. Minford estimates that 45 per cent of people have "replacement ratios" of 70 per cent or more ie they have total incomes out of work equal to or exceeding 70 per cent of their in-work income. These figures relate to the working population as a whole - not just the unemployed. Comparable calculations by the Institute of Fiscal Studies give lower figures. Estimates of the replacement ratios faced by the unemployed based on the DHSS cohort study suggest that perhaps 30 per cent may be affected. There are formidable complexities in the calculations and concepts, but it does look as though the 45 per cent figure is on the high side.

5. We calculate that direct benefit savings clawed back from the unemployed in excess of the 70 per cent level might amount to about £300m (which would accrue immediately). Minford's estimate of a benefit saving of £1.2 bn at the end of 5 years appears to be largely due to the estimated reduction of 700,000 in the numbers unemployed.

6. This estimate of the effect on numbers unemployed is, as Minford acknowledges, much higher than other research on the effect of benefit changes would suggest, and is almost certainly too high. (The relevant elasticities are some 10 times as large as those found in recent studies by Nickell and others.) But it is not in dispute that capping would help the downward adjustment of wages - indeed it could radically change perceptions of the 'why work?' syndrome.

7. One problem with the proposal is that it would reduce the incomes of family men with dependent children who have the highest replacement ratios. Many of these will be receiving S.B. top ups to maintain their income at officially recognised poverty levels. Capping their benefits would thus take them below the poverty line if they remained unemployed, and in some cases if they took a job at a lower wage than before. On the other hand the cap would not affect young unemployed who had never had a job, which is why Minford recommends a "workfare" scheme for them.

Structure of the scheme

8. The proposal is to take account not only of net earned income (which could be ascertained from pay records) but also benefits available to those in work. These include FIS, rent rebate, rate rebate, child benefit and FIS-passported benefits, eg school meals.

9. Because these benefits vary with individual circumstances, a precise calculation of them would be very complicated administratively (as was the old 'wage stop'). The scheme would therefore only be workable by constructing tables to reflect average levels of in-work benefits and tax. Because this would not precisely match an individual's circumstances there would be complaints about unfairness, and probably a need to provide for hardship cases and appeals procedures. There are

a number of points which would need further consideration, including the interaction of housing benefit (now administered by local authorities) with unemployment and supplementary benefit.

Administrative costs

10. It is extremely difficult to estimate costs. It would be necessary to check each of the 350,000 new claims made each month; and to recalculate each time a claimant's entitlement changed (eg because of a change in family circumstances) and probably annually, when the tax/benefit table would be recalculated in the light of changes in tax rates and thresholds and benefit upratings. A scheme might well require perhaps 500 or more additional staff. These staff would need to be taken on in advance of the operational date, in order to check the in-work income and benefit entitlement of all current claimants (unless some phasing were acceptable; but this would discriminate among claimants).

Conclusion

11. Officials concluded in 1980 that a workable scheme to cap benefits to the unemployed could be devised. Main legislation would be required. Some considerable work would also be needed in order to establish the details of the scheme. Only DHSS could advise on the present costs of the scheme. But subject to that, we see no reason to differ from the 1980 conclusion that such a scheme would be feasible.

HM Treasury
30 August 1983

THE GERMAN SCHEME

The scheme provides for the payment of an unemployment allowance for the first year of unemployment of 68 per cent of net earned income up to a maximum of DM60,000. This gives maximum benefit of around DM42,000 (around £10,000 a year or £200 a week) which broadly equates to average industrial earnings in Germany. There is currently a proposal to reduce the percentage for single people and childless married couples from 68 per cent to 63 per cent. Family allowances are payable in addition.

2. When unemployment allowance runs out, unemployment assistance is paid on a means-tested basis. It is also payable as a proportion of earned income, but at a lower level - 58 per cent. The cap is hence also lower - around DM35,000 (£8,600 a year). Again, family allowances are payable in addition.

3. In comparing the German system and the proposed cap in the UK, it is necessary to bear in mind the different role of child support. In Germany this is a far less significant proportion of out of work benefits - at maximum it adds around £24 a week for a three child family - and is paid at the same level whether in or out of work for the same level of income. In comparison in the UK child support plays a far more significant role for the unemployed. The basic benefits paid to the unemployed are around £25 a week for a single person and £40 for a married couple, while child support for a three child family on supplementary benefit may be as high as £40 a week, in comparison with around £20 paid as child benefit to the earner.

4. In the UK the highest replacement ratios are faced by families with 2 or more children; and this is a reflection of differential child support in and out of work. But to increase child benefit (paid universally) up to supplementary benefit scale rates would cost billions of pounds. The alternative is to reduce out of work child support, either by acting directly on the child scale rates or by an overall cap on benefits.

for Mrs (or)
with a set of papers
W



10 DOWNING STREET

COPY NO. 12
OF .. 12 COPIES

12A

From the Private Secretary

30 August, 1983

I attach the papers that have so far been prepared for the meeting at Chequers on 6 and 7 September.

I will let you have copies of the other papers as soon as they arrive.

I should stress the absolute confidentiality of these papers. They are for the personal use of those attending the meeting, and they should not be copied. They should only be shown to others if the Minister concerned feels their advice is essential, rather than just desirable. The purpose of these papers, and knowledge of the meeting, should be confined to those attending the meeting and their Principal Private Secretaries.

I am sending a similar letter to the Principal Private Secretaries of all those attending the meeting.

W. P. S. RICKETT

John Kerr, Esq.,
H.M. Treasury

Manpower
MCS
ATD

12



Prime Minister (2)

SECRET AND PERSONAL : CMO

Norman Tebbit

forwarded his three
Cheques papers to you under
cover of this minute.

PRIME MINISTER

STRATEGY FOR UNEMPLOYMENT

... 1 I attach herewith, for the discussion of labour market issues at your September meeting, notes on:

MCS 2/9

(a) further options to reduce trade union power (Annex A);

Paper 9

(b) reducing barriers to employment (Annex B).

Paper 10

... 2 I also attach, as background, a brief general note (Annex C) suggesting a way of structuring our thinking about the labour market.

~~MSC~~
~~ATD~~

Paper 11

3 For the long haul, policy on training must be of central importance. There is a lot of work in hand on this; in particular,

(i) David Young will be pulling together in the autumn responses to the MSC's discussion document on Adult Training, and considering with me the lines on which to move forward.

(ii) I have commissioned, as E(A) agreed, work on the options for future development of the Youth Training Scheme.

(iii) I am considering further, and will want to discuss initially with Keith Joseph, the possibilities for improving our organisation for training policy and its better co-ordination with education policy, particularly in the FE sector.

SECRET AND PERSONAL : CMO



SECRET AND PERSONAL : CMO

4 Also as E(A) agreed, I have commissioned, within my Department in the first instance, work on the way ahead for the Community Programme; this will include consideration of "workfare" schemes.

5 All this work cannot be ready for the early-September meeting. I have provisionally in mind the possibility of drawing the training aspects together in a major White Paper (perhaps with some Green elements) towards the end of November.

6 I am also maintaining the option of publishing in the autumn a more general account of the Government's approach to employment. You will recall that you agreed earlier in the year that this idea should be developed, though the Election then intervened and changed the timing considerations.

NT
N T

August 1983

SECRET AND PERSONAL : CMO

Your ref:

Our ref:

Date: 26th August, 1983

Michael Scholar, Esq.,
10 Downing Street,
London, S.W.1.



Selkirk House
166 High Holborn
London
WC1V 6PF

Telephone: 01-836 6126

Chairman: David Young

Dear Michael,

As arranged, I enclose my paper for the September meeting.

Kind regards,

Lawrence
Young

SECRET

PRIME MINISTER

Chequers Seminar on Unemployment

I attach the papers for the meetings on 6 and 7 September that we have received so far. We have yet to receive contributions from Lord Cockfield and Alan Walters. The papers by the Department of Trade and Industry are still only in draft, and have not yet been approved by Cecil Parkinson (I have told his office that they seem to me to have been far too long).

On Tuesday I will circulate the papers to those attending the seminar, unless you have any objection. I will of course add a cautionary note to the effect that these papers are for the personal use of those attending the meeting, and that they should only be shown to others if the Minister concerned feels their advice is absolutely necessary (rather than just desirable).

The papers attached are as follows:-

HM Treasury

1. ✓ Regional Economic Policy: Redeployment of Resources
2. ✓ Public Expenditure and Employment
3. ✓ Opening up the Public Sector to Market Forces
4. ✓ "Passport for a Job" and Help for Those Starting up in Self-employment
5. ✓ Portable Pensions
6. ✓ Employment in the United States
7. ✓ The Private Rented Sector
8. ✓ The Taxation System and Employment

Department of Employment

9. ✓ Further Options to reduce Trade Union Power
10. ✓ Reducing barriers to employment
11. ✓ A general note on the Labour Market

SECRET

/ Department

Please show the absolute confidentiality of this

Department of Education and Science

- ✓ 12. Giving Workers and Managers the Skills and Enterprising Approach they require

Department of the Environment

13. Housing and Labour Mobility

Manpower Services Commission

14. A Minister for Policy?

Department of Trade and Industry

15. Restrictions on Wealth Creation (yet to be approved by Mr. Parkinson)
16. Encouraging Growth (yet to be approved by Mr. Parkinson)

[Handwritten signature] *LM*

26 August, 1983.



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

26 August 1983

W F S Rickett Esq
10 Downing Street

Dear Willie,

STRATEGY FOR UNEMPLOYMENT

- I am enclosing papers on the six topics listed in Michael Scholar's letter to John Kerr of 5 July, as background to the Chequers discussion on 6 and 7 September.
- I am also enclosing two further papers which the Chancellor thought the Prime Minister might be interested to read. The first covers the private rented sector and the second discusses the increase in employment in the service-producing sector in the USA.

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

CONFIDENTIAL

WR/ 5



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

15 August 1983

Dear Michael

In John Ballard's absence I am replying to your letter to him of 5 July.

As requested in your letter, I attach a paper on housing and labour mobility. In order to meet your deadline, the substance and structure of the paper was agreed by my Secretary of State before he went on leave and the text itself has been approved by Mr Gow.

Yours sincerely

Roger Bright

ROGER BRIGHT
Private Secretary

Michael Scholar Esq



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400.....

Switchboard 01-213 3000

Willie Rickett Esq
Private Secretary
10 Downing Street
LONDON SW1

2 August 1983

Dear Willie

STRATEGY FOR UNEMPLOYMENT

... I attach my Secretary of State's papers for the September meeting, which Michael Scholar commissioned in his letter of 5 July to me. We have refrained from commenting in writing on Lord Cockfield's "Passport for a Job" proposal (his minute of 1 July), on which Michael asked us to write. You will see that there is comment on some of the ingredients of his proposal in our paper on "employee protection"; the other main ingredients of the proposal are in the Treasury's field, and I understand Michael has asked them to comment.

The papers are not copied to other Ministers, as you said you would distribute them to the participants nearer the time of the meeting.

Yours ever

Barbara Shaw

J B SHAW
Principal Private Secretary

Econ Pol
B...

10

FILE

da

SECRET AND PERSONAL



bc Gregson (cc)

10 DOWNING STREET

From the Private Secretary

19 July 1983

Chequers Discussion on 6/7 September

I enclose a further note by the Chancellor of the Duchy of Lancaster which the Prime Minister wishes to be considered in the papers you are preparing for September's Chequers meetings.

I am sending a copy of this letter to Alex Galloway only.

M. C. SCHOLAR

John Kerr, Esq.,
HM Treasury.

SECRET AND PERSONAL

Michael Scholar 11 July '83

Discussed with Stephen Sharbovi

he is going on leave on 23 August
and since the papers are unlikely
to be ready by then he agreed to
catch up with what had happened
when he returned from leave

Robin Ryder

1. I would, if possible, like

FRS

13.7.

to receive copies of the

papers submitted by Ministers

for the September Cheques

series.

2. The question of my
attendance there does not
have any air as I will
still be on holiday.

Steven.



Cleghans
meeting

9

10 DOWNING STREET

Secret & Personal

Mr Gregson

I attach a copy of the
letters I have sent out commissioning
work for Sept 6 + 7, + attachments.

I hope this will help you
ready yourself for the post Aug 26
task.

Michael Scholer

6/7/83



10 DOWNING STREET

From the Private Secretary

5 July 1983

Dear John,

STRATEGY FOR UNEMPLOYMENT

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in Government strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

The Prime Minister would be grateful if the Chancellor would provide papers for the discussion at Chequers under the following headings:

1. What changes should be made to the taxation system, to tax rates, thresholds, allowances and other aspects of tax legislation or administration to reduce costs for industry and to stimulate the creation and expansion of new enterprises and to reduce unemployment?
2. Can the resources currently devoted to regional policy be better deployed to encourage the growth of lasting jobs?
3. What further progress can be made in the lifetime of this Parliament in privatisation, contracting out, and, generally, the opening up of the public sector to market forces?
4. Could public expenditure policies be altered to bring more to the fore the improvement of employment prospects?
5. Can an affordable scheme for portable pensions be devised? As an input to a paper on the subject, I am sending you, under separate cover, a paper produced by the CPRS.
6. Passport for a Job (minute by the Chancellor of the Duchy of 1 July).

Mrs. Thatcher particularly hopes that each paper will avoid generality and will concentrate on the specific decisions which need to be taken.

I would be grateful if you would ensure that these papers are sent to the Prime Minister by Friday 26 August at the latest.

/ The

- 2 -

The Prime Minister has asked that these papers be produced by the Treasury's own resources, without any consultation outside the Treasury. She has also asked that the fact of the Chequers meetings be closely guarded, that this letter be seen by no-one except the Chancellor and yourself, and that in commissioning the above papers you do not disclose their occasion.

I enclose two notes by Alan Walters about recent academic work on unemployment, supplementary benefit and relative wages, to which reference was made at last week's Ministerial discussion; and a wide-ranging note which the Prime Minister believes will also form a useful background to the Chequers discussions.

Yours sincerely,

Michael Scholar

John Kerr, Esq.,
HM Treasury.



10 DOWNING STREET

From the Private Secretary

5 July 1983

Dear Imogen,

STRATEGY FOR UNEMPLOYMENT

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in the Government's strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

The Prime Minister would be grateful if the Secretary of State for Education and Science would provide a paper for the discussion at Chequers under the following heading:

"How can the efforts of schools, higher education, the MSC and industry be best deployed to give workers and managers the skills and enterprising approach they require? Should we, for example, shift support of first degree students from the mandatory grant system to employers' sponsorships? How can we best give teachers a better insight into the requirements for success in industry and commerce? What extensions are required to the present arrangements for technical education?"

Mrs. Thatcher particularly hopes that the paper will avoid generality and will concentrate on the specific decisions which need to be taken.

I would be grateful if you would ensure that this paper is sent to the Prime Minister by Friday 26 August at the latest.

The Prime Minister has asked that this paper be produced by your Secretary of State and any of his colleagues or officials whom he decides to involve on a need-to-know basis, consulting only the Secretary of State for Employment and any officials in his Department nominated by him. She has also asked that the fact of the Chequers meetings be closely guarded, that this letter be seen by no-one but your Secretary of State and yourself, and that in commissioning the above paper, you do not disclose its occasion.

I enclose two notes by Alan Walters about recent academic work on unemployment, supplementary benefit and relative wages, to which reference was made at last week's Ministerial discussion; and a wide-ranging note which the Prime Minister believes will also form a useful background to the Chequers discussions.

*Yours sincerely,
Michael Scholten*

Mrs. Imogen Wilde,
Department of Education and Science.



10 DOWNING STREET

From the Private Secretary

5 July 1983

Dear Jonathan,

STRATEGY FOR UNEMPLOYMENT

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in the Government's strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

The Prime Minister would be grateful if the Secretary of State for Trade and Industry would provide papers for the discussion at Chequers under the following headings:

1. What more can be done to eliminate or reduce restrictions on the wealth-creating part of the economy - e.g. building, planning and environmental regulations?
2. What can the Government do, without higher expenditure, to encourage growing industries rather than support declining ones, and in particular to help industry to adapt to, and to exploit, new technology?

Mrs. Thatcher particularly hopes that each paper will avoid generality and will concentrate on the specific decisions which need to be taken.

I would be grateful if you would ensure that these papers are sent to the Prime Minister by Friday 26 August at the latest.

The Prime Minister has asked that these papers be produced by your Secretary of State and any of his colleagues or officials whom he decides to involve on a need-to-know basis, without any consultation outside the Department. She has also asked that the fact of the Chequers meetings be closely guarded, that this letter be seen by no-one but your Secretary of State and yourself, and that in commissioning the above papers, you do not disclose their occasion.

I enclose two notes by Alan Walters about recent academic work on unemployment, supplementary benefit and relative wages, to which reference was made at last week's Ministerial discussion; and a wide-ranging note which the Prime Minister believes will also form a useful background to the Chequers discussions.

Yours sincerely,

Jonathan Spencer, Esq.,
Department of Trade & Industry.

Michael Scholar



10 DOWNING STREET

From the Private Secretary

5 July 1983

Dear Sir,

STRATEGY FOR UNEMPLOYMENT

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in the Government's strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

Mrs. Thatcher has asked, in letters addressed separately to each of the Ministers concerned, for papers for discussion at Chequers under the following headings:

Chancellor of the Exchequer

1. What changes should be made to the taxation system, to tax rates, thresholds, allowances and other aspects of tax legislation or administration to reduce costs for industry and to stimulate the creation and expansion of new enterprises and to reduce unemployment?
2. Can the resources currently devoted to regional policy be better deployed to encourage the growth of lasting jobs?
3. What further progress can be made in the lifetime of this Parliament in privatisation, contracting out, and, generally, the opening up of the public sector to market forces?
4. Could public expenditure policies be altered to bring more to the fore the improvement of employment prospects?
5. Can an affordable scheme for portable pensions be devised? As an input to a paper on the subject, I am sending you, under separate cover, a paper produced by the CPRS.
6. Passport for a Job (secret and personal minute to the Prime Minister of 1 July by the Chancellor of the Duchy).

Secretary of State for Trade and Industry

1. What more can be done to eliminate or reduce restrictions on the wealth-creating part of the economy - e.g. building, planning and environmental regulations?

/ 2.

- 2 -

2. What can the Government do, without higher expenditure, to encourage growing industries rather than support declining ones, and in particular to help industry to adapt to, and to exploit, new technology?

Secretary of State for Employment

1. How can we reduce more quickly barriers to employment, for example, Wages Councils, and some of the requirements of the Employment Protection Act?
2. What changes should be made, in trade union law and otherwise, to reduce trades unions power to obstruct changes, reduce labour mobility and generally to damage employment prospects?

Secretary of State for the Environment

What changes should be made in the Government's housing policies to assist labour mobility?

Secretary of State for Education and Science (in consultation only with the Department of Employment)

How can the efforts of schools, higher education, the MSC and industry be best deployed to give workers and managers the skills and enterprising approach they require? Should we, for example, shift support of first degree students from the mandatory grant system to employers' sponsorships? How can we best give teachers a better insight into the requirements for success in industry and commerce? What extensions are required to the present arrangements for technical education?

The Prime Minister would also be grateful for any papers which the Secretary of State for Energy might wish to offer on any of the above topics, or in any other areas in which he believes decisions are required to encourage enterprise, wealth creation and employment opportunities.

Mrs. Thatcher particularly hopes that each paper will avoid generalities and will concentrate on the specific decisions which need to be taken.

The Prime Minister would also be grateful if you would ensure that any papers which the Secretary of State for Energy may present are sent to the Prime Minister by Friday 26 August at the latest. Mrs. Thatcher has asked me to emphasise that she wishes the fact of the Chequers meetings, and of the papers prepared for those meetings, to be closely guarded, and that she hopes that the Secretary of State for Energy will prepare his papers on a personal basis without departmental or inter-departmental advice and consultation.

I enclose two notes by Alan Walters about recent academic work on unemployment, supplementary benefit and relative wages, to

/ which

- 3 -

which reference was made during last week's Ministerial discussion; and a wide-ranging note which the Prime Minister believes will form a useful background for the Chequers discussions.

Yours sincerely,

Michael Scholar

J.D. West, Esq.,
Department of Energy.



10 DOWNING STREET

From the Private Secretary

5 July 1983

Dear Barnaby,

STRATEGY FOR UNEMPLOYMENT

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in the Government's strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

The Prime Minister would be grateful if the Secretary of State for Employment would provide papers for the discussion at Chequers under the following headings:

1. How can we reduce more quickly barriers to employment, for example, Wages Councils, and some of the requirements of the Employment Protection Act?
2. What changes should be made, in trade union law and otherwise, to reduce trades union power to obstruct change, reduce labour mobility and generally to damage employment prospects?
3. Passport for a Job (minute by the Chancellor of the Duchy of 1 July).

The Prime Minister has also asked that your Secretary of State be consulted by the Secretary of State for Education and Science, who is producing another paper for this occasion.

Mrs. Thatcher particularly hopes that each paper will avoid generality and will concentrate on the specific decisions which need to be taken.

I would be grateful if you would ensure that these papers are sent to the Prime Minister by Friday 26 August at the latest.

The Prime Minister has asked that the three papers above be produced by your Secretary of State and any of his colleagues or officials whom he decides to involve on a need-to-know basis, without any consultation outside the Department. She has also asked that the fact of the Chequers meetings be closely guarded, that this letter be seen by no-one but your Secretary of State and yourself, and that in commissioning the above papers, you do not disclose their occasion.

I enclose two notes by Alan Walters about recent academic work on unemployment, supplementary benefit and relative wages, to which reference was made at last week's Ministerial discussion; and

- 2 -

and a wide-ranging note which the Prime Minister believes will also form a useful background to the Chequers discussions.

Yours sincerely,

Michael Scholar

J.B. Shaw, Esq.,
Department of Employment.



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10 DOWNING STREET

From the Private Secretary

5 July 1983

Dear Alex,

STRATEGY FOR UNEMPLOYMENT

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in the Government's strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

Mrs. Thatcher has asked, in letters addressed separately to each of the Ministers concerned, for papers for discussion at Chequers under the following headings:

Chancellor of the Exchequer

1. What changes should be made to the taxation system, to tax rates, thresholds, allowances and other aspects of tax legislation or administration to reduce costs for industry and to stimulate the creation and expansion of new enterprises and to reduce unemployment?
2. Can the resources currently devoted to regional policy be better deployed to encourage the growth of lasting jobs?
3. What further progress can be made in the lifetime of this Parliament in privatisation, contracting out, and, generally, the opening up of the public sector to market forces?
4. Could public expenditure policies be altered to bring more to the fore the improvement of employment prospects?
5. Can an affordable scheme for portable pensions be devised? As an input to a paper on the subject, I am sending you, under separate cover, a paper produced by the CPRS.
6. Passport for a Job (the Chancellor of the Duchy's minute of 1 July).

Secretary of State for Trade and Industry

1. What more can be done to eliminate or reduce restrictions on the wealth-creating part of the economy - e.g. building, planning and environmental regulations?

/ 2.

- 2 -

2. What can the Government do, without higher expenditure, to encourage growing industries rather than support declining ones, and in particular to help industry to adapt to, and to exploit, new technology?

Secretary of State for Employment

1. How can we reduce more quickly barriers to employment, for example, Wages Councils, and some of the requirements of the Employment Protection Act?
2. What changes should be made, in trade union law and otherwise, to reduce trades unions power to obstruct change, reduce labour mobility and generally to damage employment prospects?

Secretary of State for the Environment

What changes should be made in the Government's housing policies to assist labour mobility?

Secretary of State for Education and Science (in consultation only with the Department of Employment)

How can the efforts of schools, higher education, the MSC and industry be best deployed to give workers and managers the skills and enterprising approach they require? Should we, for example, shift support of first degree students from the mandatory grant system to employers' sponsorships? How can we best give teachers a better insight into the requirements for success in industry and commerce? What extensions are required to the present arrangements for technical education?

The Prime Minister would also be grateful for any papers which the Chancellor of the Duchy of Lancaster might wish to offer on any of the above topics, or in any other areas in which he believes decisions are required to encourage enterprise, wealth creation and employment opportunities.

Mrs. Thatcher particularly hopes that each paper will avoid generalities and will concentrate on the specific decisions which need to be taken.

The Prime Minister would also be grateful if you would ensure that any papers which the Chancellor of the Duchy may present are sent to the Prime Minister by Friday 26 August at the latest. Mrs. Thatcher has asked me to emphasise that she wishes the fact of the Chequers meetings, and of the papers prepared for those meetings, to be closely guarded, and that she would prefer the Chancellor of the Duchy to prepare his papers on a personal basis without departmental or inter-departmental advice and consultation.

I enclose two notes by Alan Walters about recent academic work on unemployment, supplementary benefit and relative wages, to

/ which

- 3 -

which reference was made during last week's Ministerial discussion; and a wide-ranging note which the Prime Minister believes will form a useful background to the Chequers discussions.

Yours sincerely,

Michael Scholar

Alex Galloway, Esq.,
Chancellor of the Duchy of Lancaster's Office,



10 DOWNING STREET

From the Private Secretary

5 July 1983

Dear David,

STRATEGY FOR UNEMPLOYMENT

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in the Government's strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

Mrs. Thatcher has asked, in letters addressed separately to each of the Ministers concerned, for papers for discussion at Chequers under the following headings:

Chancellor of the Exchequer

1. What changes should be made to the taxation system, to tax rates, thresholds, allowances and other aspects of tax legislation or administration to reduce costs for industry and to stimulate the creation and expansion of new enterprises and to reduce unemployment?
2. Can the resources currently devoted to regional policy be better deployed to encourage the growth of lasting jobs?
3. What further progress can be made in the lifetime of this Parliament in privatisation, contracting out, and, generally, the opening up of the public sector to market forces?
4. Could public expenditure policies be altered to bring more to the fore the improvement of employment prospects?
5. Can an affordable scheme for portable pensions be devised? As an input to a paper on the subject, I am sending you, under separate cover, a paper produced by the CPRS.
6. Passport for a Job (secret and personal minute to the Prime Minister by the Chancellor of the Duchy of 1 July, copy attached).

Secretary of State for Trade and Industry

1. What more can be done to eliminate or reduce restrictions on the wealth-creating part of the economy - e.g. building, planning and environmental regulations?

/ 2.

2. What can the Government do, without higher expenditure, to encourage growing industries rather than support declining ones, and in particular to help industry to adapt to, and to exploit, new technology?

Secretary of State for Employment

1. How can we reduce more quickly barriers to employment, for example, Wages Councils, and some of the requirements of the Employment Protection Act?
2. What changes should be made, in trade union law and otherwise, to reduce trades unions power to obstruct changes, reduce labour mobility and generally to damage employment prospects?

Secretary of State for the Environment

What changes should be made in the Government's housing policies to assist labour mobility?

Secretary of State for Education and Science (in consultation only with the Department of Employment)

How can the efforts of schools, higher education, the MSC and industry be best deployed to give workers and managers the skills and enterprising approach they require? Should we, for example, shift support of first degree students from the mandatory grant system to employers' sponsorships? How can we best give teachers a better insight into the requirements for success in industry and commerce? What extensions are required to the present arrangements for technical education?

The Prime Minister would also be grateful for any papers which you might wish to offer on any of the above topics, or in any other areas in which you believe decisions are required to encourage enterprise, wealth creation and employment prospects.

Mrs. Thatcher particularly hopes that each paper will avoid generalities and will concentrate on the specific decisions which need to be taken.

The Prime Minister would also be grateful if you would ensure that any papers you present are sent to her by Friday 26 August at the latest. Mrs. Thatcher has asked me to emphasise that she wishes the fact of the Chequers meetings, and of the papers prepared for those meetings, to be closely guarded, and that she would prefer you to prepare your papers on a personal basis without outside advice and consultation.

I enclose too, two notes by Alan Walters about recent academic work on unemployment, supplementary benefit and relative wages, as a background for the Chequers discussions. I should add that, at the

/ Prime

Prime Minister's request, I have circulated to those who will be attending the meetings, without disclosing its authorship, your wide-ranging paper which you recently put to the Prime Minister.

Yours ever,

Michael Scholar

David Young, Esq.



10 DOWNING STREET

From the Private Secretary

5 July 1983

Dear John,

STRATEGY FOR UNEMPLOYMENT

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in the Government's strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

The Prime Minister would be grateful if the Secretary of State for the Environment would provide a paper for the discussion at Chequers under the following heading:

"What changes should be made in the Government's housing policies to assist labour mobility?"

Mrs. Thatcher particularly hopes that the paper will avoid generality and will concentrate on the specific decisions which need to be taken.

I would be grateful if you would ensure that this paper is sent to the Prime Minister by Friday 26 August at the latest.

The Prime Minister has asked that this paper be produced by your Secretary of State and any of his colleagues or officials whom he decides to involve on a need-to-know basis, without any consultation outside the Department. She has also asked that the fact of the Chequers meetings be closely guarded, that this letter be seen by no-one but your Secretary of State and yourself, and that in commissioning the above paper, you do not disclose its occasion.

I enclose two notes by Alan Walters about recent academic work on unemployment, supplementary benefit and relative wages, as a background for the Chequers discussion; and a wide-ranging note which the Prime Minister believes will also form a useful background to the Chequers discussions.

Yours sincerely,

Michael Scholar

John Ballard, Esq.,
Department of the Environment.

SIR ALAN WALTERS

STRATEGY FOR UNEMPLOYMENT

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in the Government's strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

Mrs. Thatcher has asked, in letters addressed separately to each of the Ministers concerned, for papers for discussion at Chequers under the following headings:

Chancellor of the Exchequer

1. What changes should be made to the taxation system, to tax rates, thresholds, allowances and other aspects of tax legislation or administration to reduce costs for industry and to stimulate the creation and expansion of new enterprises and to reduce unemployment?
2. Can the resources currently devoted to regional policy be better deployed to encourage the growth of lasting jobs?
3. What further progress can be made in the lifetime of this Parliament in privatisation, contracting out, and, generally, the opening up of the public sector to market forces?
4. Could public expenditure policies be altered to bring more to the fore the improvement to employment prospects?
5. Can an affordable scheme for portable pensions be devised? As an input to a paper on the subject, I am sending you, under separate cover, a paper produced by the CPRS.
6. Passport for a Job (minute by the Chancellor of the Duchy dated 1 July).

Secretary of State for Trade and Industry

1. What more can be done to eliminate or reduce restrictions on the wealth-creating part of the economy - e.g. building, planning and environmental regulations?
2. What can the Government do, without higher expenditure, to encourage growing industries rather than support declining ones, and in particular to help industry to adapt to, and to exploit, new technology?

Secretary of State for Employment

1. How can we reduce more quickly barriers to employment, for example, Wages Councils, and some of the requirements of the Employment Protection Act?
2. What changes should be made, in trade union law and otherwise, to reduce trades unions power to obstruct changes, reduce labour mobility and generally to damage employment prospects?

/ Secretary

Secretary of State for the Environment

What changes should be made in the Government's housing policies to assist labour mobility?

Secretary of State for Education and Science

How can the efforts of schools, higher education, the MSC and industry be best deployed to give workers and managers the skills and enterprising approach they require? Should we, for example, shift support of first degree students from the mandatory grant system to employers' sponsorships? How can we best give teachers a better insight into the requirements for success in industry and commerce? What extensions are required to the present arrangements for technical education?

The Prime Minister would also be grateful for any papers which you might wish to offer on any of the above topics, or in any other areas in which you believe decisions are required to encourage enterprise, wealth creation and employment prospects.

Mrs. Thatcher particularly hopes that each paper will avoid generalities and will concentrate on the specific decisions which need to be taken.

The Prime Minister would also be grateful if you would ensure that any papers you present are sent to her by Friday 26 August at the latest. Mrs. Thatcher has asked me to emphasise that she wishes the fact of the Chequers meetings, and of the papers prepared for those meetings, to be closely guarded, and that she would prefer you to prepare your papers on a personal basis without outside advice and consultation.

I have also circulated, as the Prime Minister requested, to those who will attend the Chequers meetings, your two notes to me on recent work on unemployment, supplementary benefit and relative wages.

I enclose a wide-ranging note which the Prime Minister believes will form a useful background for the Chequers discussions.

Mus

5 July 1983

PRIME MINISTER

Thankyou - you
have done a
wonderful job
is sort of
this out,
not

①

EMPLOYMENT MEETING AT CHEQUERS

You wanted to write to those present at the meeting here on Wednesday, commissioning papers for the September Chequers discussions.

I attach a letter for your consideration. You will see that it suggests adding the Environment Secretary to the group. I know you want to keep it small, but I do not see how the group could properly discuss labour mobility, or the lifting of restrictions on business without him. Agree he be included?

Mr. Tebbit has sent the suggestions in the attached letter. (Flag A) You will see that on pensions portability, I have suggested that the Treasury start from the CPRS paper: do you agree that I should send them the CPRS paper for this purpose?

Agree I write as in the attached draft?

MCS

The Chapter on
Portability only.
not

① Letter to go out

under very severely restricted circulation
to Ministers only and for them to
decide on a need to know basis who
should know what. Most of these

papers were ~~to~~ commissioned without
any knowledge of the existence of the group

② Surely each dept. should only be told about
their papers & not about others.

1 July 1983

DRAFT LETTER FROM MICHAEL SCHOLAR TO THE PRIVATE SECRETARY TO THE
CHANCELLOR OF THE EXCHEQUER

COPIED TO: PRIVATE SECRETARIES TO: S/S EDUCATION & SCIENCE
S/S EMPLOYMENT
S/S TRADE & INDUSTRY
CHANCELLOR DUCHY/LANCASTER
S/S ENERGY

SIR ALAN WALTERS
MR. D. YOUNG

S/S ENVIRONMENT

* * * * *

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in the Government's strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

Mrs. Thatcher would be grateful if the Ministers who will be attending would provide papers for discussion at Chequers under the following headings:-

Chancellor of the Exchequer

1. What changes should be made to the taxation system, to tax rates, thresholds, allowances and other aspects of tax legislation or administration to reduce costs for industry and to stimulate the creation and expansion of new enterprises and to reduce unemployment?
2. Can the resources currently devoted to regional policy be better deployed to encourage the growth of lasting jobs?

3. What further progress can be made in the lifetime of this Parliament in privatisation, contracting out, and, generally, the opening up of the public sector to market forces?
4. Could public expenditure policies be altered to bring more to the fore the improvement of employment prospects?
5. Can an affordable scheme for portable pensions be devised? As an input to a paper on the subject, I am sending you, under separate cover, a paper produced by the CPRS ~~before the Election~~.

Secretary of State for Trade and Industry

1. What more can be done to eliminate or reduce restrictions on the wealth-creating part of the economy - e.g. building, planning and environmental regulations?
2. What can the Government do, without higher expenditure, to encourage growing industries rather than support declining ones, and in particular to help industry to adapt to, and to exploit, new technology?

Secretary of State for Employment

1. How can we reduce more quickly barriers to employment, for example, Wages Councils, and some of the requirements of the Employment Protection Act?

2. What changes should be made, in trade union law and otherwise, to reduce trades union power to obstruct change, reduce labour mobility and generally to damage employment prospects?

Secretary of State for the Environment

Mr. What changes should be made in the Government's housing policies to assist labour mobility?

Secretary of State for Education and Science (in consultation with the Secretary of State for Employment)

Mr. How can the efforts of schools, higher education, the MSC and industry be best deployed to give workers and managers the skills ^{and enterprising approach} they require? Should we, for example, shift support of first degree students from the mandatory grant system to employers' sponsorships?

How can we best give teachers a better insight into the requirements for success in industry commerce.
The Prime Minister would also be grateful for any papers which the Chancellor of the Duchy, the Energy Secretary, Sir Alan Walters or Mr. Young might wish to offer on any of the above topics, or in any other areas in which they believe decisions are required to encourage enterprise, wealth creation and employment opportunities.

→ What education are required to the present arrangements for technical education.

Mrs. Thatcher particularly hopes that each paper will avoid generalities and will concentrate on the specific decisions which need to be taken.

/ I would

I would be grateful if you and those to whom I am copying this letter would ensure that these papers are sent to the Prime Minister by Friday 26 August at the latest. The Prime Minister intends thereafter to have circulated an agenda and summary of the decisions required. I would be grateful, too, if you could ensure that, during the preparation of these papers within Departments, the existence of this group of Ministers and advisers, and the fact of the Chequers meetings, will be closely guarded.

1 July 1983

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Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400.....

Switchboard 01-213 3000

Michael Scholar Esq
 Private Secretary
 10 Downing Street
 LONDON SW1

(July 1983

Dear Michael

LABOUR MARKET SHORTCOMINGS

I believe you may be writing round soon to commission work following the Prime Minister's meeting on Wednesday. My Secretary of State is of course ready to respond in relation this Department's work, and to consider further topics which he might offer in addition to those which you will be commissioning.

In addition he asked me to suggest that it would be worth taking stock again of two aspects of labour mobility where the prime responsibility is not his own - housing availability and pension portability.

He wonders too whether the Chancellor and the Secretary of State for Education would be willing to consider how we might substantially shift support of first degree students from the mandatory grant system to employers' sponsorships.

Yours ever

Bruno Shaw

J B SHAW
 Principal Private Secretary

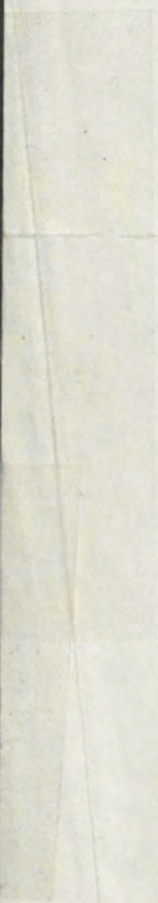
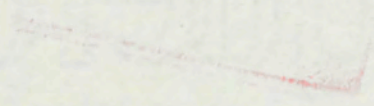
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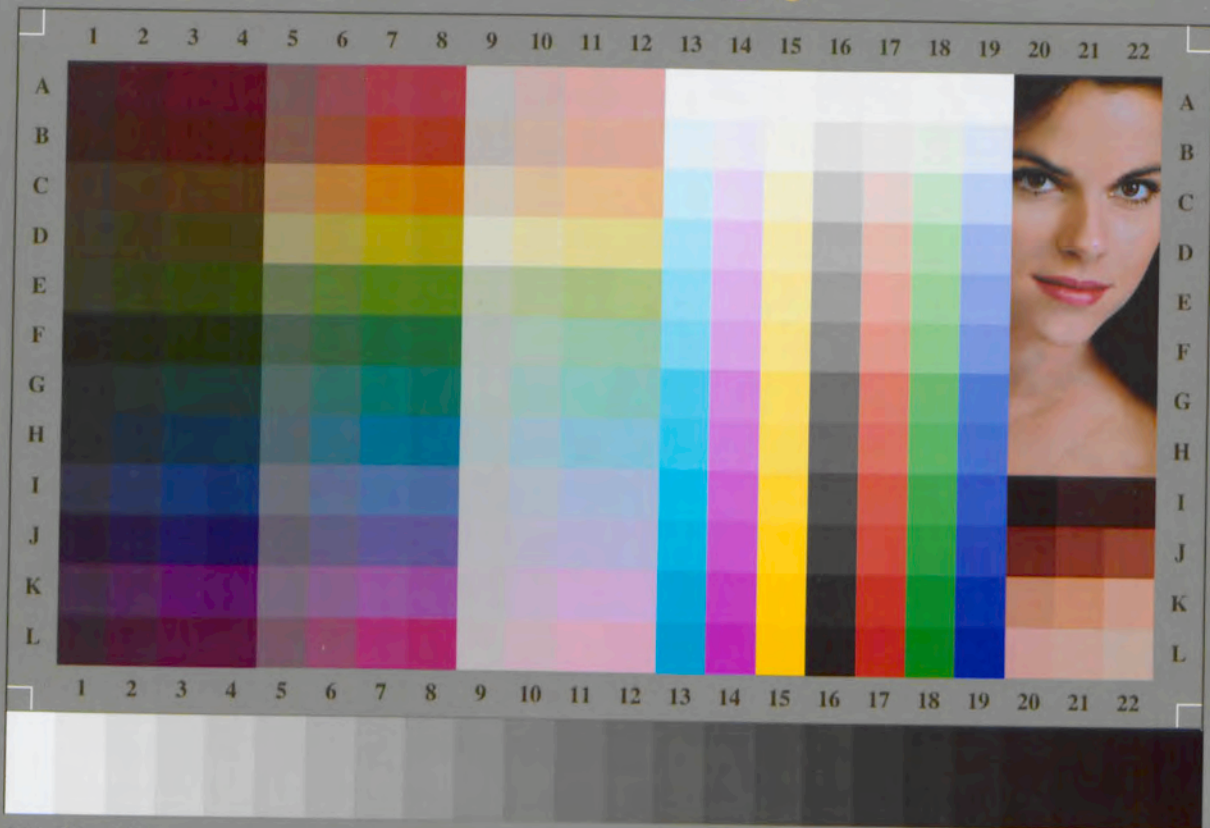


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Part 2 of 2

CHEQUERS SEMINAR ON EMPLOYMENT: 6 & 7 SEPTEMBER

I attach the papers for next week's seminar. They are listed - all 22 of them - at Flag A. The agenda you approved this afternoon is at Flag B, together with Peter Gregson's handling brief (Flag C) and Ferdie Mount's comments (Flag D).

Those present will be:

Chancellor of the Exchequer
Secretaries of State for Education & Science
Energy
Environment
Employment
Trade & Industry

Chancellor of the Duchy of Lancaster
David Young
Sir R. Armstrong
Sir A. Walters
Ferdie Mount

Should we start at, say, 1000 hours on Tuesday and go on until lunch; recommence after lunch and aim to finish between 1700 and 1800 hours? This would give people time to get home at a reasonable hour so that we can start again at 1000 on Wednesday. The Wednesday session might end after lunch (please see Peter Gregson's suggestions about how long the whole discussion might take), or again at 1700-1800 hours if we needed the whole day. Is this the kind of arrangement you have in mind?

Agree the attached seating plan for the lunches?

MCS

2 September 1983

Mr. Ferdie Mount

Mr. Robin Butler

Mr. David Young

Rt. Hon. Cecil Parkinson

Rt. Hon. Norman Tebbit

Rt. Hon. Sir Keith Joseph

Rt. Hon. Nigel Lawson

PRIME MINISTER

Rt. Hon. Patrick Jenkin

Rt. Hon. Peter Walker

Sir Alan Walters

Rt. Hon. Lord Cockfield

Sir Robert Armstrong

Mr. Michael Scholar

ENTRANCE

A

HM TREASURY

1. Regional Economic Policy: Redeployment of Resources
2. Public Expenditure and Employment
3. Opening up the Public Sector to Market Forces
4. "Passport for a Job" and Help for Those Starting up in Self-Employment
5. Portable Pensions
6. Employment in the United States
7. The Private Rented Sector
8. The Taxation System and Employment
21. Capping Benefits to the Unemployed

DEPARTMENT OF EMPLOYMENT

9. Further Options to reduce Trade Union Power
10. Reducing Barriers to Employment
11. A general note on the Labour Market

DEPARTMENT OF EDUCATION AND SCIENCE

12. Giving Workers and Managers the Skills and Enterprising Approach they require

DEPARTMENT OF THE ENVIRONMENT

13. Housing and Labour Mobility

MANPOWER SERVICES COMMISSION

14. A Minister for Policy?

CHANCELLOR OF THE DUCHY OF LANCASTER

15. Strategy for Unemployment -
16. A Passport for a Job -
17. A Scheme to help those starting up as Self-Employed -
22. The Nature of the Problem we face

DEPARTMENT OF TRADE AND INDUSTRY

18. Restrictions on Wealth Creation
19. Encouraging Growth

SECRETARY OF STATE FOR ENERGY

Paper No.20

B

CHEQUERS SEMINAR ON EMPLOYMENT: 6 and 7 SEPTEMBER

A G E N D A

(Note: The questions listed below are intended as illustrative starting points for each discussion. They are not designed to limit the scope of the discussion in any way.)

* * * * *

1. INDUSTRIAL POLICY

- a. What taxation changes are needed to stimulate enterprise throughout the economy?

Paper 8 by the Chancellor of the Exchequer
(paragraphs 2 to 8)

Papers 18 (Section V) and 19 (paragraph 25)
by the Secretary of State for Trade and
Industry

Papers 15 (paragraphs 5 to 7) and
22 by the Chancellor of the Duchy of
Lancaster

- b. What can the Government do to assist the improvement of industrial performance, including better exploitation of new technology?

Paper 19 by the Secretary of State for Trade
and Industry

Paper 20 by the Secretary of State for Energy

(Papers 2 and 6 by the Chancellor of the
Exchequer are also relevant)

/ c.

- c. Can the resources currently devoted to regional policy be better deployed?

Paper 1 by the Chancellor of the Exchequer

(Paper 19 by the Secretary of State for Trade and Industry and

Paper 14 by the Chairman of the Manpower Services Commission are also relevant)

- d. What new policies, in addition to any general tax changes, are needed to encourage small firms and the self-employed?

Paper 8 by the Chancellor of the Exchequer (paragraphs 9 to 14)

Paper 18 by the Secretary of State for Trade and Industry (Section VIII)

Paper 17 by the Chancellor of the Duchy of Lancaster, together with Paper 4 (paragraphs 9 to 16) by the Chancellor of the Exchequer

(Paper 14 by the Chairman of the Manpower Services Commission is also relevant)

- e. How can we further reduce the legislative and administrative burdens - including the constraints imposed by the planning system - on industry?

Paper 18 by the Secretary of State for Trade and Industry (Section VI)

2. THE LABOUR MARKET

- a. What changes should be made, in trade union law and otherwise, to reduce trade union power to obstruct change, reduce labour mobility and generally damage employment prospects?

Paper 9 by the Secretary of State for Employment

- b. What changes are needed to reduce barriers to employment arising from employment protection legislation and the remaining statutory pay determination mechanisms (e.g. Wages Councils)?

Paper 10 by the Secretary of State for Employment

- c. What scope is there for schemes designed to bring wages to market-clearing levels, e.g. by

(i) capping unemployment benefit

Paper 21 by the Chancellor of the Exchequer

or

(ii) extending the Young Workers' Scheme to cover adults?

Paper 2 (paragraph 2) by the Chancellor of the Exchequer

- d. Should we take further measures specifically to encourage youth employment?

Paper 16 by the Chancellor of the Duchy of Lancaster, together with
Paper 4 (paragraphs 2 to 8) by the Chancellor of the Exchequer

- e. Should the Government seek changes in pensions schemes, for example wider pension portability, to encourage greater labour mobility?

Paper 5 by the Chancellor of the Exchequer

(Paper 15 by the Chancellor of the Duchy of Lancaster (paragraph 8) is also relevant)

/ f.

- f. What further changes in housing policy are needed to improve labour mobility?

Paper 13 by the Secretary of State for the Environment

Paper 7 by the Chancellor of the Exchequer

3. HOW CAN WE FURTHER OPEN UP THE PUBLIC SECTOR TO MARKET FORCES?

Paper 3 by the Chancellor of the Exchequer

(Paper 18, Section IV, by the Secretary of State for Trade and Industry and Paper 14 by the Chairman of the Manpower Services Commission are also relevant)

4. EDUCATION AND TRAINING

How can the efforts of schools, higher education, the MSC and industry be better deployed to give workers and managers the skills and enterprising approach they require?

Paper 12 by the Secretary of State for Education and Science

(Paper 15 by the Chancellor of the Duchy of Lancaster, Paper 11 by the Secretary of State for Employment and Paper 19, paragraph 23, by the Secretary of State for Trade and Industry are also relevant)

5. CONCLUSIONS AND FOLLOW-UP

(iv) limit overall scale
of regional aid.

It is envisaged that these proposals could save £150m a year from 1986 onwards.

(b) Seek to discourage regional
better-your-neighbour
activities.

Mr. Tebbit trying to resolve with Territorial Ministers.

(c) Review Urban Programme as
complement to regional
policy.

Department of Environment is organising a two-year research effort to explore 'effectiveness' of urban programme.

Surely we could ask for a much earlier report (?June) since these projects are almost all supposed to be under constant DoE review.

6. Small Firms Policies

(a) Review and reduce number
and variety of schemes for
encouraging small busi-
nesses.


DTI Official Working Group to report in January. You'll probably need a further meeting to sort this out.

(b) Extend enterprise allowance
beyond unemployed - TK

DEm survey on effectiveness of scheme will be ready early next year.

do

C 18



SECRET

P.01086

PRIME MINISTER

Chequers Seminar on Unemployment

You have approved an agenda for circulation to those attending the Chequers seminar (~~copy attached~~). Since the volume of paper is already very large, this brief is confined to suggestions about handling the discussion and to drawing attention to the main issues for consideration under each agenda item and sub-item.

GENERAL POINTS ON HANDLING

2. Although no introductory item has been listed on the agenda you will probably wish to open the seminar with some general remarks about its purpose and the approach you wish the participants to adopt. Suggestions about the points you might want to stress are set out below in paragraph 4.

3. You will want to form some rough idea of the time which should be allocated to each of the main sections of the agenda. Section 1 (Industrial policy) and Section 2 (Labour market) will probably each take at least 2 to 3 hours because they cover a large number of specific issues. Section 3 (Opening up the public sector to market forces) should be dealt with quickly since there is only one short paper by the Chancellor of the Exchequer and the specific issues about privatisation, exposing the public utilities to more competition, and contracting out are to be considered later. Section 4 (Education and training) might take 1 to 2 hours. You will probably wish to allow up to half an hour at the end for Section 5 (Conclusions and follow-up). This suggests that it might be best to think in terms of dividing the seminar into three sessions of about equal length - one on Section 1, one on Section 2 and the other on Sections 3, 4 and 5.

SECRET

SECRET

OPENING REMARKS

4. You may wish to recall that the purpose of the seminar is primarily to consider what might be done to reduce unemployment within the lifetime of this Parliament, while not excluding measures which might have a favourable effect in the longer term. You may also wish to stress that the Government's approach to the problem of unemployment, in line with its Manifesto, is to work with rather than against market forces, ie (page 7 of the Manifesto) "by rebuilding the economy so that it produces the goods and services which people want to buy, at prices they can afford". Suggestions which involve trying to deal with unemployment by additional public expenditure, which increases the tax burden on the wealth-creating sector of the economy, or by more Government intervention must therefore be examined very critically.

5. Against this background you might therefore suggest that, as each specific proposal is considered, it should be tested (roughly - precision is not needed at this stage) against the following criteria:

- what size of effect might it be expected to have on unemployment over what timescale?
- what costs are involved (ie, not just expenditure and resource costs but political costs)?
- how far is the proposal consistent with the Government's general wish to work with rather than against the market?

ITEM 1: INDUSTRIAL POLICY

1a. Taxation affecting industry generally

6. This item is not intended to cover small firms and the self-employed which are to be dealt with under Item 1d. It covers the following main issues:

- i. the general strategic issue of how far reducing taxation should be an overriding priority of Government policy;
(see the Chancellor of the Duchy's papers 15 and 22)

SECRET



SECRET

ii. whether, and if so when, National Insurance Surcharge should be abolished;

(see para 2 of the Chancellor of the Exchequer's paper 8)

iii. whether capital allowances should be reduced, as discussed in paras 2 to 8 of the Chancellor of the Exchequer's paper 8, or extended to stimulate innovation as proposed in the Secretary of State for Trade and Industry's paper 18 (para 16);

iv. whether more should be done to stimulate share ownership as proposed by the Secretary of State for Trade and Industry in his Paper 19 (para 25).

7. Various Ministers may have other specific suggestions for changes in taxation for example the Secretary of State for Trade and Industry's wish to move towards a much simpler Corporation Tax levied at a lower rate or changing the system of assessment for Corporation Tax to a flow of funds basis. You will not wish the discussion to go into too much detail. It would be sufficient to draw out for the guidance of the Chancellor of the Exchequer the balance of views on the strategic issues at i., ii., iii. and iv. above, and in particular on the priority which should be given to reducing company and personal taxation.

1b. Government assistance to industry

8. This item is intended to cover the bulk of the material in the Secretary of State for Trade and Industry's Paper 19 on "Encouraging Growth", and in the Secretary of State for Energy's Paper 20. It covers the following main issues:

i. how to cut back the burden of the loss making industries in the public sector;

ii. how to improve performance in overseas markets;

iii. how to stimulate technological innovation and growth of employment in new areas of activity;

iv. how to encourage foreign investment in the UK;

v. whether, as the Secretary of State for Energy proposes, a new 10 per cent investment grant should be introduced on investment to be undertaken before 1st April 1986;

vi. whether, as the Secretary of State for Energy proposes, wage negotiations should be linked with capital investment in certain sectors.

9. In general the Secretary of State for Trade and Industry is not proposing any radical new departures of policy on the issues at i. to iv. above. Most of his paper is concerned with explaining what is already being done and where he discusses possible new initiatives these are usually on matters of relative detail and are developments of existing policies. In relation to i. to iv. the discussion will therefore be mainly about whether the balance of the DTI's existing policies are about right - eg whether the Government is moving quickly enough to reduce the burden of the loss making industries, whether the Government is doing enough to encourage exports and inward investment, whether Government intervention to stimulate technological innovation is justified and, if so, whether it is pitched at about the right level.

10. The Secretary of State for Energy's proposals at v. and vi. are more radical. Most of the other participants in the seminar are likely to find them difficult to reconcile with the general thrust of the Government's economic policies.

1c. Regional economic policy

11. The Chancellor of the Exchequer's Paper 1 draws out the main issues arising from the second report by officials which Ministers are to consider shortly in E(A), ie:

i. should Regional Development Grants (RDGs) be made more cost-effective (by excluding replacement investment and imposing a cost-per-job ceiling) and less discriminatory (by extending eligibility to some mobile service activities)?



SECRET

ii. how should the savings (of up to £200m) be used?

- to extend the coverage of assisted areas
(eg to include the West Midlands)
- to stimulate research and development and innovation in the regions
- to reduce taxation generally.

12. The meeting cannot reach any firm conclusions in advance of the E(A) discussion, at which the territorial Ministers, who have a major interest in this subject, will be present. But it would be useful for the participants in the seminar to comment on the proposals from the standpoint of unemployment strategy generally. Are the changes proposed sufficiently radical, bearing in mind the political constraints? What is the balance of views on the issues at i. and ii. above?

1d. Encouragement to small firms and the self-employed

13. This item covers the following specific issues:

i. whether improvements should be made to the Business Expansion Scheme on the lines discussed in paras 9 to 12 of the Chancellor of the Exchequer's Paper 8;

ii. whether there should be a share option relief limited to small companies on the lines discussed in paras 13 and 14 of the Chancellor of the Exchequer's Paper 8;

iii. whether tax barriers to the creation of small firm investment companies should be removed, as proposed in Section VIII of the Secretary of State for Trade and Industry's Paper 18;

iv. whether the small firm loan guarantee scheme should be extended as proposed in Section VIII of the Secretary of State for Trade and Industry's Paper 18;

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v. whether, as proposed by the Chancellor of the Duchy of Lancaster in his Paper 17 and discussed by the Chancellor of the Exchequer in paras 9 to 16 of his Paper 4, those starting up in self-employment should be exempted from income tax, VAT and national insurance contributions for a period of three years.

14. Before discussing the specific proposals, it may be useful to consider the strategic issue of how far the Government should go in encouraging the small firms and the self-employed. What scale of contribution to the problem of unemployment can realistically be expected from this sector within the lifetime of this Parliament? While there is a strong case for relieving small firms of bureaucratic burdens (such as VAT administration) which bear more heavily on them than on larger enterprises, how far is it justifiable to discriminate in favour of firms on grounds of size? May there not be a danger of creating new distortions of the kind the Government is generally concerned to avoid?

15. The discussion might then move on to the specific proposals at i. to v. with a view to identifying those which merit further detailed examination.

1e. Legislative and administrative burdens on industry

16. The main material for this item is in Section VI of the Secretary of State for Trade and Industry's Paper 18. Three specific issues are:

i. whether planning procedures are too onerous;

ii. whether building control and fire safety regulations place an undue burden on small firms;

iii. whether the £15 million assets criterion for the merger control provisions of the Fair Trading Act should be raised.

17. On i. the Secretary of State for the Environment has been asked to comment orally in the light of your talk with Sir John Sainsbury on 30 August. In particular is there a case for confining the planning process more closely to environmental issues with greater reliance on market disciplines on commercial issues such as whether a community should have a second supermarket?

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18. On ii. the Secretary of State for Trade and Industry does not think that there is a case for major changes in the building control system as it will operate after the Housing and Building Control Bill comes into force. On iii. the Secretary of State for Trade and Industry is himself the responsible Minister. Other Ministers would be unlikely to object to the change proposed provided that they are satisfied that the Government does not appear to be weakening in its resolve to maintain and promote competition.

ITEM 2: THE LABOUR MARKET

2a. Reducing trade union power

19. The main material for this item is the Secretary of State for Employment's Paper 9. The case for reducing trade union power goes wider than the issue of unemployment which is the focus for the seminar. The emphasis should therefore be on the possibilities for further reform which seem likely to reduce trade union ability to obstruct the free working of the labour market and thus damage employment prospects.

20. The specific issues discussed in Paper 9 are:

i. whether the steps already taken to deal with closed shops are adequate;

Proceeded agreements - essential services.

ii. whether action relating to the observance of agreements should be confined, as now envisaged, to consultations relating to the essential services;

iii. whether immunity for secondary action, already narrowly limited, should be removed altogether;

iv. whether employers should be able to lay-off without pay employees whose work is affected by industrial action;

v. whether an employer's freedom to dismiss should be further extended;

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vi. whether there should be further progressive erosion of immunity for industrial action on the lines now envisaged rather than a return to the pre-1906 position;

vii. whether legal remedies should be provided in respect of restrictive working practices. _____

21. The Secretary of State for Employment's general conclusion is that it would not be desirable to depart from the step by step approach on which the Government is already engaged. He draws attention to other ways of dealing with trade union power - decentralisation of bargaining arrangements in appropriate cases, more effective management, resistance by the Government to unreasonable union demands, and consideration, case by case, of the present institutional representation by trade unions in some public bodies.

22. You will want to avoid getting into too much detailed discussion of possible industrial relations legislation. The main objective will be to establish whether those present think that the Government's present strategy is broadly correct and to form some view of how far it might be reasonable to go within the lifetime of this Parliament.

2b. Burdens on employment arising from employment protections

23. In the Secretary of State for Employment's Paper 10 he proposes that:

i. the Wages Councils should be abolished in the 1985/86 Session;

ii. it would be possible to abolish the two Agricultural Wages Boards earlier, or at least exclude certain categories from their scope;

iii. guarantee-payments should be allowed to decline in real value;
no changes should be made at present in redundancy payment arrangements but the possibility should be kept in mind of adapting them to developments in training arrangements;

iv. all employees employing 5 or fewer employees should be excluded from the unfair dismissal provisions;

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v. the qualifying period for protection against unfair dismissal should be increased to 2 years' continuous employment in all other employment;

vi. the qualifying period for protection against dismissal on grounds of pregnancy should also be increased to 2 years.

He proposes no changes in the other employee protections described in an Appendix to the paper.

24. The purpose of the discussion will be to establish in broad terms whether the Secretary of State's proposals go far enough and are politically acceptable. In the light of that discussion he can then bring forward proposals for collective decision in the appropriate forum.

2c. Action related to wage levels


25. There are two main specific proposals:

wage - stop

i. whether, as discussed in the Chancellor of the Exchequer's Paper 21, an earnings-related limit should be placed on unemployment benefits;

ii. whether, as discussed in Paper 2 (para 2) by the Chancellor of the Exchequer, the Young Workers' Scheme might be extended to cover adult full-time workers on low wages.

26. The Chancellor of the Exchequer is sceptical about proposal ii. because of the high cost per person off the register. He regards proposal i. as feasible although he is doubtful whether the reduction in unemployment would be as high as the figure of 700,000 over five years suggested by Professor Minford. The capping of unemployment benefit would raise major political issues, particularly because of the likely effect on the incomes of family men with dependent children. The main purpose of the discussion on this item will be to establish the balance of views on these issues.


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2d. Measures to encourage youth employment

27. The main specific proposal under this item is that by the Chancellor of the Duchy of Lancaster in his Paper 16 ("A passport for a job") which is discussed by the Chancellor of the Exchequer in paras 2 to 8 of his Paper 4. The Chancellor of the Exchequer does not favour the proposal mainly on the grounds that it is undesirable to discriminate through the tax system in favour of the under 18s who have lower expenses than other taxpayers and that too many of the jobs created would be at the expense of people over 18.

28. Apart from the detailed issues arising from this particular proposal, there is a major strategic issue of how far the Government should go in trying to provide jobs for the young unemployed even at the expense of older workers. You will wish to establish the balance of views on this strategic issue and, in the light of that, on whether the Chancellor of the Duchy's proposal merits further detailed examination.

2e. Portable pensions

29. This is dealt with in Paper 5 by the Chancellor of the Exchequer. It was prompted by the CPRS Report which has not been generally circulated. ^{to all present} The Chancellor of the Exchequer agrees that present pension arrangements for early leavers inhibit mobility. He points out that the Secretary of State for Social Services is holding a conference with the pension industry on early leavers on 14 September. If he then judges that sufficient progress has not been made on a voluntary basis, he will want to propose legislation in 1984-85. One option would be compulsory revaluation of preserved rights. The compulsory provision of portable pensions would raise much more difficult issues.

30. You will wish the discussion to concentrate on the broad policy issues, bearing in mind the points made by the Chancellor of the Duchy in his Paper 15 about the burden of pensions provision. Action to improve mobility ought not to increase this burden still further. The difficulty is that any action to improve the position of early leavers must either be at the expense of long service employees or require more resources for pensions. Which approach does the Government favour? Should the Government intervene or leave the matter to be sorted out by the pensions industry together with employers and employees?



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More detailed consideration can await the proposals from the Secretary of State for Social Services following his discussions with the pensions industry.

2f. Housing policy

31. The main contribution is Paper 13 by the Secretary of State for the Environment. There are also comments on the private rented sector in the Chancellor of the Exchequer's Paper 7. The Secretary of State's main proposals are:

- i. in the private rented sector legislation to extend the "assured tenancy" scheme, which at present applies only to new dwellings, to some or all existing dwellings;
- ii. in the public rented sector reliance on existing recent measures to improve mobility;
- iii. within the owner-occupied sector, action on three fronts:
 - to keep down or reduce the costs of entry to home ownership (eg equity sharing and index-lined mortgages)
 - to reduce transfer costs (conveyancing, stamp duty etc) when a house is sold
 - to provide an adequate supply of building land through improving the planning system on lines now envisaged.

32. You will want the discussion to concentrate on the main strategic issues, ie whether it is right to adopt a gradualist approach to the relaxation of controls in the private rented sector, whether it would be undesirable to give much more weight to labour mobility within the public rented sector, and how far it would be desirable to reduce the costs of owner-occupation in the interests of promoting labour mobility and reducing unemployment.


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ITEM 3: OPENING THE PUBLIC SECTOR TO MARKET FORCES

33. In Paper 3 the Chancellor of the Exchequer draws attention to the proposals in his minute to the Cabinet of 25 July about privatisation in which he asked his colleagues for a timetable for privatisation of their industries by end September as a basis for bilateral discussions, with emphasis on the structure of enterprises so as to avoid substituting private monopolies for public monopolies. On contracting out he recalls the bilateral discussions which the Chief Secretary will be having with Ministers concerned with local authority services.

34. Since detailed action is already in hand you will not want a long discussion of this item. There are however some strategic issues relating to the privatisation of the so-called "natural monopolies". Is it right, as the Secretary of State for Trade and Industry argues in Section IV of his Paper 18, that the introduction of private capital is, of itself, likely to make such organisations more accountable? Is it feasible to envisage controlling the activities of such monopolies, when in the private sector, by regulatory agencies? Is the right course to break up such organisations by region so that the monopoly is local rather than national? The balance of views on these issues will provide a useful framework for the consideration of specific proposals later in the autumn.

ITEM 4: EDUCATION AND TRAINING

35. In his Paper 12, the Secretary of State for Education and Science makes proposals on the following lines:

- i. there should be a systematic effort to raise economic understanding, not confined to the world of education but directed at the community generally;
- ii. in addition to the large number of steps already being taken (summarised in paragraph 10 of his paper) to make education more responsive to economic needs options should be considered for reducing the dependence of universities and polytechnics on taxpayers' funds - for example by fostering business endowments and sponsorship of students.

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36. In his Paper 15 the Chancellor of the Duchy strongly endorses the need for public education, stressing above all the need to produce what consumers want and the need for personal responsibility. In paragraph 23 of his Paper 19 the Secretary of State for Trade and Industry draws attention to the low proportion of the UK workforce with vocational qualifications, compared with our overseas competitors and the skill shortages in key areas already constraining growth. He makes several detailed proposals designed to make educational institutions and students themselves more responsive to the needs of the economy. In his Paper 11 the Secretary of State for Employment proposes that increasing attention should be paid to adult training and re-training. The Chairman of the Manpower Services Commission in his paper "The First Fifteen Months" (circulated in July anonymously to the Ministers attending the seminar and deliberately not referred to on the agenda), favours a National Training Commission which would bring together the training activities of the Manpower Services Commission and the local authority colleges of further education, and also a national loan scheme for adult training.

appended
after Paper
22

37. You will probably wish to divide up the discussion under the following headings:

- i. changing public attitudes to economic issues;
- ii. making educational institutions more responsive to the market;
- iii. Mr Young's ideas for a National Training Commission and a National Training Loan Fund.

You will wish to identify which specific proposals merit further examination.

ITEM 5: CONCLUSIONS AND FOLLOW-UP

38. Under this final item it might be useful to look back over the discussion of earlier items and recall the main proposals which were identified as worth carrying forward. Do they represent, along with the Government's existing policies, a worthwhile strategy for dealing with unemployment over the lifetime of this Parliament? Would it be desirable to give more priority to action on some issues rather than others?



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39. As to follow-up, the best way of proceeding would probably be to invite the responsible Minister in each case to come back with detailed proposals on those matters where further work seems likely to be worthwhile. In some cases, for example regional policy which is due for discussion in E(A), and privatisation about which there are to be bilaterals, the next steps are already settled. In other cases the next step may be a discussion in a Ministerial Committee or Sub-Committee. In a few cases you may want an informal discussion with the responsible Minister and a few other Ministers mainly concerned. You may wish to review overall progress at some stage in the Ministerial Steering Committee on Economic Strategy (E(S)).

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P L GREGSON

2 September 1983

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2 September 1983
Policy Unit

PRIME MINISTER

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A STRATEGY FOR JOBS

We must first reaffirm the basic principles as Arthur Cockfield (paper 15) and Cecil Parkinson (paper 18, Sections I-II) have done.

You could open the discussion by stating as the overriding priority: Public Expenditure must be reduced. That is the only way to reduce public borrowing and hence to reduce interest rates and taxation, and hence to stimulate growth and revive employment. No ingenious novelties can evade this basic truth. Any proposal involving fresh government money must therefore be a shift in and not a net addition to public expenditure.

Our strategy for jobs may also include better training, more encouragement for new products and new firms, removals of barriers to employment and increased mobility of labour.

But none of these assets will generate the net overall improvement in employment we are seeking, unless the burden of the state is reduced. If a cautionary tale is needed, those who still believe that more borrowing is the right route to fuller employment should take note of the Netherlands: public borrowing up from four and three-quarter percent of GDP in 1979, to eight and a half per cent in 1982 - but unemployment up ^{to} seventeen and a half per cent today.

The prime challenges are accordingly:

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1. To reduce subsidies to uneconomic activities in the public sector (paper 2, paragraph 4). Coal, steel, shipbuilding, rail and other transport are now costing £3.7 billion a year. We ought to nominate a target of at least halving that figure over a 3 year period, ie £1,800 million by 1986.
2. To reduce the growth in defence costs. We shall not be able to carry out a pledge to renew the three per cent real growth target. Better to say so honestly now and plan on that assumption than erect unrealistic plans which we shall have to rat on in the late 1980s - with the usual hurried and ill-conceived cuts.

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3. To control public spending on health and social security. In a modern industrial society, these are both natural growth areas, (Cockfield paper 15, paragraphs 7 and 8). That growth cannot be effectively restrained over a long period. The only way is to widen the scope for private provision. Two nettles must be grasped: the state earnings-related pension, and tax relief for personal health insurance.

4. Tackling the national costs of agricultural subsidy as well as the CAP costs. This would involve taking clear long-term decisions about the size and shape of the farming industry we want, instead of drifting along with the NFU-driven assumption that "more is better".

In addition, there are other important areas where we ought now to be looking for savings and better use of public money - regional aid and special employment measures.

We recommend that the Chequers meeting should endorse explicitly the Government's renewed commitment to the reduction of public expenditure. Otherwise, there is a danger that the Government will be perceived to be setting off on a "new" tack and so weakening in its pre-Election resolve.

We must first stress continuity and the renewed vigour of our onslaught on public expenditure and the size of the state sector.

1. INDUSTRIAL POLICY

- (a) What taxation changes are needed to stimulate enterprise throughout the economy?

The abolition of NIS (£900 million in a full year) remains a strong candidate to remove the bias in the system against hiring people and in favour of installing machines. There is new pressure for this to be counterbalanced by a cut in capital allowances. We boast of the "most generous system in the world", but investment in Britain continues to lag. (Would we do even worse without capital allowances?) Some argue that ultimate profitability (and hence the rate of Corporation Tax) is a more important factor in investment decision. A phased reduction in both the scope and rate of capital allowance should be considered.

It is too early to judge the success of the Business Expansion Scheme. But we do urge a halt to the proliferation of schemes to help small business. It is more important to make sure that the ones we already have are easy to understand and gain access to.

There is a lot to be said for improving share option relief. But in general, surely we should aim simply to reduce tax rates wherever possible, and not narrow the tax base or add further complicated reliefs. As Arthur Cockfield says, it's the sheer burden which weighs us down, not so much the system - although there is plenty to criticise.

(b) What can the Government do to assist the improvement of industrial performance, including better exploitation of new technology?

As Cecil says (paper 19) we must not discriminate against services which are more likely to create new jobs. But we must not ignore the fact that many manufacturing businesses remain highly labour-intensive - engineering, software. Equally, in our enthusiasm for small firms, we must not overlook the potential for extra jobs in successful large firms. In other words, we want to remove the biases and distortions in the system, not introduce new ones. Above all, we want to reduce Government intervention, not introduce new and inevitably increasingly expensive forms of Government intervention.

Cecil suggests a whole string of new or widened fields for DTI activity: demerger/buyouts, marketing support, innovation, R&D, "catalytic action" in new industries like Cable. This is all highly dubious. How disastrous Government catalysis was in promoting mergers in 1960 and 1976. Are we any more likely to be right with demergers? The same goes for much of Peter Walker's paper. We are already spending very large sums of public money on "support for innovation", yet basic civil industrial research is declining alarmingly while we continue to overspend on defence research (paper 19, paragraphs 39-42).

We should not increase DTI expenditure on "helping" industry. The discipline of a phased reduction in the departmental budget will put pressure on the DTI to spend its money more wisely. And we must

shift expenditure from military to civilian research. Again, the simplest answer is to reduce the MOD's research expenditure, and a parallel reduction in the defence effort of private enterprise will follow as they realise there is going to be less money in the pot for defence.

(c) Can the resources currently devoted to regional policy be better deployed?

Yes. Spend less and spend it on job-related projects. We should adopt the Lawson/CPRS target of a net reduction of £200 million plus. The only way to reduce deadweight is to phase out automatic grants entirely and shift further towards selective aid with a cost-per-job limit. This will rule out more Sullom Voe-type projects and shift the emphasis towards small business and services - without prejudicing our potential £300 million from the European Regional Development Fund.

→ The main point is not to redraw the map of assisted areas yet again, but to make it clear that REP is sociopolitical, not economic. It will also be more popular if we make it explicit that it is a jobs programme.

| The Urban Programme, which is scarcely mentioned, is now almost as costly as REP. It must be more tightly scrutinised with the same cost-per-job limit.

(d) What new policies, in addition to any general tax changes, are needed to encourage small firms and the self-employed?

There is no shortage of schemes. The main point is to make them work and to overcome the scruples of the Revenue, as David Young has argued.

(e) How can we further reduce the legislative and administrative burdens - including the planning constraints - imposed by the planning system on industry?

The uproar caused by Patrick Jenkin's "Green Belt" circular shows the need for careful presentation and forethought, especially in dealing with our own supporters.

We need to show in advance that the land on which we propose to allow development really is derelict. We must also tackle the shibboleth of "prime agricultural land" by careful de-zoning. This will not be a quick or simple process. We might start with a two-pronged attack by:

- i. asking all counties to increase their targets for the amount of land available for housing; but
- ii. also asking all boroughs and public authorities to speed up the selling off of urban land for housing and the provision of access, drainage etc where necessary.

Only by doing both at the same time can we hope to satisfy the builders who say that the inner cities alone cannot meet the demand for building land of the right quality, and the environmental lobby which believes that no acre of countryside should be built on until the last urban site has been developed.

2. THE LABOUR MARKET

- (a) What changes should be made in trade union law and otherwise to reduce trade union power to obstruct changes, reduce labour mobility, and generally damage employment prospects?

Norman Tebbit's paper 9 gives an admirable summary of the state of play, and review of the options for further action. We continue to support the idea of a White Paper on Employment. His paragraph 17 summarises the other fields of action in which the power of trade unions to damage employment prospects may be reduced.

As always, we must continue to make it clear that the 1983/84 Act will not be a final resting-place, but merely one further stage on our progress towards restoring a fair balance between unions and employers in the interests of employment and prosperity for all who work in industry.

- (b) What changes are needed to reduce barriers to employment arising from barriers to employment protection legislation, minimum wage legislation, Wages Councils, etc?

Again, Norman's proposals seem admirable. In particular, there is no point in fiddling with Wages Councils before we can

denounce the ILO Convention in 1985/86. Abolishing the Agricultural Wages Councils may be more trouble than it is worth, but excluding young people from their scope.

We endorse the Tebbit judgments on how far guarantee and redundancy payments and unfair dismissal provisions should be altered.

- (c) What scope is there for schemes designed to bring wages to market-clearing levels, eg by (i) capping unemployment benefit; or (ii) extending the Young Workers' Scheme to cover adults?

We doubt whether the political costs of capping unemployment benefit for family men would be outweighed by the benefit, in terms of jobs. Unemployment has been rising fast in many of those countries which do cap unemployment benefit. Survey evidence generally supports the conclusion that the workshy are mostly young people, particularly those living at home, and these would not be affected by capping. The cap would mostly catch parents with two or more children who were genuinely seeking work.

None of these objections applies to reducing (or not indexing) unemployment benefit for young people living at home. This would be much less politically controversial and much more likely to increase the take-up of low-paid jobs.

The MSC does not see much evidence of low-paid jobs remaining unfilled, but that may be because many employers have given up advertising such vacancies on the grounds that they are unlikely to attract satisfactory recruits. We do not support extending the YWS to adults. It would only add considerably to public expenditure, and the amount of deadweight might be worse than it already is for young workers.

- (d) Should we take further measures specifically to encourage youth employment?

We share Nigel's objections to the Cockfield "Passport for a Job". It would further narrow the tax base. Deadweight and displacement would be considerable. There are similar objections to the Cockfield "Help for those starting up in Self-Employment". The Enterprise Allowance seems a better bet.

- (e) Should the Government seek changes in pensions schemes, for example wider pension portability, to encourage greater labour mobility?

Revaluation of preserved rights would be the only real answer. It would be enormously costly to employers who are already finding difficulty in meeting their pensions commitments. With the cost of employing people already so high, we cannot recommend adding to the burden for the sake of an uncertain gain in labour mobility.

POPs - individual, portable, money-purchase schemes - are highly desirable. We wholeheartedly recommend that the option of a 226 scheme should be available to all employees, as Nigel Vinson has suggested. It may well be that only a minority of people take this riskier route in preference to the safety of a final-salary guarantee. But they ought to have the chance.

Better still, they ought also to have the right to invest in a variety of types of schemes, including those which involve high-risk investment. So long as the state flat-rate scheme continues, why should a 45-year-old employee not be allowed to risk his preserved pension rights on buying a fish-and-ship shop? The existing structure of tax reliefs is a major factor in making Britain a low-risk, high-pension society.

- (f) What further changes in housing policy are needed to improve labour mobility?

Extending assured tenancies to newly improved and converted dwellings in the private sector would be a worthwhile step towards general decontrol.

In the council house sector, the mobility measures we have already taken may well need extending, as suggested.

For owner-occupied dwellings, the principal need is to encourage new building. The volume builders believe that the supply of land is the principal barrier. This is the only way of reducing house prices without adding to the huge variety of government subsidies already available.

Similarly, if we are to reduce the costs of moving house, breaking the solicitors' monopoly of conveyancing would cost the Government nothing; whereas a reduction in stamp duty, however desirable, is extremely costly and involves huge deadweight.

3. HOW CAN WE FURTHER OPEN UP THE PUBLIC SECTOR TO MARKET FORCES?

The Manifesto programme of privatisation is a heavy one. It cannot be left to the haggling process of E(DL) and L Committees. We must have a timetable, as suggested by Nigel Lawson and David Young. It should be drawn up by a small group of Ministers under your chairmanship. Its task will be much easier if:

- i. We use to the maximum the powers under existing legislation to sell off parts of nationalised industries. In some cases, virtually the entire activities of the business can be disposed of in this way.
- ii. We are not mesmerised by the idea of making the business profitable before selling it. After all, we believe that private owners will know how to make it profitable quicker than Government ever could. In particular, we should not pump in subsidy - eg to the industry's redundancy or pension funds - in order to achieve a sell-off price that looks good in the House of Commons.
- iii. When dealing with a natural monopoly, we break it up into regions before selling.
- iv. When dealing with an unnatural monopoly (created by Act of Parliament) we remove all legislative barriers to competition.

4. EDUCATION AND TRAINING

How can the efforts of schools, higher education, the MSC and industry be better deployed to give workers and managers the skills and enterprising approach they require?

The "economic facts of life" suggested by Keith is obviously intended as only one part of learning about the real world at school. It has unfortunately achieved a somewhat isolated prominence in public discussion. I think we ought to bring together - eg in a White Paper - all the elements in our programme for equipping children at school with some of the skills needed for dealing with adult life.

CONCLUSIONS AND FOLLOW-UP

We tentatively suggest that you might seek to extract some of the following conclusions from the meeting:

- A. Reaffirmation that the overriding means to prosperity and fuller employment must be to reduce public expenditure and the burden of the public sector.
- B. Agreement to pursue a programme to halve the total of subsidies to uneconomic public sector industries by 1986.
- C. Agreement to reduce the bias in the tax system against employment of labour. The abolition of NIS as soon as possible.
- D. Agreement to reduce regional subsidies by £200 million and to make REP explicitly a job subsidy with a cost-per-job limit available equally to manufacturing and service industries. Agreement to reduce capital allowances to make room for the abolition of NIS and reductions in Corporation Tax.

Agreement to reduce the DTI's assistance to industry, except in the case of purer research in new technologies.
- E. Agreement to pursue a programme to make more land available for housing, in urban areas and in areas of high demand.
- F. Agreement to continue the Government's programme of trade union reform as outlined by the Employment Secretary.
- G. Agreement to remove the barriers to employment as suggested by the Employment Secretary.
- H. Agreement not to cap unemployment benefits, but to investigate the possibility of a lower rate of benefit for young people living at home.
- I. Lord Cockfield's "Passport for a Job" and Self-Employment Scheme not to be pursued. The Young Workers' Scheme not to be extended to adults. But provided results are favourable, the Enterprise Allowance to be extended.

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- J. The Government to permit employees to contract out of company pension schemes into a variety of personal, portable savings schemes. No revaluation of preserved rights for early leavers, on grounds of cost to employers.

- K. Agreement to extend assured tenancies to newly-built accommodation to rent. Agreement to investigate all ways of lowering the cost of moving house, including the solicitors' monopoly of conveyancing in the light of the Benson Report.

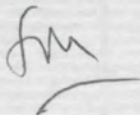
- L. Agreement to set up a privatisation timetable group, chaired by the Prime Minister. The group also to accelerate disposals under existing legislation, including disposals of activities which have not yet achieved profitability.

- M. Agreement to publish a White Paper on "Schools and Skills".

I have not suggested conclusions on Health or the State Earnings-Related Pension, as these might be dealt with at the forthcoming seminar.

Nor have I suggested conclusions on Defence or Agriculture, but I do not think they can be omitted, in view of the huge share of public research and development money they enjoy.

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PAPER 1

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by HM Treasury

REGIONAL ECONOMIC POLICY: RE-DEPLOYMENT OF RESOURCES

The White Paper provision for regional economic policy (REP) spending for 1983-84 is £674m; this includes £474m for regional development grants (RDGs), though the outturn may be nearer £450m (Table 1). RDGs are paid automatically on qualifying investment, essentially capital spending on new machinery and plant in manufacturing industry and the buildings in which the plant and machinery are housed. The rates of grant are 22 per cent in Special Development Areas and 15 per cent in Development Areas. Selective assistance may be paid on top of RDGs up to the EC limit (normally 30 per cent) and in principle it is available to other industries and the service sector, although in practice only to a limited extent. In the Intermediate Areas, only selective assistance is available. The regional map was last revised in 1974 when the proportion of the working population in the Assisted Areas (AAs) was reduced from 44 per cent to 27 per cent (Table 2).

The case for abolishing REP

2. AAs were first designated in 1934. Now, as then, unemployment is highest in areas hit by the decline of traditional heavy industries. It is estimated that since 1960 half a million jobs have been created directly and indirectly in the regions, and that over the 1970s investment in the AAs was 5 per cent higher than without REP. But this has largely represented a shift of jobs and investment from the non-assisted areas to the AAs. The first Report on REP concluded that the strength of the case for these policies in net national economic terms might be debatable, but that the social and political arguments were powerful.

3. Between 1971 and 1981 the Exchequer cost per job was around £34,000. However, the annual cost depends on how long the job lasts.

4. REP may improve the supply side of industry by encouraging new investment and innovation. But:

- This is a national rather than a regional objective.

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- REP distorts location decisions which in time may weaken competitiveness, as at Linwood and Halewood.

5. At periods of high unemployment, REP was claimed to reduce overall pressures on labour demand and wage rates by encouraging new jobs in areas of labour surplus. This argument clearly no longer applies as unemployment is now high over the country (Table 3).

6. Much of current REP goes on projects which would have taken place anyway and thus creates no extra jobs ("deadweight"). RDGs are paid on replacement investment and on highly capital intensive projects of limited mobility (Sullom Voe).

A more cost effective REP

7. Total abolition may well not be a practicable option for political and social reasons. Moreover, some element of REP is needed:

- To trigger assistance from the European Regional Development Fund (ERDF). The Fund could produce some £300m for the UK this year.
- To help the UK compete with other EC countries for inward investment projects. EC rules limit the use of financial assistance outside the AAs.

8. The second Regional Policy Report, which Ministers are to consider in September, recommends policy changes designed to make REP more cost-effective and related to jobs; the changes would also help to improve the prospects of money from the ERDF.

9. The main features would be to eliminate replacement investment and to impose a cost-per-job ceiling. This would help to deal with the deadweight problem, although it cannot be eliminated completely. A straight labour subsidy like the regional employment premium is not allowed by the EC rules but a job-related grant option is proposed. The report also proposes to extend the coverage of

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qualifying investment for RDGs to include a range of services, which can be assumed to be mobile rather than attached to a specific location, (ie technical and administrative services but not retail trade). These measures would also help to reduce the current bias towards capital-intensive projects.

10. The total expenditure will depend on grant levels and the AA map. There could be savings of up to £200m (Table 4), if the present map remains unchanged, although there will be pressure to include the West Midlands - at a cost of £50m or so. Some of the savings could be channelled into increased spending on R&D and innovation in the regions at a cost of, say, £60-£70 million, as the DTI propose. (The current national provision for these activities is £350m.)

11. But there is a strong case for using the savings on REP to help reduce taxation. In this way, the savings would contribute to the improvement in work incentives and to the reduction in the tax burden on companies, which we need to achieve to encourage the creation of new, lasting jobs in the private sector.

HM Treasury

26 August 1983

TABLE 1
EXPENDITURE ON REGIONAL ASSISTANCE : £m

| | 1978-79 | 1979-80 | 1980-81 | 1981-82 | 1982-83 | 1983-84 |
|-------------------------------|---------|---------|---------|---------|---------|---------|
| REGIONAL DEVELOPMENT GRANT | 406 | 312 | 474 | 598 | 600 | 474 |
| REGIONAL SELECTIVE ASSISTANCE | 80 | 70 | 67 | 75 | 87 | 90 |
| OTHER* | 84 | 99 | 140 | 169 | 132 | 110 |
| TOTAL | 570 | 481 | 681 | 842 | 819 | 674 |

* Mainly advance factory provision

UNEMPLOYMENT RATES BY REGION PLUS SCOTLAND AND WALES

| REGIONS | (JUNE) | (JUNE) |
|----------------------|------------------|------------------|
| | <u>1976</u> % | <u>1983</u> % |
| North | 7.4 | 16.8 |
| Wales | 6.7 | 15.4 |
| West Midlands | 5.2 | 15.4 |
| North West | 6.7 | 15.2 |
| Scotland | 6.2 | 14.5 |
| Yorkshire/Humberside | 5.3 | 13.6 |
| East Midlands | 4.5 | 11.3 |
| South West | 5.8 | 10.5 |
| East Anglia | 4.6 | 10.0 |
| South East | 3.8 | 9.0 |
| Great Britain | 5.2 | 12.3 |

All figures are claimant based and seasonally unadjusted.

TABLE 4

POSSIBLE SAVINGS ARISING FROM CHANGES TO RDG SCHEME

| Option | Capital grant rate | Cost-per-job ceiling | Job grant | Automatic grant | Estimated expenditure (£m) | | Savings (£m) |
|--------------------------|--------------------|----------------------|-----------|-----------------|---|---------|--------------|
| | | | | | additional expenditure on selective aid | Total | |
| CPRS proposal | 10% | £7000 | £3000 | 140 | 80-105 | 220-245 | 205-230 |
| A | 15% | £10,000 | £2,500 | 200 | 70-95 | 270-295 | 155-180 |
| B | 20% | £12,500 | £3000 | 260 | 60-85 | 320-345 | 105-130 |
| C | 25% | £12,500 | £3000 | 320 | 50-75 | 370-395 | 55-80 |
| D upper | 15% | £10,000 | £3000 | | | | |
| lower | 10% | £7000 | £2000 | 170 | 75-100 | 245-270 | 180-205 |
| E upper | 20% | £12,500 | £3000 | | | | |
| lower | 15% | £10,000 | £2500 | 230 | 65-90 | 295-320 | 130-155 |
| Present RDG scheme upper | 22% | - | - | | | | |
| lower | 15% | - | - | 450 | - | 450 | - |

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| OTHER* | 84 | 99 | 140 | 169 | 132 | 110 |
| TOTAL | 570 | 481 | 681 | 842 | 819 | 674 |

* Mainly advance factory provision

TABLE 2

PROPORTION OF WORKING POPULATION* WITHIN ASSISTED AREAS

| | May 1979 | | 1983 | |
|--------------------|-------------|-------------|-------------|-------------|
| | % | million | % | million |
| Within SDAS | 13.2 | 3.1 | 13.4 | 3.1 |
| Within DAS | 10.9 | 2.5 | 8.6 | 2.0 |
| Within IAS | <u>19.3</u> | <u>4.6</u> | <u>5.5</u> | <u>1.3</u> |
| Assisted Areas | 43.4 | 10.2 | 27.5 | 6.4 |
| Non-assisted Areas | <u>56.6</u> | <u>13.3</u> | <u>72.5</u> | <u>17.1</u> |
| TOTAL | 100.0 | 23.5 | 100.0 | 23.5 |

*based on working population as at 1977.

TABLE 3

UNEMPLOYMENT RATES BY REGION PLUS SCOTLAND AND WALES

| REGIONS | (JUNE) | (JUNE) |
|----------------------|------------------|------------------|
| | <u>1976</u> % | <u>1983</u> % |
| North | 7.4 | 16.8 |
| Wales | 6.7 | 15.4 |
| West Midlands | 5.2 | 15.4 |
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| Scotland | 6.2 | 14.5 |
| Yorkshire/Humberside | 5.3 | 13.6 |
| East Midlands | 4.5 | 11.3 |
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| lower | 15% | £10,000 | £2500 | 230 | 65-90 | 295-320 | 130-155 |
| Present RDG scheme upper | 22% | -- | - | | | | |
| lower | 15% | -- | - | 450 | - | 450 | - |



Treasury Chambers, Parliament Street, SW1P
01-233 3000

cc Chief Secretary
Financial Secretary
Economic Secretary
Mr Middleton
Mr Bailey
Mr Battishill
Mr Christie
Mr Rickard
Mr Ridley
Mr Chivers
Mr Anson
Mr Lovell
Miss Low

Rt Hon Cecil Parkinson MP
Secretary of State for Trade & Industry

[27] July 1983

The Prime Minister's decision to defer consideration of the second Report on Regional Policy until September gives us more time to develop our thoughts on these important issues. But this has implications for the proposal in your letter of 1 July to Willie Whitelaw that Clauses governing possible changes in the Regional Development Grants system should be prepared for incorporation in the Co-operative Development Agency Bill, which QL has recommended for inclusion in the 1983-84 legislative programme. Normally drafting of the necessary clauses would not be put in hand until the underlying policy has been decided.

2. You mentioned to me your concern that the postponement of the policy discussion might inadvertently result in closing the option of legislation in this Session which we might subsequently decide was desirable. As you pointed out in your letter, there are substantial public expenditure savings in prospect, and it would be a pity to deter these because of lack of legislative cover, assuming our colleagues agree on the Report's general recommendations for changing the grant system.

3. I think it is generally accepted that the current system is very cost-ineffective - we want no more Sullom Voes, for example - and the sooner we can move to a more cost-effective system and so fulfil our Manifesto commitment, the better. Nor should we lose sight of the possible benefits to be derived from the European Regional Development Fund by changing the RDG system in the direction proposed in the Report. I hope therefore that you will be able to secure agreement that, exceptionally, contingency drafting should be put in hand so as to keep the 1983-84 legislative option open.

4. I should also like to comment on some of the points made in John Sparrow's letter to me of 19 July. I have a great deal of sympathy with the general thrust of John's comments.



In my view, the economic benefits of regional economic policy are questionable as the first report on Regional Policy recognises. Indeed, from the point of view of the national economy, it is arguable that the policy may well be counter-productive.

5. This gives further strength to the social and political case for modifying the system to make it as effective as possible in generating employment, and for securing substantial savings which can be put to better use elsewhere. In your 1 July letter you suggested a possible potential saving of £100 - £150m. In my view, we should aim a little higher than this. I believe we should set our sights for net savings of at least £200m and I can see scope for achieving still more. However, these possibilities will depend on the outcome of our future discussions. Once the general principles of the revised grant system have been established, much will depend on the levels of grant as well as on the shape and size of the revised Assisted Area map. When we come to these issues, we ought to give serious consideration, along with the other options, to John Sparrow's suggestion for a package which would combine a job grant set as high as possible (within EC constraints) with a low capital grant and a low cost per-job ceiling. This would reduce the bias in the system towards capital-intensive investment, and would be better geared to the creation of jobs.

5. I am sending copies of this letter to the Prime Minister, the Lord President and the Lord Privy Seal, to the Secretaries of State for Scotland, Wales, Northern Ireland, Environment and Employment, and to Sir Robert Armstrong and John Sparrow.

A handwritten signature in black ink, appearing to read 'Nigel Lawson'.

NIGEL LAWSON

PUBLIC EXPENDITURE AND EMPLOYMENT

The Government already spends substantial sums (£1800m in 1983/84) on "special employment measures" designed mainly to promote increased employment and youth training. The various incentives and subsidies are subject to diminishing returns, and the effects of some are hard to quantify; but in general, decisions on the scale of each are taken on the basis of judgments on how far they are cost-effective in the light of Government objectives. Given the Manifesto commitment that "as long as unemployment remains high we shall maintain special measures of this kind", it seems inevitable that such measures will continue for some time to come. But to keep overall public expenditure under control, we shall need to go on looking very critically at individual bids in this as in other areas.

2. It can be argued that there is more scope for schemes designed to reduce wages to market-clearing levels. The Young Workers Scheme, introduced in 1982, already has the aim of encouraging employers to take on more young people at realistic wage rates (reflecting their lack of training and experience) by paying £15 a week to employers of young full-time workers with wages below £42 a week (£7.50 for wages between £42 and £47). The number of workers covered is at present about 100,000, at an estimated annual cost of £75m. It might be worth considering whether the scheme could be extended to cover adult full-time workers on low wages. But there would be increased problems in fixing an appropriate wage rate, in relation to Wages Council minimum rates and to social security benefits. There could also be difficulties in preventing collusion between employers and workers in small firms (ie ensuring that there were no separate cash payments above the limit eg for 'overtime'). And it would remain uncertain how much real effect ('additionality') the subsidy would have, particularly in traditionally low-wage service industries like catering; the Young Workers Scheme is thought to have a high deadweight cost and therefore a high net cost (£3000) per person off the register.

3. There are pressures to distort public expenditure priorities, in various directions, in the hope of promoting increased employment - for example, by

encouraging contractors to use labour-intensive methods, or by increasing numbers employed in the public sector. But all such schemes have the overriding drawbacks that they promote less efficient methods of working and ignore the offsetting job-destroying effects of increased taxation and government borrowing.

4. Therefore the contribution of public expenditure has to be less direct. At present, there are a number of cases where structural distortions in the economy, depressing the level of sustainable employment in the longer term, are deliberately supported by public spending:

- i. The support given to uneconomic activities in the public sector is the prime example. As the following table shows, very large sums are spent annually to maintain state-subsidised industries on a scale which could not be justified on commercial criteria unless costs and efficiency could be drastically improved to eliminate the subsidy element:

| | £m(1983/84) |
|-----------------|-------------|
| Coal | 1430 |
| Steel | 321 |
| Shipbuilding | 210 |
| Rail | 891 |
| Other transport | 853 |
| | <hr/> 3705 |

*Tubes
Pipes
Brit. Airways etc.*

- ii. In the private sector, market decisions as between capital-intensive and labour-intensive activities or methods of production are subject to a whole range of fiscal distortions. The £700m a year of regional assistance, mainly to promote capital expenditure by firms in the regions, is discussed in the paper on regional policy. There are also "tax expenditures" in the form of 100% capital allowances on plant and machinery for corporation tax. On the other side, labour is taxed by NIS. These tax aspects are discussed in the separate paper on taxation.
- iii. Similarly in agriculture, the operation of the market is heavily distorted by fiscal intervention both via UK public expenditure (at least £500m this year) and through the CAP.

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iv. The effect of social security expenditure on incentives is considered in other papers.

5. Much of the expenditure under i. and ii. is designed either to maintain employment in the short term (in the loss-making industries) or to distribute employment more equally (to the regions). But there is a trade off between short-term palliatives and sustainable long-term jobs. For the longer term, adopting an employment-oriented approach to public expenditure would mean pursuing consistently over a long period a policy of eliminating or reducing distortions of these kinds.

OPENING UP THE PUBLIC SECTOR TO MARKET FORCES

by HM Treasury

The key to improved efficiency in the activities currently in the public sector is to increase competition wherever possible. Privatisation and contracting-out are both means to this end.

Privatisation

2. There are two main approaches:

- a. wholesale privatisation of public-sector activities;
- b. exposure of such activities to increased competition.

3. Up to now, most attention has been focussed on selling profitable companies operating in competitive environments. But as these are disposed of, ways will need to be found of dealing with less profitable companies, and with the large utilities where at present there is little or no private-sector competition.

Competitive/unprofitable

4. Before privatisation, such companies will usually need to be in a position where they can show a reasonable prospect of profit. Options include bringing in more effective management, increasing efficiency and closing loss-making capacity.

5. Some companies have profitable parts which could be privatised earlier. Splitting up and selling off profitable parts is the right course, provided that economies of scale are not such that it would be significantly more difficult after a split to bring the loss-making parts back to profitability.

Non-competitive

6. Some of the utilities, though generally protected by their cost structure from competition ('natural monopoly', eg domestic distribution of electricity or gas),

have parts of their business where there is or could be private-sector competition. These need to be reorganised into separate companies and privatised.

7. In some cases (eg mail services, coal mining) the present monopoly is artificial, being created or reinforced by legislation. Wherever possible such artificial barriers should be removed (as has been done for electricity generation).

8. Even where there is a degree of natural monopoly, it may be possible to restructure the industry so that the scope for competition is increased - for example by tightly defining the residual 'common carrier' role in gas or electricity distribution to prevent discriminatory pricing. It then needs to be considered whether this non-competitive element would operate more efficiently if sold into private ownership and subjected to a licensing/regulatory regime.

9. Another option is to arrange for licensing of franchises to provide a specified service, perhaps in a limited geographical area - so that although competition within that area is technically impossible, different firms can still compete for the right to provide the service for a limited period.

10. For some services, social objectives are important (eg rural rail and postal services). Uncontrolled cross-subsidisation by the monopoly provider is likely to lead to wasteful overprovision. A restructured service, with an explicit, cash-limited subsidy, is likely to be more efficient; and franchising might in some cases provide an element of competition.

Progress in this Parliament

11. The Chancellor's minute of 25 July to the Prime Minister emphasised that more attention must be given to the structure of the enterprises which are in the privatisation programme, and that the privatisation programme must be considered as a whole to avoid potential legislative and capital market bottlenecks. The Economic Secretary will be conducting a series of bilaterals after the recess with sponsor Ministers and will then be reporting on the programme as a whole.

12. The timing and content of the programme of asset sales in this Parliament cannot therefore be decided yet. Some of the uncertainties should be clarified by the Economic Secretary's review in the autumn. Any figures for sale proceeds must be highly speculative at this stage, and in some cases must await decisions on the form of privatisation to be adopted. The present presumption is that the overall receipts are likely to be of the following order:

| <u>1982-83</u> | <u>1983-84</u> | <u>1984-85</u> | <u>1985-86</u> | <u>1986-87</u> |
|----------------|----------------|----------------|----------------|----------------|
| £488m | £1,250m | £1,500m | £2,000m | £2,000m |

These totals are heavily influenced by the proposed sale of British Telecom, whose magnitude and timing remain uncertain.

Contracting Out

13. Where services remain in the public sector, there is still scope for increasing competition by allowing private-sector firms to tender for contracts to provide all or part of the work. This brings market forces into play both directly, by giving competitive opportunities to the managements and workers of private firms, and indirectly, by stimulating in-house staff to perform more competitively.

14. In central government, Ministers and departments have made modest but useful progress (saving nearly 15,000 staff) and further opportunities are being examined. Firm central control of cash and manpower numbers can increase the pressure to take these opportunities where they are cost-effective.

15. In the National Health Service, though some work is contracted out, there is undoubtedly considerable scope for further progress (eg only £17m out of the £400m total spent on domestic services is contracted out). The Secretary of State for Social Services is about to send out a circular requiring health authorities to seek tenders for cleaning, catering and laundry services, and urging them to seek opportunities for contracting out other services.

16. Local authority direct labour organisations are being required to compete for an increasing proportion of their work, and as a result numbers have already fallen by some 17,000. Progress in other areas of local authority activity has, however, been slower. 16 local authorities have decided to contract out refuse collection and street cleaning; to require this more widely would need fresh legislation.

17. Cabinet considered the scope for further progress on contracting out on 21 July, and invited the Chief Secretary to pursue this in discussions with Ministers concerned with local authority services.



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

PRIME MINISTER

A circular stamp containing handwritten initials, possibly 'PM'.

cc PS/CST
PS/EST
PS/MST
Mr Middleton
Mr Bailey
Mr Byatt
Sir T Burns

Mr Anson
Mr Cassell
Mr Christie
Mr R H Wilson
Mr Morgan - o.r.
Mr Turnbull
Mr Grimstone
Mr Burgner

COMPETITION AND PRIVATISATION

Privatisation, combined with increased competition, is one of the main planks of our economic policy. It is designed to improve our national economic performance by increasing the role of market forces and by reducing the size of the public sector. We made a good start during the last period of Government. But experience shows that much preparation and discussion are needed to prepare State industries and trading bodies for sale to the private sector. And after 3-4 years, an approaching General Election casts a forward shadow that makes further sales difficult. So we need to use the time we have available as fully and constructively as possible.

2. The programme we have put forward is a full one. The Manifesto speaks of selling 51 per cent of shares in British Telecom, Rolls-Royce, British Airways and substantial parts of British Steel, British Shipbuilding and British Leyland; privatising as many as possible of Britain's airports; introducing substantial private capital into National Bus; the transfer to the private sector of the British Gas Corporation's offshore oil interests; and increasing competition and attracting private capital into the gas and electricity industries. The Queen's Speech added the Royal Ordnance Factories. And there are other candidates also, as the papers circulated to E(DL) shortly before the Election showed.

3. Two aspects of the programme will become much more prominent in the next phase of our drive for privatisation.

4. First, the need to promote competition to the maximum extent means that we must give much more attention to the structure of the bodies which are on the privatisation programme. Hitherto the companies we have sold have mainly been profitable and operating in competitive environments. Preparing them for privatisation, although time-consuming in terms of legislation and preparations for flotation, has involved relatively little change to their structure. But from



now on we are increasingly working in the heartland of the public trading sector, where we shall have to deal both with the giant utilities and unprofitable companies. Questions of whether and how to separate the profitable parts from the unprofitable; how to separate the potentially competitive parts from the natural monopolies; and how to deal with the irreducible elements of monopoly will increasingly dominate the debate. We shall increasingly have to devote time and effort to these issues - well in advance of the mechanics of privatisation itself - if we are to reap the maximum benefit from a transfer to the private sector.

5. I recognise that in some cases the costs - in terms of the delay and upheaval involved in restructuring - of pursuing the best solution may be excessive, running the risk of putting off privatisation into the remote future. This is a price which in political terms we may not be prepared to pay. In particular cases it may be better to go for a quicker solution. For British Telecom we are following a route which combines rapid liberalisation with privatisation (accompanied by a degree of regulation). We shall want to see how this works out in practice when considering our approach to other monopoly utilities.

6. Early consideration is therefore essential. It must be done case-by-case. Most of the detailed work on individual industries can only be carried out in the sponsor Departments using their knowledge of these industries, although Treasury officials will need to be closely involved. I am attaching a paper by Treasury officials which sets out some thinking about questions of competition and structure and illustrates how this could be applied in certain of the larger public sector industries, not all of which currently figure in the privatisation programme. Treasury officials will be glad to discuss these matters further with the individual sponsor Departments concerned.

7. Second, and following from this, there is now a much greater need to consider the privatisation programme as a whole. This is essential if we are to avoid potential bottlenecks in bringing a range of industries and companies to market. Bottlenecks can arise in the legislative programme, as we have seen in the plans for 1983-84 where there have been difficulties about the inclusion of



legislation relevant to privatising National Bus and British Airways. They can also arise in the capital market, where the sheer size of the bodies to be privatised can create difficulties both for other Government sales or for the private sector. This problem is raised in an early and acute form by the proposed sale of British Telecom.

8. Both these aspects point to a need to strengthen our existing procedures. We shall certainly want to have periodic reviews of progress. But we need to do this on a more systematic basis than hitherto. We need to produce for each major privatisation candidate a programme and a time-table which will map out the various issues needing to be resolved, e.g. what structural changes (if any) are to be considered; how and when this is to be done; the approximate time-scale for making such changes; the target date for privatisation; and the likely scale of the equity to be sold. I recognise that there will be uncertainties at the outset particularly about some of the later stages along the route. But in this way we can best ensure that while maintaining a worthwhile programme of asset sales we put the emphasis on maximising competition, and at the same time avoid as far as possible any potential bottlenecks in implementing the agreed programme.

9. I am therefore asking all colleagues with privatisation responsibilities to let me have by end-September a time-table of this kind for each of their candidates. John Moore, who has been given particular responsibility for privatisation within the Treasury, will then discuss these replies with sponsor Ministers in each case and subsequently report on the programme as a whole.

10. I am copying this minute to all our Cabinet colleagues and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'N.L.'.

(N.L.)

25 July 1983

4

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PAPER 4

4.
by HM Treasury

"PASSPORT FOR A JOB" AND HELP FOR THOSE STARTING UP
IN SELF-EMPLOYMENT

This note discusses two schemes. The first is designed to ease the problem of youth unemployment; the second, to help those who wish to set up in business on their own.

"Passport for a job"

2. This scheme would apply to those under 18, earning no more than £45 a week. A worker falling within this category would be issued with a "passport" which he would lodge with his employer. The employer would hold the document as his authority to employ the worker, without deducting income tax or national insurance contributions and would be exempt from employee protection requirements in his respect. The date of expiry would be printed prominently on the "passport" and if the employer wished to retain the worker's services thereafter, he would be obliged to put him back into the system.

3. The essence of the proposal appears to be that under-18s would be willing to accept jobs at lower levels of pay and employers would be more willing to take them on, if they could be relieved of some of the administrative burden and, in relation to national insurance, perhaps some of the cost too. (It is worth noting in passing that employee protection already only applies to workers under the age of 18 in a very limited way. The redundancy and most of the major maternity provisions do not apply to them at all. The unfair dismissal provision requires a qualifying period of one year's employment and it has been proposed that this should be raised to two years - it is already two years in small firms.)

4. The arrangements for the scheme as outlined above raise a number of technical difficulties:-

- (i) if under-18s were exempted from employees' NIC, their employers could be exempted from payment of employers' NIC and NIS. NIC exemptions would, however, give rise

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to special difficulty since the contributions buy entitlement to benefits. It would be possible to exclude the employees from this entitlement. But it would not be easy and would provoke requests for similar treatment from others who would be willing to give up benefit entitlement if they were exempt from NIC.

- (ii) If income tax and NIC became payable in full as soon as the £45 limit was passed, a very high marginal rate would be created at that point.
- (iii) It is not clear whether self-employment would be covered.
- (iv) The scheme might actually make PAYE compliance more complicated for employers if they had to give special treatment to part of their workforce.

However, none of these problems is likely to be insuperable.

5. There are also more powerful arguments against the proposal. The first is one of equity. It is by no means clear that under-18s should receive specially favourable treatment, particularly through discrimination in the tax system, which is usually expected to be equitable between taxpayers. Indeed, it could be argued that those under 18 are unlikely to have dependents; that because of their low expenses, they get better value out of the single personal allowance than other taxpayers; and that the poverty trap and unemployment trap are less important for them.

6. Second, there must be some doubt about the cost-effectiveness of the scheme. Some of the extra jobs for the under-18s would be created by displacing over-18s, although it is impossible to assess what proportion would be affected. Moreover, part of the subsidy would also go to under-18s who would in any event have been in work. In the case of the Young Worker's Scheme which shares a very similar objective, it has been estimated that only about 20 per cent of the jobs receiving subsidy were new ones. (It would, incidentally be for decision whether

the Young Worker's Scheme should be withdrawn if this proposal were implemented.)

7. Finally, there is the risk that an employer will hire a succession of young people who will each lose their job on reaching the age of 18. This is not, however, a conclusive argument. Even a short-lived job would have the big advantage of introducing the young people to habits of work and putting them in contact with the labour market.

8. The direct cost of the scheme would be about £60m a year, if only income tax and employers' NIC were involved. If employers' NIC and NIS were brought in also, the cost could be £120m. But these are only the direct taxation effects. To the extent that those receiving the subsidy were in newly created jobs, the PSBR cost would be less because of the benefit savings. But to the extent that they displaced over-18s, the cost would be more. And the upside risk is greater because over-18s pay more tax and receive higher benefits than under-18s.

Help for those starting up in self employment

9. Under this scheme, those self-employed who had completed an appropriate training course would be exempted from income tax, VAT and national insurance contributions for a three-year period, provided turnover did not exceed £10,000. (An individual whose turnover is less than £10,000 does, of course, already fall well below the current £18,000 registration threshold for VAT.)

10. This proposal poses problems on national insurance and the cut-off point for relief similar to those set out in paragraph 4 above. In addition, it can be argued that any test based on turnover is not appropriate for income tax. The profit of a self-employed person with few expenses, (eg a window cleaner) will be little less than his turnover. By contrast, if a business with substantial inputs (eg a retailer) or considerable expenses on tools or materials (eg a repair shop) has a similar turnover, the owner's income will be very much less.

11. These difficulties could be overcome by redesigning the scheme so that a self-employed person who had completed an appropriate training course would be exempt from income tax on the first £10,000 of his income. This would remove any disincentive to expand beyond the cut-off point.

12. The cost of the proposal would depend on which training courses qualified for the scheme and the extent of the take-up. But based on recent experience of TOPS courses, if around 60,000 adults were to enter MSC courses next year and, say, 7 per cent were to become self-employed soon after, the cost of the scheme could build up to about £8m a year.

13. Although restricting the scheme to those self-employed who had completed some form of training would limit the Exchequer cost, it would also necessarily imply discrimination between one new business and another. It would be argued that relief from tax should not depend on whether those entering self employment needed, or had the benefit of, a training scheme and however the qualifying schemes were defined, there would be those who would fall on the wrong side of the line and would complain they had been arbitrarily excluded. Indeed, it might be suggested that those who had enjoyed the benefit of a training scheme (and had probably paid no fees, if the scheme were provided by the MSC) were the last people to deserve further help through a selective tax relief.

14. Second, there is a case for saying that a much clearer dividing line should be drawn between the areas of employment and self-employment before exposing it to further pressure by increasing the relative attraction of Schedule D (Self-employment). Indeed, the scheme would give an added incentive to represent employment as self-employment through such devices as labour only sub-contracting arrangements.

3. Finally, there must be some doubt as to whether the scheme would achieve its purpose. The most critical period in the survival of a small business typically comes after about 18 months. At that time, a business will often not even have been assessed to tax for its first year. And, even if it has been assessed in its first year's results, the tax bill will often be fairly small. The extra expenses of setting up a business and getting it off the ground, the likelihood of capital expenditure which will attract tax allowances, and the fact that turnover is generally only starting to build up in the first year, mean that a new business' taxable profits may often be quite small or non-existent. Moreover, because of the way the profits of a new business are assessed to tax (the first year's results form the basis of tax assessments for, in general, about 2½ years' liabilities), the existing rules already have the effect of minimising liabilities in the early years.

Enterprise allowance

16. Given these objections, a different proposal to encourage the unemployed to set up in business could be considered. An enterprise allowance has been introduced nation-wide this year, under which a grant of £40 a week is paid for a year to unemployed people going into business. (subject to a maximum of 25,000 places). The future of the allowance is to be decided as part of this year's public expenditure review. If the allowance is continued, then there could be a case for making it non-taxable in order to increase the benefit to the successful. This would, however, point up the taxability of unemployment benefit.

HM Treasury

19 August 1983

PORTABLE PENSIONS

The problem

Occupational pension schemes treat early leavers badly by comparison with stayers, and this is a disincentive to labour mobility. An increase in mobility would help to reduce unemployment.

2. Occupational pensions are generally based on years of service and final salary. For an "early leaver" who spends 20 years with one employer and 20 with another, only his last 20 years of work will count towards a pension geared to his salary at retirement. The pension attributable to the first 20 years of his career will be geared only to the final salary level he has reached by mid-career when he switches his job. This will usually be much lower than his salary at retirement because of the likelihood of inflation, growth in real earnings and promotion over the last 20 years of his career. This loss will occur whether he freezes his rights with his old employer, or transfers them to his new one (assuming that he moves to a new employer with a pension scheme). If he leaves early to start a business, he has no alternative to keeping his rights frozen with his former employer - which is particularly hard if he wants to invest his savings in the business. The loss of pension rights by early leavers is a direct, substantial and arbitrary subsidy to the stayers. The loss in typical cases can be shown to be worth at least a year's salary (in present value terms).

3. 11½ million employees (over half the UK total) are members of occupational schemes. About 10% are early leavers each year. Three quarters of these have less than 5 years' service and are entitled only to a refund of their contributions. The rest - perhaps 250,000 a year - normally have their accrued rights preserved in their old scheme.

4. Evidence about the effect of this loss of pension rights on mobility is sparse. But what there is confirms the presumption that it acts as a disincentive. Increasing awareness of the problem is likely to accentuate it.

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5. As it grows to maturity in 1998, the State Earnings Related Pension Scheme (SERPS) will make an increasing contribution to solving the early leaver problem for the bulk of the working population. For those earning up to the upper earnings limit (UEL) of about 1½ times average earnings, their statutory earnings related pension will be the same however many times they change jobs. Those earning above the UEL will be protected in relation to their earnings up to the UEL. However, it is far from clear that the massive public expenditure cost of SERPS is affordable - nor is it in any event apparent why pension provision over and above the basic State pension should be a public sector rather than a private sector activity.

6. For the 5½ million public sector occupational scheme members (almost half the total) the potential loss is a good deal less, whether they move within the public sector or into the private sector. This is because their preserved rights are revalued by prices up to retirement.

7. But a problem remains, particularly up to 1998, for all private sector scheme members; and in perpetuity for those earning above the UEL, whose rights in excess of this have no statutory protection. This latter group includes middle managers, technologists etc., who (unlike top managers) will not usually be able to negotiate an individual pension package with their new employer.

The considerations

8. Early leavers subsidise stayers. To improve their position therefore involves costs. These could be borne by a reduction in stayers' benefits, or an increase in employers' and/or employees' contributions. To the extent that extra employer contributions were not offset by lower wages, or that employees gained higher wages to compensate for higher employee contributions, there would be a short term addition to industrial costs. Some reduction in promised benefits for stayers may be more feasible, if the Government makes clear that this is the desired outcome. But employers are likely to be quicker to perceive the risk of extra costs to them than the potential benefits in terms of enhanced mobility; indeed some employers may see advantage in keeping some disincentive to labour mobility, to minimise disruption and re-training costs.

9. Government has so far taken the view that improvements for early leavers, while highly desirable, should be left to voluntary action by employers; but has threatened legislation if there is no noticeable improvement.

10. Ministers could take the more radical position that the resources devoted to pension provision in this country are excessive (and hardly conducive to enterprise), and that reducing the benefits to stayers, in order to remove the discrimination against the early leaver, would be a step towards correcting this. It would make pension provision less of a bargain for the employer, and in particular, it would remove one of the main purposes of "generous" pension schemes, if they could no longer be used to impose a penalty on anyone moving to another employer. A still more drastic step would be to start reducing the tax advantages enjoyed by pension schemes; these have distorted the flow of savings by giving the institutions a premium over direct investment by individuals. But there are clearly problems in reducing pension benefits and the rest of this paper discusses the alternatives for improving the treatment of early leavers.

Solutions

(i) Revaluation

11. For existing final salary schemes, the straightforward solution would be to revalue preserved rights by average earnings or by average prices. Given economic growth, prices revaluation would do less to equalise treatment than would earnings revaluation, particularly for the younger mobile worker.

12. The cost would depend on the rate of increase in the index. If the index rose by, say, 5%, the estimated cost of revaluation would be about £500m a year, or roughly $\frac{1}{2}$ % of the private sector's payroll. This cost could in principle be absorbed (see para 8 above). It would increase the pressure on employers to guarantee revaluation of pensions in payment, at additional cost; again this might be dealt with by a reduction in promised levels of benefits.

13. Part of the problem with this cost is its open-endedness; if inflation were to rise sharply, it could become unsustainable. This risk could be limited by not requiring revaluation beyond a stated rate of inflation. But by the same token, the protection to early leavers would be reduced.

(ii) Portable pensions (POPs)

14. The CPRS and others have proposed that employers should allow their employees to opt out of pooled occupational schemes and choose an individualised, money purchase, portable scheme. (But under the CPRS scheme employers would

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not be forced to provide this option). Both employer and employee would contribute. The level of contribution would be variable; benefits would depend not on final salary but on the value of the accumulated fund. New entrants bringing a POP with them could keep it, but employers would be allowed to charge to reflect the additional administrative cost. The range of providers would be widened to include other financial institutions as well as insurance companies. There might need to be some increase in the limits for tax relief on contributions, especially for older employees.

15. POPs, if they became widespread, would improve the position of early leavers by eliminating the worst cross-subsidisation within schemes. They would widen individual choice and responsibility and, it is argued, enhance individuals' interest in the performance of the investments on which their pensions depend.

16. POPs are not expected to replace final salary schemes in the short term. Most scheme members are likely to prefer the security of employer schemes, particularly given recent experience of the havoc which inflation can wreak on money purchase schemes. POPs may become popular in due course but their contribution to the early leaver problem is therefore likely to be small initially:

- (a) They will only operate for future service. CPRS argued against 'unitising' existing schemes, on the grounds of the impossibility of ensuring an equitable share-out, reflecting members' legitimate rights and expectations;
- (b) they will not guarantee a final salary-related pension. In conditions of high inflation employers might not be willing to make the necessary increases in contributions for older employees; and employees might anyway not be willing to risk this possibility;
- (c) they are likely to be administratively expensive for employers (and for Inland Revenue); existing pooled schemes are very cheap to run and the difference would be reflected in lower benefits (or higher contributions);
- (d) it would not be compulsory for employers to provide them, at least until it was clear that there was a general unmet desire for them.

17. CPRS therefore endorsed compulsory revaluation of preserved rights for the generality of early leavers (para 12), and some POPs as a long term evolution towards more individual choices.

Conclusions

18. The problem of early leavers is a serious one in mobility terms and legislative action may well be required. The most obvious remedy would be revaluation of preserved rights, whatever is done about POPs. Further work needs to be done on POPs, including the question of whether to go further than the CPRS proposal and compel employers to provide POPs for their workers.

Next Steps

19. The Secretary of State for Social Services is holding a conference with the pension industry on early leavers on 14 September. If he then judges that it has not made sufficient progress on a voluntary basis, he will want to propose legislation in 1984-85. This would be a suitable point at which to take action on POPs, if that were considered desirable.

EMPLOYMENT IN THE USA

by HM Treasury

During the 1970s the number of people in employment in the USA grew steadily, broadly keeping pace with the growth in the labour force. More recently, employment has lagged behind but it is now increasing.

2. The main reason for the buoyancy of the US employment figures is the continued growth in the service-producing area. This has to some extent offset the decline in the goods-producing industries during the recession. (The number of people employed in the service-producing sector is almost three times that in the goods-producing sectors, excluding agriculture).

3. The major reason for the greater mobility of labour in the US is the capacity of its service sector to create jobs. There are various reasons for the increase in employment in the service-producing sector. First, no action was taken by the Federal Government to try to discourage the growth of employment in the service sector, as it was in Britain at the end of the 1960s through the introduction of the Selective Employment Tax. Second, the status of employment in service industries is, by and large, higher in the United States than it is in Britain. Many jobs in this sector are therefore attractive to native Americans and not just to disadvantaged immigrants. Finally, the standard of service offered to the consumer is generally higher in the US than in Britain. For example, it is common for shops to remain open during the evenings and throughout the weekend and indeed some are open for 24 hours a day, while in Britain there are still legislative restrictions on shop hours. There is also enormous competition between financial institutions to provide new and better services, employing more staff.

4. Some examples of ways in which UK tends to discriminate against the service industries are given in the Annex.

HM Treasury

26 August 1983

DISCRIMINATION BETWEEN MANUFACTURING AND SERVICES IN THE UK

The following are examples of fiscal discrimination between manufacturing and services which could affect the growth of employment in services in the UK.

(1) Taxation

The main area of discrimination against services is in capital allowances, where industrial buildings get 75 per cent first year allowances, whereas commercial buildings get no allowance and hotels get 20 per cent. (To give allowances for commercial buildings would have an eventual cost of some £1½ billion a year.) In addition, the small workshop scheme provides 100 per cent allowances only for small industrial workshops; and the Business Expansion Scheme is not available for certain kinds of financial companies. Development land tax is deferred on developments for the developer's own use in the case of industrial developments; this deferral has temporarily been extended to all developments but the extension ends in April 1984.

More generally, the direct tax system tends to favour consumption rather than saving, and this affects those providing savings-related services. However, within this framework, there is a relatively attractive tax regime for pensions and life assurance; and the favourable treatment of housing also helps related services such as building societies, banks, insurance companies and estate agents. The tax system also is less generous to the renting of property than to trading.

For indirect taxation, the picture is more mixed. There is relatively heavy taxation of services in three areas: services linked to the supply of alcoholic drinks (eg in pubs, restaurants); betting and gaming; and road transport (through fuel duties and VED). In the case of VAT, however, about 50 per cent of consumers' expenditure is zero-rated or exempt, and some of this relates directly to services, eg financial services including insurance and banking, health, education and passenger transport. Elsewhere it relates to goods, including the retailing of those goods: eg food; children's clothing; coal, gas and electricity; books, newspapers and periodicals.

(2) Regional Policy

At present, regional policy discriminates against service industries, although these industries are generally labour-intensive and hence could be of benefit to the regions. Regional development grants (RDGs), which are automatic, are paid only on "qualifying" investment, basically capital expenditure on buildings and on new machinery and plant in manufacturing industry. Regional selective assistance (RSA) is not limited to manufacturing, and in principle can be given to industrial and commercial projects generally, provided that they meet the cost-effectiveness criterion of strengthening the national and regional economies, and that there is an employment benefit and the project would not proceed without assistance. In practice, however, RSA has generally been restricted to manufacturing, and to mining and construction (which do not qualify for RDGs). For the services sector, there is a separate selective scheme - the Office and Service Industries Scheme (OSIS) - the primary emphasis of which is on relocation of offices. The existence of this scheme has tended to obscure the availability of selective assistance to service sector projects more generally.

For these reasons, the second report on regional economic policy has recommended that the qualifying activities for RDGs should be extended to a range of service industries which are nationally or internationally traded services and whose location could thus be influenced by eligibility for grants. It has also recommended that OSIS should be merged with the mainstream RSA into a single scheme of selective assistance providing equal treatment for the manufacturing and service sectors.

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PAPER 7

by HM Treasury

THE PRIVATE RENTED SECTOR

The private rented sector in England now comprises only some 2 million dwellings and is losing about 175,000 of them each year. The principal (although not the only) reason for this decline has been and continues to be the operation of rent control. In the past, Conservative Governments have considered that abolition of rent control would have little or no practical effect, given the 'blight' caused by the prospect of a Labour Government committed to restoring it. This political 'blight' may now be less of an impediment. If so, the ending of rent control could reduce unemployment in two ways - by improving labour mobility and thus the working of the labour market, and by increasing demand in the construction industry.

a. Labour mobility

2. There is evidence that private rented sector tenants are far more mobile than those in other sectors. A DOE study showed that (excluding students and members of the armed forces, and adjusted for age, occupation etc) the probabilities of moving house in each sector as compared with the owner-occupied sector are:

| | Movement in Same Region | Movement between Regions |
|--------------------|----------------------------|-----------------------------|
| Owner Occupiers | 100 | 100 |
| LA Tenants | 152 | 16 |
| Unfurnished Rented | 288 | 123 |
| Furnished rented | 489 | 320 |

3. The numbers involved are small (about 40,000 moves a year in the private rented sector). But these results reflect the relative ease of moving in the private rented sector - the costs of a move are low (unlike the owner occupied sector) and there is no waiting list (as for local authority housing).

4. Hence it is clear that, if private rented accommodation were more generally available, it would be easier for people to move to other parts of the country to seek jobs. DOE estimated a figure of 90,000 moves a year, assuming that people from other tenancies were prepared to move with the same frequency as private tenants. But this estimate is an upper limit: for the market to deliver an increase in the supply of suitable rented accommodation, the level of rents would have to rise, and this would reduce the attractiveness of a move (even temporarily) into private rented accommodation.

b. Construction

5. New building under the assured tenancies scheme now attracts a 75% initial capital allowance with 4% per year thereafter, which is sufficient to offset the subsidy to the owner occupied sector. The scheme also allows approved landlords to charge economic rents. But it is taking off slowly and even if, by the late 1980s, it accounted for 5% of new housing, would generate no more than 10,000 direct jobs a year before allowing for displacement.

6. Ending rent control would probably not greatly help new build. But it should increase spending on improvement, by allowing landlords to make an economic rate of return (estimated to be 6%, which would mean rents in Greater London almost trebling and those outside almost doubling). If it led to improvement activity on 10% a year of a stock of around 1 million, with expenditure of £10,000 per dwelling, this might lead to around 60,000 direct jobs a year before displacement. But this displacement offset would be considerable, since many rented dwellings now are improved when sold on vacant possession into the owner occupied sector.

7. DOE Ministers are at present considering proposals by their officials which would end control of rents, although maintaining a degree of security of tenure. Such a measure could not be implemented until mid 1985 at the earliest and its effect would probably be phased. Landlords would also want to be sure that it was permanent, so it could be the late 1980s before it had any noticeable impact.

THE TAXATION SYSTEM AND EMPLOYMENT

Changes in the rates and thresholds of all the major direct and indirect taxes would have effects on employment to a varying degree but they must be considered within the context of the Government's overall fiscal stance. This note therefore focusses on those measures which would have a very direct impact on employment or which would be relatively self-contained.

National Insurance Surcharge (NIS)

2. The abolition of the 1 per cent National Insurance Surcharge would have a direct effect on labour costs. The Government is already committed to taking this step when resources are available. It would, however, be a very expensive operation. Changes in the NIS take about four months to implement from the date of their announcement. If abolition were announced in the 1984 Budget and took effect from the following August, the direct cost (ignoring second order effects) would be £450m in 1984-85 and £900m in 1985-86. If, alternatively, abolition were announced this autumn and took effect from next April, the first year direct cost would be £710m. All these estimates assume that the savings accruing to the public sector would be clawed back through adjustments to cash limits and EFLs.

Restricting Capital Allowances

3. Capital allowances have a dual purpose: they both allow for the depreciation of capital assets and provide an incentive for investment. There is clearly a "deadweight" cost attached to the provision of capital allowances, as tax relief is granted on some investment which would have taken place in any case. However, it has never proved possible to quantify this. While there is certainly a case for encouraging companies to re-equip themselves in order to remain competitive, a reduction in capital allowances would help to achieve a fairer balance between the tax treatment of capital and labour by reducing at the margin the incentive to substitute capital for labour.

Various adjustments to the rates and scope of the capital allowances would be possible but in practice, it is only changes in the allowance for plant and machinery (100 per cent in the first year) which could yield significant amounts.

5. The rate could be cut across the board. Virtually no equipment has a life of less than two years so that a reduction in the first year allowance to, say, 75 per cent (with a 25 per cent annual writing down allowance on the balance) would, in most cases, still leave it at a generous rate in terms of commercial depreciation in relation to historic cost. The reduction would have no direct revenue effect in 1984-85 but would save £300-450m in the following year, with a peak saving of £400-650m in 1986-87, gradually reducing to zero in subsequent years.

6. An across the board cut in allowances would be much easier to handle than a selective reduction but the administrative and presentational advantages of the immediate 100 per cent write off would, of course, be lost. The cut in the incentive for investment would be felt right across industry. On the other hand, the savings made could be used to help industry in other ways (eg as a contribution towards the cost of abolishing NIS).

7. Alternatively, the 100 per cent first year allowance could be retained but only on an even more discriminatory basis than obtains at present. Largely as a result of decisions by the Courts, the allowance now extends to a range of items not normally regarded as either machinery or plant. The position could therefore be rationalised by removing from the scope of the allowance buildings and structures, fixtures and fittings, hard and soft furnishings and a number of miscellaneous items, such as holiday caravans.

8. It is very difficult to estimate the revenue effect of such changes but reductions in the allowances on fixtures and fittings alone, while having no effect in 1984-85, could produce savings of £90-150m in the following year and peak savings of £130-200m in 1986-87.

However, the definitional problems involved in the change would be considerable and the necessary legislation would be difficult to draft. There is also a significant risk that in focussing attention on this issue, Ministers would come under great pressure to extend rather than narrow the boundaries. Removing the 100 per cent allowance on fixtures and fittings and on furnishings would have its biggest impact on the commercial sector where there is already the greatest pressure to provide new allowances - for commercial buildings.

Business Expansion Scheme (BES)

9. The Government has focussed a great deal of attention on improving the tax regime for small firms, in the belief that this^{is} one area of the economy which has substantial potential for generating employment. The purpose of the Business Expansion Scheme, introduced in this year's Budget as a development of the earlier Business Start-Up Scheme (BSS), is to encourage outsiders to contribute equity capital to registered trading companies by giving them relief for their investment at their marginal rate of income tax, including investment income surcharge. The scheme recognises the risky nature of this type of equity investment and has substantially altered the ratio of reward to risk. We know of no other country which offers a more generous tax relief of this nature.

10. It is far too early to determine how much additional investment the BES is stimulating or to assess the impact the scheme has had on the companies in which the investment is placed. Nevertheless, there has been strong public interest in the scheme and the signs are reasonably encouraging.

11. A number of technical modifications were made to the BES in this year's second Finance Act but no attempt was made at that stage to introduce substantial changes. Nevertheless, there is in principle a strong case for making changes in the following areas:

(a) Takeovers: A company may at present use BES money to take over the trade or assets of another company but not to take over its shares.

(b) Overseas subsidiaries: The aim of the relief is to expand activities in the UK. A company can qualify for relief if it carries out ancillary activities overseas through a branch, provided that most of its production, employees etc are in the UK. But a company cannot qualify if it carries out its ancillary activities abroad through an overseas subsidiary.

(c) Company structure: There are a number of other restrictions on the structure of a group which may make it ineligible for BES money. For example, it must not have a dormant subsidiary; it must not have subsidiaries; and it must not hold its property in a separate investment company for the group.

All these restrictions could reasonably be removed.

(d) Subsequent trading on the Unlisted Securities Market: BES relief is withdrawn if the company gets a listing or is traded on the Unlisted Securities Market within 3 years of the issue of the shares for which relief has been given. This period might reasonably be reduced to 2 years.

(e) Start-Ups: When the original Business Start-Up Scheme was widened into the BES, no distinction was made between the treatment of new and existing companies. In the case of new companies, there is a strong argument for reducing from 5 to 3 years the period over which the investor has to hold his shares in order to get the full measure of the relief. This would, however, reintroduce into the scheme some of the complexity for which the BSS was criticised and which the 1983 Budget removed.

12. All these amendments to the present scheme warrant careful consideration but there is also a case for arguing that it would be better to assess the effect of the tax concession announced last March before introducing further refinements.

Share option relief for smaller companies

13. Gains made by an employee when he exercises an option on shares in his company (except under approved SAYE schemes) are liable to income tax. The tax can already be paid by instalments but proposals have been put forward for replacing the income tax charge on exercise of the option by a CGT charge on the ultimate disposal of the shares.

14. A general relief of this kind would be quite costly (with a dead-weight cost probably in the region of £50-100m) as well as politically contentious and would run counter to the policy of encouraging remuneration in cash rather than benefits. However, it would be possible to introduce a relief limited to smaller companies. The aim would be to shake able executives out of larger firms into new and smaller ones. New firms can rarely compete by offering higher salaries. An incoming executive can normally take a stake in his small firm by raising a loan but a share option relief could be an additional route to financial reward for those prepared to take the relatively risky course of committing themselves to a smaller business. Treasury Ministers will be investigating this possibility further.

HM Treasury
24 August 1983

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PAPER 9TRADE UNION POWER

(S/S Employment)

1 The Law

In reforming the law, our approach has been:-

(a) to redress the balance of bargaining power, to reduce unions' ability to command resistance to change and to protect individuals from the abuse of union power;

(b) to ensure that we win and hold the support of public opinion and in particular the majority support of trade unionists themselves; and to avoid moving too far ahead of employer opinion so that employers remain ready to use the remedies provided and unions always have to expect that they might do so;

(c) to avoid any direct role for the Government in the enforcement of the law and to rely on the development of civil remedies rather than criminal sanctions;

(d) to allow for the free development of employer/employee relations by agreement and contract without the intrusion of statutory mechanisms, save to safeguard the interests of others;

(e) to seek to change the nature and behaviour of unions themselves by provision for secret ballots of members;

(f) to maintain an impetus for continuing reform whilst seeking to ensure that each legislative step takes root and holds.

2 This approach has been successful and needs to continue.

3 Proposals for the Bill which is to be introduced on the return of the House have been announced and as a next step we

are already committed to consultations on the need for adequate procedure agreements in essential services and the attachment of immunity to their observance. There is advantage in giving the TUC every encouragement to participate in these consultations or to open the way to legislation if they refuse to do so. We must not be seen to rule out from the outset the possibility of voluntary reform, but the probability is that we will need to contemplate legislation establishing some key features for procedural arrangements to overlay agreements and depriving industrial action of immunity if they are breached. I shall shortly put forward developed proposals. The proposal in the 1983 Bill which will deny unions immunity for industrial action taken without a secret ballot of the members concerned will itself provide a very powerful inhibition in essential services in which industrial action is usually both national and official.

4 I continue to review the full range of other possibilities for changes in the law, measured against the problems, likely support for them and their efficacy. These I identify in the following paragraphs.

5 Closed Shop. We have halted the spread of closed shops and can expect that many will be progressively undermined as they come to need endorsement by secret ballot with a high majority test if both employers and unions are to escape an expensive liability on any dismissal. This will weaken the coercive strength of unions and a number of employers are already making it clear that they will not dismiss on the withdrawal of a union card. It is clearly not easy to accept the continued existence of the pre-entry closed shop and other closed shop agreements are likely to persist - if in a more tolerant and flexible form - for the foreseeable future. Nevertheless, the suggestion sometimes made that the pre-entry shop should be made unlawful would have little more than declaratory effect and I am convinced that such a step would

be much less effective than the secret ballot/unfair dismissal approach we have adopted. As the existing legislation on closed shops has not yet bitten fully, I do not propose any early further action in this area.

6 Procedure Agreements. We concluded in May not to attach unions' immunities to the observance of all procedure agreements as has been advocated by the CBI. This decision was implicit in the Manifesto. I would however not want to lose sight of this possibility and will want to consider it again in the light of responses to the consultations on essential services.

7 Substantive Agreements. There is nothing in law to prevent employers insisting that agreements on terms and conditions of employment must be legally binding. They do not attempt to do so and employers generally still see little or no advantage in having legally binding agreements and disadvantage in being restrained by them. My own strong view is that such agreements must be an objective for the longer term. But legislation deeming all agreements to be legally binding would affront the principle that parties to any agreement should be free to determine themselves both its content and effect and would be very strongly opposed by the great majority of employers. Moreover most agreements would just not bear legal interpretation. For the present we must continue to make clear our own position which is that there needs to be a confident expectation that agreements are observed by both employers and unions. I do however have it in mind to canvass in the prospective consultations that industrial action in essential services which has the objective of changing agreed terms and conditions during the currency of an agreement would not have the protection of immunity.

8 Secondary Action. Immunity for such action has been considerably narrowed to that specifically targetted on commercial contracts between the employer in dispute and his

customers and suppliers. This has been successfully tested in the courts in a number of cases and unions thus far have accepted the outcome. Unions would argue that the present scope of immunity is so narrow as to amount almost to total prohibition if, for example, an employer contrives to conduct his business through an intermediary, an option which some employers have already identified. The cases so far suggest that the apparent complexity of the present provision (which the Courts have overcome) has worked to the advantage of employers. However, my own view is that in principle there should be no immunity for any secondary action. On the other hand, tactically it would be best to take this further step against the background of clear evidence that it is essential.

9 Lay-Off Without Pay. I have developed alternative proposals which would enable employers to lay-off without pay any employee whose work was affected to any extent by industrial action. The first of these has the objective of being able to relieve employers of all their contractual and statutory obligations to employees and hence alleviate their economic losses when a major dispute in a key industry has widespread effects. I am in no doubt that circumstances could arise which would justify emergency legislation of this kind and that its introduction would best be contemplated when they threaten or begin to be experienced. There would then be evident justification for setting aside our commitment to the principle that agreements should be honoured.

10 The second proposal has the different primary objective of assisting employers in combating selective action by their own employees, eg a union deliberately calling-out key employees leaving the remainder of their members at work and on pay. A secondary objective would be to relieve employers of their obligations to all their employees, whether or not they had a direct interest in the dispute, whilst the business was

damaged and action continued. Employer opinion remains very divided on this proposal and, although support for it has grown, it is discouraging that those employers who favour legislation to relieve them, at discretion, from their contractual obligations have made no attempt to re-negotiate their existing agreements or to offer employment to new entrants only with a contractual right to lay them off because of industrial action. Moreover, I cannot escape the suspicion that if national newspapers who have been prominent in urging legislation of this kind used it, they would be faced at the end of a dispute with the threat of industrial action from other groups demanding back pay and that they might well concede such demands. But my principal concern is that it cuts right across the principle that agreements should be honoured.

11 Dismissal of Strikers. The 1982 Act now enables an employer to dismiss - without the possibility of a claim of unfair dismissal - those taking part in industrial action at any establishment subject only to equal treatment being accorded all those taking action at the establishment at the date of dismissal. This is an important new sanction which, so far as I am aware, has yet to be used. It could prove particularly useful where action was being taken at a number of locations. The only further step which might be contemplated would be to provide that employers were entirely free to decide which and how many employees to dismiss, but I first want to see how the 1982 Act operates in practice.

12 Immunities. Our approach has been to stop some considerable way short of revoking all immunity for the inducement of breaches of contracts of employment, whilst narrowing its scope in a number of different ways (eg by the redefinition of trade dispute, by curtailing secondary action and picketing and coercive recruitment practices). Above all else union funds have been opened up to claims for damages. The 1983 Bill will continue this approach in

attaching union immunity to secret strike ballots and my proposals on procedure arrangements for essential services will take this approach yet further.

13 I am sure that the progressive erosion of immunity for specific actions is to be preferred to a return to the pre-1906 position. This would mean that unions and individuals would always be liable for damages in inducing industrial action unless they ensured that notice was given no shorter than whatever was required in individual contracts of employees and employees themselves had also given that notice. In short, the inducement of industrial action would have no protection unless the employment relationships had been severed before its onset. To go this far would be wholly unexpected by employers among whom only minimal support has ever developed for such a step. It would also put at risk the support we have carefully developed amongst union members for our policies. We would certainly be accused - however inaccurately - of legislating away "the right to strike".

14 Restrictive Practices. One suggestion has been that a new jurisdiction might be contemplated providing remedies when a union or group of employees imposes or maintains restrictive working practices of an unreasonable kind, eg demarcations, resistance to new training arrangements. Action might be initiated by an employer or a public authority. The remedy would probably need to be an enforceable order, finally directed to individuals, as damages would in many cases be difficult to conceive or assess. A refusal to obey an order would therefore probably need the potential sanction of a fine or just possibly imprisonment.

15 I am sure that this suggestion should not be adopted. To direct in detail and under threat of sanction how work must be done would be a recipe for conflict and probably largely ineffective. The eradication of restrictive practices must be a responsibility for managements and many have now begun to demonstrate what can be achieved.

(2) Other Approaches

16 However important, the reform of industrial relations law is only one means of contending with unacceptable manifestations of union power. In my view, there are other key components which include a higher professionalism in management, the decisions we take on industrial matters and the will and purpose we demonstrate in seeing them through, the general atmosphere we can help to create by all we do and say and how we handle industrial relations problems in the public sector, particularly where we have a direct responsibility.

17 I provide no more than a checklist of other approaches already adopted or which need to be remembered:-

(a) the freeing-up and privatisation of the public sector to competition, thereby loosening union monopoly control and demonstrating more clearly to employees that their jobs depend on the success of enterprise;

(b) the decentralisation of bargaining arrangements, but only where on a case by case assessment this would reduce union power and be likely to result in more realistic clearing prices for labour in different parts of the UK; the bargaining structures in the public sector (ie national and local government, the NHS and the nationalised industries) are probably as significant a factor as union power (which they can underpin) in establishing a common price for labour in what should be very different markets;

(c) the need for employers, with our support, to establish a fuller relationship with their employees in the communication of information about the enterprise and the threat of competition and, as they judge necessary, in consultation with them about how performance can be improved; in many cases union power has come to fill a vacuum;

(d) more generally, the need to educate employees about the relationship between pay and jobs and, where we have direct influence, to demonstrate the effects of that relationship;

(e) to be seen as the Government to be ready to resist unreasonable union demands and ready to contend with the effects of industrial action;

(f) to consider, case by case, whether the present institutional representation of trade unions on public bodies is always appropriate and what is the trade off between the possible advantages of securing their involvement and providing them with an authority to block or delay change.

REDUCING BARRIERS TO EMPLOYMENT: EMPLOYEE PROTECTIONS

10 21
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(S/S Employment)

This note considers the remaining statutory mechanisms which determine pay and reviews the full range of individual statutory employment rights.

2. In summary, my recommendations are:-

(a) the Wages Councils should be abolished at the earliest opportunity, ie the 1985/86 Session, but that there would be no advantage in tampering with the system in the interim and before we can denounce the relevant International Labour Convention (paras 4-5);

(b) it should be noted that it would be possible to abolish the two Agricultural Wages Boards earlier and that the governing Convention would in any case seem to allow the exclusion of particular categories, eg young persons, from their scope (para 2);

(c) the rights to guarantee and redundancy payments should continue, although the former should continue to decline in real value and the latter need to be kept under review, particularly with the possibility in mind of adapting them to developments in training arrangements (paras 10-19);

(d) all employers employing 5 or fewer employees should be entirely excluded from the unfair dismissal provisions (para 26(i));

(e) more important, the qualifying period for protection against unfair dismissal should be increased to 2 years' continuous employment in all other employments (para 26 (ii));

(f) as a consequence, the qualifying period for protection against dismissal on grounds of pregnancy should also be increased to 2 years (para 28);

3. I make no recommendations for changes to other protections which, for completeness, are described in the Appendix.

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REDUCING BARRIERS TO EMPLOYMENT: EMPLOYEE PROTECTIONS

(1) Wages

In following the principle that employers should be free to offer (and job seekers free to accept) employment at wages determined by their individual circumstances and the market, we have repealed the statutory mechanisms allowing comparability claims (eg Schedule 11 of the Employment Protection Act 1975) and ended the Fair Wages Resolution. Perforce, we have to retain and extend equal pay legislation to meet the requirements of the EC Directive.

2. The two Agricultural Wages Boards and the Wages Councils provide the remaining statutory obstacles. The Wages Boards are the responsibility of the Agriculture Ministers and are governed by our ratification of International Labour Convention No. 99. This Convention (unlike Convention No. 26 which governs the Wages Councils) would, I understand, permit the exclusion of particular classes, eg young persons, and the 10 yearly time window for its denunciation opened in August 1983 and lasts for a year.

3. As for the Wages Councils, the Attorney General has advised that legislation to exclude particular categories (eg young persons, part-time workers, employees of small firms) would be in breach of Convention No. 26 which cannot be denounced before June 1985, with denunciation becoming effective 12 months later.

4. I recommend that the Wages Councils system should be abolished, with legislation in the 1985/86 Session. A few months before the introduction of a Bill, we would need to consult on our intention to denounce Convention No. 26 so that this can be effected in 1986. There is no advantage in any earlier announcement.

5. This decision taken, I am equally sure it would be very much a mistake to tamper with the system in the interim to the extent that we could without breaching the Convention. All our

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previous discussions identified only two possibly worthwhile options. First, we could impose a statutory duty on Councils to take account of ability to pay, employment implications, etc. This would require legislation (in the 1984/85 Session), might well prove largely ineffective and would be unenforceable. Second, we could start the lengthy statutory procedure to abolish, say, the two large Retail Councils. In doing so we would not have ready and unanimous support from the employers' associations concerned. There would need to be a statutory inquiry, conducted by ACAS, to consider objections which would be bound to involve a detailed survey of earnings and speculation on the effects of abolishing the Councils. This could only fuel opposition to the proposal and it is most unlikely that it could be implemented before 1985. Either of these options would cloud and impede the prime objective of ending the Wages Council system at the earliest possible opportunity.

(2) Employment Protection Rights

6. I have again reviewed the full range of individual statutory employment rights. Inevitably they all impose requirements of one kind or another on employers, as does a range of other statutory, contractual and common law obligations which flows from the employment of labour, eg NI contributions, tax deductions, sick pay, insurance liability.

7. The tests therefore to be applied are whether there are good grounds for believing that individually or in combination they constitute a significant obstacle to the creation of more jobs or otherwise inhibit the growth of businesses; and on the other hand the benefits they might provide for the smoother operation of the labour market and a desirable stability for employer/employee relationships. It is not possible entirely to ignore developed views on what an employer might reasonably bear by way of obligation to his employees over and above the wages he pays. For some of the rights there are international constraints and public expenditure implications.

8. In the following paragraphs I identify those rights for which changes might be contemplated and make recommendations.

9. For completeness, the Appendix to this note identifies all other rights which I have concluded need to be retained without change, although the qualifying period for protection against dismissal because of pregnancy and for the right to reinstatement after confinement could be brought into line with any changes in the availability of protection against unfair dismissal.

(a) Guarantee payments

10. After one month's employment, employees are entitled to a payment for up to 5 days in any 3 month period of £9.50 a day for each full day for which the employer cannot provide work and if the employee would have been ready to undertake suitable alternative work. There is no entitlement to a payment if the lack of work is due to industrial action involving any employee of the employer or an associated employer. The value of the daily payment has been progressively reduced in real terms. About 1½ million employees are exempted from these arrangements following joint applications for statutory exemption on the basis of equivalent collective agreements.

11. In principle, guarantee payments could be left to collective agreements or individual contracts of employment with employers being left to decide what, if anything, they were prepared to afford. There are agreements governing short-time working over much of the primary sector. There is, however, a balance to be struck between the obligations employers might be reasonably expected to bear in recruiting and retaining labour and organising their flow of work and the otherwise residual obligation to pay unemployment benefit to employees temporarily without work, the cost of which falls to public expenditure. Unemployment benefit is not paid where an entitlement to guarantee pay exists. Although it is not possible to calculate the likely additional cost to the National Insurance Fund of repealing this protection, it could prove significant. Changes were made in the 1980 Act, at the request of industry, to limit employers' obligation to 5 days

in any 3 month period rather than in a fixed calendar quarter and there are no pressures to end it.

12. I recommend the retention of this right but will ensure that in the annual statutory reviews of the amount of guarantee pay it continues to decline in real value.

(b) Redundancy payments

13. After 2 years' employment, a redundant employee is entitled to a payment calculated at $\frac{1}{2}$ a week's pay for each year of employment until aged 21, 1 week's pay for each year until aged 40 and $1\frac{1}{2}$ week's pay for service thereafter, subject to only the last 20 years of employment being reckonable. Employment under the age of 18 does not count. There is an earnings ceiling, currently £140 a week. The average payment is £1,331; the maximum £4,200. In 1981 40% of all employees entitled to redundancy pay received additional compensation from their employers. Employers receive a rebate, currently 41%, from the Redundancy Fund of the payments they make and the Fund is entirely financed by employers' and (since 1982) employees' contributions, the latter providing more than half the finance in 1983/84.

14 The primary purpose has always been to reduce resistance to job change and so facilitate labour mobility, not to reduce possible hardship. The gearing of entitlement to payments does however reflect in part a recognition that the longer the service of an employee the greater the accrued value to him of the job lost.

15. I am in no doubt that the primary economic purpose of redundancy payments is being achieved and is still necessary. Resistance to closures and redundancies has clearly been weakened by the prospect of compensation and there are very many examples of employees continuing to be ready to accept the loss of their jobs despite higher unemployment and attempts by their unions to mount sustained resistance.

16. Nevertheless, this alone would not justify the continuance of a general statutory scheme and, in principle, it could be left to employers on a view of their own economic interests to decide whether they needed to make payments to overcome resistance to redundancy. In my view, however, the counter considerations are conclusive. First, employers very much welcome the insurance principle which rebates from the Fund provide; there is no longer any significant pressure from employers to end the scheme. Secondly, removal of the right could stimulate trade unions to intensify resistance to redundancy and provide them with a recruitment slogan. Thirdly, employees themselves now contribute significantly to the costs. Fourthly, somewhat paradoxically, the statutory entitlement provides a limitation on expectations on compensation for the generality of employment and the real value of the payments has been falling without observable protest. Lastly, it is not easy to ignore some concept of equity by not providing relatively modest compensation for employees who are not members of well-organised and powerful groups which would always be able to command more.

17. I therefore recommend the continuance of the scheme.

18. As to possible changes to it:-

(i) Lump sum/income support. This would be to pay only part of the accrued entitlement at the time of redundancy and pay the remainder weekly to those who remain unemployed, either on top of or instead of unemployment benefit. The first course could reduce the incentive to find another job until full entitlement was exhausted and run counter to our objectives. The second would produce some public expenditure saving, but in effect would simply amount to cutting the entitlement. Employers would not welcome having to pay for income support after employment ended or the administrative burden. In both cases the inducement to accept job loss which a lump sum payment provides would undoubtedly be considerably weakened.

(ii) Lump sum/income support only on the acceptance of training. The same considerations would apply. There is in any case no detectable reluctance to accept opportunities for training and, under present arrangements, only a very small proportion of adults made redundant could immediately be offered a training course.

(iii) Exclude or treat differently small or new firms. The 2 year qualifying period already provides a relief and it would not be easy to justify some longer period in either case; the accrual of entitlement is in any case slow. The total exclusion of small firms could produce the anomaly of the long-service employee being made redundant without statutory compensation even though his employer remained in very profitable business. The major difficulty is however the administrative complexities for National Insurance contributions with differential rates for both employers and employees which would need to change (and in the case of small firms change again) over time.

(iv) Exclusion of young persons. Employment under the age of 18 does not qualify towards entitlement to a payment or its accrual. If it were nevertheless judged that the possibility of redundancy after more than two years' employment thereafter was one factor which inhibited employers engaging more young people, entitlement could be delayed until employees were aged, say 21. An employee at the age of 21 might then be afforded an entitlement based on employment from the age of 18, ie 1 week's pay rather than 2 weeks at present. The relief to employers would be minimal.

19. Given the high level of unemployment and the continuing need to secure acceptance of redundancy, I have concluded that none of these possibilities, which could weaken the inducement to accept job loss, should be adopted at present. I therefore make no recommendations for changes to the scheme. I nevertheless intend to keep its provisions under review and, in particular, to have in

mind the possibility of adapting them to interact with the development of training arrangements.

(c) Unfair dismissal

20. All employees with one year's service (2 years with employers with 20 or fewer employees) have a protection against arbitrary dismissal, exercisable by a claim to an industrial tribunal for re-instatement or compensation. In 1981 37,000 claims were made, almost two-thirds of which did not reach a hearing being either withdrawn or settled by agreement. Of the 13,500 claims which were considered by tribunals, over 10,000 were dismissed. Of the 3,000 awards made, 150 were for re-instatement and 1,950 for financial compensation, a third of which were for less than £500 with the median award being £963. In most of the remainder the parties were left to decide the remedy.

21. The concept of a protection against unfair dismissal (first established in the Industrial Relations Act 1971) is now generally accepted and needs to continue; it provides the essential basis for the approach adopted in the 1980 and 1982 Acts to the closed shop and dismissals for non-membership of unions, for which very much higher levels of compensation can be awarded against unions as well as employers.

22. Employers' concerns are directed not to the principle or even the possibility of having to pay compensation, but the uncertainty of the prospect of having to contend with claims following dismissal, the cost (including legal costs) of defending claims and the growth of legal complexity. These concerns cannot be decisive in a decision whether to recruit more employees but when realised can undoubtedly be burdensome. Larger employers, with professional resource, now cope with little difficulty, but for some other employers the difficulties are often greater and most complaints stem from the first unfair dismissal claim against them.

23. I am examining proposals for reducing legalism in the tribunal system. These include improvements in the conciliation process

and in the conduct of tribunal proceedings, and also ways of restricting appeals to the Employment Appeal Tribunal. These measures can be introduced by administrative and judicial action; primary legislation would not be required. I believe that they would be welcomed by employers.

24. There are, in addition, a number of options for limiting the scope of the provisions, although those concerning dismissal for non-union membership would still need to apply to all employment. These are:-

(i) exclude all very small employers (ie those employing 5 or fewer), in line with the exclusion for the right to return to work after confinement; about 1½ million employees would be affected;

(ii) increase the qualifying period for protection to, say, 2 years for all employment, which would exclude about 26% of all claims now made;

(iii) redefine small firms to some higher ceiling of employment, eg from 20 to 50 or less employees (which would exclude 4% of claims now made); and/or increase the qualifying period of employment for small firms to longer than 2 years (a 5 years' qualifying period for firms employing 20 or less would exclude about 7% of claims now made);

(iv) provide an exclusion for all new small firms for, say, the first 5 years of trading;

(v) make protection dependent on an age qualification, eg only after age 21.

25. In considering these options we need to be influenced by employers' concern about any additional complexity of provision; the possibility that exclusion based on the number of employees employed would operate against recruitment where this would take an employer above the ceiling; and the criticism to be faced that any limitation of scope is in effect allowing more employers to dismiss employees unfairly.

26. With these considerations in mind, I recommend:-

(i) the exclusion of all very small employers, ie those employing 5 or fewer; such an exclusion is preceded in the right to return to work after confinement and the very size of such firms inevitably makes employer/employee relations different;

(ii) the extension of the qualifying period to 2 years for all employment; this is a better alternative to redefining the present small firm exclusion at some higher figure and would avoid the disincentive effect this could have on additional recruitment.

27. I am not disposed to go further. A specific exclusion for new firms for some period could prove difficult to justify to other employers and there could be problems of definition and for administration. The increase in the qualifying period I recommend would give relief to all new firms of whatever size. Nor am I in favour of a specified age qualification. The second recommendation I make would in any case exclude anyone under the age of 18 from making a claim.

28. I have also concluded that if the changes I recommend are adopted it would be right also to increase the qualifying period for protection against dismissal on grounds of pregnancy from one year to 2, but not to change further the qualifying period (already 2 years) for a right to return to work after confinement (see para 9 of this note and paras 6(a) and (c) of the Appendix).

Rights which need to be retained

Employers are required to give employees a written statement, not later than 13 weeks after they start work, of their main terms and conditions of employment, with an additional note on disciplinary rules and grievance procedures. Additionally, all employees are entitled to receive itemised pay statements when paid. There are no complaints from employers that this is burdensome and the employment relationship is established clearly.

2. After one month's employment, employees are entitled to their normal week's pay for up to 26 weeks if they have to be suspended on medical grounds after occupational exposure under specific regulations to hazardous substances or processes. There have been no complaints from employers and the EC has accepted that this protection meets the requirements of a Directive which comes into effect later this year.

3. After one month's employment, an employee is entitled to at least one week's notice of the termination of his contract of employment and after two years to not less than a week's notice for each year of continuous employment up to a maximum of 12 weeks' notice after 12 years' employment. In all cases misconduct can justify instant dismissal and there are no statutory notice requirements for fixed term contracts. Repeal would re-establish common law rights to reasonable notice with the courts left to determine what this might be. There are no complaints from employers about this requirement.

4. An employee with a minimum of 26 weeks' continuous employment can, on request, require his employer to provide a written statement of the reasons for dismissal within 14 days. Failure to do so may make the employer liable to a payment to the employee of two weeks' pay. Very few cases arise, there have been no

demands for repeal and it is not unreasonable for an employee to be able to know why he was sacked, particularly as this could affect his chances of securing another job.

5. There are a number of rights to time-off with pay:-

(a) After 2 years' employment, an employee under notice of redundancy is entitled to reasonable time off to look for work or make arrangements for training for another job. This can help speed job change without intervening unemployment.

(b) Since 1980 pregnant employees have the right not to be unreasonably refused time off to attend appointments for ante-natal care when arranged on medical advice. This is now generally accepted as a necessary safeguard.

(c) Subject, among other considerations, to the circumstances of an employer's business and the effect on it of an employee's absence, employees are entitled to time off to perform specified public duties, eg as a justice of the peace, as a member of a Health Authority. There are no complaints from employers and the provision underpins the reliance on voluntary public service.

(d) An employee who is an official of a trade union recognised by his employer is entitled to reasonable time off to carry out duties concerning industrial relations between the employer and his employees and for training in industrial relations. The test of reasonableness applies to the amount of time off, the purposes for and occasions on which time off is sought and to any conditions attached to the facility, regard being paid to a Code of Practice. The right only exists where unions are recognised and is now generally subsumed, as for example in the Civil Service, in negotiated agreements which employers are able to draw reasonably tightly. There is no demand from

employers for repeal

(e) Employees who are members of a union recognised by their employer are entitled to reasonable time off (without pay) for trade union activities. This facility is almost invariably the subject of formal voluntary agreements and representations that it is at all onerous are rare. Both this and the right at (d) tend to reflect rather than establish the detail of the relationship between employers and their employees where unions are recognised. Repeal would be unlikely to result in changes in practice.

6. There are a number of rights concerning maternity and significant changes could affront international commitments, for example the European Social Charter:-

(a) Dismissal on grounds of pregnancy is unfair unless the employee is incapable of adequately doing the work for which she is employed or her continued employment on it would be unlawful. Before an employee can be dismissed on these grounds her employer must offer her any suitable available vacancy. In 1979 this protection was limited to employees with at least one year's employment and in 1980 to at least 2 years' employment in firms with 20 or fewer employees in line with the qualifying periods for protection against unfair dismissal generally. Parity of treatment would need to be maintained.

(b) After 2 years' employment, employees are entitled to receive maternity pay for the first 6 weeks of maternity absence. This is not dependent on an intention to return to work but the employee must remain at work until the beginning of the eleventh week before the expected

confinement. Maternity pay (nine tenths of normal pay less maternity allowance) is reimbursed in full from the Maternity Pay Fund. Employers need to claim the refund but face no direct costs. There is no evidence that the right inhibits employment.

(c) After 2 years' employment, employees are entitled to return to the same or a suitable alternative job with their employer at any time within 29 weeks of confinement. Since 1980 this right is exercisable only if the employer is informed of the intention to return at least 21 days before maternity absence begins and if the employee confirms that intention, at the request of the employer, in a defined period following confinement. Additionally, the right does not apply if the employer employs less than 6 employees or it is not reasonably practicable to offer re-employment. Given international commitments repeal, for which there are no demands, is not an option. The qualifying period and any further exemption for smaller firms needs to be considered in line with the approach to unfair dismissals generally.



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~~SECRET~~ PAPER 11

(by S/S Employment)

ANNEX C

THE LABOUR MARKET : APPROACHES TO IMPROVEMENT

1. The most directly effective policies for increasing employment will be those which help to maximise demand for the products of the British economy. Within a sound financial framework, we have to look first to industrial policies - for new technology, innovation, small businesses and the like (and, much more arguably, regional policy). The prime direct criteria for these policies need to be those of encouraging profitable, competitive and adaptable business, not those of employment. It may occasionally be feasible to have an eye to job-support aspects - for example, leaning towards labour-intensive sectors rather than capital-intensive ones if other considerations are broadly equal - but for the most part the pursuit of job creation as a leading test of industrial policy risks being self-defeating.
2. The main focus of labour-market policies as such must be towards helping improve business competitiveness. We have to make the labour-market as responsive as we can in all respects to the needs of the product market. In the particular circumstances of very high unemployment this basic task needs to be supplemented by two other aims: to keep down the level of total labour supply where we reasonably can, and to help provide temporary work of community benefit outside the market.
3. It is useful to view this package of tasks as requiring us to tackle several broad aspects, distinct but needing to be seen in a coherent framework as complementary and inter-acting.



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The main ones are perhaps these:

- (a) Labour cost - the relationship between pay and jobs, and between productivity and reward.

Our potential instruments here include general explanation and persuasion, and example-setting in the public sector; the removal of statutory provisions which hold wages above market-clearing levels; and lowering youth wages either directly or by leverage methods like the Young Workers Scheme.

- (b) Labour quality - standards, training and experience.

We are making a mounting effort here. The Youth Training Scheme is a major enterprise; and we must turn increasing attention to adult training and re-training.

- (c) Patterns of work - issues like the length of working life, and the balance between full-time and part-time work.

Industry itself must be the main mover, but we can selectively ease rigidities or set examples by schemes like Job Release and Job Splitting.

- (d) Market lubricants, like industrial relations, information and mobility.

We are continuing our series of cumulatively



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important steps in re-shaping the IR framework. On information, we still need a public employment service, but probably a tauter one than we have now. On mobility, housing and pensions both matter. We need wherever possible to ease fiscal or other burdens which may act as a drag upon employment, including self-employment.

(e) Fairness in the market.

We cannot and should not abandon our commitment to fairness in respect for example of dismissal, race and sex. But we need to put across more widely that the quest for perfection has costs for business, and that these may have to be paid in lost jobs. A balance has to be struck - and struck in the real circumstances of tough markets and high unemployment.

(f) The social-security safety net.

There is a balance to be struck here, too, between meeting proper social concerns and sustaining incentives to work.

(g) Help to the disadvantaged.

We do a variety of things like rehabilitation and sheltered jobs for the disabled, and the Community Programme for the long-term unemployed. We need to shape this help as cost-effectively as we can to support the working of the market as a whole. For example, CP should renew the confidence and work-habit of participants to improve their wider employability.

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PAPER BY THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE and Science

1. "How can the efforts of schools, higher education, the MSC and industry be best deployed to give workers and managers the skills and enterprising approach they require? Should we, for example, shift support of first degree students from the mandatory grant system to employers' sponsorships? How can we best give teachers a better insight into the requirements for success in industry and commerce? What extensions are required to the present arrangement for technical education?"
2. These are the questions my paper is required to answer.

General

3. One general factor affects all the areas concerned: it affects nearly all aspects of British society. It is the widespread ignorance of the economic facts of life in a free society.
4. It is this ignorance that pervades most newspapers and, I believe, television coverage and comments. Few people seem to realise that we are in general a relatively low productivity society - and that consequently our resources are, compared with what they might be and what they are in Western Europe, relatively low.
5. Few people realise that jobs in the trading sector come from customers and that the number of people employed in the public sector is limited by what the trading sector can afford.
6. So the prime task, I believe, necessary to jolt the world of education in particular as well as the country in general is to secure greater understanding of economic realities. The initiative taken by Nigel Lawson at the August meeting of NEDO to produce a paper on where jobs come from will be a milestone in public awareness.

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7. Certainly there are initiatives for the world of education to provide the basic skills and attitudes required: I set them out below - some we are taking already and will be taking: and some can be taken as part of the policy proposed in this paper. But we cannot, in my view, as things are - that is, without raising the general level of understanding - rely upon the teachers to present economic realities. The teachers, as things are, don't understand these realities: nor, as things are, do those who teach teachers: nor do the papers they tend to read.

So I propose parallel lines of action:

- a. in the world of education: and
 - b. a general effort to secure greater understanding of the economic facts of life either directed to the world of education, necessarily overheard by the country, or directed to the country as a whole, necessarily overheard by the world of education.
8. I suggest in Annex I the essential minimum of these economic realities .
9. Against this background I now set out
- a. what we are or will be doing that is relevant to this paper in schools, further education and teacher-training;
 - b. what as part of the policy here proposed we could do; and
 - c. what we should do that is relevant to universities and polytechnics.
10. Schools, further education and teacher-training
- a. What we are doing or will be doing:
 - i. The new technical education pilot schemes start this September with an already announced extension to

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start next September. Our aim should be to get technical education as an element in the curriculum of all secondary schools. Some extra resources will be needed.

- ii. We are trying to make the curriculum more practical so as to enable pupils to see the relevance of what they learn: this effort includes pilot schemes for the non-academic - starting this September.
- iii. We are discovering what employers need which in many cases they try to define only in terms of examination results.
- iv. We shall be asking the new Secondary Examinations Council and the new Curriculum Development Committee to consider how best to introduce economic understanding into the curriculum.
- v. We shall ask HMI to monitor the extent to which broadly valid economic perceptions enter into teaching.
- vi. We will be using existing powers to encourage attention to economic realities in the very much more rigorous teacher training framework of our 1983 White Paper.
- vii. Selection of candidates for teacher-training will encourage those who get some experiences before training to be teachers.
- viii. We shall encourage an increase in teacher secondment to local business.
- ix. We are surveying in order to improve the responsiveness of further education to employers' needs.

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x. There is under discussion a proposal to stimulate more effective service to business needs in colleges of further education by giving a new National Training Body some leverage on some of their courses. Such leverage could require courses to contain basic economic education.

xi. Young Enterprise introduces school pupils to business experience. Their aim is to have given 10 per cent of school leavers experience of a business group before they leave school by the end of the decade. They are expanding fast. They are probably about one-third of the way to their target. They - fiercely! - want no help from Government. There are other - less effective - operations. Our campaign would probably stimulate new ventures.

b. What we could do in parallel with a campaign to raise economic understanding:

i. Education Ministers could encourage private organisations to give large prizes to schools and colleges submitting coherent and valid answers to general questions such as "where do jobs come from?", "what causes growth?" and the like.

11. Universities and Polytechnics

- i. Higher education is so dependent upon the tax payer and so remote from economic realities that universities and polytechnics are apt to reinforce unreality in economic affairs. The need is to steer staff and students to a greater understanding by reducing their present reliance upon the public purse.
- ii. In early October this year officials will give DES Ministers a set of options responding to requests from

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DES Ministers. These options will cover ways of reducing over time taxpayer funds for higher education and ways of fostering sponsorship and other methods of help for students. Such trends will encourage students to appraise more realistically the subjects they choose and the effectiveness of the courses they are offered: encourage universities and polytechnics to satisfy business and private donors that they should give them endowments or research projects: encourage businesses to sponsor students and encourage higher education to consider in some cases more effective use of time.

iii. I hope to put proposals to colleagues by the end of this year.

12. I turn now to the effort to raise economic understanding whether directed to the world of education in particular or to the country in general. Perhaps we should take advice on how most effectively to present the analysis. Subject to such advice I suggest:

i. a suitable economist should be invited to write an explanation of the main economic relationships - for wide distribution.

ii. Antony Jay should be asked to make explanatory television films - probably with private rather than public money.

iii. We should consider systematic Ministerial speeches.

13. I do not believe that we can have much effect on schools without a general increase in economic understanding. Universities and polytechnics are easier to influence because we can, as is intended, edge them in part towards the market. The advantage however of the educational campaign proposed - which is designed to influence schools - is that it will be widely heard and, if well done, absorbed.

CMO

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14. Decisions to be taken.

- i. Should a systematic effort be made to increase economic understanding? If so, should it be aimed at the country in general or education in particular? (Sub-questions are in para 12).
- ii. Should we edge higher education in part towards the market - options to be proposed before end of the year?
- iii. Should we, in addition to the steps listed in para 10(a) encourage large prizes from private sources as proposed in 10(b).

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ANNEX I

Themes of effort to raise economic undertaking

(a) "Growth" - including voluntary leisure - depends upon rising average productivity. We are less prosperous than the Americans, the French, the Dutch, the West Germans, the Japanese etc because on average each of them produces substantially more in goods and services than we do - see table attached from a 1982 NIESR review. (Blame any combination you wish of past Governments, of managements, of trade unions.)

The first thesis is therefore that growth comes from rising average productivity.

(b) Public services generally exist to provide services which the public want which either unavoidably or because we have so decided are financed publicly. Because consumers do not pay at point of use and because of political pressures there is a danger that the cost of public services will overload what the trading sector - which directly or indirectly bears most of the cost - can afford. There needs therefore to be a balance between the cost of the public sector - including all the public and social services on the one hand (necessary as most of them are to society as a whole, to individuals and to the trading sector) and the capacity of the trading sector to bear the large majority of the cost that falls directly or indirectly upon it.

So the second thesis is not to allow the cost of public services to overload the trading base.

(c) An understanding of the relationship between British people as producers of goods and services on the one hand and the same people plus their dependants as consumers on the other hand. To the extent that British people as consumers plus consumers abroad choose to buy the goods and services made by British people as producers then British jobs and British public and social services will suffer or benefit.

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So the third thesis is that jobs and social services - even jobs in the public services - come from customers at home and abroad.

(d) But who identifies what customers want? The entrepreneur - who is therefore crucial - in existing and new businesses: and he/she needs good managers and adaptable co-operative workers who understand that satisfying customers at a profit is intensely in their own interest.

So the fourth thesis is that multitudes of entrepreneurs and profitably competitive businesses are essential to more jobs and growth and more public services - and that monopolies are for many reasons undesirable.

Of course within the framework for a free society of these four theses there will be argument on many issues of values and priorities - but the four theses represent inescapable relationships.

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reliable is our knowledge of international productivity differences? This question should not be brushed aside for, not only are there difficulties with the underlying source material (as illustrated above), but there are also serious questions of principle in how to weight the various sectors of the economy in arriving at a combined estimate for the economy as a whole. This is a form of the classical 'index number problem', which becomes increasingly severe in practice the greater the gap between the countries compared in real income level and in economic structure⁽¹⁾. For example, the US is particularly efficient in producing cars which are sold there cheaply in relation to other goods, while Britain is particularly inefficient in producing cars and they are relatively expensive here; consequently, if we use UK values to weight the productivity difference in that industry and similarly in other industries, a US/UK comparison for the economy as a whole would tend to show the US in a more favourable light than if we used US values. From the alternative calculations in the articles below, it appears that the measured gap in output per employee for GDP or manufacturing as a whole might vary by a tenth, or even by two-tenths, depending on which country's values are used. The use of 'multi-national' weights, which bring in a number of other countries aside from the two directly compared, raises yet further issues. Without going here into these matters of principle, it is worth keeping in mind the size of this unavoidable 'margin of uncertainty' both in making statements about relative productivities, and in deciding how far it is worth going in attempting to improve the accuracy of the underlying observations and calculations.

Taking output per employee in the UK in 1980 as 100 the following few figures, extracted from the many in the papers below, can perhaps be taken as indicative of the central findings.

⁽¹⁾The conceptual problems relating to index numbers of labour productivity are a little more complex than might be assumed from theoretical discussions of the usual 'index number problem' in consumption theory. The direct (economic) question that we might ask is this: as compared with Britain's actual total labour force, how many employees would be needed to produce Britain's output (distributed amongst the various industries as it actually was in a particular year), if output per employee in each industry were the same as in the US? The ratio of these two totals provides an index of relative labour productivity for the economy as a whole. Curiously enough, this is equivalent to a weighted harmonic mean of the productivity-ratios for the individual industries; it differs from the customary approach of simply comparing total GDP at fixed prices in the two countries with their total labour forces. For fuller discussion see G. J. A. Mensink, 'Comparisons of labour productivity in the United Kingdom and the Netherlands', 1958, *Statistical Studies No. 18* (Netherlands Central Bureau of Statistics, 1966), and the forthcoming National Institute study by A. D. Smith, D. M. W. N. Hitchens and S. W. Davies (Cambridge 1982).

| | GDP per head of population | Output per employee in | |
|-------------|----------------------------|------------------------|---------------|
| | | Total GDP | Manufacturing |
| Britain .. | 100 | 100 | 100 |
| Germany .. | 132-134 | 134-140 | 152-163 |
| US .. | 153-186 | 159-201 | 276-302 |
| France .. | 134-138 | 150 | 180 |
| Belgium .. | 115-132 | 140 | 180 |
| Netherlands | 102-114 | 150 | 230 |
| Italy .. | 84-88 | 110 | 150 |
| Japan .. | 113-112 | 105 | 200 |

Source: GDP per head of population from Kravis *et al.* for 1975, brought forward using OECD sources on changes in real GDP and population. The comparisons of productivity with Germany and the US are taken from Smith *et al.* and give the results of alternative bilateral weights; the other countries are from Roy, using multi-national weights, and rounded to indicate that the results are approximate.

Looking at the first two columns we see how differences in output per head of population, which determines the 'standard of living', are related to differences in output per employee (the two measures differ because of variations in the proportion of the population at work; but there are also differences in statistical method). A comparison of the last two columns shows the dominating importance of differences in manufacturing productivity, and how severe the British shortfall had become by 1980. Even if we add 10 per cent for the exceptional rise in UK manufacturing productivity in 1980-81, it looks as though another 50 per cent—if not more—is necessary to bring us to European levels.⁽²⁾

Besides examining measures based essentially on quantitative indicators of output, it is necessary to consider indicators of the quality of UK manufactured goods, though this clearly presents even greater difficulties. The article by Mr Katrak attempts to cast light on one important qualitative

⁽²⁾A technical point on the alternative estimates is worth footnoting. For Germany and the US it is possible to compare the estimates derived from *expenditure* statistics (by Kravis *et al.*) with those derived from *production* statistics (by Smith *et al.*); and these seem broadly consistent. A set of estimates prepared by the Statistical Office of the European Communities for 1975 based on the expenditure approach also yielded broadly consistent results for the countries covered. That cannot however be said of the most recent estimates derived—also on the expenditure approach—by the SOEC for 1980; details of the method used have so far not been published: all that is available are the bare results published by HMSO in *Economic Trends* (for April 1982), reproduced from a recent OECD publication. The main difference is that Britain's GDP per head is shown some 10 per cent higher than implied by previous estimates. A full account of SOEC's methods is awaited with interest. It is however known that, in forming its multinational weights, SOEC gives equal importance to each country (whereas the study by Kravis, *et al.*, gives more importance to a large than to a small country—a preferable procedure in our view); prices for the SOEC comparisons are collected only in the capital cities of each country, and some adjustment was made to allow for lower prices in the provinces.

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PAPER 13

HOUSING AND LABOUR MOBILITY

(by Dept/Environment)

1. A job and somewhere to live: the two are inseparable. We are trying to encourage greater labour mobility as industry relocates itself. But our success will be limited unless we can also encourage a sufficient supply of houses, where they are needed, at a price that can be afforded.

2. Between 1971 and 1981 there has been a small reduction in mobility, down by 1.5% from 11.2% to 9.7% of all households. (Table A in Annex A) Most of this reduction has been in the private rented sector, which in the past appears to have been particularly conducive to mobility.

3. Mobility will only be increased if we can take one or more of the following steps:

- (1) Halt the decline in the private rented sector;
- (2) Make it easier for public sector tenants to transfer within the public sector or buy their own homes;
- (3) Make it easier (and cheaper) for owner occupiers to move.

PRIVATE RENTED SECTOR

4. The Private rented sector has declined steeply, from 3.4 million households to 1.9 million in 1981 and now accounts for less than 10% of all households. It is still declining. The 1981 Housing Act has not reversed this trend. Short-let has been a disappointment - 5,000 in the first year, partly as a result of the Labour repeal threat, partly because it is within the fair rent system. Assured tenancies have begun to take off following the introduction of capital allowances for building costs in the 1982 Finance Act, but the scale is minute - 500 tenancies are expected by mid 1985.

5. More radical measures are needed for non-resident landlords if the private rented sector is to contribute to greater mobility:-

(a) general deregulation of rents and security of tenure for all tenants, ie effective repeal of the Rent Acts;
or

(b) partial deregulation eg, for new tenancies only, deregulation of rents and minor modifications of security of tenure either for all tenants or for new tenancies only, deregulation for properties above a 'fitness' standard either for all tenancies or for new tenancies only.

6. Any solution, such as (a) above, which abolished security of tenure would be highly controversial; and it is worth noting that this is now of less concern to most potential and existing landlords than the rate of return they expect to receive. Any radical measure of deregulation, even with the retention of security of tenure, would attract a Labour Party repeal threat which in turn would reduce its effectiveness in persuading landlords to join or remain in the sector. There would also be major public expenditure implications in a widespread restoration of market rents: there would be a big increase in housing benefit. Nevertheless, a Labour threat to repeal will be seen as less of a real one than at any time since 1951.

7. A more gradual and less politically sensitive approach would be to extend, in stages the assured tenancy scheme. This scheme at present applies only to new build but, with legislation, it could be extended, with safeguards as necessary for existing tenants, to newly improved and converted dwellings in the private sector or to all existing dwellings meeting basic standards of fitness. A more limited form of extension would be to vacant property, eg in rundown or difficult-to-let estates, formerly let by local authorities. This would require legislation.

8. The rent and security regime for resident landlords is already relatively free from restrictions.

PUBLIC RENTED SECTOR INCLUDING HOUSING ASSOCIATIONS

9. All the options for this sector involve encouraging/compelling local authorities or housing associations to set aside a proportion of their housing to cater for job movers. But, unless resources are increased, any major extension of this policy must be at the expense of other priority groups such as the elderly, the disabled and, to the extent that the statutory duty allows, the homeless. (The figures for 1982 show that London boroughs devote up to 70% or so of new lettings to the homeless.)

10. The steps we have already taken to increase mobility in this sector may be sufficient. Alone of all tenancies there was no reduction in the mobility of local authority/new town tenants between 1971 and 1981 (Table A of Annex A). Neither do the 1981 figures reflect the impact of a number of major steps taken since 1980:-

1) National Mobility Scheme (NMS), funded mainly by central government, to help people with a pressing need to move for job or social reasons. Authorities have to make at least 1% of these lettings each year available to newcomers, plus one letting for each of their nominees who is rehoused elsewhere. All but four local authorities participate. In 1982/83 there were 6,235 moves reported outside London, and 7,562 in London.

2) Tenants Exchange Scheme which uses a computer bureau to help public sector tenants exchange. 50,000 tenants are registered so far. A right to exchange is to be introduced in the Housing and Building Control Bill.

11. Further steps that could be taken are:-

(1) Extend the NMS by increasing the percentage of lettings to be reserved for the mobile. This would probably require legislation because authorities would argue that other duties and priorities absorbed all available resources.

(2) impose a general requirement upon housing authorities, as provided for in the Tenants Rights etc (Scotland) Act, to give no less favourable treatment to applicants wishing to move into their area for employment than to tenants already there seeking transfer. Again, this would increase pressures for more resources in areas of high demand.

(3) Set up an English and Welsh equivalent to the Scottish Special Housing Association, which has compulsory purchase powers. This would however be an additional public sector agency without any promise that it would be any more effective than operating through the Housing Corporation or local authority.

Housing Associations

12. Housing Associations could be urged, and priorities for grant arranged accordingly, to give overriding priority to job movers. In addition, to release more accommodation for the purpose, the nomination rights of local authorities to housing association accommodation could be reduced or abolished. This higher priority would however be at the expense of other equally deserving types of housing need. The proposals would also have implications for the cooperation between local authorities and associations and be likely to put an end altogether to the former's funding of the latter.

OWNER OCCUPATION

13. Most people want to own their own home. 61% now do so. Recent surveys suggest that at least 77% would like to do so. If there is to be any significant increase in mobility action must be taken on the owner-occupied sector.

14. A CPRS report of November 1980 (MISC 14(80)21) suggested that the three main barriers to mobility in owner-occupied housing were relative prices, the supply of houses to buy and transaction costs. The Government has already taken a number of steps to reduce the entry costs to home ownership:-

1) Right to buy - which is being extended in the Housing and Building Control Bill. Authorities are also already able (since June 1981) to sell houses to incoming job movers at up to 30% discounts.

2) Low cost Home Ownership - building for sale; partnership schemes between local authorities, new towns and private housebuilders; improvement for sale; homesteading, the sale of unimproved dwellings by local authorities for improvement by the purchaser and guarantees for building society mortgages.

3) Shared Ownership. Local Authorities, Housing Associations and new towns have been encouraged to use their powers to allow purchasers to buy on shared ownership terms rather than outright. The Housing and Building Control Bill will give public sector tenants the right to buy on shared ownership terms. There have been 7,300 shared ownership sales since May 1979. The extension of capital allowances for building on shared ownership terms would be a considerable boost to the scheme.

4) Do It Yourself Shared Ownership (DIYSO) Introduced in January 1983. Job movers, those on waiting lists and other first time buyers can select properties for purchase on shared ownership terms anywhere in the country, through a designated housing association or in concert with local authorities. There are cost limits on the properties, and the income levels of applicants and/or proof of inability to secure a full mortgage are factors taken into account. £45 million has been allocated to the Housing Corporation in 1983/84, to enable 3,000 dwellings to be purchased under the scheme. More resources would immediately increase take-up since the initial allocation is now over-subscribed.

5) Homeloan Scheme. Those who save for at least 2 years and then buy a house within the Government's regional cost limits, can qualify for a loan of £600, free of repayments of interest and capital for up to 5 years; and a tax free cash bonus of £110. Between December 1980 and December 1982, 10,500 people had received help under the scheme. More resources could be provided and the terms of the scheme made more attractive.

15. There are further steps that could be taken:-

1) Equity Sharing and Index-Linked Mortgages. Equity sharing and index-linked mortgages, like shared ownership, reduce the initial outgoings on a mortgage of a housebuyer, encouraging moves from low cost to high cost housing areas. Unlike shared ownership, however, they depend on the willingness of the lending institutions to commit funds in this way. The financial institutions hitherto unenthusiastic are now beginning to show some limited interest.

2) Break the existing hold of the legal profession on conveyancing (The Benson Committee's recommendations are to be circulated to colleagues shortly.)

3) Other Transaction Costs. New powers for Building Societies

as recommended by the recent Spalding Report would enable them to offer a comprehensive service to house purchasers who borrow from them, including insurance and estate agency work.

A reduction in Stamp Duty (£370m) should certainly be considered, even though it would benefit many whose moves were unrelated to jobs.

4) Subsidise builders (to sell at cost price) or give an interest rate subsidy on new houses. However, the Government is already providing strong incentives to home ownership, not least £2bn a year through mortgage interest tax relief. Further fiscal incentives run counter to our desire to reduce rates.

5) Other forms of Direct Assistance to Job Movers. The MSC have provided, on a small-scale, direct assistance to the unemployed for long distance job search and for the cost of moving. Schemes of this kind could be extended.

LAND AVAILABILITY

16. Reducing the cost of entry, or making it easier to buy will help mobility where the stock of houses or the land available for building does not exceed potential demand. They will be insufficient in themselves where, as in the South East, the supply of land is inadequate.

17. Additional land can be made available, but often at the expense of other interests. One option would be to dismantle the present planning system (which is now deeply embedded in property law and greatly valued for its protective effect on property values and local amenity). The alternative approach, which is that set out in a draft circular issued for consultation in July this year, is to retain the present system, but to improve its efficiency, changing the attitude of those who operate it to ensure that it delivers an adequate supply of land for housing

and other development. These aims are not incompatible with maintaining long-established policies for conserving good quality agricultural land and areas of high landscape value, provided that the planning system is used as intended, as a practical system of sound land-use management.

CONCLUSIONS

18. The private rented sector remains potentially the most accessible for those moving in search of work. Any increase in the supply of new lettings of adequate quality would require legislation. And if any move in this direction is paralleled, as it must be, by a move towards market rents the unemployed and others of limited means would need help from housing benefits.

19. An increase in mobility in the public rented sector could only be achieved by radical measures that could generate considerable opposition, particularly if public expenditure continues to be constrained. A number of steps have recently been taken to improve mobility and these may be expected to bear fruit in the near future.

20. The greatest potential in the future is to increase the mobility within the owner-occupied sector. This requires a three pronged attack - continued action to keep down or reduce the cost of entry to home ownership, the reduction of transfer costs (conveyancing, stamp duty etc) when a home is sold, and the provision of an adequate supply of building land.

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MOBILITY AND HOUSING TENUREA. Changes Through Time

Table A shows the estimated number of moves, irrespective of distance, classified by the tenure of the accommodation to which the move is made. Newly formed households are counted as well as continuing households moving from one house to another.

Table A. Number of Moves in Proportion to all Households in Each Tenure

| | <u>Owner Occupiers</u> | <u>LA/NT Tenants</u> | <u>HA Tenants</u> | <u>Tenants of private Landlords</u> | <u>All Tenures</u> |
|---------------------------------|----------------------------|--------------------------|-----------------------|---|------------------------|
| <u>1971 (England and Wales)</u> | | | | | |
| Movers ('000) | 801 | 454 | | 600 | 1,855 |
| Percent of all households | 9.7 | 9.8 | | 16.9 | 11.2 |
| <u>1977 (England)</u> | | | | | |
| Movers ('000) | 784 | 464 | 36 | 513 | 1,797 |
| Percent of all households | 8.6 | 9.3 | 16.0 | 21.2 | 10.7 |
| <u>1981 (England) (*)</u> | | | | | |
| Movers ('000) | 752 | 462 | 55 | 406 | 1,675 |
| Percent of all households | 7.7 | 9.1 | 15.3 | 21.0 | 9.7 |

Note: (*) Provisional figures, with approximate adjustments for change in definition of separate households

2. Table A includes all moves of house irrespective of distance. Most moves of house have nothing to do with labour mobility. The Census and survey information from which Table A was compiled do not include any information about job changes. But distance moved is relevant here, though considerable numbers of long distance moves are by people who do not thereby change employers. Moves across county boundaries or from outside the United Kingdom are taken to represent non-local moves. Such moves were about 30% of moves to owner-occupied accommodation, 10% of moves to accommodation rented from local authorities and HA's, and 37% of moves to accommodation rented from private landlords (including employers; the Ministry of Defence is classified as a private landlord). Table B shows the employment status of heads of moving households.

Table B. Employment Status of Heads of Moving Households: England, 1977

| | <u>Full- Time Civil Employment</u> | <u>Armed Forces</u> | <u>Full- Time Students</u> | <u>Other (*)</u> | <u>Total</u> |
|--|--|-------------------------|------------------------------------|-----------------------|--------------|
| <u>Moves within UK across county boundaries (**)</u> | | | | | |
| Owner-occupiers | 156 | 5 | 3 | 50 | 214 |
| Tenants of LA's, NT's, HA's. | 24 | 1 | 2 | 2 | 47 |
| Tenants of private landlords | 83 | 11 | 16 | 15 | 125 |
| All tenures | <u>263</u> | <u>17</u> | <u>21</u> | <u>85</u> | <u>386</u> |
| <u>Moves from outside UK</u> | | | | | |
| Owner-occupiers | 13 | 1 | - | 4 | 18 |
| Tenants of NT's, LA's, HA's. | 3 | 1 | 1 | - | 5 |
| Tenants of private landlords | 24 | 12 | 17 | 10 | 63 |
| All tenures | <u>40</u> | <u>14</u> | <u>18</u> | <u>14</u> | <u>86</u> |

Note: (*) Retired, part-time employment, unemployed

(**) Included moves to England from Wales, Scotland, or Northern Ireland.

Source: National Dwelling and Housing Survey.

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PAPER 14

A Minister for Policy?

by David Young

In 1979 we came into power with the most radical programme since 1945. When the Parliament ended attitudes had changed but little else. In their time the Attlee administration accomplished far more. Why should that have happened?

I suspect that after the last war there was more of a general feeling throughout Government that the "system" had to be changed. Also the result of that change increased the power and influence of the Civil Service. Our policy was to reduce the public sector.

It could be argued that in the last Parliament the principal difficulty lay not with the opposition but with the Civil Service. For many years changes introduced by one government were being reversed by it's successor. This is where senior civil servants found a role maintaining a line of continuity between Governments. I well remember in the Department of Industry in the autumn of 1981 how any policy changes suddenly became "difficult" when we were trailing in the polls. These difficulties disappeared in the months that followed almost in

proportion to our changed position.

And yet this cannot be the complete answer. There is the very nature of Government itself.

Any Minister looking at the quality of his briefing would recognise a consistent strand running through (overtly or otherwise) that can best be described as "the Departments interest". It is endemic to the very nature of life in the service. The prize to be won is the increase in the power and influence of the Department. Some Ministers can resist the temptation but on too many occasions the Department's interest remains paramount.

Yet the political objectives of Ministers is quite separate and distinct from the objectives of Departments. The disease has been described elsewhere as "Departmentalitis" and may be the principal factor that prevents Departments working together successfully.

There are many examples:-

1. **Small Firms Policy.**

The lead Department is DTI, but DoE and DE (acting in part through the MSC) have a very real interest in small firms policy and in fact they probably spend more in budgetary

terms. Yet there is a sense of competition between the Departments that restricts co-ordinated policy. The Enterprise Trusts, the Small Firms Advisers and the Enterprise Allowance are run by different Departments yet hold similar objectives. COSIRA reports through DoE and not through DTI, whilst the MSC runs a series of programmes designed to promote the growth of new businesses. But the qualifications required by each Department often differ and the public end up totally confused. There is a very real need to co-ordinate the political direction of all our Small Firms programmes.

2. **Regional Policy.**

Regional Policy is up for review, but it is DTI (in all these matters I exclude the Treasury whose influence, at official level, runs throughout) who will lead. Above all else this is an employment matter yet DE are not involved at first hand, nor is DoE who have many relevant interests in Town Planning, Urban Policy, Rent Control, etc. The coordination and implementation of any Regional policy should be carried out by one Minister to ensure that all policies are directed toward a common political objective.

3. **Privatisation.**

Although the consolidation of Trade and Industry will help,

there are many Nationalised Industries and Utilities whose control and direction come under different Departments. Even at Ministerial level E(NI) monitored the management of the businesses, the Treasury looked after financial controls, while the form of Privatisation was agreed between colleagues - but only after it was conceived at Departmental level - by E(DL). There is no common line, agreed policy or any order of priorities in our drive to reduce the State owned sector.

Even today we have officials at Energy, Transport and DTI working within their Departments on Privatisation plans for their particular interests. On a day to day basis and at a political level who has the responsibility to ensure that Government plans progress?

4. **CPRS.**

Perhaps the missing ingredient in the work of the CPRS was political commitment. It is not enough to research particular problems, or even to think the unthinkable, in such a unit. A staff of officials and outsiders, no matter how good their managerial and administrative ability, need political motivation.

I have named a few of the examples where we require more co-

ordination in order to drive home our political objectives. There are many more. For example there is Unemployment Benefit and Social Security, two programmes which clearly overlap in part. Then there is the relationship between Education and Training. Here quite apart from DES and MSC, the DoE has a major role through it's relationship with Local Authorities. There is also Inward Investment where Ireland, Scotland and Wales often have conflicting roles with DTI and where even the FO has an interest through our Embassies abroad. And many others.

Coordination of policy requires an element of political direction that runs through more than one Department. If it is to be done well it has to be carried out at a level that commands respect and authority.

A New Approach.

This problem is easier to state than to solve. However difficult the solution the objective is simple - to find a more efficient way to reach our policy objectives in the time allowed. We could consider:-

1. A Minister, with no main Departmental interest, who would assume the task of co-ordinating policy. A small support staff would be necessary with perhaps some commitment from outside.

2. Some, maybe junior, Ministers who could be given individual responsibility for particular areas of policy. This may be difficult since their writ would have to run across accepted Departmental boundaries. It would require the cooperation of the relevant Secretaries of State. But responsibility would be clearly defined.

What would **not** work is leaving the whole problem to a Committee of Ministers, or even worse, officials. Shared responsibility is a recipe for delay.

In parenthesis this paper may appear to be unduly critical of the work of Civil Servants. That is certainly not my intention since I have greatly enjoyed my time in the Service and admire those with whom I work. Nevertheless I believe that the present system operates to the detriment of our objectives, albeit often unconsciously.

David Lane

August 1983.

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PAPER 15

23

(Chancellor of the Duchy
of Lancaster)

STRATEGY FOR UNEMPLOYMENT

1. There are a large number of individual steps which need to be taken to improve the functioning of our economy. The papers already circulated detail many such measures. But we must not allow preoccupation with these necessary matters to divert our attention from the need for a clear and readily perceivable policy into which the individual measures fit. We did succeed in doing this in our first Parliament in the case of inflation where our goal was clear cut and readily understandable by the people. We need the same approach in the case of unemployment.
2. I believe that it would be better to start with the theme of employment rather than unemployment. The creation of employment is a positive approach harnessing enthusiasm and energy. There is something negative about "unemployment". Obsession with unemployment may lead us to espouse measures - like work sharing and early retirement - which may be necessary short term palliatives but which in the longer term are more likely to damage the economy than help it.
3. We have to get away from the concept that work is limited in quantity and therefore has to be spread thinly in order to ensure that everyone has a fair share. The truth is the opposite. Namely that the work to be done is unlimited. We all - individually and collectively - want a higher standard of living. This means that there is more work to be done, more employment waiting to be called into being. The core of our problem is how do we translate this general aspiration for a higher standard of living into higher output and hence into higher employment. People in their capacity as consumers want more goods and services. Why in their capacity as producers do they not produce these goods and services? And how can we so arrange our affairs that they do?

4. I agree with much of what Sir Keith Joseph says. I would go further and say that we have brought up a generation which does not adequately recognise the need for personal responsibility and which is too ready to demand that the State should provide. Just as it has taken a generation for this attitude to become the dominant attitude, it may take a generation before we succeed altogether in changing it. But we can and ought to change the framework in which people live their lives in a way which positively encourages people to alter their attitudes and their approach: which rewards them for shouldering their own responsibilities.
5. I regard the burden of taxation as the greatest of all obstacles to economic progress and therefore the creation of new employment. Not so much the system - although there is plenty to criticise there - but the sheer burden. The way that taxation siphons off into the Exchequer a sizeable proportion of any additional output itself limits and may even frustrate recovery and growth. The disappearance of 40% or more of the value of additional output into the pocket of the Exchequer creates a serious temptation - or nigh certainty - that the public sector will be maintained bigger than it would otherwise be and the private sector thereby stunted. Even if increased revenue goes wholly to reduce the borrowing requirement, the transmission of the benefit back into the private sector is indirect and the efficiency of the transmission mechanism open to question. We were right to regard substantial reduction of a grossly excessive borrowing requirement as a first priority. I ask now whether we ought not now to put reduction in the burden of taxation at the top of our list of priorities: and ensure that as revenue expands with growing output the whole of that increased revenue should be returned to the private sector in reduced taxation and that none of it should be pre-empted in increased Government expenditure. The strength of the American economic recovery may owe not a little to the President's resolute refusal to increase taxation despite the size of his budget deficit.

6. One would like to see additional output - whether from new or old sources - relieved from tax altogether. It is not possible to do that as simply as that. But we ought to give high priority to measures which one way or another do give tax relief to new enterprise: to expansion: and increased output. We ought not to be directing our efforts to stamp out the black economy. The lesson the black economy teaches is that if 100% of the output accrues to the entrepreneur instead of a large share going to the State, the activity will be undertaken. Our objective ought not to be to eliminate the black economy: but to eliminate those circumstances which make it black.
7. To achieve the kind of reduction in taxation we need to provide adequate incentive and opportunity for new output, we need not only to block the growth of the public sector but positively to reduce it. This does not necessarily mean a reduction in the goods and services the public demands but a change in the way those demands are met. To the extent that we can substitute private provision for public provision we achieve two further advantages. We give the individual an added incentive to earn the money to pay for the service. And we remove the constraint on the growth of those sectors on which people are willing and anxious to spend more. Medical care is one of the great growth sectors all over the world. It is economic madness that we should be stunting its growth in this country because we insist on State finance: and impose a heavy penalty on those perverse enough to provide for themselves.
8. We need to be very, very wary about pensions. In the aggregate we may well be overproviding: but this is the net result of great over provision for some and underprovision for others. If we deal with this in the conventional way of levelling up, it will impose a further burden on the producing sector of the economy. While left to themselves and with full knowledge of the facts people would probably opt for a lower not a higher level of provision.

The whole pensions business is a particularly vicious circle - the demand for better pension provision (on the assumption that someone else will pay); the greater burden this imposes on the producing sector of the economy: the consequent discouragement of output; and the smaller the resources thus available to pay the increased costs. There is a further pitfall which must be avoided. That is change which results in increased reliance on the State's own pension scheme. In terms of what the economy will stand we may be able to provide less for pensions. Of what we can afford most certainly the State should provide less and the private sector more.

9. We have said it so often that I would hope by now other people are beginning to believe it as well. Only the people themselves in their individual capacity can do the job. The function of the State is to provide the right framework within which individuals will operate: and particularly at times like these to provide leadership, encouragement and inspiration. We need first to encourage more people to enter into economic activity; to create new activity, to satisfy demands which exist but which are not being fulfilled. Second we have to encourage those already in economic activity to do better, to capture markets at home and overseas and thus expand their output. In pursuit of the first objective we must remove all the barriers we can - tax barriers, social security barriers, bureaucracy - which discourages people from entering into economic activity. Where we can we must give positive incentives to people to enter into such activity. In pursuit of the second objective the removal of constraints imposed by Trade Union Activities, by Wages Council and in many other ways are vitally important. We need to educate our workforce - and our people generally - in the economic facts of life. The part to be played by management - at all levels - is crucial to economic recovery. Is our management good enough by international standards? What can we do to improve it? But in the end success will come by motivating management; by ensuring that the rewards of success are adequate - or more than adequate - and that the penalties of failure cannot easily be avoided.

A.C.

1 PAPER 16



SECRET AND PERSONAL

Prime Minister

Do you wish to

pursue this, with

the colleagues at A?

PRIME MINISTER

A PASSPORT FOR A JOB

Would Alan look at it first. We should need to work out what could happen if the employee were to be released at 18.

There is, I believe, a large unsatisfied demand for relatively unskilled low paid work while at the same time there is high unemployment. The failure to match the two reflects an unrealistic demand price, the poverty trap and the reluctance of employers - particularly private employers - to get involved in the bureaucracy which goes with employing someone. The problem is particularly acute with the young unemployed. This is an attempt to cut through the knot:

- Age below 18
- Pay not more than £45 a week
- No income tax
- No national insurance
- No employee "protection"

The young worker would be issued with a passport. He would simply lodge it with the employer, who would hold it as his authority to employ the worker without deducting tax or national insurance contributions.

Neither employer or employee would come into contact with the bureaucracy once the passport was issued. There would be no forms, no returns, no anything.

The passport would have a prominent date of expiry printed on it. Once this date was passed there would be an obligation on the employer if he retained the worker to put him back into the system.

There is experience in the use of a passport system of this kind for building workers on the lump.

It will, I know, be argued that the employer will hire a succession of young people, firing them immediately they attain 18. This is bound to happen. But the reason it happens is that it is not economic to employ someone on the standard terms applying to those over 18. If we were to reject the scheme on this argument we would be sacrificing a job opportunity for a 16 or 17 year old in an attempt to preserve a non-existent and uneconomic job.

I am sending copies of this minute, on a strictly personal basis, to the Chancellor of the Exchequer and the Secretaries of State for Education and Science, for Employment, for Trade and Industry and for Energy.

A.C.
COCKFIELD

1 July 1983

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15 MA

Prime Minister (2)

SECRET AND PERSONAL

For the Chequers

PRIME MINISTER

Yes meeting?

A SCHEME TO HELP THOSE STARTING UP AS SELF EMPLOYED

MS 12/7

1. Our objective is the creation of employment. This will lead to a reduction in unemployment: but it is not the same thing. The creation of employment always adds to the wealth of the nation: a reduction in unemployment does not necessarily do so.
2. Both for employment and self employment, tax and national insurance contributions are a serious bar to entry. It is not simply the money: it is the procedures and form filling involved. The obvious remedy of a massive increase in thresholds is completely out of court on grounds of cost: and in the case of national insurance because of the insurance principle. One needs therefore to find some device for getting people at the bottom out without repercussions right up the income scale.
3. In order to do this we have to have some means of defining closely the group to benefit: and a definition which is simple; as near as possible automatic; and requiring little or no intervention by the administration.
4. I put forward one such proposition in my minute of 1 July. That suggestion referred to the young unemployed. The present suggestion relates to people wishing to set up in business on their own.
5. The present VAT limit of £18,000 per annum is sufficiently high to take the new entrant to self employment out of liability in the great majority of cases. We cannot increase it because of EEC regulations but it is not likely to be an inhibiting factor in the present context. But the income tax threshold of £1,785 (£2,795 for the married man) is much too low. So too is the NIC threshold. The Institute of Directors suggested a tax threshold of £5,000. The difficulty of fixing a threshold in profit terms is that one needs to calculate the profit first and this in turn brings the Inland Revenue into the picture. Moreover a simple profit test of this kind too readily invites comparison with the employee.
6. What I have in mind is linking the scheme to a training programme - either an existing one or one developed for the purpose. I would then link the relief to turnover or takings - not to profit.

The outline of such a scheme would be as follows -

A person who had completed the appropriate training course and then set up in business on his own would be exempted from all requirements relating to income tax, VAT and NIC for a period of three years provided his turnover did not exceed £10,000 per annum.

The £10,000 limit would mean that the man would be outside the VAT net anyway. In most cases the £10,000 turnover limit would mean that net profit would be well under £5,000 pa. And the 3 year limit would ensure that no massive benefit could be secured.

The real sanction however would be the "approved Training Course". This would enable one to eliminate at source the bogus cases such as the "self employed draughtsmen". Moreover the necessity of attending a training course would make the operation unattractive to existing established self employed people.

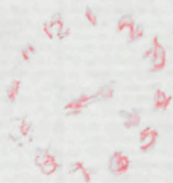
8. I am sending copies of this minute, on a strictly personal basis, to the Chancellor of the Exchequer and the Secretaries of State for Education and Science, for Employment, for Trade and Industry and for Energy.

A.C.

COCKFIELD

11 July 1983

12 JUL 1983



RESTRICTIONS ON WEALTH CREATION

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 PE in areas that are not wealth-creating has risen under us, and getting it down again will require a major effort to educate public opinion.
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Department of Trade and Industry

RESTRICTIONS ON WEALTH CREATION

I Maintaining our sense of priorities

This paper explores what more can be done to eliminate or reduce restrictions on the wealth-creating part of the economy.

It interprets "restrictions" in a wide sense.

2 It sets out a number of detailed proposals which can make a difference to our wealth-creating sector at the margin. But I think it important to say at the outset that these proposals are of small importance compared with the "big things" that the Government is already doing. Keeping down inflation and interest rates, and controlling the burden of public spending are policies which make a fundamental difference to the climate in which the wealth-creating sector attempts to grow.

3 We should not allow ourselves, I think, to become too engrossed in the search for novel ideas. There are some good ideas around, and we have studied most of them before at some time or other. It is right to review them again and to do more work on the most promising. But the most important thing is to be sure that we are still pursuing our main policy objectives, and if necessary to increase our efforts on those.

4 We are under great pressure from commentators to find "new things" to do in our second term. We should not be led astray by that. The novelty of this Government is its determination to pursue its policies unflinchingly to fruition.

5 The measures discussed in this paper will impact directly or indirectly on corporate profitability. This has fallen sharply since the 1960s and in real terms became negligible (on average) by the late 1970s. It has recovered somewhat in the last two years but still compares unfavourably with profitability in the USA, Japan and many European countries.

An improvement in profitability is a prerequisite for sustained economic recovery.

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II Public expenditure and interest rates

6 Probably the two most substantial restrictions on the wealth-creation in the private sector are high interest rates and the proportion of our GDP pre-empted by the public sector. So maintaining tight fiscal policies and continuing to attack the problem of public spending must remain our first priorities.

Some money spent by Government can contribute to wealth creation eg ^{some} expenditure on improving the nation's infrastructure. But even that money has either to be raised from taxation, adding to the burden on the private sector, or by borrowing in competition with it.

Since 1979/80, the proportion of GDP accounted for by public expenditure has risen from 40½% to 44%. Expenditure on goods and services barely changed proportionally over that period. Higher social security payments were, of course, the main factor. So today, a higher proportion of our national wealth is being spent relatively unproductively. Transfer payments apart, money spent by government is likely to be less efficient at creating either wealth or jobs than money spent by the private sector, and it tends to flow into areas where the unions still enjoy greatest monopoly power and where they most successfully operate restrictive practices.

7 We need to state clear objectives and stand by them: we aim to reduce the proportion of our wealth pre-empted by public spending and to minimise the pressure on interest rates. If we have clear objectives much else will follow. Once the Government has a clear view of the path of public expenditure its policy towards, for example, public sector pay, becomes a matter of necessity. To state clear objectives imposes a discipline on Government which actually makes governing easier.

8 In the case of defence we shall soon face the decision as to whether to continue to increase expenditure in real terms beyond

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1985/86. Defence spending can of course contribute to growth inasmuch as it comprises orders for British companies, or spin-off for British technology. But much defence expenditure goes into overheads, orders from abroad and research with little civil spin-off. In any case we need to improve the international marketability of defence products (see Paper ~~Two~~¹⁹). Strenuous efforts are required to minimise the extent to which defence spending represents a diversion of resources from the wealth-creating sector and a subsidy to apparently efficient companies that blunts their determination to exploit civil markets.

9 If there is to be any shift in the balance of spending, public opinion will need to be educated. We require "consensus", not in the sense of an amalgam or mid point of what people presently think, but in the sense of public opinion educated into a full understanding of the problem and so willing to support the Government's policies for dealing with it.

10 The public is still in the mood for decisive action. Public opinion can be educated as we have shown in the past. We need now - in our first year - to do what we fought shy of at the time of the CPRS report : to set out the problem of public spending, get it discussed, allow suggested solutions to emerge, and develop our policies in the light of changing attitudes.

11 My own Department contributes to the burden of public spending through payments to loss-making nationalised industries and through regional assistance. Both of those must be reduced. These are discussed in Paper ~~Two~~¹⁹.

III Trade Union power

12 Another important restriction on wealth-creation is the influence of the trade unions in maintaining overmanning, demarcations and other rigidities, in disrupting work through stoppages and in maintaining upward pressure on pay. These effects are felt directly in the wealth-creating sector, but also indirectly through the additional costs imposed on it by government and state-owned suppliers. Norman Tebbit is tackling the legal aspects of trades union powers and immunities. We need also to consider how our policies towards the state sector can contribute to loosening these restrictions. It is very dangerous, for example, to entrench the monopoly position of the NCB by banning coal imports. Without other measures, this simply increases the bargaining power of the NUM.

13 A part of this is to resist excessive pay claims as we have done in the civil service and NHS. We should take every opportunity to demolish the still widely-held notion that moderate wage settlements now represent some kind of "sacrifice" that must be made up later. We should also aim to introduce competition into all our presently nationalised industries, even where it is not possible to introduce private capital, to decentralise them, and to encourage local wage bargaining.

IV Nationalised industry costs

14 Gas and electricity prices play their part in industrial overheads, and to the extent that they are avoidably high represent a restriction on wealth-creation. I believe that we can only make them more efficient and responsive in the long term by privatising them and subjecting them, wherever possible, to competition. We should face up to the difficulties now. This is, of course, for Peter Walker to propose, but I would make just three points :

- a) We should take on the argument that privatising "natural monopolies" like BT, gas and electricity simply substitutes a private monopoly for a public one. Provided the regulatory framework is right, the introduction of private capital should mean a massive extension of accountability for the organisations. As well as the requirements of the Companies Act, they will be scrutinised by the banks who at present rely on the government's guarantee and by millions of shareholders.
- b) Where a fully competitive structure cannot be achieved, some benefits can still be secured by privatising region by region. Customers would then have at least a point of comparison on service and price. Once privatised, the separate companies based on the regions of the nationalised industries could compete for some new business outside their original territory. (The gas and electricity industries have an existing regional structure which did not exist in BT where its introduction would have delayed privatisation by several years).
- c) Where early full-scale privatisation is not feasible, other measures to provide competition or decentralisation may be worthwhile.

15 The coal industry adds substantially to the burden on industry, both because it is a drain on the public purse, and because its inefficiency contributes greatly to higher electricity costs and coal costs. This is for Peter Walker too, but I believe there are better opportunities than before to allow coal imports and to break down the NCB into regions which genuinely compete each other in the national (and international) marketplace - an opportunity not available on the same scale to the industries with massive distributive overheads.

V Taxation (including national insurance)

16 Corporation tax. A change in CT could substantially improve the attraction of capital investment and open up the prospect of recovery led by investment not demand. Although there were consultations on the basis of a lengthy Green Paper in 1981, I hope that Nigel Lawson will consider the case for a fundamental review of this tax. It is levied at a rate so high that it is a powerful disincentive to investment. Government has recognised that and so introduced a series of exemptions and tax incentives to encourage investment. As a result we now have a horrendously complex tax, and business has accumulated £40 billion of unused tax allowances. It is probably time that we moved to a much simpler tax levied at a lower rate. If the effect on the profits of the banks would be unwelcome, this should be dealt with by special measures. More immediately, I would hope that Nigel Lawson might reconsider :

- a) switching from an imputation to a flow-of-funds system of assessment. Companies which are growing fast presently pay CT on their profits even if those are being ploughed back to finance expansion. (This proposal was, of course, considered and rejected by the last Chancellor).
- b) Extending capital allowances to buildings used for development work (as now available on research buildings) and 100% capital allowances on patents (as now on plant and machinery). That would stimulate innovation.

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17 Personal taxation. Our tax policies should encourage the growth of both self-employment and small businesses. The Inland Revenue's attempts to drive the self-employed into employed status wherever possible seems inconsistent with our general policy and I hope that Nigel Lawson will review it. There is obviously a case for reducing the top rate of income tax on earnings to 50 per cent. However, I believe that we can do more to motivate management by providing greater incentives to share ownership, which I discuss in Paper Two.

18 National insurance surcharge. Its abolition would cost about £800 million and remove that burden from the cost of employment.

19 National insurance contributions. If employment creation is one of our highest priorities, we should avoid increasing the employer's nic further. It's always tempting to load increases onto the employer rather than the employee, but there is a price to be paid in damage to employment.

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VI Legislative and administrative burdens on enterprise

20 Planning. There is little pressure from industry to lighten the burden of environmental, safety or consumer protection legislation. Some of these "burdens" can actually stimulate innovation eg. requiring new materials to replace asbestos; US requirements for vehicle fuel economy and exhaust pollution control. Admittedly, the enforcement authorities are sometimes too inflexible in meeting industry's changing needs e.g. some high technology companies find it difficult to obtain planning permission for specialised accommodation. Steps have already been taken to improve the Town and Country Planning procedures, and further work is in hand under Patrick Jenkin. I may also press him to make his Department show greater sympathy towards small companies. We all regret the long delays and high costs caused by major planning inquiries. I understand Patrick is considering reforms. The need to balance the sometimes conflicting demands of commercial and aesthetic considerations must be borne in mind.

21 Building Controls. There is is a general feeling that the building control and fire safety regulations place an undue burden on small firms because inspectors require expensive last minute alterations to buildings under construction. I have not found evidence that this is a general problem. If evidence comes to light we should be ready to act. In general it does not seem that there is a case for major changes in the building control system as it will operate after the Housing and Building Control bill comes into force.

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22 Burdens on small businesses. It might be possible to give some more exemptions to small businesses. The cost of compliance of VAT is a major complaint of small firms. Not only is the cost substantial, it is highly regressive. This increases small firms' competitive disadvantage against larger firms e.g. in retailing, where large retailers also enjoy favourable discounts. There is no easy solution. An increase in the turnover exemption limit, beyond what is required to keep pace with inflation, is prevented by EC regulations. But some tapering of exemption provisions or a move to annual accounting for small firms are possibilities although not all small firms' organisations favour the latter.

23 Contracting out. I hope that we shall also press ahead with contracting out the services required by local and central government. Legal services, accounting, computing, organising pay, typing, design, architects services - these and many others offer enormous scope for private enterprise. Contracting out can give a great boost to smaller companies, and help to reduce the cost of government.

24 Merger control. The present £15 million assets criterion at which the merger control provisions of the Fair Trading Act operate could be raised to reduce the large number of mergers which have to be evaluated by the Office of Fair Trading and which raise no competition or other public interest issues. As the alternative 25% market share criterion would be retained, the assets criterion could be raised substantially.

VII Job opportunities and the availability of labour

25 The availability of resources (especially skilled labour including managers) and the mobility and adaptability of resources as demand and technology change, are major influences on wealth creation. The UK's performance has been seriously deficient. This may be due to cultural factors as much as to economic factors in which case there is a limit to possible Government action. A more positive attitude in the community to change, whether the acquisition of new skills or a move to a new location, is required. A major change in attitudes towards wealth-creation in the educational world, especially the schools, is overdue while the shift toward engineering and technology in higher education needs to be accelerated.

26 Skills. We have already taken an important step towards improving skills in our workforce through the New Training Initiative, particularly by replacing time-serving with tested standards of achievement. We need now to pay particular attention to management and other adult training. Some assistance for management development is provided by the MSC, the DES and my Department. But there is scope for us to do more (see Paper 19).
~~Two)~~

27 Particular measures to create employment. These proposals fall outside the area of my responsibility, but could perhaps improve employment opportunities :

- a) Abolish remaining wages councils. As an example, to take on a 16 year old sales assistant in central London an employer must pay £67.97 for a 39 hour week, and a premium of £2.72 if that involves Saturday working.

- b) Reduce Sunday and other hours-of-trading restrictions.
That could help provide new opportunities for part-time work and reduce a source of irritation for tourists. The Home Office are studying this.
- c) Take further action to encourage part-time work.
For the older and long-term unemployed the greatest problem is often frustration and a sense of futility rather than money. We should re-examine carefully all opportunities for unemployed people to be encouraged to take on small amounts of part-time work through raising the level of "disregarded" income. This could be particularly useful to voluntary organisations.
- d) Encourage private road building by paying royalties.
Studies are underway on this subject. The constructor pays for the road and recovers his investment through an annual royalty. The difficulty is, of course, to persuade contractors to take a genuine risk. In principle, the scheme would allow us to build more roads today, so boosting employment in the short-term and providing Britain with an improved infrastructure. The roads would probably be built better and faster. But we might end up by paying more for them.

28 Labour mobility. We should consider the following proposals to improve labour mobility :

- a) The unfair dismissals legislation. An employee cannot bring a complaint against an employer of fewer than 20 people unless he has been employed by him for more than two years. Norman Tebbit might consider increasing those thresholds to, say, 50 employees and three years.

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- b) The transferability of private pension rights :
Changes in this area will take many years to effect, but we should consider how great a change we should like to see whether by :
- i) legislating to ensure that preserved pensions are increased in line with pensions in payment (though this would impose costs on the employer, the employees the pensioners); or
 - ii) giving the right to new employees to opt out of the employer's scheme and to require him to contribute as though they had not done so; or
 - iii) allowing the "early-leaver" to enhance his own pension arrangements by making extra contributions which would attract tax relief; or
 - iv) moving towards the unitisation of pension funds so that each employee would know the value of his accumulated stake in the fund and could withdraw it on leaving.
- c) Housing policies also play an important part in labour mobility. Home-owners are more mobile and more highly motivated. I am sure that Patrick Jenkin and Ian Gow will consider how we can accelerate the growth of home-ownership by every possible means. I hope that they will also consider again the decontrol in rents in the private sector at least for new lettings, and the abolition of phasing of rent increases. It would not only somewhat improve the mobility of labour but also give an important signal to the building industry.

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VIII Finance for business

29 Lack of finance for small firms and of venture capital remain the main gaps in the UK capital market. A substantial proportion of personal wealth in the UK is in the form of three assets which receive privileged tax treatment compared with investment in equities, (namely owner occupied houses, life insurance and pension funds.) Institutional investors have grown to replace the private investor but their investment policies tend not to favour small companies.

30 I hope that Nigel Lawson will consider :

- a) Removing tax barriers to the creation of small firm investment companies. Such companies could be quoted. That should go a long way to solving the marketability problem of the underlying unquoted company shares. Tax relief would be available to the investor earlier ie on buying the SFIC share itself.
- b) Extending the period of the small firm loan guarantee scheme if its evaluation justifies it.

IX Conclusion

31 The main restrictions on wealth creation today are the same as those we identified before 1979 : high public expenditure and in part as a consequence, high interest rates, trades union power and restrictive labour practices, nationalised industry costs, high taxation of companies and individuals, and lack of skills and mobility amongst the workforce. Our policies developed in the period before 1979 and pursued consistently since have been addressed to these problems. We have made excellent progress on a number of them and could go further - for example, on taxation - but only when resources allow. The impact of regulation on business in the strict sense of controls is limited.

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We have already swept away a number of the worst examples. It is difficult to predict how our regulations might affect new technologies or areas of economic activity. We must be vigilant and move swiftly to remove the restrictions when they become apparent, as we did with cable. For the moment, the most important thing is to maintain our present economic policies, and make such other changes as suggested in this paper as and when we can.

Department of Trade and Industry.

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ENCOURAGING GROWTH

- | | | |
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ENCOURAGING GROWTH

This paper examines what the Government can do, without higher expenditure, to encourage growing industries rather than support declining ones, and in particular to help industry to adapt to, and to exploit, new technology.

I Background: Where to look for growth

2 The first thing is to try to understand from where growth comes. Total UK output is now some 6% above its 1975 level. Output has been growing faster than that in services, public utilities, agriculture and North Sea oil. In services it grew by 8% between 1975 and 1981, and in manufacturing it fell by 11%. Employment in services (including government) rose by 5%, and in manufacturing it fell by 19%.

3 In manufacturing, employment fell in all sectors including those that showed considerable growth in output. For example, electronics output grew by 38% while employment fell by 13%. In the sectors with declining output, decreases in employment and output were broadly similar in most cases. Amongst the services, employment growth was strongest amongst the financial and other business services and in sport. Amongst some of the others there was a fairly pronounced fall in employment eg. in food and drink wholesaling and retailing.

4 The broad definitions of sectors mask very considerable variations within sectors and between companies. For example, UK production in the broad electrical engineering sector in 1982 was no higher than it was in 1979. But within this, electronic components rose by 10% over the period; telecommunications by 21%; computers by 22%. By contrast, production of domestic electrical appliances fell by 16%. A survey of 18 UK computer equipment manufacturers shows sales growth (current prices) over three recent years varying from under 30% to over 1700%. Many examples can be found of individual companies within traditionally 'declining' sectors doing well; for instance several companies in the textiles sector, which declined by 28.6% during 1975-81, have featured in the Queen's Award for Export lists in recent years.

5 Comparing the growth or decline of UK manufacturing sectors with world growth rates by sector, the pattern is similar e.g. both in the UK and the world we find electrical machinery doing best, basic metals doing least well. But the UK growth rates are much lower than elsewhere (in fact generally negative). This suggests that growth is being held down in all sectors. We should therefore examine what factors depress UK manufacturing as a whole.

6 Growth in manufacturing seems to be positively associated with human capital as measured by the proportion of professional and technical staff in the workforce. In general the higher the better.

7 It is often argued that small firms will be the main sources of employment growth in the future. It is important to encourage this dynamic element in the economy. But British evidence shows output and employment growth among small firms is bound to be a slow process; many new businesses will (and should!) die; and many small firms will not wish to expand rapidly or at all. We should be cautious about expecting too much growth here.

8 There is evidence that successful growth strategies share a number of common characteristics. An analysis of the 'Fortune 500' firms in the USA, admittedly dominated by manufacturing, highlights :

(a) Responding to the market

Successful firms pay close attention to their markets. They are able to identify the variety and changing pattern of customers needs, often through close links with distributors. Management expertise in marketing, purchasing and quality control are all critical.

(b) Flexible organisation

To respond quickly to new or changing markets, growing firms often adopt a flexible organisation. Product design can readily be modified; manufacturing systems can be re-shaped; and there is some more anecdotal evidence that smaller units, even within larger firms, can be managed more efficiently. Design, production engineering, and employee relations are important management skills.

(c) Building on technological strengths

The best financial performance among these firms was shown by companies diversifying into products using a similar technology, capitalising on their experience.

II The balance between manufacturing and service industries

9 We obviously must pursue policies which benefit both the manufacturing and service industries. Manufacturing is still an extremely important element in our GDP, but it is unlikely that it can provide increased employment. Even our successful manufacturing sectors seem able to expand output whilst shedding labour. Any increases in employment are more likely to occur in the services sector. We must therefore ensure, at least, that our policies do not discriminate against services, which at present the tax system does.

10 Public attitude to manufacturing. There is a widely-held misconception that a nation's economic "virility" depends on its manufacturing industries, and that dependence on service industries is a characteristic of second-rate countries. We must reject that notion absolutely. Some people even argue that the economies of the more advanced nations will in time evolve beyond manufacturing industry, and something of that process can be observed today around the world. The misconception

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could be damaging for us. For example, the Opposition seized on our trade deficit in manufactures as an important indicator of economic failure. It is no such thing. We need to work on public opinion - as we have done to alter perceptions on unemployment - and guide it towards accepting an economy more oriented towards services.

III Factors affecting UK performance

11 Interest rates, the Exchange rate and Exports

We must continue our efforts to bring our real interest rates down. they are high and deter investment. The UK's effective exchange rate is still well above the low point reached in March 1983. Companies frequently contrast Japan's combination of high growth, a weak Yen and low real interest rates, with the UK position of low growth, a relatively highly valued currency and high real interest rates. Many of them argue that a fall in both our exchange and interest rates would do more than anything else to stimulate growth. (Export opportunities are critical, see paras 28-32). Major exchange rate fluctuations can be damaging to industry but I would not advocate attempts to engineer a lower exchange rate, nor would I like to see interest rates raised to prevent it falling.

12 British "craftsmanship". The changes required to improve our economic performance have been made more difficult because many people in industry still believe that we are a craft-based economy. The quality of British craftsmanship is now no more than a myth in much of British industry, and yet the myth persists despite all the evidence. At BL poor craftsmanship contributed significantly to its poor performance. The quality of our motor components compares badly with Europe in general and worse with Japan. Lloyds Register of Shipping is warning that basic craftsmanship in some of our shipbuilding yards is so deficient that they have doubts about licensing some BS ships. We need to redouble our efforts to improve basic standards of education and technical training (see para 23).

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13 Consumer resistance to buying British. In some areas, many British and foreign consumers have come to believe that "British is second best". That belief will be difficult to overturn even as British industry improves its quality and competitiveness. A general weakness amongst British companies continues to be marketing. The main task of restoring faith in British products falls on those managers responsible for marketing. But we should consider whether there is a role that Government can play - perhaps by promoting a campaign drawing on the excellence of some British goods, encouraging more people to take a fresh look at the best that is now available. It would need to be planned in close collaboration with industry and would involve engaging publicity specialists.

14 Lack of incentives for management. British executives are still relatively poorly rewarded despite the reduction that we made to the top marginal rate of income tax. We need to improve rewards for success, either by a further cut in the top rate, or more particularly by share ownership schemes (see paras 25-27).

15 Lack of incentives for other employees. Employers (including nationalised industries) should be encouraged to link rewards to achievement more. Ian MacGregor has given a good example of this at British Steel, linking an increasing proportion of earnings to performance. There is nothing wrong with high wages if they have really been earned (see also paras 25-27).

16 Resistance to technological change. We still have to deal with the paradox that whilst consumers accept new technology in the home (as evidenced by the sale of computers) new technology is often resisted at work. The general view evidently is still that new technology destroys jobs rather than that it saves them and creates new opportunities.

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IV The older industries

17 The first part of the remit for this paper asks what can be done to stop support for declining industries.

18 The most urgent need is to reduce spending on the nationalised industries. Since 1979 my Department has spent £2 billion on its ni's and state-owned companies. The corresponding EFL's have totalled almost £4 billion. Adding in the other nationalised industries brings this figure to about £10 billion. In some cases this represents an enormous diversion of real resources into loss making, declining firms. It dwarfs all DTI efforts to switch support to promote growth. Scarce financial, technical and managerial resources are being locked in to loss makers. Reducing these resources sooner rather than later will contribute to growth.

19 In order to do so, we must be prepared to see enormous changes at British Shipbuilders and in the coal industry. The immediate results will be increased unemployment in areas which are already badly depressed, and very substantial redundancy payments.

20 Although BL and BSC have made good progress, they are now under new management and will be watched very carefully to ensure that they do not slip back into their old ways. If further changes in management are required, we must make them swiftly and without hesitation.

21 I intend :

- a) || that BL should sell Jaguar, Unipart and Land Rover as soon as practicable
- b) that BS should privatise warship building and close uneconomic capacity

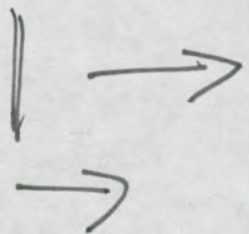
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- c) to privatise RR as soon as practicable
- d) to examine the scope for privatisation in the area of the Post Office's activities
- e) to continue to chip away at BSC, possibly by more joint companies with the private sector. We may also have to consider allowing BSC to decide its plant configuration wholly on commercial grounds.

22 Looking beyond the ni's we shall have to decide whether civil aerospace is an industry in which we should continue to invest large amounts of public money. Should we refuse launch aid to e.g. RR's new engines and the Airbus A320 on the grounds that the predicted rates of return may be either unsatisfactory or unreliable? Or do we accept that even so civil aerospace is the sort of high technology industry into which the UK ought to be moving, in order to escape the unbeatable low-wage competition in consumer goods?

V Improving our human resources

23 Education and training. Quality and availability of labour are crucial. Yet here the UK lags far behind our competitors. In Japan, for example, 95% of young people stay in full-time education until the age of 18, compared with only some 25% of young Britons. In W Germany about 60% of the workforce have vocational qualifications : this is twice the UK level. We have immediate shortages of trained technicians in microelectronic and instrumentation, and of software engineers - all of which are constraining growth now. The best way to overcome these problems in the medium to longer term is to make the education system more responsive to market needs. This is particularly necessary if the total resources devoted to this area are to remain stable or even decline. It can be achieved in a number of ways :



- a) make more use of the available data on skill shortages and graduate unemployment and earnings in deciding how central resources are to be allocated to different institutions and subject areas;
- b) make data on graduate employment and earnings much more widely available to prospective entrants to higher and further education so that they can make better informed choices on which course to apply for at which institution;
- c) encourage and reinforce links between employers and the institutions so that employers' needs play a much greater part in the design of courses and curricula;
- d) allow market needs to be reflected in the price we pay for teachers in priority areas eg maths and science, electronic and electrical engineering. We could also consider whether the level of student grants should be higher for some subjects and lower for others.

24 These proposals should lead to a better supply of manpower for industry and commerce in the future. But we should consider the scope for short term measures to help improve the quality of existing management. The small costs involved could be met by savings on regional policies. Possibilities include :

- a) small and growing companies can be encouraged to seek advice from larger ones through schemes like the Leicester Business Venture, with a very modest degree of support from Government;

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- b) where there is very clear evidence of widespread management weakness among small to medium-size companies - eg production management and design - my Department already helps meet the cost of short bouts of consultancy. This is highly cost-effective, because it tends to establish a permanent improvement in working practices and an increased willingness to use outside expertise to solve problems in the future. Other areas of well-established management weakness - eg financial management and marketing - might lend themselves to similar treatment. We are investigating this;
- c) we could take steps to encourage the supply of more suitable courses for business managers, eg on a part-time basis - in the evenings and weekends tailored to business needs. More could be made available on a 'distance learning' basis;
- d) we might also experiment with encouraging companies to make fuller use of the facilities for management training that are available by providing incentives - on a temporary basis in order to overcome the still widespread initial resistance to the use of formal management training.

25 Management and employee motivation. Bridging the gap between those who own businesses and those who work in them at all levels can help to improve motivation and thereby raise performance. We should encourage more ownership at every level. Specifically :

- a) we should encourage schemes that involve payment of a deferred profit sharing bonus which can be accumulated for the executive as payment for shares when the option is exercised. This is an especially suitable form of remuneration for executives in high technology companies where the prospects of big rewards can make up for lean initial salaries;

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- b) in order to encourage more widespread employee share ownership, we might consider linking the right to tax relief for executive shares to a requirement that similar facilities are provided to employees more generally. We might also provide for employees to receive a portion of their remuneration in shares (tax free?) This would require amendment of the Truck Acts;
- c) company schemes apart, we should maintain and if possible improve the accessibility of the stock market to the small investor. If small stockbroking firms were driven out of the market by sudden changes, this would greatly reduce accessibility. In USA financial services are being marketed through retail outlets; this is the kind of development we should encourage. I hope Nigel Lawson will also review the operation of the rate of stamp duty on share transaction. Perhaps a threshold could be established to exempt very small dealings.

26 Share ownership apart, we should take every opportunity to encourage nationalised industries and private companies to pay a larger share of executive and employee remuneration through performance related bonuses. In industries like shipbuilding this bonus should only be payable when an order is complete.

27 We suspect there are a number of promising medium size business which are at present locked up in large industrial empires and neglected by top management. De-mergers and management buyouts would enable those that work in these companies to exploit their full potential. We should encourage this approach wherever we can.

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VI Marketing

28 Export Services. Few companies can grow for long in the UK home market alone. Help with exporting can therefore be an important stimulus to growth. BOTB services are designed to provide advice and information on individual markets, and financial assistance towards the cost of visiting markets, market research abroad, exhibiting overseas and the overhead costs of breaking into new markets.

29 There is also scope for work to assess the market prospects and the best ways of penetrating overseas markets for particular sectors of British industry. The DTI has already identified a number of priority markets in Western Europe where there are particularly good opportunities for specific UK products. If successful, this targetted approach should be extended to other world markets.

30 The network of commercial posts overseas is an invaluable resource to British exporters. The DTI should be closely involved in the posting policy in this area, ensuring that decisions on the level of commercial representation overseas take full account of the needs of UK industry and commerce. MITI has 5 times the number of their staff posted around the world that DTI has.

31 Encouraging market orientation. The Government could do much more to help ensure that British goods can sell in a variety of overseas markets by making that a condition of both project assistance and purchasing contracts. We should consider;

- a) Tightening up our requirements for evidence of market assessment as a precondition for any DTI project assistance.
- b) Wherever feasible, concentrating key public purchasing contracts, including in the defence field, on products or projects that can demonstrate a convincing chance of export success. Public purchasers of all kinds should be more willing to align their requirements with those of the international marketplace.

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32 Promoting freer trade. If they are to maximise their potential for growth, UK companies need unconstrained access not only to international markets, but to technology, ideas and equipment from overseas. The government is firmly committed to an open liberal world trading system and works, within the Community, internationally and bilaterally to resist moves to protectionism and to open up protected markets (eg Japan, Spain). Special effort will be directed at freeing up areas with good prospects for UK industry (eg free trade in insurance and in services generally, both within the EC and more widely). We will also resist the sometimes less obvious, but potentially extremely damaging, actions of other administrations to restrict or frustrate the free flow of technology, ideas and high technology equipment which are all vital to industry's development. Continued vigorous action is needed to influence US policy, not least in connection with renewal of the Export Administration Act and USA claims to extra-territorial application of its laws.

VII Innovation

33 The role of government. The underlying sources of growth are discovery, invention and innovation. Direct action by Government can help to accelerate innovation. All major countries operate policies which include significant spending programmes to stimulate innovation by companies, especially in new technologies. It is arguable that the Government should play no role in this given the strong market incentive for companies to adopt new technology. But British management's generally poor record in this area considerably weakens that argument. Low profitability due to recession has made many companies more resistant to innovation, so temporary pump-priming assistance can be an acceptable route in the circumstances. However, we need to keep the cost effectiveness of any programmes under constant review. The two main objectives are confined neither to any particular industrial sector, nor to company size. They are :

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- a) to help spread awareness of available knowledge and encourage its practical application
- b) to generate new knowledge/ideas through research in companies and the public sector.

34 My Department is engaged on a range of programmes already. We should consider whether there is a case for doing more by, for example, consciously switching some of the potential savings on nationalised industries and regional payments into this area. Our Manifesto implied that we should continue the expansion of innovation work, but this must be constrained by what we can afford, which in turn depends on what we can save elsewhere.

35 Spreading knowledge and awareness of key technologies. In recent years, Government has identified several key 'enabling' technologies with widespread application and has mounted awareness programmes to stimulate interest in companies. Although it is sometimes hard to isolate their precise contribution, I believe that our microelectronics support programme gave a boost to GEC, Plessey and Ferranti in getting into the silicon business. Our support for fibre optics helped to put the UK ahead in Europe in this technology. A range of businesses have benefitted from SEFIS, our robotics programme and CADTES. All these programmes need, of course, to be monitored so that they do not run on beyond the time that they are needed.

36 Application of technology. My Department makes grants to encourage the application of key technologies and to promote R&D which leads to new products or new processes. there is no attempt to limit this help to particular sectors.

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37 We also encourage innovation through our public purchasing policies, for example in the fields of IT and medical electronics. The aim of a public purchasing policy is not to buy British "willy-nilly". It is to provide a launch and a shop window for those who have developed good products, and to help British suppliers to compete. Whether through poor marketing by British suppliers or because of lack of imagination amongst public purchasing officers, it does often require a positive effort by my Department to introduce British goods of high quality into eg government offices or our hospitals. We are not yet fully exploiting the enormous potential of Whitehall, the town halls, the NI's and the NHS.

38 We should maintain the momentum of our micros in schools scheme. It provides a market for British hardware, spin-off opportunities (eg education software with international market potential) and of course it helps to develop in our schools the skills that industry is looking for. It also introduces pupils at an early stage to British products that are among the leaders in their field.

VIII Promoting civil research

39 Government can help to stimulate basic industrial research. We spend about £6 billion a year on R&D which is a proportion of our national resources is broadly in line with other developed economies. But the UK is out of line with others in devoting such a large part of that to defence. As a result, a relatively large share of R&D expenditure is controlled by government and resources for commercially-oriented R&D tend to be pre-empted. To tackle the problem firmly and at its root we need a decisive switch of R&D resources away from defence and into private sector industrial work. It is wasteful of scarce R&D talent to try and devise British solutions to every defence need : we should concentrate on the cases where there are export opportunities and be more willing to align our requirements with those of other countries wherever this is possible.

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40 Basic industrial research for civil purposes has seriously declined in recent years. This is in sharp contrast to other countries, notably Japan where each major company proudly boasts an expanding R&D programme. An OECD index of in-house company R&D shows a fall in the UK from 100 to 85 between 1967 and 1975. (Japan rose from 100 to 200, Germany to 145, France to 120). Within this expenditure, there has been a significant shift away from long term research.

41 We should consider how we can stimulate more civil research in companies. Up to now our main mechanism has been selective project support for R&D. We in DTI are now examining a wide range of possible alternative mechanisms. USA and France have experimented with new forms of tax incentives. We shall be considering all those possibilities in view of the decline in company research and our own need to reduce manpower. We shall also consider the effects of generous tax relief for limited R&D partnerships (as in the USA) or science based contract work at universities or Government REs. Definitions of scientific research currently applied by the Inland Revenue may need modification.

42 Research Council and University Grants Committee expenditure accounts for about £800 million through the DES. Of Research Council money, the Science and Engineering Research Council dominates with over £200 million; £79 million of which goes on nuclear physics, space and astronomy; £64 million on basic science and only £40 million on engineering.

43 We need to harness the expertise in our higher education institutions. We shall be studying the recent ACARD proposals and papers are being proposed for colleagues to consider the future role of the BTG.

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44 We should also consider :

- a) Increase the representation of industry on academic grant-awarding bodies.
- b) Examining with DES the scope for switching resources from prestigious but low industrial spin-off areas of science which may not accord with the UK's economic circumstances.

45 My Department has commissioned a study by Sussex University's Science and Policy Research Unit into the ways in which other countries, especially Japan, assess the potential commercial applications of current scientific developments. the report should be ready by next Summer.

IX New areas of employment

46 We cannot predict with any accuracy where new employment opportunities will arise. But in a number of areas we can see good potential for new jobs, and the Government must ensure that its actions do not inhibit that growth. There may in some areas be a case for catalytic action.

47 Cable. This is a good example of a new activity which has been created without a penny of Government money. I hope that Leon Brittan and I can agree to maintain the momentum after the issue of the 12 interim licences, by encouraging the development of the new services such as addressible data bases, electronic publishing and educational software.

48 Telecommunications. We need to press ahead with cellular radio and portable telephones. Their development will also help to reduce BT's monopoly power much faster than people realise. Our telecoms product scheme offers a modest amount of help. I believe also that we should continue to support our space industry, which is now one of BAe's most successful activities.

49 Leisure and entertainment. Warwick University Institute has forecast a 26% growth for the 1980's in the "literary, artistic and sport" sector which already employs 450,000. Nigel Lawson, Patrick Jenkin and I need to review urgently how our present tax and planning systems might inhibit the development of sports complexes, entertainment parks, hotels, catering and tourist attractions.

50 Financial services. UK earnings from financial and consultancy services are greater than of any one other country in the world. To maintain this growth on a world-wide basis, we may need to make provisions for services like those that already exist (in the GATT and elsewhere) for trade in goods. The UK is in the forefront of trying to set up multi-lateral study of barriers that may exist, with the view to negotiation eventually on how they might be removed. My Department is consulting services sectors on the obstacles that they face and where UK interests lie in future negotiation. I hope for a clear picture early next year.

51 Transport. I hope that Tom King will also consider de-regulation of our domestic air routes, as well as pressing the EC to allow freer competition in Europe. Britain is good at the airline business. The benefits to our infrastructure could be substantial. The growth air of routes in Britain and so of regional airports could have a significant impact on employment and employment prospects in some of our most depressed areas. There may be a demand for light transport systems in many towns and inner cities, and we should look for ways of involving the private sector in them (not local or central government).

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X Inward Investment

52 I believe that further inward investment in this country by successful overseas companies could greatly benefit the UK economy. In particular, it could provide an example to British industry of managerial excellence and the benefits of adopting new technology. Such an example could probably do more than almost any amount of Government exhortation or subsidy, and could benefit new employment prospects far beyond the impact of the particular investment project. I intend to pursue such new projects with vigour. The anxiety of the Japanese Government over European protectionism is undoubtedly a help to us in urging this policy.

XI Conclusion

53 Encouraging growth will demand great efforts from us in order to :

- a) Change attitudes in industry and among the public generally towards rewards, the service industries, British workmanship, labour practices and new technology.
- b) Cut back the burden of the older nationalised industries.
- c) Provide education and training which equip people for employment.
- d) Motivate management and all employees.
- e) Help exports and help open up new market opportunities abroad.

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- f) Ensure that British industry is aware of and utilising new technology.
- g) Provide the conditions for uninhibited growth of employment in new areas of activity.
- h) Attract foreign investment in order to help us with all the above tasks.

54 Some of the work of my Department is designed to help compensate industry for its low profitability. But burdens imposed by Government are one of the causes of low profits. We must be very careful to strike the right balance. Our most important contribution to growth is to provide the essential framework by restraining Government expenditure and containing inflation. That we must maintain at all costs.

Department of Trade and Industry

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From: The Rt. Hon. Peter Walker, M.B.E., M.P.

MCS 3
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HOUSE OF COMMONS

Prime Minister

(2)

SECRET & CONFIDENTIAL

Mr Walker

16th August 1983

forwarded

his chequers paper
to you under
my letter.

Margaret

I enclose a paper for our
consideration at the Chequers
meeting in September.

MCS 2/9

I leave you to decide to whom
it is circulated.

Margaret

The Rt Hon Margaret Thatcher, MP,
The Prime Minister,
10 Downing Street,
London, S.W.1.

Have you been had
a good holiday.



HOUSE OF COMMONS

SECRET AND CONFIDENTIAL

16th August 1983

Our objective must be to compete successfully with our major competitors so that when the world moves firmly out of recession the British economy obtains a permanent advantage. If the world moves out of recession and it is primarily our competitors who benefit unemployment will become a permanant feature and one that will certainly create considerable social divisiveness.

It is important therefore to analyse objectively our current economic situation as compared with that of our competitors.

PRODUCTIVITY

The following table shows that output per person over the last five years has increased in manufacturing industries by a lesser degree than in the previous decade.

| Manufacturing Output Per Person - Average Annual Change | | | | | |
|---|------|---------|------|---------|------|
| 1963-72 | 3.6% | 1972-77 | 2.3% | 1977-82 | 1.5% |

It is true that in 1981 and 1982 there were substantial improvements in productivity although not as great as in the years 1967 and 1968 or the years 1972 and 1973. A substantial part of the improvement has been due to the drop in productivity per person in 1980. (See Chart 1).

The reality is that with all the pressures of the recession and with the massive changes in labour saving technology the performance of productivity has not been good.

INVESTMENT

Investment throughout the recession has been at a lower level than that of our competitors and has shown a substantial fall as illustrated by the attached Graphs 2 & 3.

There is a great deal of unused capacity which results in firms clinging on to this unused capacity rather than installing the most updated machinery. As the world economy recovers we will find ourselves at a distinct disadvantage compared with the United States, Germany and Japan where

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substantial new investment has taken place in a diversity of industries. In France key sectors such as electronics and the food industry are enjoying substantial investment with strong Government incentives.

% Change in Volume of Gross Fixed Investment 1979-82

| | |
|---------|-------|
| France | 0.8 |
| Germany | - 6.3 |
| Japan | 6.2 |
| U.S.A. | - 8.0 |
| U.K. | - 8.4 |

UNEMPLOYMENT

I fear a complacency that because we won the election with 3½ million people unemployed and no one has predicted any substantial fall there is the belief that we will continue on that sort of level for several years to come.

We need to recognise the numbers of people who are becoming unemployed for a period of more than a year; a figure that will rise by more than 250,000 this year. There will also be a substantial number enjoying temporary employment under various Government schemes who will be unable to find employment when those schemes end. A projected growth rate of between 2% and 2½% would be needed to start a downward drift to unemployment and anything less than that would result in a deterioration.

INFLATION

We obviously obtain benefit from the lowering of inflation compared to the previous heights, but it is a benefit that is being shared by most of our competitors. (See Graph 4).

The improvement in inflation has not brought about the lowering of real interest rates that were originally predicted. The real rate of interest has increased and remains a heavy deterrent against investments. (See Graph 5).

The following table shows our current unfavourable position.

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| Real Interest Rates** at August 1983 | | | | |
|--------------------------------------|-------------------------|--------------------------|-------------------------|--------------------------|
| | Using GDP deflator* | | Using CPI deflator* | |
| | 3 month commercial rate | 10 year public debt rate | 3 month commercial rate | 10 year public debt rate |
| USA | 5.7 | 7.6 | 7.4 | 9.3 |
| UK | 5.0 | 7.0 | 4.7 | 6.7 |
| France | 1.9 | 2.8 | 0.9 | 1.8 |
| Germany | 2.1 | 4.8 | 3.1 | 5.8 |
| Japan | 4.9 | 6.2 | 4.3 | 5.7 |
| Italy | 1.6 | 2.0 | 2.1 | 2.6 |

PUBLIC SECTOR BORROWING REQUIREMENT

Different combinations of public expenditure can have markedly different effects both on the demand side of the economy and on the level of supply in both the short and the long term. Equally different types of taxes affect demand and supply differently. It follows that in itself the PSBR is an inadequate guide to policy though in combination with other measures it may retain a general usefulness.

The PSBR is most distorted as a tool for economic management when considering the effect of direct shifts between public sector borrowing requirement and the company sector borrowing requirement. A large reduction in the rate of corporation tax, for example, would raise the PSBR but reduce the CBR by a directly corresponding amount and without imposing any shift in the overall balance between sources and uses of investible funds so that interest rates and money aggregates would be unaffected by the direct effects.

Clearly different types of government expenditure have different effects on the economy. The demand-side (or output) effects of expenditure will vary according to the leakages into savings and net-imports, e.g. recipients of transfer payments will tend to save part of the extra income and spend some on imports whereas government capital expenditure is likely to involve smaller first round leakages. A "demand weighted" PSBR total can therefore be constructed by weighting the components of expenditure and revenue according to their multiplier effects. The demand-side impact of public investment compared to transfers or current expenditure therefore depend in the first instance mainly on the import content of the investment, since the second round effects will be broadly similar. Latest Treasury estimates suggest that given a flexible monetary policy, an extra £1 billion

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"basket" of Nationalised Industry investment each year would raise GDP 50% more than an increase in social security transfers etc. of equivalent PSBR cost. →

The supply-side effects of government spending are relevant to the trade-off between current and capital expenditure. A recently revived view is that the government, like a company, should borrow for investment purposes only rather than for current expenditure. If this view is accepted then the fact that public sector investment has been substantially higher than the PSBR in eight out of the last ten years would justify the PSBR levels of the last decade. This would however be a misleading conclusion, since investment is compensated for by future profits (higher output and consumption). The public sector's record in identifying profitable investments is not good: average rate of return on public sector investment has been around zero for many years. There is good reason to suppose that the private sector is better at identifying profitable investment opportunities, which will be exploited provided finance is available at the right price, and this is a major argument for the maximum privatisation.

I consider the failure in public spending to discriminate between capital investment and current expenditure to have considerable disadvantages as I deplore the continuing technique of looking at public expenditure in terms of the gross impact of a decision as opposed to the net impact of a decision. The range of our decisions have positively resulted in substantial increases in expenditure and for unemployment and social security benefits. The cost of the unemployed is now £12 per week for every person who is employed. Whilst we argue that the demanning of British industry has made firms more competitive we need to put against the calculation the fact that British industry and all those at work have to continue to meet the cost of those previously employed in industry and now unemployed. This cost is a substantial burden on the economy. It is significant that whilst from 1979-82 output per person employed went up 1.1% output for the working population it went down 3%.

I wish to make a number of proposals which I consider to be necessary in the current situation.

TIME DATED INVESTMENT GRANTS

We need to equip industry to meet an upturn in demand, especially when world trade picks up. Present tax rules do not encourage industry to invest when activity and profits are low. The incentives are greatest when times are good. Result: they accentuate whatever stage of the business cycle we are at.

cont.....

Small firms only or small grants.

Time-limited grants, however, would be counter-cyclical and designed to generate a surge in investment over the next two years. The Government would announce that all investment undertaken before, say, 1st April 1986 would qualify for a 10% grant (an alternative would be increased allowances, but that would not help companies in the red and paying no tax).

Such a grant would encourage industry to bring its investment plans forward and boost beleaguered capital goods firms. I estimate the net exchequer cost at around £1.3 billion in 1984/85. More jobs, higher growth and better productivity would be the gains.

It is important to detect a number of areas where these grants are particularly applicable. The investment scheme for small engineering firms has been highly successful in providing orders for the machine tool industry. This scheme should be extended to include larger firms and to take up further the slack in the machine tool industry.

There are very attractive investments to be made in energy saving devices, the replacement of old boilers and the provision of variable drive-on pumps and fans are investment measures that are highly attractive in themselves. Industry would recognise the need to do this if a specific time-dated scheme was applied. If the variable drive processes were applied to industry as a whole energy saving to industry of something like £500 million a year could be achieved.

It might also be possible to devise a time-dated investment grant scheme which would link with established productivity gains. This would positively encourage the new technologies.

WAGE RELATED INVESTMENT PROGRAMMES

A wage explosion would be disastrous for the economy and it is vital that in the major areas wages are restrained. There are sectors where wage negotiations could clearly be related to investment programmes illustrating to the unions and the country that the lower the wage increases the higher investment and the greater the number of jobs. This illustration and method of wage negotiation can certainly be used in:

- i) the construction industry .
- ii) the engineering industry .
- iii) the nationalised industries .
- iv) the health service ?
- v) various spheres of local government

cont....

Such an approach is urgent if we are not to drift into a series of bad wage increases following one generous settlement. With a public sector wage bill (excluding nationalised industries) of £37 billion wage policy dominates public expenditure. 1% on public sector wages is equal to the cost of 40,000 jobs.

TRADING POLICY

We have never succeeded in having a dynamic trading policy. I rejoice that the Department of Trade has been reunited to Industry but we need to organise a three year trading programme dynamically and positively directed.

The Department of Trade and Industry should analyse the major target markets for all the major products and a programme of ministerial-led missions should be arranged over the next three years to see that the major markets are visited frequently and important minor markets are visited by those most appropriate to take advantage of them. To do this we should mobilise each government department and the product ranges connected with them which could provide major export penetration. Health and Social Services should organise a series of export missions → for all of the products connected with the Health Service. Education, Transport, Energy, and, of course, Defence are in a position to have a policy of export drives coordinated by the Department of Trade and Industry. Careful consideration should be given to certain countries and the potential of barter deals. The Foreign Office should review its staff in accordance with the trade campaign to see that in all of the major areas there are personalities who can really assist with the trade offensive.

The activities in ECGD and overseas aid must be coordinated into this campaign.

NET INVESTMENT

A totally new look should be made to the Invest in Britain Bureau which I believe to be fairly ineffective. We should decide on a growth centre approach to Britain and then a coordinated campaign should take place to procur investment into growth centres. A much higher calibre of person is required with a far more professional approach.

CONSTRUCTION INDUSTRY

Substantial jobs can be created in the house repair, decoration and improvement markets. A great deal of activity follows council house sales.

REGIONAL POLICY

We need to move to an industrial policy rather than a regional policy but for those regions of past deprivation a positive examination should be made as to their extra need in terms of environment and transport. A five year programme should be prepared to tackle the major transport and environmental disadvantages.

BALANCE OF SAVINGS

? We must examine whether or not we can leave the balance of savings to free market forces. If the strength of the building society movement enables them to pay higher interest rates in order to finance enhanced house prices rather than new house building the detrimental effect on the manufacturing industry could be considerable.

If massive privatisation switches the need from savings in the government to the private sector we need to know what impact this will have on the capital market. It may create a situation where that market becomes less effective for the financing of the small and medium sized firms.

X Most assets sold by the government end up in the hands of the financial institutions. These institutions are financially astute; they see the asset sales as being basically in substitution for gilt sales and they will bid a price for the assets at which they are content to switch their portfolio balance between gilts and the assets.

→ Large discontinuous sales of assets give the financial markets a digestion problem compared with the smooth release of gilts via the tap. This requires either a similar tap system to be set up for the asset sales or else some alternative arrangements to cope with the build up of liquidity in advance of any issue and its conversion at the time of issue.

Some asset sales might form a close substitute for overseas assets (e.g. BP shares) and either encourage some diversion from portfolio investment abroad or some capital inflows.

Sales of equities by the government could crowd out equity financing by the industrial and commercial sector if the sum of PSBR plus the asset sales rises. There would also be crowding out of particularly close issues and if the government sales are heavily bunched in the calendar.

A combination of strong building society movement and a weakening capital market due to large privatisation schemes could be detrimental to the economy.

YOUTH UNEMPLOYMENT & PAY

There are those who have ascribed the rise in youth unemployment to a combination of union power and the level of unemployment and social security provision.

This is too simple an explanation by far and it fails to explain:

- i) Why highly unionised economies such as Sweden, Norway and Austria have been able to avoid the rises in unemployment despite generous social security levels.
- ii) Why economies such as the United States, Canada and Australia have suffered similar rises in unemployment without having fall-back social security provisions.
- iii) Why relatively ununionised economies such as Germany and France have had rises in unemployment on a similar scale and timing to those in the United Kingdom.

Countries fall broadly into four categories:

- (A) Those that have used income policies, wage restraint and social cohesiveness rather than monetary restraint alone in keeping down or turning round inflation.
- (B) Those that have combined tight money restraint with highly flexible labour markets so that any inflationary momentum was dissipated with little or no rise in unemployment.
- (C) Those countries that made a late start to the process of tackling inflation and whose unemployment is typically continuing to rise sharply in 1983.
- (D) Those countries like the United Kingdom that have combined a fairly sharp turn around in monetary growth with relatively inflexible wage settlement patterns.

I set out below the international percentage rates of unemployed in 1982 of each of these categories.

| A | | B | | C | | D | |
|-----------|-----|-------------|-----|---------|------|---------|------|
| Norway | 2.5 | Switzerland | 0.4 | Italy | 8.4 | UK | 11.3 |
| Sweden | 2.5 | Luxembourg | 2.0 | Israel | 5.0 | USA | 9.7 |
| Finland | 6.2 | Japan | 2.4 | France | 10.0 | Belgium | 13.8 |
| Australia | 7.1 | Korea | 4.4 | Canada | 11.0 | Germany | 7.7 |
| Austria | 3.7 | | | Ireland | 12.4 | Holland | 12.4 |

cont....

THE ENCOURAGEMENT OF SMALL FIRMS

Much has been done in this sphere. The only further actions that might be considered would be:

- i) Permitting new entrepreneurs to claim tax relief against losses over the first three years of business on tax paid on earned and unearned income in the three years prior to the start up.
- ii) Removing the small new employer from the purview and minimum wages set up by Wages Councils. ✓
- iii) Revising the bankruptcy legislation in an endeavour to remove some of the social stigma attached to failure where there is no criminal offence.
- iv) Introducing favourable company tax provisions for technologically new products. Singapore under their "Pioneer Products Scheme" has been very successful in this regard.

MANAGERIAL REWARD

We have a taxation system that means that if you are a successful proprietor you become rich but a successful manager is normally unable to obtain any substantial wealth. Some progress has been made on share options but this does not apply to many of our managers. I believe that we should carefully consider a radical change in this sphere whereby companies could pay out of their capital reserve capital sums in return for management contracts. A top manager could then negotiate a substantial capital payment out of the already taxed reserves of a company and for taxation purposes this payment would be treated as capital gain.

NEW PATTERNS OF WORK

We have machines that can replace much of the unsatisfying, dirty and unrewarding work previously carried out by men; machines that can produce with greater speed and efficiency than in any previous era.

We should rejoice that this can give us the opportunity of creating a society in which the machine works 24 hours a day, seven days a week, 52 weeks a year whilst man toils less and has available to him the time for leisure and pursuits more congenial to human happiness.

cont.....

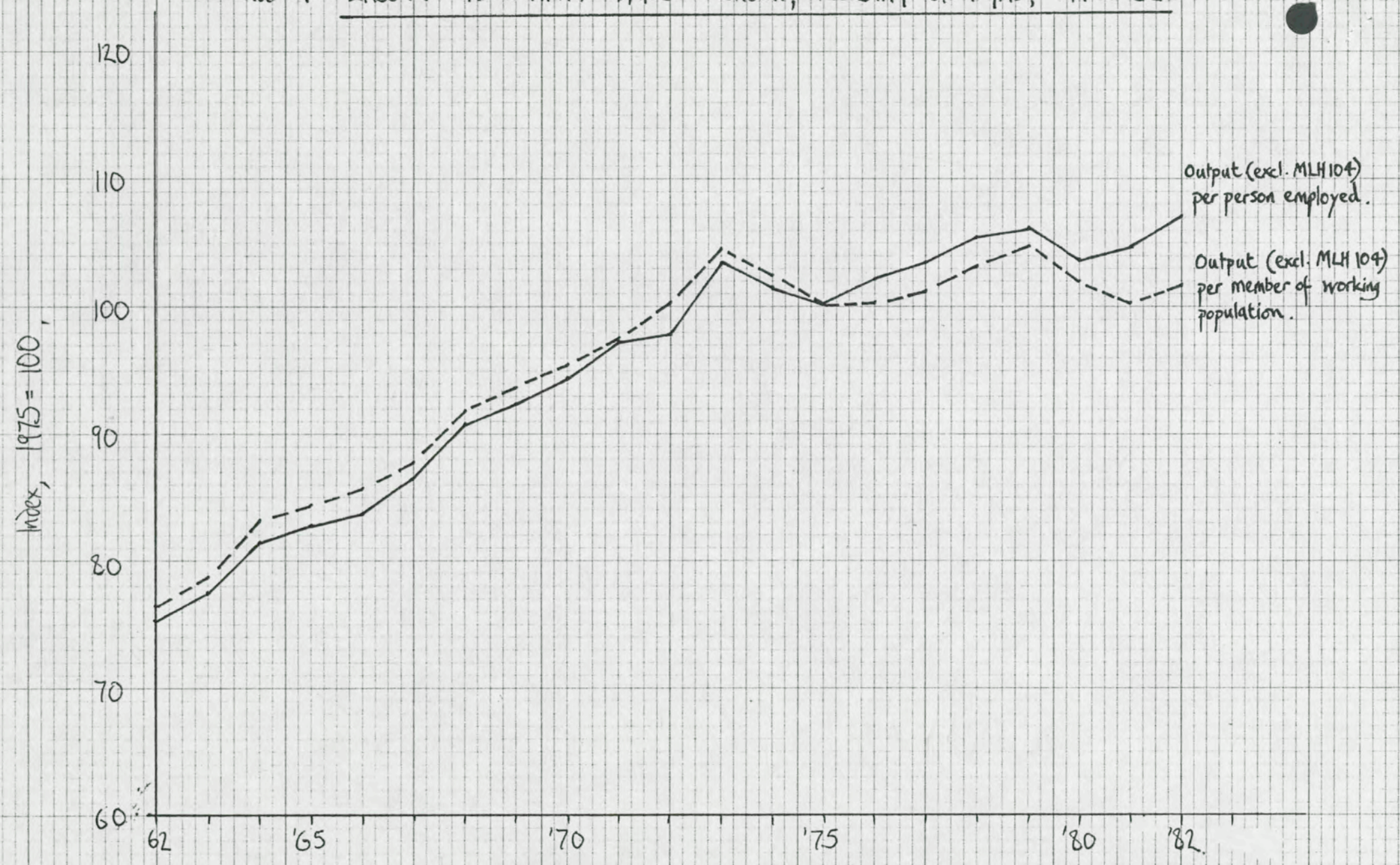
We must decide whether we are now entering a phase of economic development where working from 16-65 for 49 weeks a year is no longer going to be necessary for substantial numbers of the population.

Already the police, the armed forces, top officials of banks and insurance companies and oil companies retire way before they are 65. It may be correct for us now to find ways in which those involved in hard manual work - miners, fishermen and construction workers - can move to similar options.

We need to examine the manner in which electronics would enable more people to work at home. We should look into potential new patterns of shift working and the potentiality of retraining educational and sabbatical years.

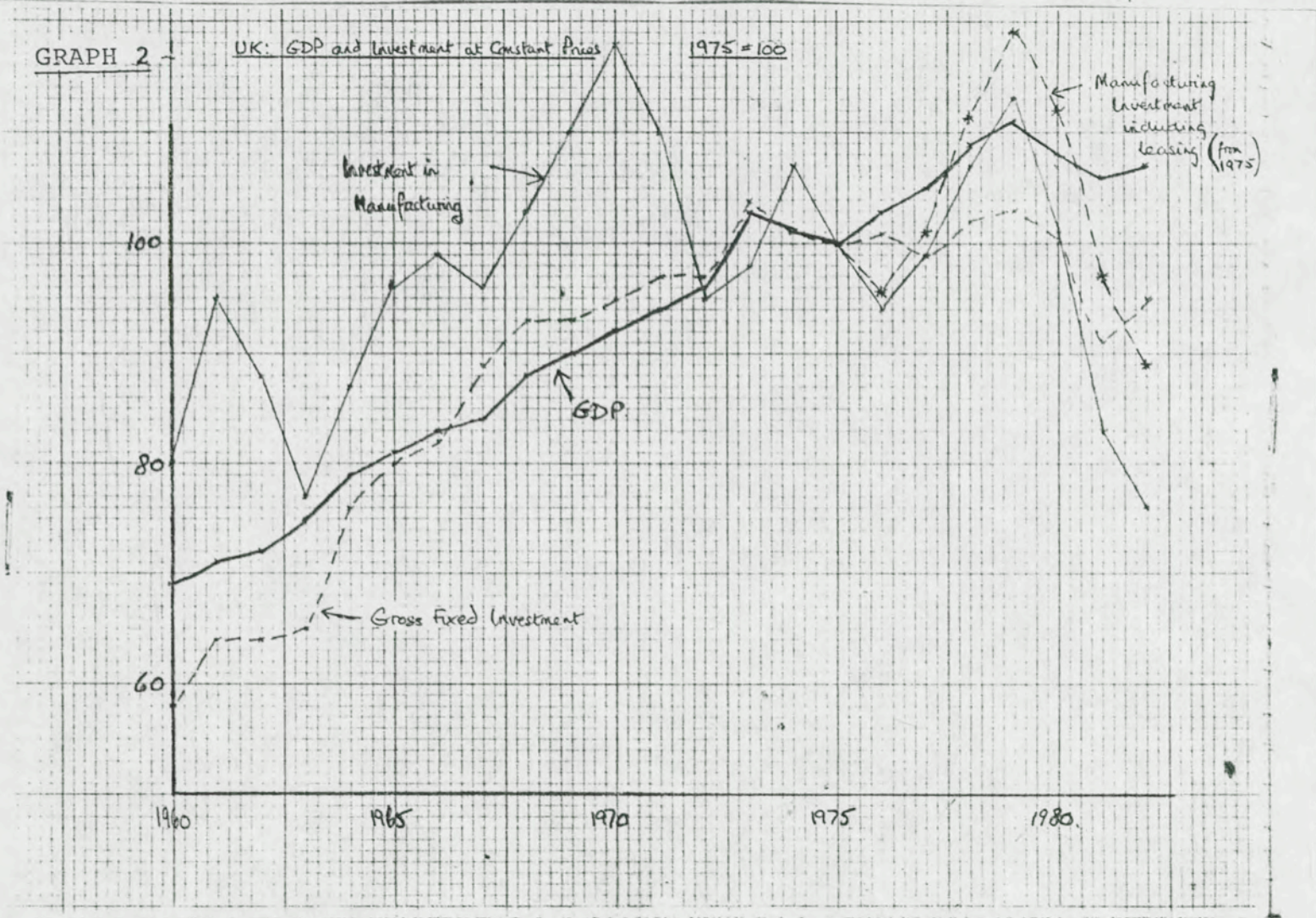
It would be disastrous to move to an economy where 75% were employed and 25% unemployed as opposed to an economy where the majority were employed but in a different way to the pattern of employment in the past.

Chart 1 : LABOUR PRODUCTIVITY : WHOLE ECONOMY, EXCLUDING OIL + GAS, 1962-'82

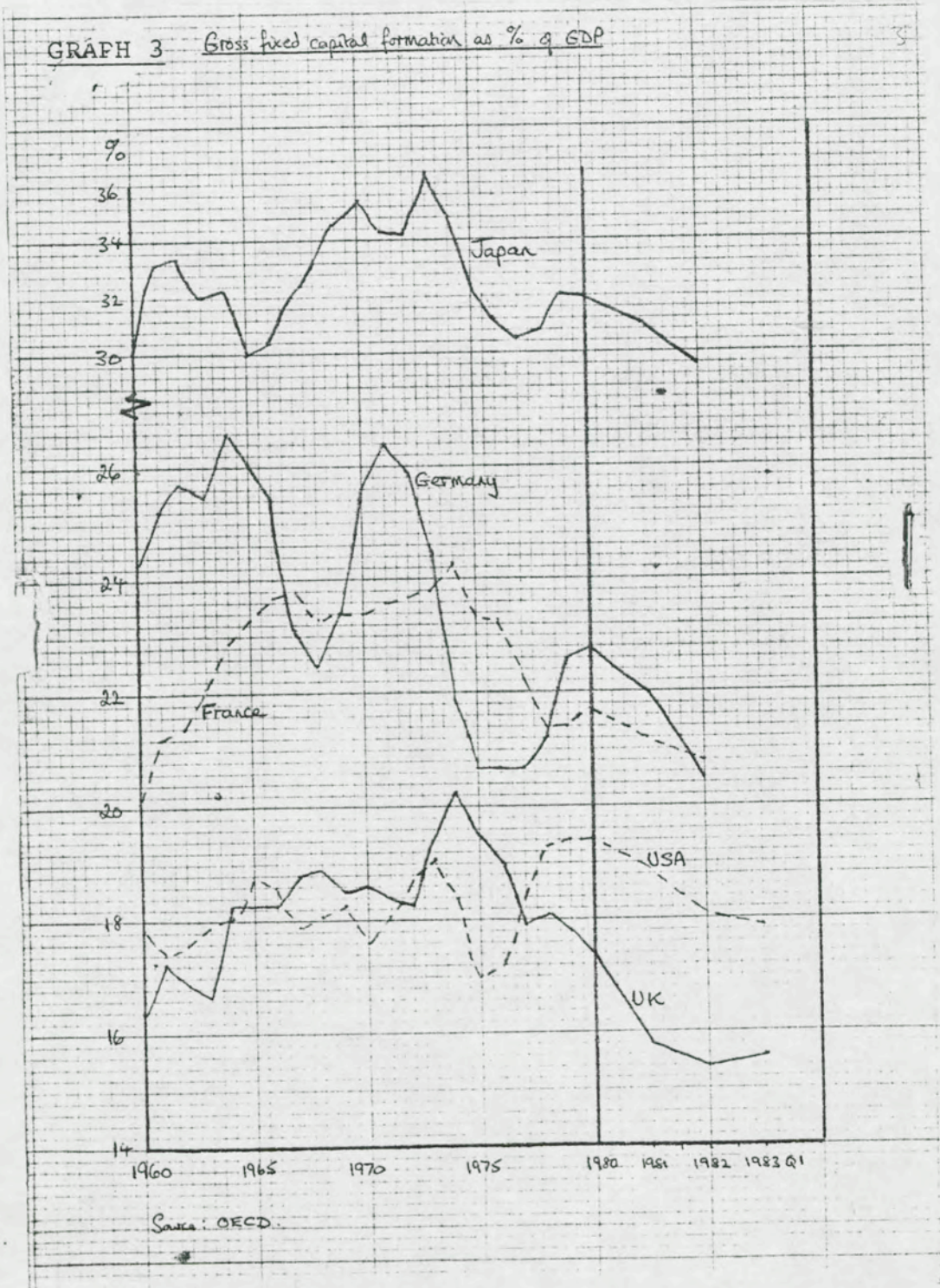


GRAPH 2

UK: GDP and Investment at Constant Prices 1975 = 100



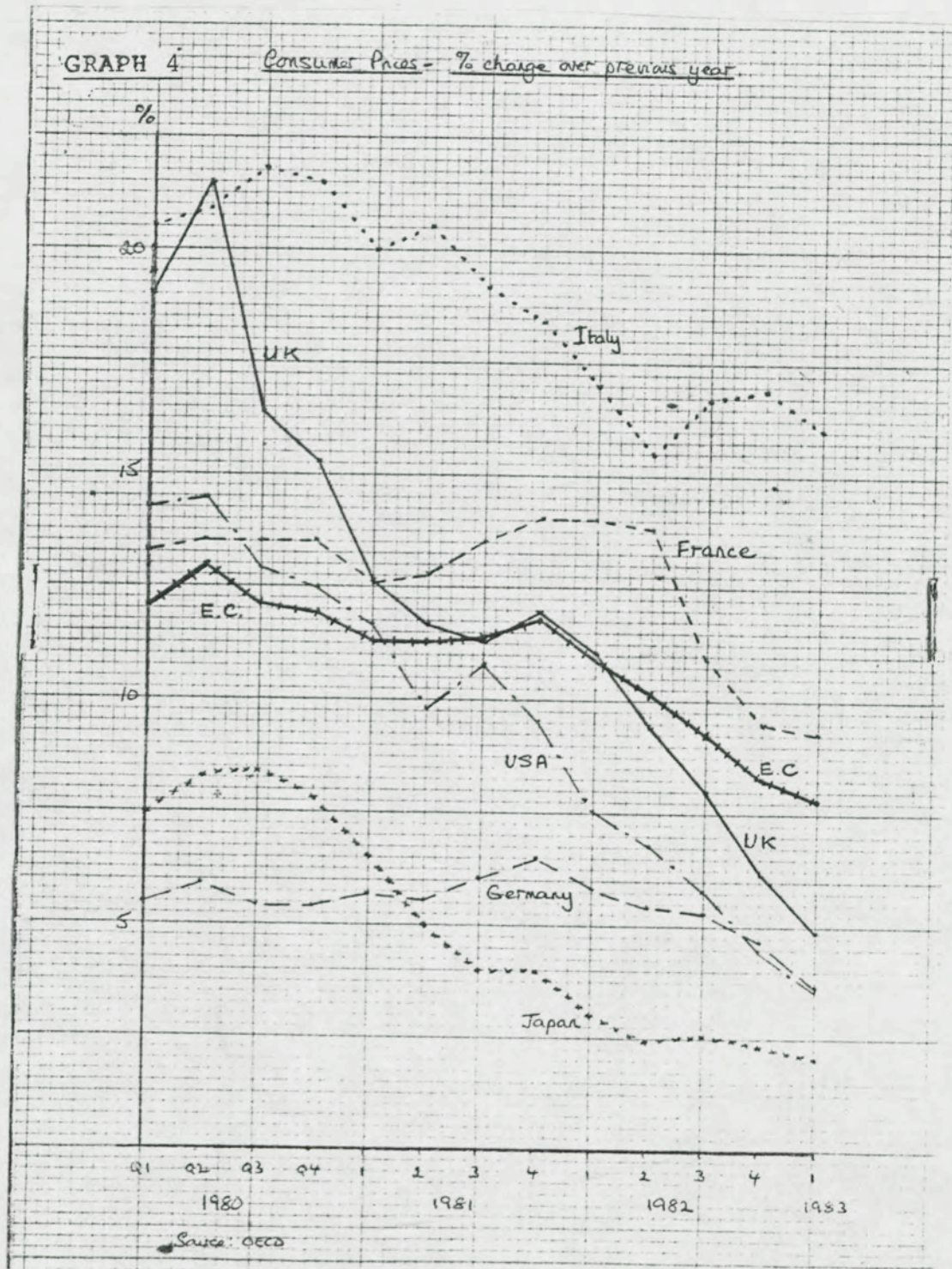
GRAPH 3 Gross fixed capital formation as % of GDP



Source: OECD

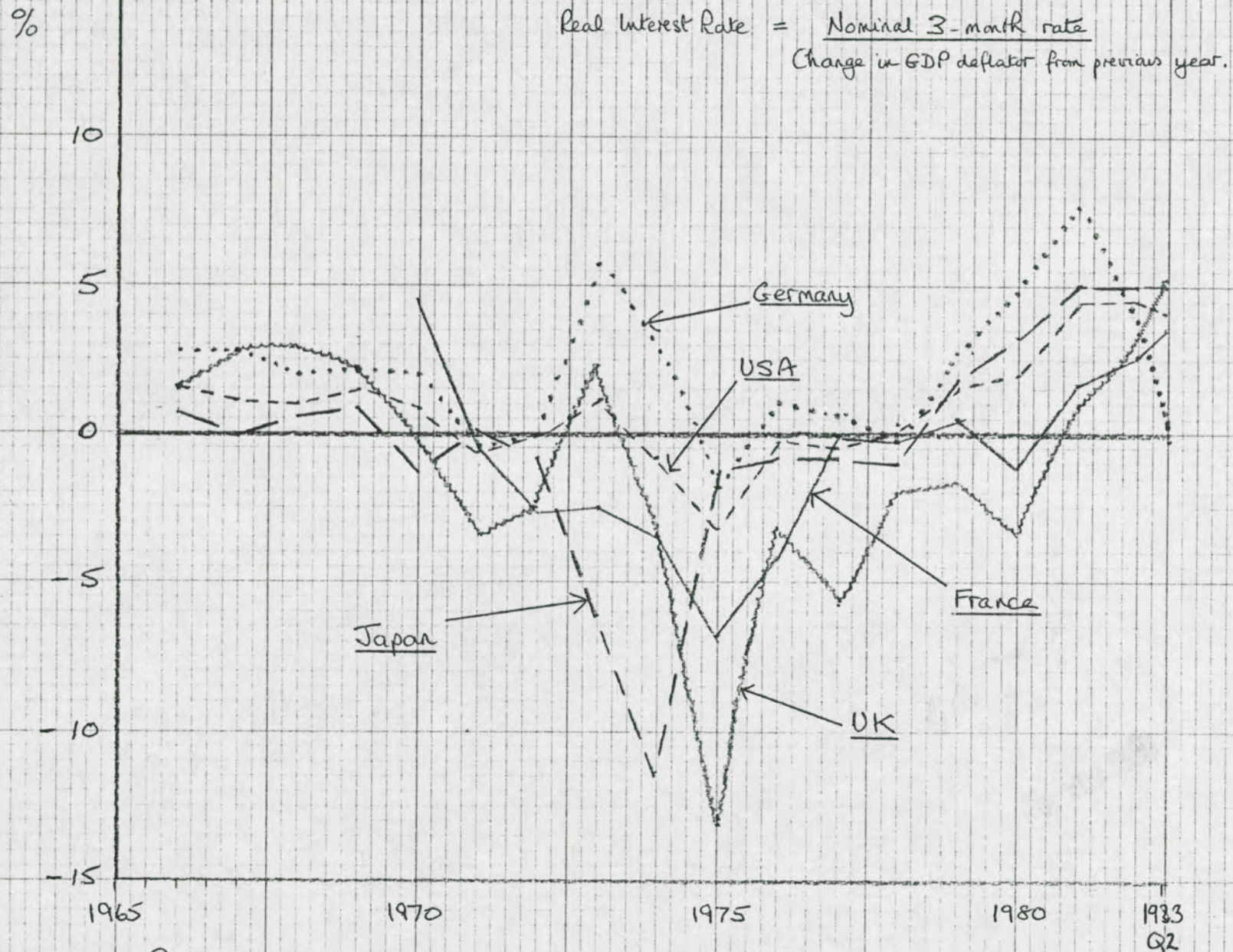
GRAPH 4

Consumer Prices - % change over previous year



GRAPH 5

Real Interest Rates (Short-term) 1966-82



Source: OECD

Note: 1983 Q2 based on estimates of GDP deflators.

10 AUG 1951



CAPPING BENEFITS TO THE UNEMPLOYED

Economic Aspects

The proposal to impose an earnings-related limit on benefits for the unemployed rests on the view that, because benefits under the present system are unrelated to income when in work, they set a floor level to wages throughout the economy. Hence wages cannot adjust downwards to market-clearing levels, and this is a major cause of unemployment.

2. If maximum benefits were set at some fraction of previous earnings, as they are in a number of other EC countries (including the Federal Republic of Germany), this would allow real wages to adjust downwards and therefore increase employment. Capping benefits is a way of preserving a margin between income in and out of work where it matters: ie where the existing system provides benefits so close to earnings in work that people may decide to be unemployed almost indefinitely.

3. Professor Minford believes that the response to benefit changes will be very high in this critical region. His estimate is that capping benefits at 70 per cent will reduce unemployment by 700,000 in 5 years and will by then save some £4 billion annually on the PSBR (about a third of this in benefit savings).

4. The calculation depends both on the number caught by the cap and on the size of response to the change in benefit. Minford estimates that 45 per cent of people have "replacement ratios" of 70 per cent or more ie they have total incomes out of work equal to or exceeding 70 per cent of their in-work income. These figures relate to the working population as a whole - not just the unemployed. Comparable calculations by the Institute of Fiscal Studies give lower figures. Estimates of the replacement ratios faced by the unemployed based on the DHSS cohort study suggest that perhaps 30 per cent may be affected. There are formidable complexities in the calculations and concepts, but it does look as though the 45 per cent figure is on the high side.

5. We calculate that direct benefit savings clawed back from the unemployed in excess of the 70 per cent level might amount to about £300m (which would accrue immediately). Minford's estimate of a benefit saving of £1.2 bn at the end of 5 years appears to be largely due to the estimated reduction of 700,000 in the numbers unemployed.

6. This estimate of the effect on numbers unemployed is, as Minford acknowledges, much higher than other research on the effect of benefit changes would suggest, and is almost certainly too high. (The relevant elasticities are some 10 times as large as those found in recent studies by Nickell and others.) But it is not in dispute that capping would help the downward adjustment of wages - indeed it could radically change perceptions of the 'why work?' syndrome.

7. One problem with the proposal is that it would reduce the incomes of family men with dependent children who have the highest replacement ratios. Many of these will be receiving S.B. top ups to maintain their income at officially recognised poverty levels. Capping their benefits would thus take them below the poverty line if they remained unemployed, and in some cases if they took a job at a lower wage than before. On the other hand the cap would not affect young unemployed who had never had a job, which is why Minford recommends a "workfare" scheme for them.

Structure of the scheme

8. The proposal is to take account not only of net earned income (which could be ascertained from pay records) but also benefits available to those in work. These include FIS, rent rebate, rate rebate, child benefit and FIS-passported benefits, eg school meals.

9. Because these benefits vary with individual circumstances, a precise calculation of them would be very complicated administratively (as was the old 'wage stop'). The scheme would therefore only be workable by constructing tables to reflect average levels of in-work benefits and tax. Because this would not precisely match an individual's circumstances there would be complaints about unfairness, and probably a need to provide for hardship cases and appeals procedures. There are

CONFIDENTIAL

number of points which would need further consideration, including the interaction of housing benefit (now administered by local authorities) with unemployment and supplementary benefit.

Administrative costs

10. It is extremely difficult to estimate costs. It would be necessary to check each of the 350,000 new claims made each month; and to recalculate each time a claimant's entitlement changed (eg because of a change in family circumstances) and probably annually, when the tax/benefit table would be recalculated in the light of changes in tax rates and thresholds and benefit upratings. A scheme might well require perhaps 500 or more additional staff. These staff would need to be taken on in advance of the operational date, in order to check the in-work income and benefit entitlement of all current claimants (unless some phasing were acceptable; but this would discriminate among claimants).

Conclusion

11. Officials concluded in 1980 that a workable scheme to cap benefits to the unemployed could be devised. Main legislation would be required. Some considerable work would also be needed in order to establish the details of the scheme. Only DHSS could advise on the present costs of the scheme. But subject to that, we see no reason to differ from the 1980 conclusion that such a scheme would be feasible.

HM Treasury
30 August 1983

CONFIDENTIAL

THE GERMAN SCHEME

The scheme provides for the payment of an unemployment allowance for the first year of unemployment of 68 per cent of net earned income up to a maximum of DM60,000. This gives maximum benefit of around DM42,000 (around £10,000 a year or £200 a week) which broadly equates to average industrial earnings in Germany. There is currently a proposal to reduce the percentage for single people and childless married couples from 68 per cent to 63 per cent. Family allowances are payable in addition.

2. When unemployment allowance runs out, unemployment assistance is paid on a means-tested basis. It is also payable as a proportion of earned income, but at a lower level - 58 per cent. The cap is hence also lower - around DM35,000 (£8,600 a year). Again, family allowances are payable in addition.

3. In comparing the German system and the proposed cap in the UK, it is necessary to bear in mind the different role of child support. In Germany this is a far less significant proportion of out of work benefits - at maximum it adds around £24 a week for a three child family - and is paid at the same level whether in or out of work for the same level of income. In comparison in the UK child support plays a far more significant role for the unemployed. The basic benefits paid to the unemployed are around £25 a week for a single person and £40 for a married couple, while child support for a three child family on supplementary benefit may be as high as £40 a week, in comparison with around £20 paid as child benefit to the earner.

4. In the UK the highest replacement ratios are faced by families with 2 or more children; and this is a reflection of differential child support in and out of work. But to increase child benefit (paid universally) up to supplementary benefit scale rates would cost billions of pounds. The alternative is to reduce out of work child support, either by acting directly on the child scale rates or by an overall cap on benefits.

SECRET AND PERSONAL



Chancellor of the Duchy of Lancaster

Prime Minister

15 AAA

MCS 18/7

PRIME MINISTER

mb

Chequers
papers

I enclose a background note. It is relevant to the Chequers discussion: but it goes a great deal wider. I have not, therefore, circulated it.

A.C.

A C

18 July 1983

SECRET AND PERSONAL

THE NATURE OF THE PROBLEM WE FACE

(by Chancellor of the Duchy of Lancaster)

1. The level of taxation is one of the major factors inhibiting growth.

We all believe that the level of taxation - and particularly personal taxation - in this country is too high.

Nevertheless the proportion of our GNP taken by public expenditure and taxation is about average compared with other developed countries - less than Western Germany and France: more than the US. Interestingly out of the 23 countries listed by the OECD, the UK stands exactly in the middle - in the 11th place. Why then is it that our personal taxes are so heavy yet our tax burden overall is no more than average?

2. It is important to understand the reasons for this paradox. The answer is that with a progressive taxation system the poorer a country is the more steeply progressive its tax system has to be in order to raise the same proportion of GNP in tax revenue. This can be illustrated by a simple example.

Suppose a country X has double the income per head compared with the United Kingdom.

Assume that in the UK income is £5,000 per head, the tax allowance is £2,000 and the rate of tax 30%. Then the tax bill would be £900 - which is 18% of income.

In country X income is £10,000 per head. 18% of that would be £1,800. If the threshold is the same, viz £2,000, then the rate of tax required to raise £1,800 is only 22½%. Alternatively if the same rate, viz 30%, was adopted, the threshold could be doubled, viz to £4,000.

This explains quite simply why thresholds are so much higher and starting rates of tax so much lower in most other Western countries despite the fact that the proportion of GNP raised in tax revenue is much the same as in the UK. It is this, rather than any question of direct versus indirect taxation which is the key to the puzzle.

3. If we regard the burden of taxation as crucial in relation to recovery and growth, then we have only two options. The first is a very significant increase in GNP per head: the second is a very substantial reduction in the proportion of GNP taken in taxation. It is no good believing that fiddling with the proportion of tax taken in direct and indirect tax will provide an answer. Nor are there any sound grounds for thinking that the kind of tax reduction we require can be financed simply by continuing down our present path at our present rate of progress. A pretty drastic re-think is needed.
4. In the 1950s we had the highest GNP per head in Europe. Today apart from countries like Italy and the Mediterranean countries we have the lowest in Western Europe. This reversal of our fortunes was due to the fact that throughout the 50s and 60s and the first part of the 70s growth in the country averaged only 2% to 2½%. In Western Europe it was 4½% or 5%.

5. If we were to now double our GNP per head and thus to put ourselves where our more prosperous fellow industrial countries stand today, we should need to score a rate of growth of 5% per annum sustained over a period of 14 years. This illustrates what an immense task faces us if we go for a solution down the path of growth. It also points up another lesson. What we need is growth in GNP. Measures which reduce GNP - shorter working weeks, earlier retirement - make the task more difficult. They are not a solution.
6. None of this diminishes the need to foster growth wherever we can. But if we attempt to rely on growth alone we will be deluding ourselves - as we did in the days of "planned growth". If we are to get ourselves out of the bind in which we find ourselves - high taxation leading to low growth and low growth leading to high taxation - it will have to come from a very substantial reduction in the proportion of GNP absorbed by Government. It will always be possible to make savings at the margin through improved efficiency. But the easy - and indeed, many not too easy - savings have already been made. If we are to make further and substantial progress it will need to come through a drastic re-appraisal of the role of the State.
7. In some areas - such as privatisation - we have made real progress. But even here we will need to take a much stronger line than we have hitherto. We must resist firmly the extension of state intervention through the creation of more state organisations: and vigorously prune those we still have. We shall need to tackle the overlap between state provision and private provision. And we shall have to challenge the doctrine of universality.

A.P.

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REGIONAL ECONOMIC POLICY: RE-DEPLOYMENT OF RESOURCES

The White Paper provision for regional economic policy (REP) spending for 1983-84 is £674m; this includes £474m for regional development grants (RDGs), though the outturn may be nearer £450m (Table 1). RDGs are paid automatically on qualifying investment, essentially capital spending on new machinery and plant in manufacturing industry and the buildings in which the plant and machinery are housed. The rates of grant are 22 per cent in Special Development Areas and 15 per cent in Development Areas. Selective assistance may be paid on top of RDGs up to the EC limit (normally 30 per cent) and in principle it is available to other industries and the service sector, although in practice only to a limited extent. In the Intermediate Areas, only selective assistance is available. The regional map was last revised in 1974 when the proportion of the working population in the Assisted Areas (AAs) was reduced from 44 per cent to 27 per cent (Table 2).

The case for abolishing REP

2. AAs were first designated in 1934. Now, as then, unemployment is highest in areas hit by the decline of traditional heavy industries. It is estimated that since 1960 half a million jobs have been created directly and indirectly in the regions, and that over the 1970s investment in the AAs was 5 per cent higher than without REP. But this has largely represented a shift of jobs and investment from the non-assisted areas to the AAs. The first Report on REP concluded that the strength of the case for these policies in net national economic terms might be debatable, but that the social and political arguments were powerful.

3. Between 1971 and 1981 the Exchequer cost per job was around £34,000. However, the annual cost depends on how long the job lasts.

4. REP may improve the supply side of industry by encouraging new investment and innovation. But:

- This is a national rather than a regional objective.

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- REP distorts location decisions which in time may weaken competitiveness, as at Linwood and Halewood.

5. At periods of high unemployment, REP was claimed to reduce overall pressures on labour demand and wage rates by encouraging new jobs in areas of labour surplus. This argument clearly no longer applies as unemployment is now high over the country (Table 3).

6. Much of current REP goes on projects which would have taken place anyway and thus creates no extra jobs ("deadweight"). RDGs are paid on replacement investment and on highly capital intensive projects of limited mobility (Sullom Voe).

A more cost effective REP

7. Total abolition may well not be a practicable option for political and social reasons. Moreover, some element of REP is needed:

- To trigger assistance from the European Regional Development Fund (ERDF). The Fund could produce some £300m for the UK this year.
- To help the UK compete with other EC countries for inward investment projects. EC rules limit the use of financial assistance outside the AAs.

8. The second Regional Policy Report, which Ministers are to consider in September, recommends policy changes designed to make REP more cost-effective and related to jobs; the changes would also help to improve the prospects of money from the ERDF.

9. The main features would be to eliminate replacement investment and to impose a cost-per-job ceiling. This would help to deal with the deadweight problem, although it cannot be eliminated completely. A straight labour subsidy like the regional employment premium is not allowed by the EC rules but a job-related grant option is proposed. The report also proposes to extend the coverage of

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qualifying investment for RDGs to include a range of services, which can be assumed to be mobile rather than attached to a specific location, (ie technical and administrative services but not retail trade). These measures would also help to reduce the current bias towards capital-intensive projects.

10. The total expenditure will depend on grant levels and the AA map. There could be savings of up to £200m (Table 4), if the present map remains unchanged, although there will be pressure to include the West Midlands - at a cost of £50m or so. Some of the savings could be channelled into increased spending on R&D and innovation in the regions at a cost of, say, £60-£70 million, as the DTI propose. (The current national provision for these activities is £350m.)

11. But there is a strong case for using the savings on REP to help reduce taxation. In this way, the savings would contribute to the improvement in work incentives and to the reduction in the tax burden on companies, which we need to achieve to encourage the creation of new, lasting jobs in the private sector.

HM Treasury

26 August 1983

TABLE 1
EXPENDITURE ON REGIONAL ASSISTANCE : £m

| | 1978-79 | 1979-80 | 1980-81 | 1981-82 | 1982-83 | 1983-84 |
|-------------------------------|---------|---------|---------|---------|---------|---------|
| REGIONAL DEVELOPMENT GRANT | 406 | 312 | 474 | 598 | 600 | 474 |
| REGIONAL SELECTIVE ASSISTANCE | 80 | 70 | 67 | 75 | 87 | 90 |
| OTHER* | 84 | 99 | 140 | 169 | 132 | 110 |
| TOTAL | 570 | 481 | 681 | 842 | 819 | 674 |

* Mainly advance factory provision

UNEMPLOYMENT RATES BY REGION PLUS SCOTLAND AND WALES

| REGIONS | (JUNE) | (JUNE) |
|----------------------|------------------|------------------|
| | <u>1976</u> % | <u>1983</u> % |
| North | 7.4 | 16.8 |
| Wales | 6.7 | 15.4 |
| West Midlands | 5.2 | 15.4 |
| North West | 6.7 | 15.2 |
| Scotland | 6.2 | 14.5 |
| Yorkshire/Humberside | 5.3 | 13.6 |
| East Midlands | 4.5 | 11.3 |
| South West | 5.8 | 10.5 |
| East Anglia | 4.6 | 10.0 |
| South East | 3.8 | 9.0 |
| Great Britain | 5.2 | 12.3 |

All figures are claimant based and seasonally unadjusted.

TABLE 4

POSSIBLE SAVINGS ARISING FROM CHANGES TO RDG SCHEME

| Option | Capital grant rate | Cost-per-job ceiling | Job grant | Automatic grant | Estimated expenditure (£m) | | Savings (£m) |
|--------------------------|--------------------|----------------------|-----------|-----------------|---|---------|--------------|
| | | | | | additional expenditure on selective aid | Total | |
| CPRS proposal | 10% | £7000 | £3000 | 140 | 80-105 | 220-245 | 205-230 |
| A | 15% | £10,000 | £2,500 | 200 | 70-95 | 270-295 | 155-180 |
| B | 20% | £12,500 | £3000 | 260 | 60-85 | 320-345 | 105-130 |
| C | 25% | £12,500 | £3000 | 320 | 50-75 | 370-395 | 55-80 |
| D upper | 15% | £10,000 | £3000 | | | | |
| lower | 10% | £7000 | £2000 | 170 | 75-100 | 245-270 | 180-205 |
| E upper | 20% | £12,500 | £3000 | | | | |
| lower | 15% | £10,000 | £2500 | 230 | 65-90 | 295-320 | 130-155 |
| Present RDG scheme upper | 22% | - | - | | | | |
| lower | 15% | - | - | 450 | - | 450 | - |

TABLE 1
EXPENDITURE ON REGIONAL ASSISTANCE : £m

| | 1978-79 | 1979-80 | 1980-81 | 1981-82 | 1982-83 | 1983-84 |
|-------------------------------|---------|---------|---------|---------|---------|---------|
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| REGIONAL SELECTIVE ASSISTANCE | 80 | 70 | 67 | 75 | 87 | 90 |
| OTHER* | 84 | 99 | 140 | 169 | 132 | 110 |
| TOTAL | 570 | 481 | 681 | 842 | 819 | 674 |

* Mainly advance factory provision

TABLE 2

PROPORTION OF WORKING POPULATION* WITHIN ASSISTED AREAS

| | May 1979 | | 1983 | |
|--------------------|-------------|-------------|-------------|-------------|
| | % | million | % | million |
| Within SDAS | 13.2 | 3.1 | 13.4 | 3.1 |
| Within DAS | 10.9 | 2.5 | 8.6 | 2.0 |
| Within IAS | <u>19.3</u> | <u>4.6</u> | <u>5.5</u> | <u>1.3</u> |
| Assisted Areas | 43.4 | 10.2 | 27.5 | 6.4 |
| Non-assisted Areas | <u>56.6</u> | <u>13.3</u> | <u>72.5</u> | <u>17.1</u> |
| TOTAL | 100.0 | 23.5 | 100.0 | 23.5 |

*based on working population as at 1977.

TABLE 3

UNEMPLOYMENT RATES BY REGION PLUS SCOTLAND AND WALES

| REGIONS | (JUNE) | (JUNE) |
|----------------------|------------------|------------------|
| | <u>1976</u> % | <u>1983</u> % |
| North | 7.4 | 16.8 |
| Wales | 6.7 | 15.4 |
| West Midlands | 5.2 | 15.4 |
| North West | 6.7 | 15.2 |
| Scotland | 6.2 | 14.5 |
| Yorkshire/Humberside | 5.3 | 13.6 |
| East Midlands | 4.5 | 11.3 |
| South West | 5.8 | 10.5 |
| East Anglia | 4.6 | 10.0 |
| South East | 3.8 | 9.0 |
| Great Britain | 5.2 | 12.3 |

All figures are claimant based and seasonally unadjusted.

TABLE 4

POSSIBLE SAVINGS ARISING FROM CHANGES TO RDG SCHEME

| Option | Capital grant rate | Cost-per-job ceiling | Job grant | Automatic grant | Estimated expenditure (£m) | | Savings (£m) |
|--------------------------|--------------------|----------------------|-----------|-----------------|---|---------|--------------|
| | | | | | additional expenditure on selective aid | Total | |
| CPRS proposal | 10% | £7000 | £3000 | 140 | 80-105 | 220-245 | 205-230 |
| A | 15% | £10,000 | £2,500 | 200 | 70-95 | 270-295 | 155-180 |
| B | 20% | £12,500 | £3000 | 260 | 60-85 | 320-345 | 105-130 |
| C | 25% | £12,500 | £3000 | 320 | 50-75 | 370-395 | 55-80 |
| D upper | 15% | £10,000 | £3000 | | | | |
| lower | 10% | £7000 | £2000 | 170 | 75-100 | 245-270 | 180-205 |
| E upper | 20% | £12,500 | £3000 | | | | |
| lower | 15% | £10,000 | £2500 | 230 | 65-90 | 295-320 | 130-155 |
| Present RDG scheme upper | 22% | - | - | | | | |
| lower | 15% | - | - | 450 | - | 450 | - |



Treasury Chambers, Parliament Street, SW1P
01-233 3000

Rt Hon Cecil Parkinson MP
Secretary of State for Trade & Industry

cc Chief Secretary
Financial Secretary
Economic Secretary
Mr Middleton
Mr Bailey
Mr Battishill
Mr Christie
Mr Rickard
Mr Ridley
Mr Chivers
Mr Anson
Mr Lovell
Miss Low

[27] July 1983

The Prime Minister's decision to defer consideration of the second Report on Regional Policy until September gives us more time to develop our thoughts on these important issues. But this has implications for the proposal in your letter of 1 July to Willie Whitelaw that Clauses governing possible changes in the Regional Development Grants system should be prepared for incorporation in the Co-operative Development Agency Bill, which QL has recommended for inclusion in the 1983-84 legislative programme. Normally drafting of the necessary clauses would not be put in hand until the underlying policy has been decided.

2. You mentioned to me your concern that the postponement of the policy discussion might inadvertently result in closing the option of legislation in this Session which we might subsequently decide was desirable. As you pointed out in your letter, there are substantial public expenditure savings in prospect, and it would be a pity to deter these because of lack of legislative cover, assuming our colleagues agree on the Report's general recommendations for changing the grant system.

3. I think it is generally accepted that the current system is very cost-ineffective - we want no more Sullom Voes, for example - and the sooner we can move to a more cost-effective system and so fulfil our Manifesto commitment, the better. Nor should we lose sight of the possible benefits to be derived from the European Regional Development Fund by changing the RDG system in the direction proposed in the Report. I hope therefore that you will be able to secure agreement that, exceptionally, contingency drafting should be put in hand so as to keep the 1983-84 legislative option open.

4. I should also like to comment on some of the points made in John Sparrow's letter to me of 19 July. I have a great deal of sympathy with the general thrust of John's comments.



In my view, the economic benefits of regional economic policy are questionable as the first report on Regional Policy recognises. Indeed, from the point of view of the national economy, it is arguable that the policy may well be counter-productive.

5. This gives further strength to the social and political case for modifying the system to make it as effective as possible in generating employment, and for securing substantial savings which can be put to better use elsewhere. In your 1 July letter you suggested a possible potential saving of £100 - £150m. In my view, we should aim a little higher than this. I believe we should set our sights for net savings of at least £200m and I can see scope for achieving still more. However, these possibilities will depend on the outcome of our future discussions. Once the general principles of the revised grant system have been established, much will depend on the levels of grant as well as on the shape and size of the revised Assisted Area map. When we come to these issues, we ought to give serious consideration, along with the other options, to John Sparrow's suggestion for a package which would combine a job grant set as high as possible (within EC constraints) with a low capital grant and a low cost per-job ceiling. This would reduce the bias in the system towards capital-intensive investment, and would be better geared to the creation of jobs.

5. I am sending copies of this letter to the Prime Minister, the Lord President and the Lord Privy Seal, to the Secretaries of State for Scotland, Wales, Northern Ireland, Environment and Employment, and to Sir Robert Armstrong and John Sparrow.

A handwritten signature in dark ink, appearing to read 'Nigel Lawson', written in a cursive style.

NIGEL LAWSON

PUBLIC EXPENDITURE AND EMPLOYMENT

The Government already spends substantial sums (£1800m in 1983/84) on "special employment measures" designed mainly to promote increased employment and youth training. The various incentives and subsidies are subject to diminishing returns, and the effects of some are hard to quantify; but in general, decisions on the scale of each are taken on the basis of judgments on how far they are cost-effective in the light of Government objectives. Given the Manifesto commitment that "as long as unemployment remains high we shall maintain special measures of this kind", it seems inevitable that such measures will continue for some time to come. But to keep overall public expenditure under control, we shall need to go on looking very critically at individual bids in this as in other areas.

2. It can be argued that there is more scope for schemes designed to reduce wages to market-clearing levels. The Young Workers Scheme, introduced in 1982, already has the aim of encouraging employers to take on more young people at realistic wage rates (reflecting their lack of training and experience) by paying £15 a week to employers of young full-time workers with wages below £42 a week (£7.50 for wages between £42 and £47). The number of workers covered is at present about 100,000, at an estimated annual cost of £75m. It might be worth considering whether the scheme could be extended to cover adult full-time workers on low wages. But there would be increased problems in fixing an appropriate wage rate, in relation to Wages Council minimum rates and to social security benefits. There could also be difficulties in preventing collusion between employers and workers in small firms (ie ensuring that there were no separate cash payments above the limit eg for 'overtime'). And it would remain uncertain how much real effect ('additionality') the subsidy would have, particularly in traditionally low-wage service industries like catering; the Young Workers Scheme is thought to have a high deadweight cost and therefore a high net cost (£3000) per person off the register.

3. There are pressures to distort public expenditure priorities, in various directions, in the hope of promoting increased employment - for example, by

encouraging contractors to use labour-intensive methods, or by increasing numbers employed in the public sector. But all such schemes have the overriding drawbacks that they promote less efficient methods of working and ignore the offsetting job-destroying effects of increased taxation and government borrowing. →

4. Therefore the contribution of public expenditure has to be less direct. At present, there are a number of cases where structural distortions in the economy, depressing the level of sustainable employment in the longer term, are deliberately supported by public spending:

- i. The support given to uneconomic activities in the public sector is the prime example. As the following table shows, very large sums are spent annually to maintain state-subsidised industries on a scale which could not be justified on commercial criteria unless costs and efficiency could be drastically improved to eliminate the subsidy element:

| | £m(1983/84) |
|-----------------|-------------|
| Coal | 1430 — |
| Steel | 321 |
| Shipbuilding | 210 |
| Rail | 891 — |
| Other transport | 853 — |
| | <hr/> |
| | 3705 |

- ii. In the private sector, market decisions as between capital-intensive and labour-intensive activities or methods of production are subject to a whole range of fiscal distortions. The £700m a year of regional assistance, mainly to promote capital expenditure by firms in the regions, is discussed in the paper on regional policy. There are also "tax expenditures" in the form of 100% capital allowances on plant and machinery for corporation tax. On the other side, labour is taxed by NIS. These tax aspects are discussed in the separate paper on taxation. →

- iii. Similarly in agriculture, the operation of the market is heavily distorted by fiscal intervention both via UK public expenditure (at least £500m this year) and through the CAP.

iv. The effect of social security expenditure on incentives is considered in other papers.

5. Much of the expenditure under i. and ii. is designed either to maintain employment in the short term (in the loss-making industries) or to distribute employment more equally (to the regions). But there is a trade off between short-term palliatives and sustainable long-term jobs. For the longer term, adopting an employment-oriented approach to public expenditure would mean pursuing consistently over a long period a policy of eliminating or reducing distortions of these kinds. →

OPENING UP THE PUBLIC SECTOR TO MARKET FORCES

The key to improved efficiency in the activities currently in the public sector is to increase competition wherever possible. Privatisation and contracting-out are both means to this end.

Privatisation

2. There are two main approaches:

- a. wholesale privatisation of public-sector activities;
- b. exposure of such activities to increased competition.

3. Up to now, most attention has been focussed on selling profitable companies operating in competitive environments. But as these are disposed of, ways will need to be found of dealing with less profitable companies, and with the large utilities where at present there is little or no private-sector competition.

Competitive/unprofitable

4. Before privatisation, such companies will usually need to be in a position where they can show a reasonable prospect of profit. Options include bringing in more effective management, increasing efficiency and closing loss-making capacity.

5. Some companies have profitable parts which could be privatised earlier. Splitting up and selling off profitable parts is the right course, provided that economies of scale are not such that it would be significantly more difficult after a split to bring the loss-making parts back to profitability.

Non-competitive

6. Some of the utilities, though generally protected by their cost structure from competition ('natural monopoly', eg domestic distribution of electricity or gas),

have parts of their business where there is or could be private-sector competition. These need to be reorganised into separate companies and privatised.

7. In some cases (eg mail services, coal mining) the present monopoly is artificial, being created or reinforced by legislation. Wherever possible such artificial barriers should be removed (as has been done for electricity generation).

8. Even where there is a degree of natural monopoly, it may be possible to restructure the industry so that the scope for competition is increased - for example by tightly defining the residual 'common carrier' role in gas or electricity distribution to prevent discriminatory pricing. It then needs to be considered whether this non-competitive element would operate more efficiently if sold into private ownership and subjected to a licensing/regulatory regime. →

9. Another option is to arrange for licensing of franchises to provide a specified service, perhaps in a limited geographical area - so that although competition within that area is technically impossible, different firms can still compete for the right to provide the service for a limited period.

10. For some services, social objectives are important (eg rural rail and postal services). Uncontrolled cross-subsidisation by the monopoly provider is likely to lead to wasteful overprovision. A restructured service, with an explicit, cash-limited subsidy, is likely to be more efficient; and franchising might in some cases provide an element of competition.

Progress in this Parliament

11. The Chancellor's minute of 25 July to the Prime Minister emphasised that more attention must be given to the structure of the enterprises which are in the privatisation programme, and that the privatisation programme must be considered as a whole to avoid potential legislative and capital market bottlenecks. The Economic Secretary will be conducting a series of bilaterals after the recess with sponsor Ministers and will then be reporting on the programme as a whole.

12. The timing and content of the programme of asset sales in this Parliament cannot therefore be decided yet. Some of the uncertainties should be clarified by the Economic Secretary's review in the autumn. Any figures for sale proceeds must be highly speculative at this stage, and in some cases must await decisions on the form of privatisation to be adopted. The present presumption is that the overall receipts are likely to be of the following order:

| <u>1982-83</u> | <u>1983-84</u> | <u>1984-85</u> | <u>1985-86</u> | <u>1986-87</u> |
|----------------|----------------|----------------|----------------|----------------|
| £488m | £1,250m | £1,500m | £2,000m | £2,000m |

These totals are heavily influenced by the proposed sale of British Telecom, whose magnitude and timing remain uncertain.

Contracting Out

13. Where services remain in the public sector, there is still scope for increasing competition by allowing private-sector firms to tender for contracts to provide all or part of the work. This brings market forces into play both directly, by giving competitive opportunities to the managements and workers of private firms, and indirectly, by stimulating in-house staff to perform more competitively.

14. In central government, Ministers and departments have made modest but useful progress (saving nearly 15,000 staff) and further opportunities are being examined. Firm central control of cash and manpower numbers can increase the pressure to take these opportunities where they are cost-effective.

15. In the National Health Service, though some work is contracted out, there is undoubtedly considerable scope for further progress (eg only £17m out of the £400m total spent on domestic services is contracted out). The Secretary of State for Social Services is about to send out a circular requiring health authorities to seek tenders for cleaning, catering and laundry services, and urging them to seek opportunities for contracting out other services.

16. Local authority direct labour organisations are being required to compete for an increasing proportion of their work, and as a result numbers have already fallen by some 17,000. Progress in other areas of local authority activity has, however, been slower. 16 local authorities have decided to contract out refuse collection and street cleaning; to require this more widely would need fresh legislation.

17. Cabinet considered the scope for further progress on contracting out on 21 July, and invited the Chief Secretary to pursue this in discussions with Ministers concerned with local authority services.



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

PRIME MINISTER

(14)

cc PS/CST
PS/EST
PS/MST
Mr Middleton
Mr Bailey
Mr Byatt
Sir T Burns

Mr Anson
Mr Cassell
Mr Christie
Mr R H Wilson
Mr Morgan - o.r.
Mr Turnbull
Mr Grimstone
Mr Burgner

COMPETITION AND PRIVATISATION

Privatisation, combined with increased competition, is one of the main planks of our economic policy. It is designed to improve our national economic performance by increasing the role of market forces and by reducing the size of the public sector. We made a good start during the last period of Government. But experience shows that much preparation and discussion are needed to prepare State industries and trading bodies for sale to the private sector. And after 3-4 years, an approaching General Election casts a forward shadow that makes further sales difficult. So we need to use the time we have available as fully and constructively as possible.

2. The programme we have put forward is a full one. The Manifesto speaks of selling 51 per cent of shares in British Telecom, Rolls-Royce, British Airways and substantial parts of British Steel, British Shipbuilding and British Leyland; privatising as many as possible of Britain's airports; introducing substantial private capital into National Bus; the transfer to the private sector of the British Gas Corporation's offshore oil interests; and increasing competition and attracting private capital into the gas and electricity industries. The Queen's Speech added the Royal Ordnance Factories. And there are other candidates also, as the papers circulated to E(DL) shortly before the Election showed.

3. Two aspects of the programme will become much more prominent in the next phase of our drive for privatisation.

4. First, the need to promote competition to the maximum extent means that we must give much more attention to the structure of the bodies which are on the privatisation programme. Hitherto the companies we have sold have mainly been profitable and operating in competitive environments. Preparing them for privatisation, although time-consuming in terms of legislation and preparations for flotation, has involved relatively little change to their structure. But from



now on we are increasingly working in the heartland of the public trading sector, where we shall have to deal both with the giant utilities and unprofitable companies. Questions of whether and how to separate the profitable parts from the unprofitable; how to separate the potentially competitive parts from the natural monopolies; and how to deal with the irreducible elements of monopoly will increasingly dominate the debate. We shall increasingly have to devote time and effort to these issues - well in advance of the mechanics of privatisation itself - if we are to reap the maximum benefit from a transfer to the private sector.

5. I recognise that in some cases the costs - in terms of the delay and upheaval involved in restructuring - of pursuing the best solution may be excessive, running the risk of putting off privatisation into the remote future. This is a price which in political terms we may not be prepared to pay. In particular cases it may be better to go for a quicker solution. For British Telecom we are following a route which combines rapid liberalisation with privatisation (accompanied by a degree of regulation). We shall want to see how this works out in practice when considering our approach to other monopoly utilities.

6. Early consideration is therefore essential. | It must be done case-by-case. | Most of the detailed work on individual industries can only be carried out in the sponsor Departments using their knowledge of these industries, although Treasury officials will need to be closely involved. I am attaching a paper by Treasury officials which sets out some thinking about questions of competition and structure and illustrates how this could be applied in certain of the larger public sector industries, not all of which currently figure in the privatisation programme. Treasury officials will be glad to discuss these matters further with the individual sponsor Departments concerned.

7. Second, and following from this, there is now a much greater need to consider the privatisation programme as a whole. This is essential if we are to avoid potential bottlenecks in bringing a range of industries and companies to market. Bottlenecks can arise in the legislative programme, as we have seen in the plans for 1983-84 where there have been difficulties about the inclusion of



legislation relevant to privatising National Bus and British Airways. They can also arise in the capital market, where the sheer size of the bodies to be privatised can create difficulties both for other Government sales or for the private sector. This problem is raised in an early and acute form by the proposed sale of British Telecom.

8. Both these aspects point to a need to strengthen our existing procedures. We shall certainly want to have periodic reviews of progress. But we need to do this on a more systematic basis than hitherto. We need to produce for each major privatisation candidate a programme and a time-table which will map out the various issues needing to be resolved, e.g. what structural changes (if any) are to be considered; how and when this is to be done; the approximate time-scale for making such changes; the target date for privatisation; and the likely scale of the equity to be sold. I recognise that there will be uncertainties at the outset particularly about some of the later stages along the route. But in this way we can best ensure that while maintaining a worthwhile programme of asset sales we put the emphasis on maximising competition, and at the same time avoid as far as possible any potential bottlenecks in implementing the agreed programme.

9. I am therefore asking all colleagues with privatisation responsibilities to let me have by end-September a time-table of this kind for each of their candidates. John Moore, who has been given particular responsibility for privatisation within the Treasury, will then discuss these replies with sponsor Ministers in each case and subsequently report on the programme as a whole.

10. I am copying this minute to all our Cabinet colleagues and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'N.L.'.

(N.L.)

25 July 1983

"PASSPORT FOR A JOB" AND HELP FOR THOSE STARTING UP
IN SELF-EMPLOYMENT

This note discusses two schemes. The first is designed to ease the problem of youth unemployment; the second, to help those who wish to set up in business on their own.

"Passport for a job"

2. This scheme would apply to those under 18, earning no more than £45 a week. A worker falling within this category would be issued with a "passport" which he would lodge with his employer. The employer would hold the document as his authority to employ the worker, without deducting income tax or national insurance contributions and would be exempt from employee protection requirements in this respect. The date of expiry would be printed prominently on the "passport" and if the employer wished to retain the worker's services thereafter, he would be obliged to put him back into the system.

3. The essence of the proposal appears to be that under-18s would be willing to accept jobs at lower levels of pay and employers would be more willing to take them on, if they could be relieved of some of the administrative burden and, in relation to national insurance, perhaps some of the cost too. (It is worth noting in passing that employee protection already only applies to workers under the age of 18 in a very limited way. The redundancy and most of the major maternity provisions do not apply to them at all. The unfair dismissal provision requires a qualifying period of one year's employment and it has been proposed that this should be raised to two years - it is already two years in small firms.)

4. The arrangements for the scheme as outlined above raise a number of technical difficulties:-

- (i) if under-18s were exempted from employees' NIC, their employers could be exempted from payment of employers' NIC and NIS. NIC exemptions would, however, give rise

to special difficulty since the contributions buy entitlement to benefits. It would be possible to exclude the employees from this entitlement. But it would not be easy and would provoke requests for similar treatment from others who would be willing to give up benefit entitlement if they were exempt from NIC.

- (ii) If income tax and NIC became payable in full as soon as the £45 limit was passed, a very high marginal rate would be created at that point.
- (iii) It is not clear whether self-employment would be covered.
- (iv) The scheme might actually make PAYE compliance more complicated for employers if they had to give special treatment to part of their workforce.

However, none of these problems is likely to be insuperable.

5. There are also more powerful arguments against the proposal. The first is one of equity. It is by no means clear that under-18s should receive specially favourable treatment, particularly through discrimination in the tax system, which is usually expected to be equitable between taxpayers. Indeed, it could be argued that those under 18 are unlikely to have dependents; that because of their low expenses, they get better value out of the single personal allowance than other taxpayers; and that the poverty trap and unemployment trap are less important for them.

6. Second, there must be some doubt about the cost-effectiveness of the scheme. Some of the extra jobs for the under-18s would be created by displacing over-18s, although it is impossible to assess what proportion would be affected. Moreover, part of the subsidy would also go to under-18s who would in any event have been in work. In the case of the Young Worker's Scheme which shares a very similar objective, it has been estimated that only about 20 per cent of the jobs receiving subsidy were new ones. (It would, incidentally be for decision whether

The Young Worker's Scheme should be withdrawn if this proposal were implemented.)

7. Finally, there is the risk that an employer will hire a succession of young people who will each lose their job on reaching the age of 18. This is not, however, a conclusive argument. Even a short-lived job would have the big advantage of introducing the young people to habits of work and putting them in contact with the labour market.

8. The direct cost of the scheme would be about £60m a year, if only income tax and employers' NIC were involved. If employers' NIC and NIS were brought in also, the cost could be £120m. But these are only the direct taxation effects. To the extent that those receiving the subsidy were in newly created jobs, the PSBR cost would be less because of the benefit savings. But to the extent that they displaced over-18s, the cost would be more. And the upside risk is greater because over-18s pay more tax and receive higher benefits than under-18s.

Help for those starting up in self employment

9. Under this scheme, those self-employed who had completed an appropriate training course would be exempted from income tax, VAT and national insurance contributions for a three-year period, provided turnover did not exceed £10,000. (An individual whose turnover is less than £10,000 does, of course, already fall well below the current £18,000 registration threshold for VAT.)

10. This proposal poses problems on national insurance and the cut-off point for relief similar to those set out in paragraph 4 above. In addition, it can be argued that any test based on turnover is not appropriate for income tax. The profit of a self-employed person with few expenses, (eg a window cleaner) will be little less than his turnover. By contrast, if a business with substantial inputs (eg a retailer) or considerable expenses on tools or materials (eg a repair shop) has a similar turnover, the owner's income will be very much less.

11. These difficulties could be overcome by redesigning the scheme so that a self-employed person who had completed an appropriate training course would be exempt from income tax on the first £10,000 of his income. This would remove any disincentive to expand beyond the cut-off point.

H + W - £20,000 without any tax;

12. The cost of the proposal would depend on which training courses qualified for the scheme and the extent of the take-up. But based on recent experience of TOPS courses, if around 60,000 adults were to enter MSC courses next year and, say, 7 per cent were to become self-employed soon after, the cost of the scheme could build up to about £8m a year.

13. Although restricting the scheme to those self-employed who had completed some form of training would limit the Exchequer cost, it would also necessarily imply discrimination between one new business and another. It would be argued that relief from tax should not depend on whether those entering self employment needed, or had the benefit of, a training scheme and however the qualifying schemes were defined, there would be those who would fall on the wrong side of the line and would complain they had been arbitrarily excluded. Indeed, it might be suggested that those who had enjoyed the benefit of a training scheme (and had probably paid no fees, if the scheme were provided by the MSC) were the last people to deserve further help through a selective tax relief.

14. Second, there is a case for saying that a much clearer dividing line should be drawn between the areas of employment and self-employment before exposing it to further pressure by increasing the relative attraction of Schedule D (Self-employment). Indeed, the scheme would give an added incentive to represent employment as self-employment through such devices as labour only sub-contracting arrangements.

Finally, there must be some doubt as to whether the scheme would achieve its purpose. The most critical period in the survival of a small business typically comes after about 18 months. At that time, a business will often not even have been assessed to tax for its first year. And, even if it has been assessed in its first year's results, the tax bill will often be fairly small. The extra expenses of setting up a business and getting it off the ground, the likelihood of capital expenditure which will attract tax allowances, and the fact that turnover is generally only starting to build up in the first year, mean that a new business' taxable profits may often be quite small or non-existent. Moreover, because of the way the profits of a new business are assessed to tax (the first year's results form the basis of tax assessments for, in general, about 2½ years' liabilities), the existing rules already have the effect of minimising liabilities in the early years.

Enterprise allowance

16. Given these objections, a different proposal to encourage the unemployed to set up in business could be considered. An enterprise allowance has been introduced nation-wide this year, under which a grant of £40 a week is paid for a year to unemployed people going into business. (subject to a maximum of 25,000 places). The future of the allowance is to be decided as part of this year's public expenditure review. If the allowance is continued, then there could be a case for making it non-taxable in order to increase the benefit to the successful. This would, however, point up the taxability of unemployment benefit.

HM Treasury

19 August 1983

PORTABLE PENSIONS

The problem

Occupational pension schemes treat early leavers badly by comparison with stayers, and this is a disincentive to labour mobility. An increase in mobility would help to reduce unemployment.

2. Occupational pensions are generally based on years of service and final salary. For an "early leaver" who spends 20 years with one employer and 20 with another, only his last 20 years of work will count towards a pension geared to his salary at retirement. The pension attributable to the first 20 years of his career will be geared only to the final salary level he has reached by mid-career when he switches his job. This will usually be much lower than his salary at retirement because of the likelihood of inflation, growth in real earnings and promotion over the last 20 years of his career. This loss will occur whether he freezes his rights with his old employer, or transfers them to his new one (assuming that he moves to a new employer with a pension scheme). If he leaves early to start a business, he has no alternative to keeping his rights frozen with his former employer - which is particularly hard if he wants to invest his savings in the business. The loss of pension rights by early leavers is a direct, substantial and arbitrary subsidy to the stayers. The loss in typical cases can be shown to be worth at least a year's salary (in present value terms).

3. 11½ million employees (over half the UK total) are members of occupational schemes. About 10% are early leavers each year. Three quarters of these have less than 5 years' service and are entitled only to a refund of their contributions. The rest - perhaps 250,000 a year - normally have their accrued rights preserved in their old scheme.

4. Evidence about the effect of this loss of pension rights on mobility is sparse. But what there is confirms the presumption that it acts as a disincentive. Increasing awareness of the problem is likely to accentuate it.

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5. As it grows to maturity in 1998, the State Earnings Related Pension Scheme (SERPS) will make an increasing contribution to solving the early leaver problem for the bulk of the working population. For those earning up to the upper earnings limit (UEL) of about 1½ times average earnings, their statutory earnings related pension will be the same however many times they change jobs. Those earning above the UEL will be protected in relation to their earnings up to the UEL. However, it is far from clear that the massive public expenditure cost of SERPS is affordable - nor is it in any event apparent why pension provision over and above the basic State pension should be a public sector rather than a private sector activity. →

6. For the 5½ million public sector occupational scheme members (almost half the total) the potential loss is a good deal less, whether they move within the public sector or into the private sector. This is because their preserved rights are revalued by prices up to retirement.

7. But a problem remains, particularly up to 1998, for all private sector scheme members; and in perpetuity for those earning above the UEL, whose rights in excess of this have no statutory protection. This latter group includes middle managers, technologists etc., who (unlike top managers) will not usually be able to negotiate an individual pension package with their new employer.

The considerations

8. Early leavers subsidise stayers. To improve their position therefore involves costs. These could be borne by a reduction in stayers' benefits, or an increase in employers' and/or employees' contributions. To the extent that extra employer contributions were not offset by lower wages, or that employees gained higher wages to compensate for higher employee contributions, there would be a short term addition to industrial costs. Some reduction in promised benefits for stayers may be more feasible, if the Government makes clear that this is the desired outcome. But employers are likely to be quicker to perceive the risk of extra costs to them than the potential benefits in terms of enhanced mobility; indeed some employers may see advantage in keeping some disincentive to labour mobility, to minimise disruption and re-training costs.

9. Government has so far taken the view that improvements for early leavers, while highly desirable, should be left to voluntary action by employers; but has threatened legislation if there is no noticeable improvement.

10. Ministers could take the more radical position that the resources devoted to pension provision in this country are excessive (and hardly conducive to enterprise), and that reducing the benefits to stayers, in order to remove the discrimination against the early leaver, would be a step towards correcting this. It would make pension provision less of a bargain for the employer, and in particular, it would remove one of the main purposes of "generous" pension schemes, if they could no longer be used to impose a penalty on anyone moving to another employer. A still more drastic step would be to start reducing the tax advantages enjoyed by pension schemes; these have distorted the flow of savings by giving the institutions a premium over direct investment by individuals. But there are clearly problems in reducing pension benefits and the rest of this paper discusses the alternatives for improving the treatment of early leavers.

Solutions

(i) Revaluation

11. For existing final salary schemes, the straightforward solution would be to revalue preserved rights by average earnings or by average prices. Given economic growth, prices revaluation would do less to equalise treatment than would earnings revaluation, particularly for the younger mobile worker.

12. The cost would depend on the rate of increase in the index. If the index rose by, say, 5%, the estimated cost of revaluation would be about £500m a year, or roughly 1% of the private sector's payroll. This cost could in principle be absorbed (see para 8 above). It would increase the pressure on employers to guarantee revaluation of pensions in payment, at additional cost; again this might be dealt with by a reduction in promised levels of benefits.

13. Part of the problem with this cost is its open-endedness; if inflation were to rise sharply, it could become unsustainable. This risk could be limited by not requiring revaluation beyond a stated rate of inflation. But by the same token, the protection to early leavers would be reduced.

(ii) Portable pensions (POPs)

14. The CPRS and others have proposed that employers should allow their employees to opt out of pooled occupational schemes and choose an individualised, money purchase, portable scheme. (But under the CPRS scheme employers would

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not be forced to provide this option). Both employer and employee would contribute. The level of contribution would be variable; benefits would depend not on final salary but on the value of the accumulated fund. New entrants bringing a POP with them could keep it, but employers would be allowed to charge to reflect the additional administrative cost. The range of providers would be widened to include other financial institutions as well as insurance companies. There might need to be some increase in the limits for tax relief on contributions, especially for older employees.

15. POPs, if they became widespread, would improve the position of early leavers by eliminating the worst cross-subsidisation within schemes. They would widen individual choice and responsibility and, it is argued, enhance individuals' interest in the performance of the investments on which their pensions depend.

16. POPs are not expected to replace final salary schemes in the short term. Most scheme members are likely to prefer the security of employer schemes, particularly given recent experience of the havoc which inflation can wreak on money purchase schemes. POPs may become popular in due course but their contribution to the early leaver problem is therefore likely to be small initially:

- (a) They will only operate for future service. CPRS argued against 'unitising' existing schemes, on the grounds of the impossibility of ensuring an equitable share-out, reflecting members' legitimate rights and expectations;
- (b) they will not guarantee a final salary-related pension. In conditions of high inflation employers might not be willing to make the necessary increases in contributions for older employees; and employees might anyway not be willing to risk this possibility;
- (c) they are likely to be administratively expensive for employers (and for Inland Revenue); existing pooled schemes are very cheap to run and the difference would be reflected in lower benefits (or higher contributions);
- (d) it would not be compulsory for employers to provide them, at least until it was clear that there was a general unmet desire for them.

17. CPRS therefore endorsed compulsory revaluation of preserved rights for the generality of early leavers (para 12), and some POPs as a long term evolution towards more individual choices.

Conclusions

18. The problem of early leavers is a serious one in mobility terms and legislative action may well be required. The most obvious remedy would be revaluation of preserved rights, whatever is done about POPs. Further work needs to be done on POPs, including the question of whether to go further than the CPRS proposal and compel employers to provide POPs for their workers.

Next Steps

19. The Secretary of State for Social Services is holding a conference with the pension industry on early leavers on 14 September. If he then judges that it has not made sufficient progress on a voluntary basis, he will want to propose legislation in 1984-85. This would be a suitable point at which to take action on POPs, if that were considered desirable.

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EMPLOYMENT IN THE USA

During the 1970s the number of people in employment in the USA grew steadily, broadly keeping pace with the growth in the labour force. More recently, employment has lagged behind but it is now increasing.

2. The main reason for the buoyancy of the US employment figures is the continued growth in the service-producing area. This has to some extent offset the decline in the goods-producing industries during the recession. (The number of people employed in the service-producing sector is almost three times that in the goods-producing sectors, excluding agriculture).

3. The major reason for the greater mobility of labour in the US is the capacity of its service sector to create jobs. There are various reasons for the increase in employment in the service-producing sector. First, no action was taken by the Federal Government to try to discourage the growth of employment in the service sector, as it was in Britain at the end of the 1960s through the introduction of the Selective Employment Tax. Second, the status of employment in service industries is, by and large, higher in the United States than it is in Britain. Many jobs in this sector are therefore attractive to native Americans and not just to disadvantaged immigrants. Finally, the standard of service offered to the consumer is generally higher in the US than in Britain. For example, it is common for shops to remain open during the evenings and throughout the weekend and indeed some are open for 24 hours a day, while in Britain there are still legislative restrictions on shop hours. There is also enormous competition between financial institutions to provide new and better services, employing more staff.

4. Some examples of ways in which UK tends to discriminate against the service industries are given in the Annex.

HM Treasury

26 August 1983

DISCRIMINATION BETWEEN MANUFACTURING AND SERVICES IN THE UK

The following are examples of fiscal discrimination between manufacturing and services which could affect the growth of employment in services in the UK.

(1) Taxation

The main area of discrimination against services is in capital allowances, where industrial buildings get 75 per cent first year allowances, whereas commercial buildings get no allowance and hotels get 20 per cent. (To give allowances for commercial buildings would have an eventual cost of some £1½ billion a year.) In addition, the small workshop scheme provides 100 per cent allowances only for small industrial workshops; and the Business Expansion Scheme is not available for certain kinds of financial companies. Development land tax is deferred on developments for the developer's own use in the case of industrial developments; this deferral has temporarily been extended to all developments but the extension ends in April 1984.

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• More generally, the direct tax system tends to favour consumption rather than saving, and this affects those providing savings-related services. However, within this framework, there is a relatively attractive tax regime for pensions and life assurance; and the favourable treatment of housing also helps related services such as building societies, banks, insurance companies and estate agents. The tax system also is less generous to the renting of property than to trading.

For indirect taxation, the picture is more mixed. There is relatively heavy taxation of services in three areas: services linked to the supply of alcoholic drinks (eg in pubs, restaurants); betting and gaming; and road transport (through fuel duties and VED). In the case of VAT, however, about 50 per cent of consumers' expenditure is zero-rated or exempt, and some of this relates directly to services, eg financial services including insurance and banking, health, education and passenger transport. Elsewhere it relates to goods, including the retailing of those goods: eg food; children's clothing; coal, gas and electricity; books, newspapers and periodicals.

(2) Regional Policy

At present, regional policy discriminates against service industries, although these industries are generally labour-intensive and hence could be of benefit to the regions. Regional development grants (RDGs), which are automatic, are paid only on "qualifying" investment, basically capital expenditure on buildings and on new machinery and plant in manufacturing industry. Regional selective assistance (RSA) is not limited to manufacturing, and in principle can be given to industrial and commercial projects generally, provided that they meet the cost-effectiveness criterion of strengthening the national and regional economies, and that there is an employment benefit and the project would not proceed without assistance. In practice, however, RSA has generally been restricted to manufacturing, and to mining and construction (which do not qualify for RDGs). For the services sector, there is a separate selective scheme - the Office and Service Industries Scheme (OSIS) - the primary emphasis of which is on relocation of offices. The existence of this scheme has tended to obscure the availability of selective assistance to service sector projects more generally.

For these reasons, the second report on regional economic policy has recommended that the qualifying activities for RDGs should be extended to a range of service industries which are nationally or internationally traded services and whose location could thus be influenced by eligibility for grants. It has also recommended that OSIS should be merged with the mainstream RSA into a single scheme of selective assistance providing equal treatment for the manufacturing and service sectors.

THE PRIVATE RENTED SECTOR

The private rented sector in England now comprises only some 2 million dwellings and is losing about 175,000 of them each year. The principal (although not the only) reason for this decline has been and continues to be the operation of rent control. In the past, Conservative Governments have considered that abolition of rent control would have little or no practical effect, given the 'blight' caused by the prospect of a Labour Government committed to restoring it. This political 'blight' may now be less of an impediment. If so, the ending of rent control could reduce unemployment in two ways - by improving labour mobility and thus the working of the labour market, and by increasing demand in the construction industry.

a. Labour mobility

2. There is evidence that private rented sector tenants are far more mobile than those in other sectors. A DOE study showed that (excluding students and members of the armed forces, and adjusted for age, occupation etc) the probabilities of moving house in each sector as compared with the owner-occupied sector are:

| | Movement in Same Region | Movement between Regions |
|--------------------|----------------------------|-----------------------------|
| Owner Occupiers | 100 | 100 |
| LA Tenants | 152 . | 16 |
| Unfurnished Rented | 288 . | 123 |
| Furnished rented | 489 . | 320 |

3. The numbers involved are small (about 40,000 moves a year in the private rented sector). But these results reflect the relative ease of moving in the private rented sector - the costs of a move are low (unlike the owner occupied sector) and there is no waiting list (as for local authority housing).

4. Hence it is clear that, if private rented accommodation were more generally available, it would be easier for people to move to other parts of the country to seek jobs. DOE estimated a figure of 90,000 moves a year, assuming that people from other tenancies were prepared to move with the same frequency as private tenants. But this estimate is an upper limit: for the market to deliver an increase in the supply of suitable rented accommodation, the level of rents would have to rise, and this would reduce the attractiveness of a move (even temporarily) into private rented accommodation.

b. Construction

5. New building under the assured tenancies scheme now attracts a 75% initial capital allowance with 4% per year thereafter, which is sufficient to offset the subsidy to the owner occupied sector. The scheme also allows approved landlords to charge economic rents. But it is taking off slowly and even if, by the late 1980s, it accounted for 5% of new housing, would generate no more than 10,000 direct jobs a year before allowing for displacement.

6. Ending rent control would probably not greatly help new build. But it should increase spending on improvement, by allowing landlords to make an economic rate of return (estimated to be 6%, which would mean rents in Greater London almost trebling and those outside almost doubling). If it led to improvement activity on 10% a year of a stock of around 1 million, with expenditure of £10,000 per dwelling, this might lead to around 60,000 direct jobs a year before displacement. But this displacement offset would be considerable, since many rented dwellings now are improved when sold on vacant possession into the owner occupied sector.

7. DOE Ministers are at present considering proposals by their officials which would end control of rents, although maintaining a degree of security of tenure. Such a measure could not be implemented until mid 1985 at the earliest and its effect would probably be phased. Landlords would also want to be sure that it was permanent, so it could be the late 1980s before it had any noticeable impact.

TAXATION SYSTEM AND EMPLOYMENT

Changes in the rates and thresholds of all the major direct and indirect taxes would have effects on employment to a varying degree but they must be considered within the context of the Government's overall fiscal stance. This note therefore focusses on those measures which would have a very direct impact on employment or which would be relatively self-contained.

National Insurance Surcharge (NIS)

2. The abolition of the 1 per cent National Insurance Surcharge would have a direct effect on labour costs. The Government is already committed to taking this step when resources are available. It would, however, be a very expensive operation. Changes in the NIS take about four months to implement from the date of their announcement. If abolition were announced in the 1984 Budget and took effect from the following August, the direct cost (ignoring second order effects) would be £450m in 1984-85 and £900m in 1985-86. If, alternatively, abolition were announced this autumn and took effect from next April, the first year direct cost would be £710m. All these estimates assume that the savings accruing to the public sector would be clawed back through adjustments to cash limits and EFLs.

Restricting Capital Allowances

3. Capital allowances have a dual purpose: they both allow for the depreciation of capital assets and provide an incentive for investment. There is clearly a "deadweight" cost attached to the provision of capital allowances, as tax relief is granted on some investment which would have taken place in any case. However, it has never proved possible to quantify this. While there is certainly a case for encouraging companies to re-equip themselves in order to remain competitive, a reduction in capital allowances would help to achieve a fairer balance between the tax treatment of capital and labour by reducing at the margin the incentive to substitute capital for labour.

4. Various adjustments to the rates and scope of the capital allowances would be possible but in practice, it is only changes in the allowance for plant and machinery (100 per cent in the first year) which could yield significant amounts.

5. The rate could be cut across the board. Virtually no equipment has a life of less than two years so that a reduction in the first year allowance to, say, 75 per cent (with a 25 per cent annual writing down allowance on the balance) would, in most cases, still leave it at a generous rate in terms of commercial depreciation in relation to historic cost. The reduction would have no direct revenue effect in 1984-85 but would save £300-450m in the following year, with a peak saving of £400-650m in 1986-87, gradually reducing to zero in subsequent years.

6. An across the board cut in allowances would be much easier to handle than a selective reduction but the administrative and presentational advantages of the immediate 100 per cent write off would, of course, be lost. The cut in the incentive for investment would be felt right across industry. On the other hand, the savings made could be used to help industry in other ways (eg as a contribution towards the cost of abolishing NIS).

7. Alternatively, the 100 per cent first year allowance could be retained but only on an even more discriminatory basis than obtains at present. Largely as a result of decisions by the Courts, the allowance now extends to a range of items not normally regarded as either machinery or plant. The position could therefore be rationalised by removing from the scope of the allowance buildings and structures, fixtures and fittings, hard and soft furnishings and a number of miscellaneous items, such as holiday caravans.

8. It is very difficult to estimate the revenue effect of such changes but reductions in the allowances on fixtures and fittings alone, while having no effect in 1984-85, could produce savings of £90-150m in the following year and peak savings of £130-200m in 1986-87.

However, the definitional problems involved in the change would be considerable and the necessary legislation would be difficult to draft. There is also a significant risk that in focussing attention on this issue, Ministers would come under great pressure to extend rather than narrow the boundaries. Removing the 100 per cent allowance on fixtures and fittings and on furnishings would have its biggest impact on the commercial sector where there is already the greatest pressure to provide new allowances - for commercial buildings.

Business Expansion Scheme (BES)

9. The Government has focussed a great deal of attention on improving the tax regime for small firms, in the belief that this ^{is} one area of the economy which has substantial potential for generating employment. The purpose of the Business Expansion Scheme, introduced in this year's Budget as a development of the earlier Business Start-Up Scheme (BSS), is to encourage outsiders to contribute equity capital to registered trading companies by giving them relief for their investment at their marginal rate of income tax, including investment income surcharge. The scheme recognises the risky nature of this type of equity investment and has substantially altered the ratio of reward to risk. We know of no other country which offers a more generous tax relief of this nature.

10. It is far too early to determine how much additional investment the BES is stimulating or to assess the impact the scheme has had on the companies in which the investment is placed. Nevertheless, there has been strong public interest in the scheme and the signs are reasonably encouraging.

11. A number of technical modifications were made to the BES in this year's second Finance Act but no attempt was made at that stage to introduce substantial changes. Nevertheless, there is in principle a strong case for making changes in the following areas:

(a) Takeovers: A company may at present use BES money to take over the trade or assets of another company but not to take over its shares.

(b) Overseas subsidiaries: The aim of the relief is to expand activities in the UK. A company can qualify for relief if it carries out ancillary activities overseas through a branch, provided that most of its production, employees etc are in the UK. But a company cannot qualify if it carries out its ancillary activities abroad through an overseas subsidiary.

(c) Company structure: There are a number of other restrictions on the structure of a group which may make it ineligible for BES money. For example, it must not have a dormant subsidiary; it must not have subsidiaries; and it must not hold its property in a separate investment company for the group.

All these restrictions could reasonably be removed.

(d) Subsequent trading on the Unlisted Securities Market: BES relief is withdrawn if the company gets a listing or is traded on the Unlisted Securities Market within 3 years of the issue of the shares for which relief has been given. This period might reasonably be reduced to 2 years.

(e) Start-Ups: When the original Business Start-Up Scheme was widened into the BES, no distinction was made between the treatment of new and existing companies. In the case of new companies, there is a strong argument for reducing from 5 to 3 years the period over which the investor has to hold his shares in order to get the full measure of the relief. This would, however, reintroduce into the scheme some of the complexity for which the BSS was criticised and which the 1983 Budget removed.

12. All these amendments to the present scheme warrant careful consideration but there is also a case for arguing that it would be better to assess the effect of the tax concession announced last March before introducing further refinements.

Share option relief for smaller companies

13. Gains made by an employee when he exercises an option on shares in his company (except under approved SAYE schemes) are liable to income tax. The tax can already be paid by instalments but proposals have been put forward for replacing the income tax charge on exercise of the option by a CGT charge on the ultimate disposal of the shares.

14. A general relief of this kind would be quite costly (with a dead-weight cost probably in the region of £50-100m) as well as politically contentious and would run counter to the policy of encouraging remuneration in cash rather than benefits. However, it would be possible to introduce a relief limited to smaller companies. The aim would be to shake able executives out of larger firms into new and smaller ones. New firms can rarely compete by offering higher salaries. An incoming executive can normally take a stake in his small firm by raising a loan but a share option relief could be an additional route to financial reward for those prepared to take the relatively risky course of committing themselves to a smaller business. Treasury Ministers will be investigating this possibility further.

HM Treasury
24 August 1983



SECRET AND PERSONAL : CMO

PRIME MINISTER

STRATEGY FOR UNEMPLOYMENT

... 1 I attach herewith, for the discussion of labour market issues at your September meeting, notes on:

(a) further options to reduce trade union power
(Annex A);

(b) reducing barriers to employment (Annex B).

... 2 I also attach, as background, a brief general note (Annex C) suggesting a way of structuring our thinking about the labour market.

3 For the long haul, policy on training must be of central importance. There is a lot of work in hand on this; in particular,

(i) David Young will be pulling together in the autumn responses to the MSC's discussion document on Adult Training, and considering with me the lines on which to move forward.

(ii) I have commissioned, as E(A) agreed, work on the options for future development of the Youth Training Scheme.

(iii) I am considering further, and will want to discuss initially with Keith Joseph, the possibilities for improving our organisation for training policy and its better co-ordination with education policy, particularly in the FE sector.

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4 Also as E(A) agreed, I have commissioned, within my Department in the first instance, work on the way ahead for the Community Programme; this will include consideration of "workfare" schemes.

5 All this work cannot be ready for the early-September meeting. I have provisionally in mind the possibility of drawing the training aspects together in a major White Paper (perhaps with some Green elements) towards the end of November.

6 I am also maintaining the option of publishing in the autumn a more general account of the Government's approach to employment. You will recall that you agreed earlier in the year that this idea should be developed, though the Election then intervened and changed the timing considerations.

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August 1983

SECRET AND PERSONAL : CMO

TRADE UNION POWER1 The Law

In reforming the law, our approach has been:-

(a) to redress the balance of bargaining power, to reduce unions' ability to command resistance to change and to protect individuals from the abuse of union power;

(b) to ensure that we win and hold the support of public opinion and in particular the majority support of trade unionists themselves; and to avoid moving too far ahead of employer opinion so that employers remain ready to use the remedies provided and unions always have to expect that they might do so;

(c) to avoid any direct role for the Government in the enforcement of the law and to rely on the development of civil remedies rather than criminal sanctions;

(d) to allow for the free development of employer/employee relations by agreement and contract without the intrusion of statutory mechanisms, save to safeguard the interests of others;

(e) to seek to change the nature and behaviour of unions themselves by provision for secret ballots of members;

(f) to maintain an impetus for continuing reform whilst seeking to ensure that each legislative step takes root and holds.

2 This approach has been successful and needs to continue.

3 Proposals for the Bill which is to be introduced on the return of the House have been announced and as a next step we

are already committed to consultations on the need for adequate procedure agreements in essential services and the attachment of immunity to their observance. There is advantage in giving the TUC every encouragement to participate in these consultations or to open the way to legislation if they refuse to do so. We must not be seen to rule out from the outset the possibility of voluntary reform, but the probability is that we will need to contemplate legislation establishing some key features for procedural arrangements to overlay agreements and depriving industrial action of immunity if they are breached. I shall shortly put forward developed proposals. The proposal in the 1983 Bill which will deny unions immunity for industrial action taken without a secret ballot of the members concerned will itself provide a very powerful inhibition in essential services in which industrial action is usually both national and official.

4 I continue to review the full range of other possibilities for changes in the law, measured against the problems, likely support for them and their efficacy. These I identify in the following paragraphs.

5 Closed Shop. We have halted the spread of closed shops and can expect that many will be progressively undermined as they come to need endorsement by secret ballot with a high majority test if both employers and unions are to escape an expensive liability on any dismissal. This will weaken the coercive strength of unions and a number of employers are already making it clear that they will not dismiss on the withdrawal of a union card. It is clearly not easy to accept the continued existence of the pre-entry closed shop and other closed shop agreements are likely to persist - if in a more tolerant and flexible form - for the foreseeable future. Nevertheless, the suggestion sometimes made that the pre-entry shop should be made unlawful would have little more than declaratory effect and I am convinced that such a step would

be much less effective than the secret ballot/unfair dismissal approach we have adopted. As the existing legislation on closed shops has not yet bitten fully, I do not propose any early further action in this area.

6 Procedure Agreements. We concluded in May not to attach unions' immunities to the observance of all procedure agreements as has been advocated by the CBI. This decision was implicit in the Manifesto. I would however not want to lose sight of this possibility and will want to consider it again in the light of responses to the consultations on essential services.

7 Substantive Agreements. There is nothing in law to prevent employers insisting that agreements on terms and conditions of employment must be legally binding. They do not attempt to do so and employers generally still see little or no advantage in having legally binding agreements and disadvantage in being restrained by them. My own strong view is that such agreements must be an objective for the longer term. But legislation deeming all agreements to be legally binding would affront the principle that parties to any agreement should be free to determine themselves both its content and effect and would be very strongly opposed by the great majority of employers. Moreover most agreements would just not bear legal interpretation. For the present we must continue to make clear our own position which is that there needs to be a confident expectation that agreements are observed by both employers and unions. I do however have it in mind to canvass in the prospective consultations that industrial action in essential services which has the objective of changing agreed terms and conditions during the currency of an agreement would not have the protection of immunity.

8 Secondary Action. Immunity for such action has been considerably narrowed to that specifically targetted on commercial contracts between the employer in dispute and his

customers and suppliers. This has been successfully tested in the courts in a number of cases and unions thus far have accepted the outcome. Unions would argue that the present scope of immunity is so narrow as to amount almost to total prohibition if, for example, an employer contrives to conduct his business through an intermediary, an option which some employers have already identified. The cases so far suggest that the apparent complexity of the present provision (which the Courts have overcome) has worked to the advantage of employers. However, my own view is that in principle there should be no immunity for any secondary action. On the other hand, tactically it would be best to take this further step against the background of clear evidence that it is essential.

9 Lay-Off Without Pay. I have developed alternative proposals which would enable employers to lay-off without pay any employee whose work was affected to any extent by industrial action. The first of these has the objective of being able to relieve employers of all their contractual and statutory obligations to employees and hence alleviate their economic losses when a major dispute in a key industry has widespread effects. I am in no doubt that circumstances could arise which would justify emergency legislation of this kind and that its introduction would best be contemplated when they threaten or begin to be experienced. There would then be evident justification for setting aside our commitment to the principle that agreements should be honoured.

10 The second proposal has the different primary objective of assisting employers in combating selective action by their own employees, eg a union deliberately calling-out key employees leaving the remainder of their members at work and on pay. A secondary objective would be to relieve employers of their obligations to all their employees, whether or not they had a direct interest in the dispute, whilst the business was

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damaged and action continued. Employer opinion remains very divided on this proposal and, although support for it has grown, it is discouraging that those employers who favour legislation to relieve them, at discretion, from their contractual obligations have made no attempt to re-negotiate their existing agreements or to offer employment to new entrants only with a contractual right to lay them off because of industrial action. Moreover, I cannot escape the suspicion that if national newspapers who have been prominent in urging legislation of this kind used it, they would be faced at the end of a dispute with the threat of industrial action from other groups demanding back pay and that they might well concede such demands. But my principal concern is that it cuts right across the principle that agreements should be honoured.

11 Dismissal of Strikers. The 1982 Act now enables an employer to dismiss - without the possibility of a claim of unfair dismissal - those taking part in industrial action at any establishment subject only to equal treatment being accorded all those taking action at the establishment at the date of dismissal. This is an important new sanction which, so far as I am aware, has yet to be used. It could prove particularly useful where action was being taken at a number of locations. The only further step which might be contemplated would be to provide that employers were entirely free to decide which and how many employees to dismiss, but I first want to see how the 1982 Act operates in practice.

12 Immunities. Our approach has been to stop some considerable way short of revoking all immunity for the inducement of breaches of contracts of employment, whilst narrowing its scope in a number of different ways (eg by the redefinition of trade dispute, by curtailing secondary action and picketing and coercive recruitment practices). Above all else union funds have been opened up to claims for damages. The 1983 Bill will continue this approach in

attaching union immunity to secret strike ballots and my proposals on procedure arrangements for essential services will take this approach yet further.

13 I am sure that the progressive erosion of immunity for specific actions is to be preferred to a return to the pre-1906 position. This would mean that unions and individuals would always be liable for damages in inducing industrial action unless they ensured that notice was given no shorter than whatever was required in individual contracts of employees and employees themselves had also given that notice. In short, the inducement of industrial action would have no protection unless the employment relationships had been severed before its onset. To go this far would be wholly unexpected by employers among whom only minimal support has ever developed for such a step. It would also put at risk the support we have carefully developed amongst union members for our policies. We would certainly be accused - however inaccurately - of legislating away "the right to strike".

14 Restrictive Practices. One suggestion has been that a new jurisdiction might be contemplated providing remedies when a union or group of employees imposes or maintains restrictive working practices of an unreasonable kind, eg demarcations, resistance to new training arrangements. Action might be initiated by an employer or a public authority. The remedy would probably need to be an enforceable order, finally directed to individuals, as damages would in many cases be difficult to conceive or assess. A refusal to obey an order would therefore probably need the potential sanction of a fine or just possibly imprisonment.

15 I am sure that this suggestion should not be adopted. To direct in detail and under threat of sanction how work must be done would be a recipe for conflict and probably largely ineffective. The eradication of restrictive practices must be a responsibility for managements and many have now begun to demonstrate what can be achieved.

(2) Other Approaches

16 However important, the reform of industrial relations law is only one means of contending with unacceptable manifestations of union power. In my view, there are other key components which include a higher professionalism in management, the decisions we take on industrial matters and the will and purpose we demonstrate in seeing them through, the general atmosphere we can help to create by all we do and say and how we handle industrial relations problems in the public sector, particularly where we have a direct responsibility.

17 I provide no more than a checklist of other approaches already adopted or which need to be remembered:-

(a) the freeing-up and privatisation of the public sector to competition, thereby loosening union monopoly control and demonstrating more clearly to employees that their jobs depend on the success of enterprise;

(b) the decentralisation of bargaining arrangements, but only where on a case by case assessment this would reduce union power and be likely to result in more realistic clearing prices for labour in different parts of the UK; the bargaining structures in the public sector (ie national and local government, the NHS and the nationalised industries) are probably as significant a factor as union power (which they can underpin) in establishing a common price for labour in what should be very different markets;

(c) the need for employers, with our support, to establish a fuller relationship with their employees in the communication of information about the enterprise and the threat of competition and, as they judge necessary, in consultation with them about how performance can be improved; in many cases union power has come to fill a vacuum;

(d) more generally, the need to educate employees about the relationship between pay and jobs and, where we have direct influence, to demonstrate the effects of that relationship;

(e) to be seen as the Government to be ready to resist unreasonable union demands and ready to contend with the effects of industrial action;

(f) to consider, case by case, whether the present institutional representation of trade unions on public bodies is always appropriate and what is the trade off between the possible advantages of securing their involvement and providing them with an authority to block or delay change.

REDUCING BARRIERS TO EMPLOYMENT: EMPLOYEE PROTECTIONS

This note considers the remaining statutory mechanisms which determine pay and reviews the full range of individual statutory employment rights.

2. In summary, my recommendations are:-

(a) the Wages Councils should be abolished at the earliest opportunity, ie the 1985/86 Session, but that there would be no advantage in tampering with the system in the interim and before we can denounce the relevant International Labour Convention (paras 4-5);

(b) it should be noted that it would be possible to abolish the two Agricultural Wages Boards earlier and that the governing Convention would in any case seem to allow the exclusion of particular categories, eg young persons, from their scope (para 2);

(c) the rights to guarantee and redundancy payments should continue, although the former should continue to decline in real value and the latter need to be kept under review, particularly with the possibility in mind of adapting them to developments in training arrangements (paras 10-19);

(d) all employers employing 5 or fewer employees should be entirely excluded from the unfair dismissal provisions (para 26(i));

(e) more important, the qualifying period for protection against unfair dismissal should be increased to 2 years' continuous employment in all other employments (para 26 (ii));

(f) as a consequence, the qualifying period for protection against dismissal on grounds of pregnancy should also be increased to 2 years (para 28);

3. I make no recommendations for changes to other protections which, for completeness, are described in the Appendix.

REDUCING BARRIERS TO EMPLOYMENT: EMPLOYEE PROTECTIONS

(1) Wages

In following the principle that employers should be free to offer (and job seekers free to accept) employment at wages determined by their individual circumstances and the market, we have repealed the statutory mechanisms allowing comparability claims (eg Schedule 11 of the Employment Protection Act 1975) and ended the Fair Wages Resolution. Perforce, we have to retain and extend equal pay legislation to meet the requirements of the EC Directive.

2. The two Agricultural Wages Boards and the Wages Councils provide the remaining statutory obstacles. The Wages Boards are the responsibility of the Agriculture Ministers and are governed by our ratification of International Labour Convention No. 99. This Convention (unlike Convention No. 26 which governs the Wages Councils) would, I understand, permit the exclusion of particular classes, eg young persons, and the 10 yearly time window for its denunciation opened in August 1983 and lasts for a year.

3. As for the Wages Councils, the Attorney General has advised that legislation to exclude particular categories (eg young persons, part-time workers, employees of small firms) would be in breach of Convention No. 26 which cannot be denounced before June 1985, with denunciation becoming effective 12 months later.

4. I recommend that the Wages Councils system should be abolished, with legislation in the 1985/86 Session. A few months before the introduction of a Bill, we would need to consult on our intention to denounce Convention No. 26 so that this can be effected in 1986. There is no advantage in any earlier announcement.

5. This decision taken, I am equally sure it would be very much a mistake to tamper with the system in the interim to the extent that we could without breaching the Convention. All our

previous discussions identified only two possibly worthwhile options. First, we could impose a statutory duty on Councils to take account of ability to pay, employment implications, etc. This would require legislation (in the 1984/85 Session), might well prove largely ineffective and would be unenforceable. Second, we could start the lengthy statutory procedure to abolish, say, the two large Retail Councils. In doing so we would not have ready and unanimous support from the employers' associations concerned. There would need to be a statutory inquiry, conducted by ACAS, to consider objections which would be bound to involve a detailed survey of earnings and speculation on the effects of abolishing the Councils. This could only fuel opposition to the proposal and it is most unlikely that it could be implemented before 1985. Either of these options would cloud and impede the prime objective of ending the Wages Council system at the earliest possible opportunity.

(2) Employment Protection Rights

6. I have again reviewed the full range of individual statutory employment rights. Inevitably they all impose requirements of one kind or another on employers, as does a range of other statutory, contractual and common law obligations which flows from the employment of labour, eg NI contributions, tax deductions, sick pay, insurance liability.

7. The tests therefore to be applied are whether there are good grounds for believing that individually or in combination they constitute a significant obstacle to the creation of more jobs or otherwise inhibit the growth of businesses; and on the other hand the benefits they might provide for the smoother operation of the labour market and a desirable stability for employer/employee relationships. It is not possible entirely to ignore developed views on what an employer might reasonably bear by way of obligation to his employees over and above the wages he pays. For some of the rights there are international constraints and public expenditure implications.

8. In the following paragraphs I identify those rights for which changes might be contemplated and make recommendations.

9. For completeness, the Appendix to this note identifies all other rights which I have concluded need to be retained without change, although the qualifying period for protection against dismissal because of pregnancy and for the right to reinstatement after confinement could be brought into line with any changes in the availability of protection against unfair dismissal.

(a) Guarantee payments

10. After one month's employment, employees are entitled to a payment for up to 5 days in any 3 month period of £9.50 a day for each full day for which the employer cannot provide work and if the employee would have been ready to undertake suitable alternative work. There is no entitlement to a payment if the lack of work is due to industrial action involving any employee of the employer or an associated employer. The value of the daily payment has been progressively reduced in real terms. About 1½ million employees are exempted from these arrangements following joint applications for statutory exemption on the basis of equivalent collective agreements.

11. In principle, guarantee payments could be left to collective agreements or individual contracts of employment with employers being left to decide what, if anything, they were prepared to afford. There are agreements governing short-time working over much of the primary sector. There is, however, a balance to be struck between the obligations employers might be reasonably expected to bear in recruiting and retaining labour and organising their flow of work and the otherwise residual obligation to pay unemployment benefit to employees temporarily without work, the cost of which falls to public expenditure. Unemployment benefit is not paid where an entitlement to guarantee pay exists.

Although it is not possible to calculate the likely additional cost to the National Insurance Fund of repealing this protection, it could prove significant. Changes were made in the 1980 Act, at the request of industry, to limit employers' obligation to 5 days

in any 3 month period rather than in a fixed calendar quarter and there are no pressures to end it.

12. I recommend the retention of this right but will ensure that in the annual statutory reviews of the amount of guarantee pay it continues to decline in real value.

(b) Redundancy payments

13. After 2 years' employment, a redundant employee is entitled to a payment calculated at $\frac{1}{2}$ a week's pay for each year of employment until aged 21, 1 week's pay for each year until aged 40 and $1\frac{1}{2}$ week's pay for service thereafter, subject to only the last 20 years of employment being reckonable. Employment under the age of 18 does not count. There is an earnings ceiling, currently £140 a week. The average payment is £1,331; the maximum £4,200. In 1981 40% of all employees entitled to redundancy pay received additional compensation from their employers. Employers receive a rebate, currently 41%, from the Redundancy Fund of the payments they make and the Fund is entirely financed by employers' and (since 1982) employees' contributions, the latter providing more than half the finance in 1983/84.

14 The primary purpose has always been to reduce resistance to job change and so facilitate labour mobility, not to reduce possible hardship. The gearing of entitlement to payments does however reflect in part a recognition that the longer the service of an employee the greater the accrued value to him of the job lost.

15. I am in no doubt that the primary economic purpose of redundancy payments is being achieved and is still necessary. Resistance to closures and redundancies has clearly been weakened by the prospect of compensation and there are very many examples of employees continuing to be ready to accept the loss of their jobs despite higher unemployment and attempts by their unions to mount sustained resistance.

16. Nevertheless, this alone would not justify the continuance of a general statutory scheme and, in principle, it could be left to employers on a view of their own economic interests to decide whether they needed to make payments to overcome resistance to redundancy. In my view, however, the counter considerations are conclusive. First, employers very much welcome the insurance principle which rebates from the Fund provide; there is no longer any significant pressure from employers to end the scheme. Secondly, removal of the right could stimulate trade unions to intensify resistance to redundancy and provide them with a recruitment slogan. Thirdly, employees themselves now contribute significantly to the costs. Fourthly, somewhat paradoxically, the statutory entitlement provides a limitation on expectations on compensation for the generality of employment and the real value of the payments has been falling without observable protest. Lastly, it is not easy to ignore some concept of equity by not providing relatively modest compensation for employees who are not members of well-organised and powerful groups which would always be able to command more.

17. I therefore recommend the continuance of the scheme.

18. As to possible changes to it:-

(i) Lump sum/income support. This would be to pay only part of the accrued entitlement at the time of redundancy and pay the remainder weekly to those who remain unemployed, either on top of or instead of unemployment benefit. The first course could reduce the incentive to find another job until full entitlement was exhausted and run counter to our objectives. The second would produce some public expenditure saving, but in effect would simply amount to cutting the entitlement. Employers would not welcome having to pay for income support after employment ended or the administrative burden. In both cases the inducement to accept job loss which a lump sum payment provides would undoubtedly be considerably weakened.

(ii) Lump sum/income support only on the acceptance of training. The same considerations would apply. There is in any case no detectable reluctance to accept opportunities for training and, under present arrangements, only a very small proportion of adults made redundant could immediately be offered a training course.

(iii) Exclude or treat differently small or new firms. The 2 year qualifying period already provides a relief and it would not be easy to justify some longer period in either case; the accrual of entitlement is in any case slow. The total exclusion of small firms could produce the anomaly of the long-service employee being made redundant without statutory compensation even though his employer remained in very profitable business. The major difficulty is however the administrative complexities for National Insurance contributions with differential rates for both employers and employees which would need to change (and in the case of small firms change again) over time.

(iv) Exclusion of young persons. Employment under the age of 18 does not qualify towards entitlement to a payment or its accrual. If it were nevertheless judged that the possibility of redundancy after more than two years' employment thereafter was one factor which inhibited employers engaging more young people, entitlement could be delayed until employees were aged, say 21. An employee at the age of 21 might then be afforded an entitlement based on employment from the age of 18, ie 1 week's pay rather than 2 weeks at present. The relief to employers would be minimal.

19. Given the high level of unemployment and the continuing need to secure acceptance of redundancy, I have concluded that none of these possibilities, which could weaken the inducement to accept job loss, should be adopted at present. I therefore make no recommendations for changes to the scheme. I nevertheless intend to keep its provisions under review and, in particular, to have in

mind the possibility of adapting them to interact with the development of training arrangements.

(c) Unfair dismissal

20. All employees with one year's service (2 years with employers with 20 or fewer employees) have a protection against arbitrary dismissal, exercisable by a claim to an industrial tribunal for re-instatement or compensation. In 1981 37,000 claims were made, almost two-thirds of which did not reach a hearing being either withdrawn or settled by agreement. Of the 13,500 claims which were considered by tribunals, over 10,000 were dismissed. Of the 3,000 awards made, 150 were for re-instatement and 1,950 for financial compensation, a third of which were for less than £500 with the median award being £963. In most of the remainder the parties were left to decide the remedy.

21. The concept of a protection against unfair dismissal (first established in the Industrial Relations Act 1971) is now generally accepted and needs to continue; it provides the essential basis for the approach adopted in the 1980 and 1982 Acts to the closed shop and dismissals for non-membership of unions, for which very much higher levels of compensation can be awarded against unions as well as employers.

22. Employers' concerns are directed not to the principle or even the possibility of having to pay compensation, but the uncertainty of the prospect of having to contend with claims following dismissal, the cost (including legal costs) of defending claims and the growth of legal complexity. These concerns cannot be decisive in a decision whether to recruit more employees but when realised can undoubtedly be burdensome. Larger employers, with professional resource, now cope with little difficulty, but for some other employers the difficulties are often greater and most complaints stem from the first unfair dismissal claim against them.

23. I am examining proposals for reducing legalism in the tribunal system. These include improvements in the conciliation process

and in the conduct of tribunal proceedings, and also ways of restricting appeals to the Employment Appeal Tribunal. These measures can be introduced by administrative and judicial action; primary legislation would not be required. I believe that they would be welcomed by employers.

24. There are, in addition, a number of options for limiting the scope of the provisions, although those concerning dismissal for non-union membership would still need to apply to all employment. These are:-

- (i) exclude all very small employers (ie those employing 5 or fewer), in line with the exclusion for the right to return to work after confinement; about 1½ million employees would be affected;
- (ii) increase the qualifying period for protection to, say, 2 years for all employment, which would exclude about 26% of all claims now made;
- (iii) redefine small firms to some higher ceiling of employment, eg from 20 to 50 or less employees (which would exclude 4% of claims now made); and/or increase the qualifying period of employment for small firms to longer than 2 years (a 5 years' qualifying period for firms employing 20 or less would exclude about 7% of claims now made);
- (iv) provide an exclusion for all new small firms for, say, the first 5 years of trading;
- (v) make protection dependent on an age qualification, eg only after age 21.

25. In considering these options we need to be influenced by employers' concern about any additional complexity of provision; the possibility that exclusion based on the number of employees employed would operate against recruitment where this would take an employer above the ceiling; and the criticism to be faced that any limitation of scope is in effect allowing more employers to dismiss employees unfairly.

26. With these considerations in mind, I recommend:-

(i) the exclusion of all very small employers, ie those employing 5 or fewer; such an exclusion is preceded in the right to return to work after confinement and the very size of such firms inevitably makes employer/employee relations different;

(ii) the extension of the qualifying period to 2 years for all employment; this is a better alternative to redefining the present small firm exclusion at some higher figure and would avoid the disincentive effect this could have on additional recruitment.

27. I am not disposed to go further. A specific exclusion for new firms for some period could prove difficult to justify to other employers and there could be problems of definition and for administration. The increase in the qualifying period I recommend would give relief to all new firms of whatever size. Nor am I in favour of a specified age qualification. The second recommendation I make would in any case exclude anyone under the age of 18 from making a claim.

28. I have also concluded that if the changes I recommend are adopted it would be right also to increase the qualifying period for protection against dismissal on grounds of pregnancy from one year to 2, but not to change further the qualifying period (already 2 years) for a right to return to work after confinement (see para 9 of this note and paras 6(a) and (c) of the Appendix).

Rights which need to be retained

Employers are required to give employees a written statement, not later than 13 weeks after they start work, of their main terms and conditions of employment, with an additional note on disciplinary rules and grievance procedures. Additionally, all employees are entitled to receive itemised pay statements when paid. There are no complaints from employers that this is burdensome and the employment relationship is established clearly.

2. After one month's employment, employees are entitled to their normal week's pay for up to 26 weeks if they have to be suspended on medical grounds after occupational exposure under specific regulations to hazardous substances or processes. There have been no complaints from employers and the EC has accepted that this protection meets the requirements of a Directive which comes into effect later this year.

3. After one month's employment, an employee is entitled to at least one week's notice of the termination of his contract of employment and after two years to not less than a week's notice for each year of continuous employment up to a maximum of 12 weeks' notice after 12 years' employment. In all cases misconduct can justify instant dismissal and there are no statutory notice requirements for fixed term contracts. Repeal would re-establish common law rights to reasonable notice with the courts left to determine what this might be. There are no complaints from employers about this requirement.

4. An employee with a minimum of 26 weeks' continuous employment can, on request, require his employer to provide a written statement of the reasons for dismissal within 14 days. Failure to do so may make the employer liable to a payment to the employee of two weeks' pay. Very few cases arise, there have been no

demands for repeal and it is not unreasonable for an employee to be able to know why he was sacked, particularly as this could affect his chances of securing another job.

5. There are a number of rights to time-off with pay:-

(a) After 2 years' employment, an employee under notice of redundancy is entitled to reasonable time off to look for work or make arrangements for training for another job. This can help speed job change without intervening unemployment.

(b) Since 1980 pregnant employees have the right not to be unreasonably refused time off to attend appointments for ante-natal care when arranged on medical advice. This is now generally accepted as a necessary safeguard.

(c) Subject, among other considerations, to the circumstances of an employer's business and the effect on it of an employee's absence, employees are entitled to time off to perform specified public duties, eg as a justice of the peace, as a member of a Health Authority. There are no complaints from employers and the provision underpins the reliance on voluntary public service.

(d) An employee who is an official of a trade union recognised by his employer is entitled to reasonable time off to carry out duties concerning industrial relations between the employer and his employees and for training in industrial relations. The test of reasonableness applies to the amount of time off, the purposes for and occasions on which time off is sought and to any conditions attached to the facility, regard being paid to a Code of Practice. The right only exists where unions are recognised and is now generally subsumed, as for example in the Civil Service, in negotiated agreements which employers are able to draw reasonably tightly. There is no demand from

employers for repeal

(e) Employees who are members of a union recognised by their employer are entitled to reasonable time off (without pay) for trade union activities. This facility is almost invariably the subject of formal voluntary agreements and representations that it is at all onerous are rare. Both this and the right at (d) tend to reflect rather than establish the detail of the relationship between employers and their employees where unions are recognised. Repeal would be unlikely to result in changes in practice.

6. There are a number of rights concerning maternity and significant changes could affront international commitments, for example the European Social Charter:-

(a) Dismissal on grounds of pregnancy is unfair unless the employee is incapable of adequately doing the work for which she is employed or her continued employment on it would be unlawful. Before an employee can be dismissed on these grounds her employer must offer her any suitable available vacancy. In 1979 this protection was limited to employees with at least one year's employment and in 1980 to at least 2 years' employment in firms with 20 or fewer employees in line with the qualifying periods for protection against unfair dismissal generally. Parity of treatment would need to be maintained.

(b) After 2 years' employment, employees are entitled to receive maternity pay for the first 6 weeks of maternity absence. This is not dependent on an intention to return to work but the employee must remain at work until the beginning of the eleventh week before the expected

confinement. Maternity pay (nine tenths of normal pay less maternity allowance) is reimbursed in full from the Maternity Pay Fund. Employers need to claim the refund but face no direct costs. There is no evidence that the right inhibits employment.

(c) After 2 years' employment, employees are entitled to return to the same or a suitable alternative job with their employer at any time within 29 weeks of confinement. Since 1980 this right is exercisable only if the employer is informed of the intention to return at least 21 days before maternity absence begins and if the employee confirms that intention, at the request of the employer, in a defined period following confinement. Additionally, the right does not apply if the employer employs less than 6 employees or it is not reasonably practicable to offer re-employment. Given international commitments repeal, for which there are no demands, is not an option. The qualifying period and any further exemption for smaller firms needs to be considered in line with the approach to unfair dismissals generally.



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ANNEX C

THE LABOUR MARKET : APPROACHES TO IMPROVEMENT

1. The most directly effective policies for increasing employment will be those which help to maximise demand for the products of the British economy. Within a sound financial framework, we have to look first to industrial policies - for new technology, innovation, small businesses and the like (and, much more arguably, regional policy). The prime direct criteria for these policies need to be those of encouraging profitable, competitive and adaptable business, not those of employment. It may occasionally be feasible to have an eye to job-support aspects - for example, leaning towards labour-intensive sectors rather than capital-intensive ones if other considerations are broadly equal - but for the most part the pursuit of job creation as a leading test of industrial policy risks being self-defeating.
2. The main focus of labour-market policies as such must be towards helping improve business competitiveness. We have to make the labour-market as responsive as we can in all respects to the needs of the product market. In the particular circumstances of very high unemployment this basic task needs to be supplemented by two other aims: to keep down the level of total labour supply where we reasonably can, and to help provide temporary work of community benefit outside the market.
3. It is useful to view this package of tasks as requiring us to tackle several broad aspects, distinct but needing to be seen in a coherent framework as complementary and inter-acting.



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The main ones are perhaps these:

(a) Labour cost - the relationship between pay and jobs, and between productivity and reward.

Our potential instruments here include general explanation and persuasion, and example-setting in the public sector; the removal of statutory provisions which hold wages above market-clearing levels; and lowering youth wages either directly or by leverage methods like the Young Workers Scheme.

(b) Labour quality - standards, training and experience.

We are making a mounting effort here. The Youth Training Scheme is a major enterprise; and we must turn increasing attention to adult training and re-training.

(c) Patterns of work - issues like the length of working life, and the balance between full-time and part-time work.

Industry itself must be the main mover, but we can selectively ease rigidities or set examples by schemes like Job Release and Job Splitting.

(d) Market lubricants, like industrial relations, information and mobility.

We are continuing our series of cumulatively



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important steps in re-shaping the IR framework. On information, we still need a public employment service, but probably a tauter one than we have now. On mobility, housing and pensions both matter. We need wherever possible to ease fiscal or other burdens which may act as a drag upon employment, including self-employment.

(e) Fairness in the market.

We cannot and should not abandon our commitment to fairness in respect for example of dismissal, race and sex. But we need to put across more widely that the quest for perfection has costs for business, and that these may have to be paid in lost jobs. A balance has to be struck - and struck in the real circumstances of tough markets and high unemployment.

(f) The social-security safety net.

There is a balance to be struck here, too, between meeting proper social concerns and sustaining incentives to work.

(g) Help to the disadvantaged.

We do a variety of things like rehabilitation and sheltered jobs for the disabled, and the Community Programme for the long-term unemployed. We need to shape this help as cost-effectively as we can to support the working of the market as a whole. For example, CP should renew the confidence and work-habit of participants to improve their wider employability.

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PAPER BY THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE

1. "How can the efforts of schools, higher education, the MSC and industry be best deployed to give workers and managers the skills and enterprising approach they require? Should we, for example, shift support of first degree students from the mandatory grant system to employers' sponsorships? How can we best give teachers a better insight into the requirements for success in industry and commerce? What extensions are required to the present arrangement for technical education?"
2. These are the questions my paper is required to answer.

General

3. One general factor affects all the areas concerned: it affects nearly all aspects of British society. It is the widespread ignorance of the economic facts of life in a free society.
4. It is this ignorance that pervades most newspapers and, I believe, television coverage and comments. Few people seem to realise that we are in general a relatively low productivity society - and that consequently our resources are, compared with what they might be and what they are in Western Europe, relatively low.
5. Few people realise that jobs in the trading sector come from customers and that the number of people employed in the public sector is limited by what the trading sector can afford.
6. So the prime task, I believe, necessary to jolt the world of education in particular as well as the country in general is to secure greater understanding of economic realities. The initiative taken by Nigel Lawson at the August meeting of NEDO to produce a paper on where jobs come from will be a milestone in public awareness.

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7. Certainly there are initiatives for the world of education to provide the basic skills and attitudes required: I set them out below - some we are taking already and will be taking: and some can be taken as part of the policy proposed in this paper. But we cannot, in my view, as things are - that is, without raising the general level of understanding - rely upon the teachers to present economic realities. The teachers, as things are, don't understand these realities: nor, as things are, do those who teach teachers: nor do the papers they tend to read.

So I propose parallel lines of action:

- a. in the world of education: and
- b. a general effort to secure greater understanding of the economic facts of life either directed to the world of education, necessarily overheard by the country, or directed to the country as a whole, necessarily overheard by the world of education.

8. I suggest in Annex I the essential minimum of these economic realities .

9. Against this background I now set out

- a. what we are or will be doing that is relevant to this paper in schools, further education and teacher-training;
- b. what as part of the policy here proposed we could do; and
- c. what we should do that is relevant to universities and polytechnics.

10. Schools, further education and teacher-training

a. What we are doing or will be doing:

- i. The new technical education pilot schemes start this September with an already announced extension to

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start next September. Our aim should be to get technical education as an element in the curriculum of all secondary schools. Some extra resources will be needed.

ii. We are trying to make the curriculum more practical so as to enable pupils to see the relevance of what they learn: this effort includes pilot schemes for the non-academic - starting this September.

iii. We are discovering what employers need which in many cases they try to define only in terms of examination results.

iv. We shall be asking the new Secondary Examinations Council and the new Curriculum Development Committee to consider how best to introduce economic understanding into the curriculum.

v. We shall ask HMI to monitor the extent to which broadly valid economic perceptions enter into teaching.

vi. We will be using existing powers to encourage attention to economic realities in the very much more rigorous teacher training framework of our 1983 White Paper.

vii. Selection of candidates for teacher-training will encourage those who get some experiences before training to be teachers.

viii. We shall encourage an increase in teacher secondment to local business.

ix. We are surveying in order to improve the responsiveness of further education to employers' needs.

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x. There is under discussion a proposal to stimulate more effective service to business needs in colleges of further education by giving a new National Training Body some leverage on some of their courses. Such leverage could require courses to contain basic economic education.

xi. Young Enterprise introduces school pupils to business experience. Their aim is to have given 10 per cent of school leavers experience of a business group before they leave school by the end of the decade. They are expanding fast. They are probably about one-third of the way to their target. They - fiercely! - want no help from Government. There are other - less effective - operations. Our campaign would probably stimulate new ventures.

b. What we could do in parallel with a campaign to raise economic understanding:

i. Education Ministers could encourage private organisations to give large prizes to schools and colleges submitting coherent and valid answers to general questions such as "where do jobs come from?", "what causes growth?" and the like.

11. Universities and Polytechnics

- i. Higher education is so dependent upon the tax payer and so remote from economic realities that universities and polytechnics are apt to reinforce unreality in economic affairs. The need is to steer staff and students to a greater understanding by reducing their present reliance upon the public purse.
- ii. In early October this year officials will give DES Ministers a set of options responding to requests from

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DES Ministers. These options will cover ways of reducing over time taxpayer funds for higher education and ways of fostering sponsorship and other methods of help for students. Such trends will encourage students to appraise more realistically the subjects they choose and the effectiveness of the courses they are offered: encourage universities and polytechnics to satisfy business and private donors that they should give them endowments or research projects: encourage businesses to sponsor students and encourage higher education to consider in some cases more effective use of time.

- iii. I hope to put proposals to colleagues by the end of this year.

12. I turn now to the effort to raise economic understanding whether directed to the world of education in particular or to the country in general. Perhaps we should take advice on how most effectively to present the analysis. Subject to such advice I suggest:

- i. a suitable economist should be invited to write an explanation of the main economic relationships - for wide distribution.
- ii. Antony Jay should be asked to make explanatory television films - probably with private rather than public money.
- iii. We should consider systematic Ministerial speeches.

13. I do not believe that we can have much effect on schools without a general increase in economic understanding. Universities and polytechnics are easier to influence because we can, as is intended, edge them in part towards the market. The advantage however of the educational campaign proposed - which is designed to influence schools - is that it will be widely heard and, if well done, absorbed.

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14. Decisions to be taken.

- i. Should a systematic effort be made to increase economic understanding? If so, should it be aimed at the country in general or education in particular? (Sub-questions are in para 12).
- ii. Should we edge higher education in part towards the market - options to be proposed before end of the year?
- iii. Should we, in addition to the steps listed in para 10(a) encourage large prizes from private sources as proposed in 10(b).

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ANNEX I

Themes of effort to raise economic undertaking

(a) "Growth" - including voluntary leisure - depends upon rising average productivity. We are less prosperous than the Americans, the French, the Dutch, the West Germans, the Japanese etc because on average each of them produces substantially more in goods and services than we do - see table attached from a 1982 NIESR review. (Blame any combination you wish of past Governments, of managements, of trade unions.)

The first thesis is therefore that growth comes from rising average productivity. - *Provided the goods or services can be sold.*

(b) Public services generally exist to provide services which the public want which either unavoidably or because we have so decided are financed publicly. Because consumers do not pay at point of use and because of political pressures there is a danger that the cost of public services will overload what the trading sector - which directly or indirectly bears most of the cost - can afford. There needs therefore to be a balance between the cost of the public sector - including all the public and social services on the one hand (necessary as most of them are to society as a whole, to individuals and to the trading sector) and the capacity of the trading sector to bear the large majority of the cost that falls directly or indirectly upon it.

So the second thesis is not to allow the cost of public services to overload the trading base.

(c) An understanding of the relationship between British people as producers of goods and services on the one hand and the same people plus their dependants as consumers on the other hand. To the extent that British people as consumers plus consumers abroad choose to buy the goods and services made by British people as producers then British jobs and British public and social services will suffer or benefit.

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So the third thesis is that jobs and social services - even jobs in the public services - come from customers at home and abroad.

(d) But who identifies what customers want? The entrepreneur - who is therefore crucial - in existing and new businesses: and he/she needs good managers and adaptable co-operative workers who understand that satisfying customers at a profit is intensely in their own interest.

So the fourth thesis is that multitudes of entrepreneurs and profitably competitive businesses are essential to more jobs and growth and more public services - and that monopolies are for many reasons undesirable.

Of course within the framework for a free society of these four theses there will be argument on many issues of values and priorities - but the four theses represent inescapable relationships.

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reliable is our knowledge of international productivity differences? This question should not be brushed aside for, not only are there difficulties with the underlying source material (as illustrated above), but there are also serious questions of principle in how to weight the various sectors of the economy in arriving at a combined estimate for the economy as a whole. This is a form of the classical 'index number problem', which becomes increasingly severe in practice the greater the gap between the countries compared in real income level and in economic structure⁽¹⁾. For example, the US is particularly efficient in producing cars which are sold there cheaply in relation to other goods, while Britain is particularly inefficient in producing cars and they are relatively expensive here; consequently, if we use UK values to weight the productivity difference in that industry and similarly in other industries, a US/UK comparison for the economy as a whole would tend to show the US in a more favourable light than if we used US values. From the alternative calculations in the articles below, it appears that the measured gap in output per employee for GDP or manufacturing as a whole might vary by a tenth, or even by two-tenths, depending on which country's values are used. The use of 'multi-national' weights, which bring in a number of other countries aside from the two directly compared, raises yet further issues. Without going here into these matters of principle, it is worth keeping in mind the size of this unavoidable 'margin of uncertainty' both in making statements about relative productivities, and in deciding how far it is worth going in attempting to improve the accuracy of the underlying observations and calculations.

Taking output per employee in the UK in 1980 as 100 the following few figures, extracted from the many in the papers below, can perhaps be taken as indicative of the central findings.

| | GDP per head of population | Output per employee in | |
|-------------|----------------------------|------------------------|---------------|
| | | Total GDP | Manufacturing |
| Britain .. | 100 | 100 | 100 |
| Germany .. | 132-134 | 134-140 | 152-163 |
| US .. | 153-186 | 159-201 | 276-302 |
| France .. | 134-138 | 150 | 180 |
| Belgium .. | 115-132 | 140 | 180 |
| Netherlands | 102-114 | 150 | 230 |
| Italy .. | 84-88 | 110 | 150 |
| Japan .. | 113-112 | 105 | 200 |

Source: GDP per head of population from Kravis *et al.* for 1975, brought forward using OECD sources on changes in real GDP and population. The comparisons of productivity with Germany and the US are taken from Smith *et al.* and give the results of alternative bilateral weights; the other countries are from Roy, using multi-national weights, and rounded to indicate that the results are approximate.

Looking at the first two columns we see how differences in output per head of population, which determines the 'standard of living', are related to differences in output per employee (the two measures differ because of variations in the proportion of the population at work; but there are also differences in statistical method). A comparison of the last two columns shows the dominating importance of differences in manufacturing productivity, and how severe the British shortfall had become by 1980. Even if we add 10 per cent for the exceptional rise in UK manufacturing productivity in 1980-81, it looks as though another 50 per cent—if not more—is necessary to bring us to European levels.⁽²⁾

Besides examining measures based essentially on quantitative indicators of output, it is necessary to consider indicators of the quality of UK manufactured goods, though this clearly presents even greater difficulties. The article by Mr Katrak attempts to cast light on one important qualitative

⁽¹⁾The conceptual problems relating to index numbers of labour productivity are a little more complex than might be assumed from theoretical discussions of the usual 'index number problem' in consumption theory. The direct (economic) question that we might ask is this: as compared with Britain's actual total labour force, how many employees would be needed to produce Britain's output (distributed amongst the various industries as it actually was in a particular year), if output per employee in each industry were the same as in the US? The ratio of these two totals provides an index of relative labour productivity for the economy as a whole. Curiously enough, this is equivalent to a weighted harmonic mean of the productivity-ratios for the individual industries; it differs from the customary approach of simply comparing total GDP at fixed prices in the two countries with their total labour forces. For fuller discussion see G. J. A. Mensink, 'Comparisons of labour productivity in the United Kingdom and the Netherlands', 1958, *Statistical Studies No. 18* (Netherlands Central Bureau of Statistics, 1966), and the forthcoming National Institute study by A. D. Smith, D. M. W. N. Hitchens and S. W. Davies (Cambridge 1982).

⁽²⁾A technical point on the alternative estimates is worth footnoting. For Germany and the US it is possible to compare the estimates derived from expenditure statistics (by Kravis *et al.*) with those derived from production statistics (by Smith *et al.*); and these seem broadly consistent. A set of estimates prepared by the Statistical Office of the European Communities for 1975 based on the expenditure approach also yielded broadly consistent results for the countries covered. That cannot however be said of the most recent estimates derived—also on the expenditure approach—by the SOEC for 1980; details of the method used have so far not been published: all that is available are the bare results published by HMSO in *Economic Trends* (for April 1982), reproduced from a recent OECD publication. The main difference is that Britain's GDP per head is shown some 10 per cent higher than implied by previous estimates. A full account of SOEC's methods is awaited with interest. It is however known that, in forming its multinational weights, SOEC gives equal importance to each country (whereas the study by Kravis, *et al.*, gives more importance to a large than to a small country—a preferable procedure in our view); prices for the SOEC comparisons are collected only in the capital cities of each country, and some adjustment was made to allow for lower prices in the provinces.

HOUSING AND LABOUR MOBILITY

1. A job and somewhere to live: the two are inseparable. We are trying to encourage greater labour mobility as industry relocates itself. But our success will be limited unless we can also encourage a sufficient supply of houses, where they are needed, at a price that can be afforded.

2. Between 1971 and 1981 there has been a small reduction in mobility, down by 1.5% from 11.2% to 9.7% of all households. (Table A in Annex A) Most of this reduction has been in the private rented sector, which in the past appears to have been particularly conducive to mobility.

3. Mobility will only be increased if we can take one or more of the following steps:

(1) Halt the decline in the private rented sector;

(2) Make it easier for public sector tenants to transfer within the public sector or buy their own homes;

(3) Make it easier (and cheaper) for owner occupiers to move.

PRIVATE RENTED SECTOR

4. The Private rented sector has declined steeply, from 3.4 million households to 1.9 million in 1981 and now accounts for less than 10% of all households. It is still declining. The 1981 Housing Act has not reversed this trend. Short-hold has been a disappointment - 5,000 in the first year, partly as a result of the Labour repeal threat, partly because it is within the fair rent system. Assured tenancies have begun to take off following the introduction of capital allowances for building costs in the 1982 Finance Act, but the scale is minute - 500 tenancies are expected by mid 1985.

More radical measures are needed for non-resident landlords if the private rented sector is to contribute to greater mobility:-

(a) general deregulation of rents and security of tenure for all tenants, ie effective repeal of the Rent Acts;
or

(b) partial deregulation eg, for new tenancies only, deregulation of rents and minor modifications of security of tenure either for all tenants or for new tenancies only, deregulation for properties above a 'fitness' standard either for all tenancies or for new tenancies only.

6. Any solution, such as (a) above, which abolished security of tenure would be highly controversial; and it is worth noting that this is now of less concern to most potential and existing landlords than the rate of return they expect to receive. Any radical measure of deregulation, even with the retention of security of tenure, would attract a Labour Party repeal threat which in turn would reduce its effectiveness in persuading landlords to join or remain in the sector. There would also be major public expenditure implications in a widespread restoration of market rents: there would be a big increase in housing benefit. Nevertheless, a Labour threat to repeal will be seen as less of a real one than at any time since 1951.

7. A more gradual and less politically sensitive approach would be to extend, in stages the assured tenancy scheme. This scheme at present applies only to new build but, with legislation, it could be extended, with safeguards as necessary for existing tenants, to newly improved and converted dwellings in the private sector or to all existing dwellings meeting basic standards of fitness. A more limited form of extension would be to vacant property, eg in rundown or difficult-to-let estates, formerly let by local authorities. This would require legislation.

8. The rent and security regime for resident landlords is already relatively free from restrictions.

PUBLIC RENTED SECTOR INCLUDING HOUSING ASSOCIATIONS

9. All the options for this sector involve encouraging/compelling local authorities or housing associations to set aside a proportion of their housing to cater for job movers. But, unless resources are increased, any major extension of this policy must be at the expense of other priority groups such as the elderly, the disabled and, to the extent that the statutory duty allows, the homeless. (The figures for 1982 show that London boroughs devote up to 70% or so of new lettings to the homeless.)

10. The steps we have already taken to increase mobility in this sector may be sufficient. Alone of all tenancies there was no reduction in the mobility of local authority/new town tenants between 1971 and 1981 (Table A of Annex A). Neither do the 1981 figures reflect the impact of a number of major steps taken since 1980:-

1) National Mobility Scheme (NMS), funded mainly by central government, to help people with a pressing need to move for job or social reasons. Authorities have to make at least 1% of these lettings each year available to newcomers, plus one letting for each of their nominees who is rehoused elsewhere. All but four local authorities participate. In 1982/83 there were 6,235 moves reported outside London, and 7,562 in London.

2) Tenants Exchange Scheme which uses a computer bureau to help public sector tenants exchange. 50,000 tenants are registered so far. A right to exchange is to be introduced in the Housing and Building Control Bill.

Table B. Employment Status of Heads of Moving Households: England, 1977

| | <u>Full- Time Civil Employment</u> | <u>Armed Forces</u> | <u>Full- Time Students</u> | <u>Other (*)</u> | <u>Total</u> |
|--|--|-------------------------|------------------------------------|-----------------------|--------------|
| <u>Moves within UK across county boundaries (**)</u> | | | | | |
| Owner-occupiers | 156 | 5 | 3 | 50 | 214 |
| Tenants of LA's, NT's, HA's. | 24 | 1 | 2 | 2 | 47 |
| Tenants of private landlords | 83 | 11 | 16 | 15 | 125 |
| All tenures | <u>263</u> | <u>17</u> | <u>21</u> | <u>85</u> | <u>386</u> |
| <u>Moves from outside UK</u> | | | | | |
| Owner-occupiers | 13 | 1 | - | 4 | 18 |
| Tenants of NT's, LA's, HA's. | 3 | 1 | 1 | - | 5 |
| Tenants of private landlords | 24 | 12 | 17 | 10 | 63 |
| All tenures | <u>40</u> | <u>14</u> | <u>18</u> | <u>14</u> | <u>86</u> |

Note: (*) Retired, part-time employment, unemployed

(**) Included moves to England from Wales, Scotland, or Northern Ireland.

Source: National Dwelling and Housing Survey.

MOBILITY AND HOUSING TENUREA. Changes Through Time

Table A shows the estimated number of moves, irrespective of distance, classified by the tenure of the accommodation to which the move is made. Newly formed households are counted as well as continuing households moving from one house to another.

Table A. Number of Moves in Proportion to all Households in Each Tenure

| | <u>Owner Occupiers</u> | <u>LA/NT Tenants</u> | <u>HA Tenants</u> | <u>Tenants of private Landlords</u> | <u>All Tenures</u> |
|---------------------------------|----------------------------|--------------------------|-----------------------|---|------------------------|
| <u>1971 (England and Wales)</u> | | | | | |
| Movers ('000) | 801 | 454 | | 600 | 1,855 |
| Percent of all households | 9.7 | 9.8 | | 16.9 | 11.2 |
| <u>1977 (England)</u> | | | | | |
| Movers ('000) | 784 | 464 | 36 | 513 | 1,797 |
| Percent of all households | 8.6 | 9.3 | 16.0 | 21.2 | 10.7 |
| <u>1981 (England) (*)</u> | | | | | |
| Movers ('000) | 752 | 462 | 55 | 406 | 1,675 |
| Percent of all households | 7.7 | 9.1 | 15.3 | 21.0 | 9.7 |

Note: (*) Provisional figures, with approximate adjustments for change in definition of separate households

2. Table A includes all moves of house irrespective of distance. Most moves of house have nothing to do with labour mobility. The Census and survey information from which Table A was compiled do not include any information about job changes. But distance moved is relevant here, though considerable numbers of long distance moves are by people who do not thereby change employers. Moves across county boundaries or from outside the United Kingdom are taken to represent non-local moves. Such moves were about 30% of moves to owner-occupied accommodation, 10% of moves to accommodation rented from local authorities and HA's, and 37% of moves to accommodation rented from private landlords (including employers; the Ministry of Defence is classified as a private landlord). Table B shows the employment status of heads of moving households.

and other development. These aims are not incompatible with maintaining long-established policies for conserving good quality agricultural land and areas of high landscape value, provided that the planning system is used as intended, as a practical system of sound land-use management.

CONCLUSIONS

18. The private rented sector remains potentially the most accessible for those moving in search of work. Any increase in the supply of new lettings of adequate quality would require legislation. And if any move in this direction is paralleled, as it must be, by a move towards market rents the unemployed and others of limited means would need help from housing benefits.

19. An increase in mobility in the public rented sector could only be achieved by radical measures that could generate considerable opposition, particularly if public expenditure continues to be constrained. A number of steps have recently been taken to improve mobility and these may be expected to bear fruit in the near future.

20. The greatest potential in the future is to increase the mobility within the owner-occupied sector. This requires a three pronged attack - continued action to keep down or reduce the cost of entry to home ownership, the reduction of transfer costs (conveyancing, stamp duty etc) when a home is sold, and the provision of an adequate supply of building land.

as recommended by the recent Spalding Report would enable them to offer a comprehensive service to house purchasers who borrow from them, including insurance and estate agency work.

A reduction in Stamp Duty (£370m) should certainly be considered, even though it would benefit many whose moves were unrelated to jobs.

4) Subsidise builders (to sell at cost price) or give an interest rate subsidy on new houses. However, the Government is already providing strong incentives to home ownership, not least £2bn a year through mortgage interest tax relief. Further fiscal incentives run counter to our desire to reduce rates.

5) Other forms of Direct Assistance to Job Movers. The MSC have provided, on a small-scale, direct assistance to the unemployed for long distance job search and for the cost of moving. Schemes of this kind could be extended.

LAND AVAILABILITY

16. Reducing the cost of entry, or making it easier to buy will help mobility where the stock of houses or the land available for building does not exceed potential demand. They will be insufficient in themselves where, as in the South East, the supply of land is inadequate.

17. Additional land can be made available, but often at the expense of other interests. One option would be to dismantle the present planning system (which is now deeply embedded in property law and greatly valued for its protective effect on property values and local amenity). The alternative approach, which is that set out in a draft circular issued for consultation in July this year, is to retain the present system, but to improve its efficiency, changing the attitude of those who operate it to ensure that it delivers an adequate supply of land for housing

4) Do It Yourself Shared Ownership (DIYSO) Introduced in January 1983. Job movers, those on waiting lists and other first time buyers can select properties for purchase on shared ownership terms anywhere in the country, through a designated housing association or in concert with local authorities. There are cost limits on the properties, and the income levels of applicants and/or proof of inability to secure a full mortgage are factors taken into account. £45 million has been allocated to the Housing Corporation in 1983/84, to enable 3,000 dwellings to be purchased under the scheme. More resources would immediately increase take-up since the initial allocation is now over-subscribed.

5) Homeloan Scheme. Those who save for at least 2 years and then buy a house within the Government's regional cost limits, can qualify for a loan of £600, free of repayments of interest and capital for up to 5 years; and a tax free cash bonus of £110. Between December 1980 and December 1982, 10,500 people had received help under the scheme. More resources could be provided and the terms of the scheme made more attractive.

15. There are further steps that could be taken:-

1) Equity Sharing and Index-Linked Mortgages. Equity sharing and index-linked mortgages, like shared ownership, reduce the initial outgoings on a mortgage of a housebuyer, encouraging moves from low cost to high cost housing areas. Unlike shared ownership, however, they depend on the willingness of the lending institutions to commit funds in this way. The financial institutions hitherto unenthusiastic are now beginning to show some limited interest.

2) Break the existing hold of the legal profession on conveyancing (The Benson Committee's recommendations are to be circulated to colleagues shortly.)

3) Other Transaction Costs. New powers for Building Societies

OWNER OCCUPATION

13. Most people want to own their own home. 61% now do so. Recent surveys suggest that at least 77% would like to do so. If there is to be any significant increase in mobility action must be taken on the owner-occupied sector.

14. A CPRS report of November 1980 (MISC 14(80)21) suggested that the three main barriers to mobility in owner-occupied housing were relative prices, the supply of houses to buy and transaction costs. The Government has already taken a number of steps to reduce the entry costs to home ownership:-

1) Right to buy - which is being extended in the Housing and Building Control Bill. Authorities are also already able (since June 1981) to sell houses to incoming job movers at up to 30% discounts.

2) Low cost Home Ownership - building for sale; partnership schemes between local authorities, new towns and private housebuilders; improvement for sale; homesteading, the sale of unimproved dwellings by local authorities for improvement by the purchaser and guarantees for building society mortgages.

3) Shared Ownership. Local Authorities, Housing Associations and new towns have been encouraged to use their powers to allow purchasers to buy on shared ownership terms rather than outright. The Housing and Building Control Bill will give public sector tenants the right to buy on shared ownership terms. There have been 7,300 shared ownership sales since May 1979. The extension of capital allowances for building on shared ownership terms would be a considerable boost to the scheme.

And η owner - who will buy in a rapidly
declining area of basic industry?

11. Further steps that could be taken are:-

(1) Extend the NMS by increasing the percentage of lettings to be reserved for the mobile. This would probably require legislation because authorities would argue that other duties and priorities absorbed all available resources.

(2) impose a general requirement upon housing authorities, as provided for in the Tenants Rights etc (Scotland) Act, to give no less favourable treatment to applicants wishing to move into their area for employment than to tenants already there seeking transfer. Again, this would increase pressures for more resources in areas of high demand.

(3) Set up an English and Welsh equivalent to the Scottish Special Housing Association, which has compulsory purchase powers. This would however be an additional public sector agency without any promise that it would be any more effective than operating through the Housing Corporation or local authority.

Housing Associations

12. Housing Associations could be urged, and priorities for grant arranged accordingly, to give overriding priority to job movers. In addition, to release more accommodation for the purpose, the nomination rights of local authorities to housing association accommodation could be reduced or abolished. This higher priority would however be at the expense of other equally deserving types of housing need. The proposals would also have implications for the cooperation between local authorities and associations and be likely to put an end altogether to the former's funding of the latter.

A Minister for Policy?

In 1979 we came into power with the most radical programme since 1945. When the Parliament ended attitudes had changed but little else. In their time the Attlee administration accomplished far more. Why should that have happened?

I suspect that after the last war there was more of a general feeling throughout Government that the "system" had to be changed. Also the result of that change increased the power and influence of the Civil Service. Our policy was to reduce the public sector.

It could be argued that in the last Parliament the principal difficulty lay not with the opposition but with the Civil Service. For many years changes introduced by one government were being reversed by it's successor. This is where senior civil servants found a role maintaining a line of continuity between Governments. I well remember in the Department of Industry in the autumn of 1981 how any policy changes suddenly became "difficult" when we were trailing in the polls. These difficulties disappeared in the months that followed almost in

proportion to our changed position.

And yet this cannot be the complete answer. There is the very nature of Government itself.

Any Minister looking at the quality of his briefing would recognise a consistent strand running through (overtly or otherwise) that can best be described as "the Departments interest". It is endemic to the very nature of life in the service. The prize to be won is the increase in the power and influence of the Department. Some Ministers can resist the temptation but on too many occasions the Department's interest remains paramount.

Yet the political objectives of Ministers is quite separate and distinct from the objectives of Departments. The disease has been described elsewhere as "Departmentalitis" and may be the principal factor that prevents Departments working together successfully.

There are many examples:-

1. **Small Firms Policy.**

The lead Department is DTI, but DoE and DE (acting in part through the MSC) have a very real interest in small firms policy and in fact they probably spend more in budgetary

terms. Yet there is a sense of competition between the Departments that restricts co-ordinated policy. The Enterprise Trusts, the Small Firms Advisers and the Enterprise Allowance are run by different Departments yet hold similar objectives. COSIRA reports through DoE and not through DTI, whilst the MSC runs a series of programmes designed to promote the growth of new businesses. But the qualifications required by each Department often differ and the public end up totally confused. There is a very real need to co-ordinate the political direction of all our Small Firms programmes.

2. Regional Policy.

Regional Policy is up for review, but it is DTI (in all these matters I exclude the Treasury whose influence, at official level, runs throughout) who will lead. Above all else this is an employment matter yet DE are not involved at first hand, nor is DoE who have many relevant interests in Town Planning, Urban Policy, Rent Control, etc. The coordination and implementation of any Regional policy should be carried out by one Minister to ensure that all policies are directed toward a common political objective.

3. Privatisation.

Although the consolidation of Trade and Industry will help,

there are many Nationalised Industries and Utilities whose control and direction come under different Departments. Even at Ministerial level E(NI) monitored the management of the businesses, the Treasury looked after financial controls, while the form of Privatisation was agreed between colleagues - but only after it was conceived at Departmental level - by E(DL). There is no common line, agreed policy or any order of priorities in our drive to reduce the State owned sector.

Even today we have officials at Energy, Transport and DTI working within their Departments on Privatisation plans for their particular interests. On a day to day basis and at a political level who has the responsibility to ensure that Government plans progress?

*The PM of the Treasury
↓
Cabinet Office*

4. CPRS.

Perhaps the missing ingredient in the work of the CPRS was political commitment. It is not enough to research particular problems, or even to think the unthinkable, in such a unit. A staff of officials and outsiders, no matter how good their managerial and administrative ability, need political motivation.

I have named a few of the examples where we require more co-

ordination in order to drive home our political objectives. There are many more. For example there is Unemployment Benefit and Social Security, two programmes which clearly overlap in part. Then there is the relationship between Education and Training. Here quite apart from DES and MSC, the DoE has a major role through it's relationship with Local Authorities. There is also Inward Investment where Ireland, Scotland and Wales often have conflicting roles with DTI and where even the FO has an interest through our Embassies abroad. And many others.

Coordination of policy requires an element of political direction that runs through more than one Department. If it is to be done well it has to be carried out at a level that commands respect and authority.

A New Approach.

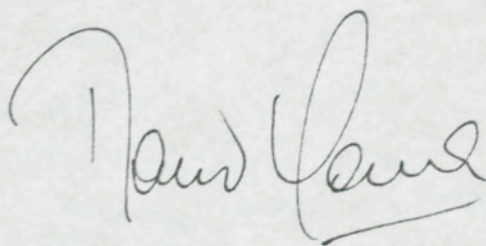
This problem is easier to state than to solve. However difficult the solution the objective is simple - to find a more efficient way to reach our policy objectives in the time allowed. We could consider:-

1. A Minister, with no main Departmental interest, who would assume the task of co-ordinating policy. A small support staff would be necessary with perhaps some commitment from outside.

2. Some, maybe junior, Ministers who could be given individual responsibility for particular areas of policy. This may be difficult since their writ would have to run across accepted Departmental boundaries. It would require the cooperation of the relevant Secretaries of State. But responsibility would be clearly defined.

What would **not** work is leaving the whole problem to a Committee of Ministers, or even worse, officials. Shared responsibility is a recipe for delay.

In parenthesis this paper may appear to be unduly critical of the work of Civil Servants. That is certainly not my intention since I have greatly enjoyed my time in the Service and admire those with whom I work. Nevertheless I believe that the present system operates to the detriment of our objectives, albeit often unconsciously.

A handwritten signature in cursive script, reading "David Lane". The signature is written in dark ink and is positioned in the lower right quadrant of the page.

August 1983.



Second Draft of Paper One

RESTRICTIONS ON WEALTH CREATION

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- II Public expenditure and interest rates 6-11
- Reducing both must remain our top priority. PE in areas that are not wealth-creating has risen under us, and getting it down again will require a major effort to educate public opinion.
- III Trades union power remains an important restriction 12-13
- Greater decentralisation within and competition against our monopoly industries, along with Norman Tebbit's reforms, will take us in the right direction.
- IV Nationalised industry costs 14-15
- In order to reduce their impact on business, we need to press on with introducing competition and privatisation especially in gas, electricity and coal.



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I Maintaining our sense of priorities

This paper explores what more can be done to eliminate or reduce restrictions on the wealth-creating part of the economy.

It interprets "restrictions" in a wide sense.

2 It sets out a number of detailed proposals which can make a difference to our wealth-creating sector at the margin. But I think it important to say at the outset that these proposals are of small importance compared with the "big things that the Government is already doing. Keeping down inflation and interest rates, and controlling the burden of public spending are policies which make a fundamental difference to the climate in which the wealth-creating sector attempts to grow.

3 We should not allow ourselves, I think, to become too engrossed in the search for novel ideas. There are some good ideas around, and we have studied most of them before at some time or other. It is right to review them again and to do more work on the most promising. But the most important thing is to be sure that we are still pursuing our main policy objectives, and if necessary to increase our efforts on those.



4 We are under great pressure from commentators to find "new things" to do in our second term. We should not be led astray by that. The novelty of this Government is its determination to pursue its policies unflinchingly to fruition.

5 The measures discussed in this paper will impact directly or indirectly on corporate profitability. This has fallen sharply since the 1960s and in real terms became negligible (on average) by the late 1970s. It has recovered somewhat in the last two years but still compares unfavourably with profitability in the USA, Japan and many European countries. An improvement in profitability is a prerequisite for sustained economic recovery.

II Public expenditure and interest rates

6 Probably the two most substantial restrictions on the wealth-creation in the private sector are high interest rates and the proportion of our GDP pre-empted by the public sector. So maintaining tight fiscal policies and continuing to attack the problem of public spending must remain our first-priorities. Some money spent by Government can contribute to wealth creation eg expenditure on improving the nation's infrastructure. But even that money has first to be raised from taxation and so in the first instance adds to the burden on the private sector.



Since 1979/80, the proportion of GDP accounted for by public expenditure has risen from 40½% to 44%. Expenditure on goods and services barely changed proportionally over that period. Higher social security payments were, of course, the main factor. So today, a higher proportion of our national wealth is being spend relatively unproductively. Money spent by government is likely to be less efficient at creating either wealth or jobs than money spent by the private sector, and it tends to flow into areas where the unions still enjoy greatest monopoly power and where they most successfully operate restrictive practices.

7 To reduce the proportion of our wealth pre-empted by public spending and to minimise the pressure on interest rates we need to state clear objectives. If we have clear objectives much else will follow. That was the strength of the MTFS. Once the Government had a plan, its policy towards, for example, public sector pay, became a matter of necessity in order to meet the plan. To state clear objectives imposes a discipline on Government which actually makes governing easier.

8 In the case of defence we shall soon face the decision as to whether to continue to increase expenditure in real terms beyond 1985/86. Defence spending can of course contribute to growth inasmuch as it comprises orders for British companies, or spin-off for British technology. But much defence expenditure goes into overheads, orders from abroad and



research with little civil spin-off. Due regard will have to be paid to these matters. In any case we need to improve the international marketability of defence products (see Paper Two). Otherwise defence spending will continue to represent a diversion of resources from the wealth-creating sector towards inefficient economic activity.

9 If there is to be any shift in the balance of spending, public opinion will need to be educated. We require "consensus", not in the sense of an amalgam or mid point of what people presently think, but in the sense of public opinion educated into a full understanding of the problem and so willing to support the Government's policies for dealing with it.

10 The public is still in the mood for decisive action. Public opinion can be educated as we have shown in the past. We need now - in our first year- to do what we fought shy of at the time of the CPRS report : to set out the problem of public spending, get it discussed, allow suggested solutions to emerge, and reveal our policies.

11 My own Department contributes to the burden of public spending through payments to loss-making nationalised industries and through regional assistance. Both of those must be reduced. These are discussed in Paper Two.



III Trades Union power

12 Another important restriction on wealth-creation is the influence of the trades unions in maintaining overmanning, demarcations and other rigidities, and in disrupting work through stoppages. These effects are felt directly in the wealth-creating sector, but also indirectly through the additional costs imposed on it by government and state-owned suppliers. Norman Tebbit is tackling the legal aspects of trades union powers and immunities. We need also to consider how our policies towards the state sector can contribute to loosening these restrictions.

13 A part of this is to resist excessive pay claims as we have done in the civil service and NHS. We should also aim to introduce competition into all our presently nationalised industries, even where it is not possible to introduce private capital, to decentralise them, and to introduce local wage bargaining.

IV Nationalised industry costs

14 Gas and electricity prices play their part in industrial overheads, and to the extent that they are avoidably high represent a restriction on wealth-creation. I believe that we can only make them more efficient and responsive in the long term by privatising them and subjecting them, wherever possible, to competition. We should face up to the difficulties now. This is, of course, for Peter Walker to propose, but I would make just two points :



- a) We should take on the argument that privatising "natural monopolies" like gas and electricity simply substitutes a private monopoly for a public one. Private capital brings with it bankers and shareholders who will exert commercial pressures on the industries
- b) We can stimulate some of the effects of competition by privatising region by region. Customers would then have at least a point of comparison on service and price. Once privatised, there is no reason why the separate companies based on the regions of the nationalised industries should continue to be restricted by geography. They could compete for new business anywhere. Gas and electricity have an existing regional structure which did not exist, for example, in BT.

15 The coal industry adds substantially to the burden on industry, both because it is a drain on the public purse, and because its inefficiency contributes greatly to higher electricity costs and coal costs. This is for Peter Walker too, but I believe there are better opportunities than before to :



- a) allow coal imports
- b) break down the Coal Board into regions
- c) encourage the development of private mining.

V Taxation (including national insurance)

16 Corporation tax. A change in CT could substantially improve the attraction of capital investment and open up the prospect of recovery led by investment not demand. This tax is surely due for a major review. It is levied at a rate so high that it is a powerful disincentive to investment. Government has recognised that and so introduced a series of exemptions and tax incentives to encourage investment. As a result we now have a horrendously complex tax, and business has accumulated £40 billion of unused tax allowances. It is probably time that we moved to a much simpler tax levied at a lower rate. Even if that means that, for example, the banks produce higher profits, we should pursue this course, since the banks are likely to invest the money more effectively in wealth-creation than is the Government. More immediately, I would hope that Nigel Lawson might again consider:



- a) Switching from an imputation to a flow-of-funds system of assessment. Companies which are growing fast presently pay CT on their profits even if those are being ploughed back to finance expansion. (This proposal was, of course, considered and rejected by the last Chancellor).

- b) Extending capital allowances to buildings used for development work (as now available on research buildings) and 100% capital allowances on patents (as now on plant and machinery). That would stimulate innovation.

17 Personal taxation. Our tax policies should encourage the growth of both self-employment and small businesses. The Inland Revenue's attempts to drive the self-employed into employed status wherever possible seems inconsistent with our general policy and I hope that Nigel Lawson will review it. I hope that he will also consider sympathetically the problem of small businessmen who put all their spare money into their business with a view to selling it to provide for their retirement. Their income from the sale qualifies for investment income surcharge, whereas the employed person's income from a pension scheme is taxed as earned income. There is obviously a case for reducing the top rate of income tax on earnings to 50 per cent. However, I believe that we can do more to motivate management by providing greater incentives to share ownership, which I discuss in Paper Two.



18 National insurance surcharge. Its abolition would cost about £800 million and remove that burden from the cost of employment.

19 National insurance contributions. If employment creation is one of our highest priorities, we should consider reducing employers' nic's rather than income tax.

VI Legislative and administrative burdens on enterprise

20 Planning. There is little pressure from industry to lighten the burden of environmental, safety or consumer protection legislation. Some of these "burdens" actually stimulate innovation. Admittedly, the enforcement authorities are sometimes too inflexible in meeting industry's changing needs e.g. some high technology companies find it difficult to obtain planning permission for specialised accommodation. Steps have already been taken to improve the Town and Country Planning procedures, and further work is in hand under Patrick Jenkin. I may also press him to make his Department show greater sympathy towards small companies. We all regret the long delays and high costs caused by major planning inquiries. I understand that Patrick is considering reforms. In general, however, there is no evidence that the planning system operates significantly and systematically to inhibit wealth creation.



21 Building Controls. There is a general feeling that the building control and fire safety regulations place an undue burden on small firms because inspectors require expensive last minute alterations to buildings under construction. I have been unable to find proof of these allegations. In general it does not seem that there is a case for major changes in the building control system as it will operate after the Housing and Building Control Bill comes into force.

22 Burdens on small businesses. It might be possible to give some more exemptions to small businesses :

- a) The statutory annual audit could be abolished for small firms as allowed by the EC Fourth Directive on Company Accounts. This would require legislation. The accounting systems of many small firms are far from adequate however and there could be disadvantages if the result was a cutback in firms' own accounting.



- b) The cost of compliance of VAT is a major complaint of small firms. Not only is the cost substantial, it is highly regressive. This increases small firms' competitive disadvantage against larger firms e.g. in retailing, where large retailers also enjoy favourable discounts. There is no easy solution. An increase in the turnover exemption limit, beyond what is required to keep pace with inflation, is prevented by EC regulations. But some tapering of exemption provisions or a move to annual accounting for small firms are possibilities although not all small firms' organisations favour the latter.

23 Contracting out. I hope that we shall also press ahead with contracting out the services required by local and central government. Legal services, accounting, computing, organising pay, typing, design, architects services - these and many others offer enormous scope for private enterprise.

Contracting out can give a great boost to smaller companies, and help to reduce the cost of government.

24 Merger control. The present £15 million assets criterion at which the merger control provisions of the Fair Trading Act operate could be raised to reduce the large number of mergers which have to be evaluated by the Office of Fair Trading and which raise no competition or other public interest issues. As the alternative 25% market share criterion would be retained, the assets criterion could be raised in line with inflation or possibly even further.



VII Job opportunities and the availability of labour

25 The availability of resources (especially skilled labour including managers) and the mobility and adaptability of resources as demand and technology change, are major influences on wealth creation. The UK's performance has been seriously deficient. This may be due to cultural factors as much as to economic factors in which case there is a limit to possible Government action. A more positive attitude in the community to change, whether the acquisition of new skills or a move to a new location, is required. A major change in attitudes towards wealth-creation in the educational world, especially the schools, is overdue while the shift toward engineering and technology in higher education needs to be accelerated.

26 Skills. We have already taken an important step towards improving skills in our workforce through the New Training Initiative, particularly by replacing time-serving with tested standards of achievement. We need now to pay particular attention to management and other adult training. Some assistance for management development is provided by the MSC, the DES and my Department. But there is scope for us to do more (see Paper Two).



27 Particular measures to create employment. These proposals fall outside the area of my responsibility, but could perhaps improve employment opportunities :

- a) Abolish remaining wages councils. As an example, to take on a 16 year old sales assistant in central London an employer must pay £67.97 for a 39 hour week, and a premium of £2.72 if that involves Saturday working.

- b) Abolish Sunday and other hours-of-trading restrictions. That could have a particular impact on providing new opportunities for part-time work.

- c) Take further action to encourage charitable work. For the older and long-term unemployed the greatest problem is often frustration and a sense of futility rather than money. We should re-examine carefully all opportunities for unemployed people to be encouraged to take on charitable work through tax or other incentives.



- d) Encourage private road building by paying royalties. Studies are underway on this subject. The constructor pays for the road and recovers his investment through an annual royalty. The difficulty is, of course, to persuade contractors to take a genuine risk. In principle, the scheme would allow us to build more roads today, so boosting employment in the short-term and providing Britain with an improved infrastructure. The roads would probably be built better and faster. But we might end up by paying more for them.

28 Labour mobility. We should consider the following proposals to improve labour mobility :

- a) The unfair dismissals legislation. An employee cannot bring a complaint against an employer of fewer than 20 people unless he has been employed by him for more than two years. Norman Tebbit might consider increasing those thresholds to, say, 50 employees and three years. There may even be a case for scrapping the legislation.



b) The transferability of private pension rights :

Changes in this area will take many years to effect, but we should consider how great a change we should like to see whether by :

- i) legislating to ensure that preserved pensions are increased in line with pensions in payment (though this would impose costs on the employer, the employees the pensioners); or
- ii) giving the right to new employees to opt out, of the employer's scheme and to require him to contribute as though they had not done so; or
- iii) allowing the "early-leaver" to enhance his own pension arrangements by making extra contributions which would attract tax relief; or
- iv) moving towards the unitisation of pension funds so that each employee would know the value of his accumulated stake in the fund and could withdraw it on leaving.



- c) Housing policies also play an important part in labour mobility. Home-owners are more mobile and more highly motivated. I am sure that Patrick Jenkin and Ian Gow will consider how we can accelerate the growth of home-ownership by every possible means. I hope that they will also consider again the decontrol in rents in the private sector at least for new lettings, and the abolition of phasing of rent increases. It would not only somewhat improve the mobility of labour but also give an important signal to the building industry.

VIII Finance for business

29 Lack of finance for small firms and of venture capital remain the main gaps in the UK capital market. A substantial proportion of personal wealth in the UK is in the form of three assets which receive privileged tax treatment compared with investment in equities, namely owner occupied houses, life insurance and pension funds. Institutional investors have grown to replace the private investor but their investment policies tend not to favour small companies.



30 I hope that Nigel Lawson will consider these proposals :

- a) Make the small firm loan guarantee scheme permanent. Although it involves a contingent liability of £200 million it fulfils a vital need of small firms.

- b) Help to establish small firm investment companies. Such companies could be quoted. That should go a long way to solving the marketability problem of the underlying unquoted company shares. Tax relief would be available to the investor earlier ie on buying the SFIC share itself.

- c) Help to establish a readier supply of medium term risk finance. We could revive the idea of zero coupon and deep discounts bonds with attractive tax treatment.



IX Conclusion

31 The main restrictions of wealth creation today are the same as those we identified before 1979 : high public expenditure and in part as a consequence, high interest rates, trades union power and restrictive labour practices, nationalised industry costs, high taxation of companies and individuals, and lack of skills and mobility amongst the workforce. Our policies developed in the period before 1979 and pursued consistently since have been addressed to these problems. We have made excellent progress on a number of them and could go further - for example, on taxation - but only when resources allow. The impact of regulation on business in the strict sense of controls is limited. We have already swept away a number of the worst examples. It is difficult to predict how our regulations might affect new technologies or areas of economic activity. We must be vigilant and move swiftly to remove the restrictions when they become apparent, as we did with cable. For the moment, the most important thing is to maintain our present economic policies, and make such other changes as suggested in this paper as and when we can.



Second draft of Paper Two

ENCOURAGING GROWTH

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This paper examines what the Government can do, without higher expenditure, to encourage growing industries rather than support declining ones, and in particular to help industry to adapt to, and to exploit, new technology.

I Background:Where to look for growth

2 The first thing is to try to understand from where growth comes. Total UK output is now some 6% above its 1975 level. Output has been growing faster than that in services, public utilities, agriculture and North Sea oil. In services it grew by 8% between 1975 and 1981, and in manufacturing it fell by 11%. Employment in services (including government) rose by 5%, and in manufacturing it fell by 19%.

3 In manufacturing, employment fell in all sectors including those that showed considerable growth in output. For example, electronics output grew by 38% while employment fell by 13%. In the sectors with declining output, decreases in employment and output were broadly similar in most cases. Amongst the services, employment growth was strongest amongst the financial and other business services and in sport. Amongst some of the others there was a fairly pronounced fall in employment eg. in food and drink wholesaling and retailing.



4 The broad definitions of sectors mask very considerable variations within sectors and between companies. For example, UK production in the broad electrical engineering sector in 1982 was no higher than it was in 1979. But within this, electronic components rose by 10% over the period telecommunications by 21%; computers by 22%. By contrast, production of domestic electrical appliances fell by 16%. A survey of 18 UK computer equipment manufacturers shows sales growth (current prices) over three recent years varying from under 30% to over 1700%. Many examples can be found of individual companies within traditionally 'declining' sectors doing well; for instance several companies in the textiles sector, which declined by 28.6% during 1975-81, have featured in the Queen's Award for Export lists in recent years.

5 Comparing the growth or decline of UK manufacturing sectors with world growth rates by sector, the pattern is similar e.g. both in the UK and the world we find electrical machinery doing best, basic metals doing least well. But the UK growth rates are much lower than elsewhere (in fact generally negative). This suggests that growth is being held down in all sectors. We should therefore examine what factors depress UK manufacturing as a whole.

6 Growth in manufacturing seems to be positively associated with human capital as measured by the proportion of professional and technical staff in the workforce. In general the higher the better.



7 It is often argued that small firms will be the main sources of employment growth in the future. It is important to encourage this dynamic element in the economy. But British evidence shows output and employment growth among small firms is bound to be a slow process; many new businesses will (and should!) die; and many small firms will not wish to expand rapidly or at all. We should be cautious about expecting too much growth here.

8 There is evidence that successful growth strategies share a number of common characteristics. An analysis of the 'Fortune 500' firms in the USA, admittedly dominated by manufacturing, highlights :

(a) Responding to the market

Successful firms pay close attention to their markets. They are able to identify the variety and changing pattern of customers needs, often through close links with distributors. Management expertise in marketing, purchasing and quality control are all critical.

(b) Flexible organisation

To respond quickly to new or changing markets, growing firms often adopt a flexible organisation. Product design can readily be modified; manufacturing systems can be re-shaped; and there is some more anecdotal evidence that smaller units, even within larger firms, can be managed more efficiently. Design, production engineering, and employee relations are important management skills.



(c) Building on technological strengths

The best financial performance among these firms was shown by companies diversifying into products using a similar technology, capitalising on their experience.

II The balance between manufacturing and service industries

9 We obviously must pursue policies which benefit both the manufacturing and service industries. Manufacturing is still an extremely important element in our GDP, but it is unlikely that manufacturing industry can provide our economy with increased employment. Even our successful manufacturing sectors seem able to expand output whilst shedding labour. Any increases in employment are more likely to occur in the services sector. We must therefore ensure, at least, that our policies do not discriminate against services, which at present a number probably do.

10 Public attitude to manufacturing. There is a widely-held misconception that a nation's economic "virility" depends on its manufacturing industries, and that dependence on service industries is a characteristic of second-rate countries. We must reject that notion absolutely. Herman Kahn predicted that the economies of the more advanced nations would in time evolve beyond manufacturing industry, and something of that process can be observed today around the world. The misconception



could be damaging for us. For example, the Opposition seized on our trade deficit in manufactures as an important indicator of economic failure. It is no such thing. We need to work on public opinion - as we have done to alter perceptions on unemployment - and guide it towards accepting an economy more oriented towards services.

III Factors affecting UK performance

11 Interest rates. We must continue our efforts to bring these down. Our real interest rates are high and deter investment.

12 British craftsmanship. The changes required to improve our economic performance have been made more difficult because many people in industry still believe that we are a craft-based economy. The quality of British craftsmanship is now no more than a myth in much of British industry, and yet the myth persists despite all the evidence. At BL poor craftsmanship largely accounted for its poor performance. The quality of our motor components compares badly with Europe in general and worse with Japan. Lloyds Register of Shipping is warning that basic craftsmanship in some of our shipbuilding yards is so deficient that they have doubts about licensing some BS ships. We need to redouble our efforts to improve basic standards of education and technical training (see para 26); but also to recognise that our future successes are likely to owe more to flair and inventiveness than to old-fashioned craftsmanship.



13 Consumer resistance to buying British. In some areas, many British and foreign consumers have come to believe that "British is second best". That belief will be difficult to overturn even as British industry improves its quality and competitiveness. A general weakness amongst British companies continues to be marketing. I believe that the Government can help by promoting a campaign on the excellence of British goods in those areas where they are now of high quality. That may require engaging publicity specialists.

14 Lack of incentives for management. British executives are still relatively poorly rewarded despite the reduction that we made to the top marginal rate of income tax. We need to improve their rewards, either by a further cut in the top rate, or more particularly by share ownership schemes (see paras 27-30).

15 Lack of incentives for other employees. Employers (including nationalised industries) should be encouraged to link rewards to achievement more. Ian MacGregor has given a good example of this at British Steel, offering low basic wages but good bonuses linked to performance. There is nothing wrong with high wages if they have really been earned (see also paras 30-31).



16 The exchange rate. The UK's effective exchange rate is still well above the low point reached in March 1983. It is hard to avoid the comparison between Japan with high growth, a weak Yen and low real interest rates, and the UK with low growth, a relatively highly valued currency and high real interest rates. Arguably, a fall in both our exchange and interest rates would do more than anything else to stimulate growth. There is an obvious danger of stimulating somewhat higher inflation in the process, which would admittedly be bad for growth. But we need to review the balance carefully.

17 Resistance to technological change. We still have to deal with the paradox that whilst consumers accept new technology in the home (as evidenced by the sale of computers) new technology is often resisted at work. The general view evidently is still that new technology destroys jobs rather than that it saves them and creates new opportunities.



IV The older industries

18 The first part of the remit for this paper asks what can be done to stop support for declining industries.

19 The most urgent need is to reduce spending on the nationalised industries. Since 1979 my Department has spent £2 billion on its ni's and state-owned companies. In addition the corresponding EFL's have totalled almost £4 billion. Adding in the other nationalised industries brings this figure to about £10 billion. In some cases this represents an enormous diversion of real resources into loss making, declining firms. It dwarfs all DTI efforts to switch support to promote growth. Scarce financial, technical and managerial resources are being locked in to loss makers. Reducing these resources sooner rather than later will contribute to growth.

20 In order to do so, we must be prepared to see enormous changes at British Shipbuilders and in the coal industry. The immediate results will be increased unemployment in areas which are already badly depressed, and very substantial redundancy payments.

21 Although BL and BSC have made good progress, they are now under new management and must be watched very carefully to ensure that they do not slip back into their old ways. If further changes in management are required, we must make them swiftly and without hesitation.



22 I intend :

- a) that BL should sell Jaguar, Unipart and Land Rover beginning in 1984, and to be completed by the end of the Parliament
- b) that BS should privatise warship building and close uneconomic capacity
- c) to continue progress towards privatising RR
- d) to examine the scope for privatisation in the area of the Post Office's activities
- e) to continue to chip away at BSC, possibly by more joint companies with the private sector.

23 We should also consider :

In my area

- a) Allowing BSC to decide its plant configuration on commercial grounds. This would entail breaking government commitments on Ravenscraig, but in view of the economic cost of that decision, it must be considered.



Outside my area

- b) Privatising NCB on a pit (or regional) basis with major employee shareholding on attractive terms

- c) Developing BR into a leasing company, allowing private contractors to lease separate items of rolling stock and stations.

24 Looking beyond the ni's we shall have to decide whether we regard civil aerospace as a declining or a growing industry. . Should we refuse launch aid to e.g. RR's new engines and the Airbus A320 on the grounds that the predicted rates of return may be either unsatisfactory or unreliable? Or do we accept that even so civil aerospace is the sort of high technology industry into which the UK ought to be moving, in order to escape the unbeatable low-wage competition in consumer goods? That is a major strategic decision.

25 The Government arguably supports declining industries in two other ways :

a) Regional policy

We are about to consider this. Suffice it to say in this context that automatic capital grants will always contain ineffective (deadweight) expenditure,



and the total cost of regional assistance represents a significant burden on taxation. Therefore, regional assistance has over the years represented a diversion of resources away from growing industries towards declining ones. We should aim in the long term to abolish regional assistance, and in the short term to :

- i) abolish automatic capital grants and end the discrimination against services.
- ii) cut the total regional budget.

b) International trade restrictions

We operate a whole variety of restrictions at government and industry level. These include the Multifibre Arrangement and the JAMA-SMMT understanding on Japanese car imports. The MFA has probably given our industry little effective protection and may have done it harm. I am looking into its effects now.



V Improving our human resources

26 Education and training. Quality and availability of labour are crucial. Yet here the UK lags far behind our competitors. In Japan, for example, 95% of young people stay in full-time education until the age of 18, compared with only some 25% of young Britons. In W Germany about 60% of the workforce have vocational qualifications : this is twice the UK level. We have immediate shortages of trained technicians in microelectronic and instrumentation, and of software engineers - all of which are constraining growth now. The best way to overcome these problems in the medium to longer term is to strengthen the role of market signals in higher and further education. This is particularly necessary if the total resources devoted to this area are to remain stable or even decline. This can be achieved in a number of ways :

- a) make more use of the available data on skill shortages and graduate unemployment and earnings in deciding how central resources are to be allocated to different institutions and subject areas;

- b) make data on graduate employment and earnings much more widely available to prospective entrants to higher and further education so that they can make better informed choices on which course to apply for at which institution;



- c) encourage and reinforce links between employers and the institutions so that employers' needs play a much greater part in the design of courses and curricula;
- d) reinforce market signals by offering higher grants for education and training in priority areas eg maths and science teachers, electronic and electrical engineers; cut costs with fewer grants for lower priorities.

These proposals should lead to a better supply of manpower for industry and commerce in the future. Short term measures can also be taken to improve the quality of existing management. For instance :

- e) The purchasing power of companies in the area of management and business training could be increased by providing Government assistance for additional company programmes - either in house or at colleges and other institutions. Where there is clear evidence of wide-spread management weakness eg financial management, production management, special programmes need to be developed or expanded.
- f) More resources could be switched into our expanding range of management advisory services, including establishing a financial advisory service to improve accounting procedures in smaller firms. We should also assess more rigorously the management capability of all applicants for DTI support and where appropriate steer them towards management advisers



27 Management motivation. It is essential to improve management motivation. A further reduction in the top marginal rate of tax is not now the best way forward on that since we need to relate increased rewards to performance. At present executives do not enjoy any special tax relief on share options schemes. They should. In particular we should encourage schemes that involve payment of a deferred profit-sharing bonus related to company or divisional performance, which can initially be accumulated for the executive towards paying for the shares when the option is exercised.

A major need is for small growing companies to attract and retain high quality executives in competition with larger 'blue chip' companies. Special reliefs could be given to executives of unquoted companies under which, for example, options up to a maximum value could be taken free of income tax on exercise and growth of value. My Department has commissioned work on such a scheme.

28 We should set an example in the ni's by paying executives performance-related bonuses.

29 The companies which will show the most significant growth in the future are more likely to be medium-sized than new businesses. There are probably a number of extremely promising medium-sized businesses which are at present parts of large industrial empires neglected by top management and unable to reveal their full potential. We should encourage de-mergers



and management buy-outs in the private sector. Ministers can encourage top management to examine their empires for likely candidate companies that could be given their independence.

30 Employee motivation. We should encourage more of the ni's to develop local bonus arrangements. These have been very significant in destroying the power of the NUM over the miners. British Shipbuilders will have to follow BSC's lead in bargaining fewer jobs for higher potential rewards. We need to develop in the ni's the concept of "delayed gratification" e.g. bonuses payable only on completion of orders. A further element of these new reward packages ought to be the erosion of demarcations. At Sunderland BS has already made considerable progress in breaking down the rigid demarcation between welders and boilermakers. These changes, well publicised, could have a significant impact by example on the private sector.

We need to encourage employee share ownership further, too. One way would be to link executive option schemes to general employee schemes. For example, we could require that if a company is to benefit from tax relief for executive share facilities, it must also provide general employee facilities. The proportion of share options available to executives would be limited. We could provide for employees to receive a portion of their remuneration in shares (tax free?). This would require amendment of the Truck Acts.



31 Other incentives for wider share ownership. We should encourage wider share ownership generally, not just within company schemes. We should examine these possibilities :

- a) We need to increase public awareness of share ownership possibilities and of the stock market. Stockbrokers' professional etiquette forbids them to advertise their services, or to set up High Street stock shops. In the USA, Merrill Lynch and the department store chain of Sears Roebuck are now providing stock and other financial services in shops. The financial services market has enormous potential. We should examine how we can encourage stock brokers or others to take a more outgoing attitude.

- b) I hope Nigel Lawson will review the operation and rate of stamp duty on share transactions. Perhaps a threshold could be established to exempt very small dealings.

VI Marketing

32 Export Services. Few companies can grow for long in the UK home market alone. Help with exporting can therefore be an important stimulus to growth. BOTB services are designed to provide advice and information on individual markets, and financial assistance towards the cost of visiting markets, market research abroad, exhibiting overseas and the overhead costs of breaking into new markets.

33 There is also scope for work to assess the market prospects and the best ways of penetrating overseas markets for particular sectors of British industry. The DTI has already identified a number of priority markets in Western Europe where there are particularly good opportunities for specific UK products. If successful, this targetted approach should be extended to other world markets.

34 The network of commercial posts overseas is an invaluable resource to British exporters. The DTI should be closely involved in the posting policy in this area, ensuring that decisions on the level of commercial representation overseas take full account of the needs of UK industry and commerce. MITI have 300 of their own staff posted around the world.



35 Encouraging market orientation. The Government could do much more to insist that British goods can sell in a variety of overseas markets by making that a condition of both project assistance and purchasing contracts. We should consider these specific proposals :

- a) Require evidence of market research at each of several stages as a precondition for any DTI project assistance.
- b) Reserve key public purchasing contracts, including in the defence field, for those who can demonstrate convincing plans to export similar products or services.
- c) Secure EC agreement to extending SFI support to initial marketing costs.

VII Innovation

36 Direct action by Government may help accelerate innovation. All major countries operate policies which include significant spending programmes to stimulate innovation by companies, especially in new technologies. It is arguable that the Government should play no role in this given the strong market incentive for companies to adopt new technology.



British management's generally poor performance in this area considerably weakens that argument, however. The two main objectives are confined neither to any particular industrial sector, nor to company size. They are :

- a) to help spread awareness of available knowledge and encourage its practical application.
- b) to generate new knowledge/ideas through research in companies and the public sector.

37 My Department is engaged on a range of programmes already. More could be done if we thought it worth spending more, if, for example, we consciously switched some of the potential savings on nationalised industries and regional payments into this area. The result would be a similar range of programmes, but we would be able to reach more of British industry with them. We have to decide whether or not there is a strong case for doing so rather than reducing the PSBR.



38 Spreading knowledge and awareness of key technologies. In recent years, Government has identified several key 'enabling' technologies with widespread application and has mounted awareness programmes to stimulate interest in companies. It is hard to know their precise contribution to improved awareness and use.

39 However, I believe that our microelectronics support programme gave a boost to GEC, Plessey and Ferranti in getting into the silicon business. Our support for fibre optics helped to put the UK ahead in Europe in this technology. A range of businesses have benefitted from SEFIS, our robotics programme and CADTES. All these programmes need, of course, to be monitored so that they do not run on beyond the time that they are needed.



40 Application of technology. My Department makes grants to encourage the application of key technologies and to promote R&D which leads to new products or new processes. There is no attempt to limit this help to particular sectors.

41 We also encourage innovation through our public purchasing policies, for example in the fields of IT and medical electronics. The aim of a public purchasing policy is not to buy British "willy-nilly". It is to provide a launch and a shop window for those who have developed good products, and to help British suppliers to compete. Whether through poor marketing by British suppliers or because of lack of imagination amongst public purchasing officers, it does often require a positive effort by my Department to introduce British goods of high quality into eg government offices or our hospitals. We are not yet tapping the enormous potential of Whitehall, the town halls, the nis and the NHS. Little initial direct cost is involved in this work, however. I recommend that we extend these selective public purchasing initiatives.

42 We should maintain the momentum of our micros in schools scheme. It provides a market for British hardware, spin-off opportunities (eg education software with international market potential) and of course it helps to develop in our schools the skills that industry is looking for.



43 We can improve public purchasing in the defence field. In the USA, space and defence programmes have provided big markets for sophisticated microelectronics, computers, aerospace equipment, new material and manufacturing processes, all with applications extending well outside the defence field. We need to align our defence purchasing more with the international market opportunities.

VIII Promoting civil research

44 Government can help to stimulate basic industrial research. We spend about £6 billion a year on R&D which as a proportion of our national resources is broadly in line with other developed economies. But the UK is out of line with others in devoting such a large part of that to defence. As a result, a relatively large share of R&D expenditure is controlled by government and resources for commercially-oriented R&D tend to be pre-empted. To tackle the problem firmly and at its root we need a decisive switch of R&D resources away from defence and into private sector industrial work.

45 Basic industrial research for civil purposes has seriously declined in recent years. This is in sharp contrast to other countries, notably Japan where each major company proudly boast an expanding R&D programme. An OECD index of in-house company



R&D shows a fall in the UK from 100 to 85 between 1967 and 1975. (The index for Japan rose from 100 to 200, in Germany from 100 to 145 and in France from 100 to 120). Within this expenditure, there has been a significant shift away from long term research.

46 We should consider these specific proposals :

- Stimulate more civil research in companies. DTI is currently examining a wide range of possible mechanisms, including tax and current project support

- Introduce generous (ie more than 100%) tax relief for limited R&D partnerships (as in the USA) or science based contract work at universities or Government REs. Definitions of scientific research currently applied by the Inland Revenue may need modification.

47 Research Council and University Grants Committee expenditure accounts for about £800 million through the DES. Of Research Council money, the Science and Engineering Research Council dominates with over £200 million; £79 million of which goes on nuclear physics, space and astronomy; £64 million on basic science and only £40 million on engineering.

48 I recommend that we consider sympathetically the ACARD report recommendations on exploiting the expertise and resources in higher education institutions.



In summary they are to establish :

- a) a "seedcorn" fund to reward HE institutions for the industrial research contracts that they win
- b) a fund to help HE institutions to improve their infrastructure and so improve their ability to do work for industry.

49 We should also consider these proposals :

- a) Increase the representation of industry on academic grant-awarding bodies.
- b) More radically, transfer a portion of the DES responsibility for HE funding to the DTI and have a clear policy, agreed at the highest level, to withdraw from prestigious but low industrial spin-off areas of science which do not accord with the UK's economic circumstances.

50 My Department has commissioned a study by Sussex University's Science and Policy Research Unit into the ways in which other countries, especially Japan, assess the potential commercial applications of current scientific developments. The report should be ready by next Summer.



IX New areas of employment

51 We cannot predict with any accuracy where new employment opportunities will arise. But in a number of areas we can see good potential for new jobs, and the Government must ensure that its actions do not inhibit that growth. There may in some areas be a case for catalytic action.

52 Cable. This is a good example of a new activity which has been created without a penny of Government money. I hope that Leon Brittan and I can agree to maintain the momentum after the issue of the 12 licences, by encouraging the development of the new services such as accessible data bases, electronic publishing and educational software.

53 Telecommunications. We need to press ahead with cellular radio and portable telephones. Their development will also help to reduce BT's monopoly power much faster than people realise. Our telecoms product scheme offers a modest amount of help. I believe also that we should continue to support our space industry, which is now one of BAe's most successful activities.



54 Leisure and entertainment. Warwick University Institute has forecast a 26% growth for the 1980's in the "literary, artistic and sport" sector which already employs 450,000. Nigel Lawson, Patrick Jenkin and I need to review urgently how our present tax and planning systems might inhibit the development of sports complexes, entertainment parks, hotels, catering and tourist attractions. The entertainments business is riddled with restrictions on competition, and we should look at them closely.

55 Transport systems. There will be a demand for light transport systems in many towns and inner cities, and we must find ways of involving the private sector in them (not local or central government). That could apply even to new underground lines in London. We need generally to demonstrate that investments in transport repay the investor. I believe that Tom King should consider moving us towards toll roads, perhaps starting with the London-Dover motorway when it is complete. If private investors are able to come forward with an acceptable plan for a Channel Tunnel (or bridge/tunnel), that too could be a major provider of new jobs. I hope that Tom King will also consider de-regulation of our domestic air routes, as well as pressing the EC to allow freer competition in Europe. Britain is good at the airline business. The benefits to our infrastructure could be substantial. The growth air of routes in Britain and so of regional airports could have a significant impact on employment and employment prospects in some of our most depressed areas.

X Inward Investment

56 I believe that further inward investment in this country by successful overseas companies could greatly benefit the UK economy. In particular, it could provide an example to British industry of managerial excellence and the benefits of adopting new technology. Such an example could probably do more than almost any amount of Government exhortation or subsidy, and could benefit new employment prospects far beyond the impact of the particular investment project. I intend to pursue such new projects with vigour. The anxiety of the Japanese Government over European protectionism is undoubtedly a help to us in urging this policy.

XI Conclusion

57 Encouraging growth will demand great efforts from us in order to :

- a) Change attitudes in industry and among the public generally towards rewards, the service industries, British workmanship, labour practices and new technology.

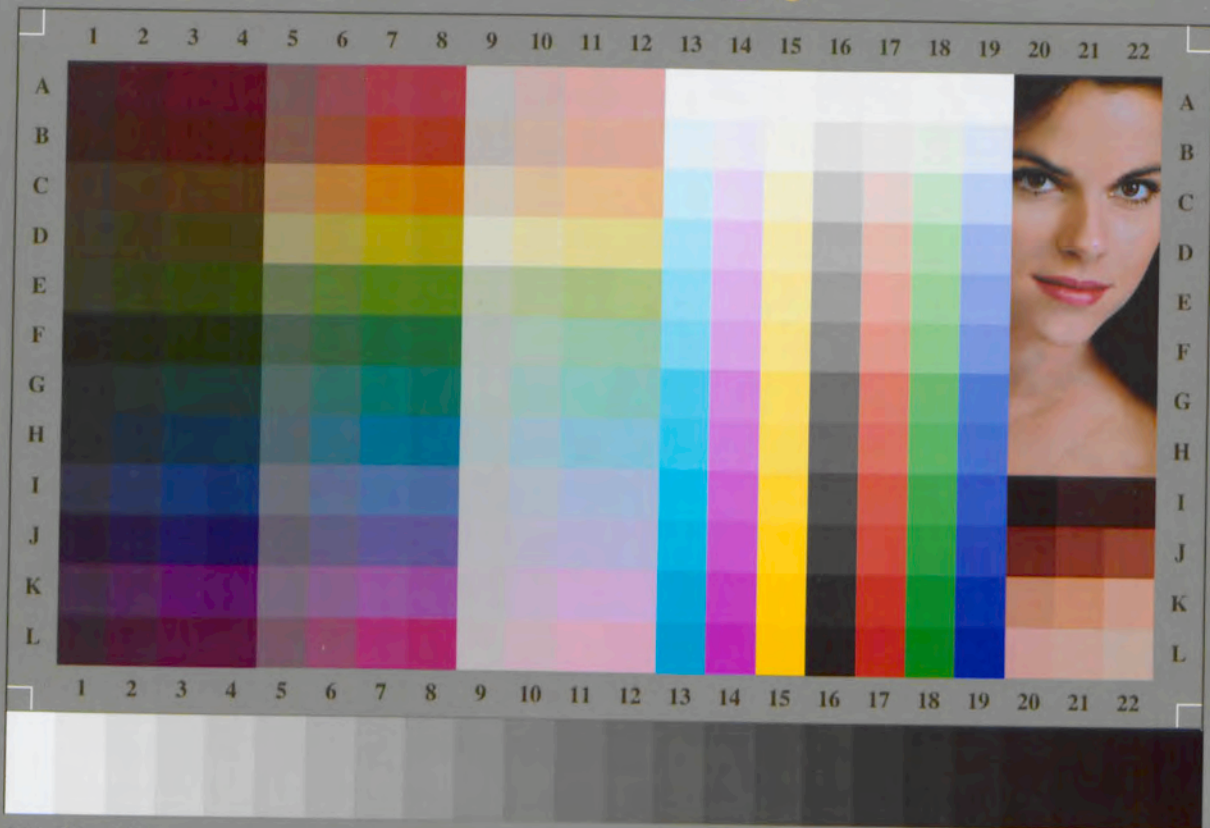


- b) Cut back the burden of the older nationalised industries.
- c) Provide education and training which equip people for employment.
- d) Motivate management and all employees.
- e) Ensure that British industry is aware of and utilising new technology.
- f) Provide the conditions for uninhibited growth of employment in new areas of activity.
- g) Attract foreign investment in order to help us with all the above tasks.

The Government could improve its performance in a number of areas. But we already provide the essential framework for growth by restraining Government expenditure and containing inflation, and that we must maintain at all costs.

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